

# Ellerston Global Equity Managers Fund (GEMS)

Performance Report | September 2020

## PERFORMANCE SUMMARY

Performance*	FYTD	CYTD	1 Year	3 Year (p.a.)	5 Yr (p.a.)	Since Inception** (p.a.)
GEMS C	8.73%	16.33%	24.36%	8.48%	9.81%	11.21%

Source: Ellerston Capital

\*Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

## PORTFOLIO COMMENTARY & MARKET OUTLOOK

### Performance:

**Fiscal Year to Date** from July 1 to September 30, 2020, the Australian ASX 200 is down -0.4%, and the US S&P500 is up +8.9%. **The Fund is up net after fees +8.7%.**

**Calendar Year to Date** from January 1 to September 30, the Australian ASX 200 is down -10.8%, and the US S&P500 is up +5.6%. **The Fund is up net after fees +16.3%.**

For the **Month of September 2020**, the Australian ASX 200 was down -3.7%, and the US S&P500 was down -3.8%. **The Fund was down net after fees -2.1%.**

The broader portfolio performed strongly in a weak market during the month of September increasing by circa +1%, with performance being impacted adversely by moves in both the gold -1.8% and uranium -1.2% exposures.

As of October 23, the portfolio had a net exposure of circa 73%, plus an exposure to gold and silver of circa 8%, uranium of circa 6%, and had minimal foreign currency exposure.

The Fund has achieved positive performance for the month to date in October.

### Portfolio:

**Investments** – While global markets have had significant moves off their March lows, we continue to identify and invest in new opportunities that excite us and fit our asymmetric risk reward profile requirements. The portfolio is eclectic and provides exposure to growth, recovery, themes, juggernauts, hidden gems and stock specific opportunities across a range of sectors. Some examples of this include; Celsius (US), a growing force in energy drinks with a fitness focus. Open Lending (US) enables credit unions to capture the mid prime auto lending market. Soitec (France) is a mission critical enabler of 5G connectivity. Madison Square Garden (US) owns Madison Square Garden in NYC and is developing the Sphere in Las Vegas which promises to be an E Sports mecca and will be benefit greatly post COVID. Cameco and Kazatomprom are the leading tier one, lowest cost uranium producers. We will provide a comprehensive insight into our uranium thesis in future newsletters.

**Hedging** - We remain heavily hedged with portfolio protection through futures, put options, rotation hedges and individual stock shorts. Options hedging includes both at the money and deep out of the money put options. Driven by the magnitude and velocity of any market decline, the delta of the options should expand materially and magnify the value of the options, particularly the deep out of the money options. The nature of our protection is such that we are protecting against material market falls as opposed to sub 4% market pullbacks.

### Market Commentary:

September was the first month since the March COVID meltdown where the market had a meaningful retreat. It is probably a good time to stop and assess after a spellbinding equity market recovery.

What is now crystal clear is that a powerful fiscal stimulus coupled with a monetary package that is astounding in its magnitude has completely divorced the economy from financial markets.

When we look back at the GFC, what is apparent even today is that the Financial Crisis itself is a distant memory. What we know today is the impact of something called Quantitative Easing. Its impact on Interest Rates and Financial valuations has been, to put it mildly, astounding. This was not foreseen back in 2009 but it seems clear now that it started a sequence of quantitatively driven monetary policy, QE1, QE2, QE3 and Not QE. Central Banks came to the conclusion that once they went down this path there was no turning back.

### Investment Objective

The investment objective is to generate superior returns for Unitholders with a focus on risk and capital preservation.

### Investment Strategy

The Fund provides investors with exposure to global markets through a long short equity strategy. The strategy overlays fundamental bottom-up stock selection with global macroeconomic and market outlook.

### Key Information

\*\*Class Inception Date 1 December 2009

Co Portfolio Managers	Ashok Jacob & Arik Star
Application Price	\$ 1.5950
Net Asset Value	\$1.5910
Redemption Price	\$ 1.5870
Liquidity	Monthly
No Stocks	79
Gross Exposure	180%
Net Exposure	58%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

Now we have COVID and the Great COVID Crisis (GCC).

With a monetary response straight off the bat of this magnitude, there is only one way to go. Forward. Vaccines, further fiscal stimulus and patchy recoveries will almost definitely arrive at various intervals. The one thing we can be sure of is that the Global Central Banking community intends to expand its balance sheet as necessary to keep interest rates down. The US deficit appears to be just another number. The Federal Reserve balance sheet could easily go from 7 to 10 trillion dollars without anyone noticing or caring. Except of course other Central Banks.

We now have a path which will end in either inflation or the end of USD reserve status. In the interim the only place to be is in equities. Growth is still the scarcest economic commodity in the world. While this unholy alliance between big spending Governments and Central Banks continues, rates will remain at near zero and growth stocks at eye watering revenue multiples. The five year pull forward of the digital transformation of the global economy, large addressable markets and excellent unit economics creates a heady mix which is reflected in valuations of growth stocks.

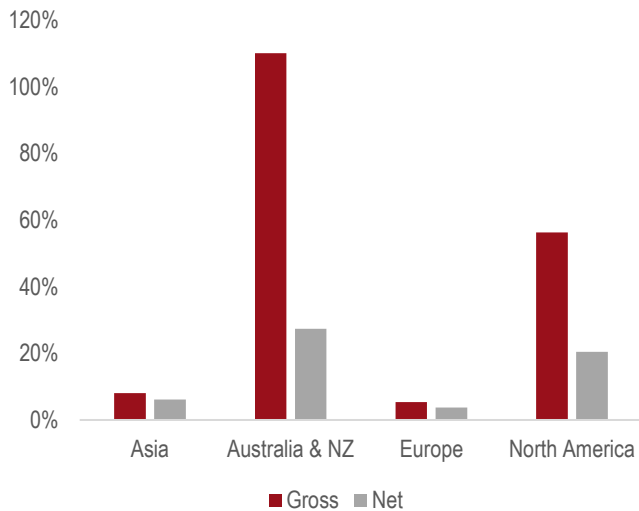
As an aside, real value has emerged for businesses that have low to no growth but sizeable, maintainable cash flows in a circa zero real rate environment. 2021 is lining up to be the biggest year in M&A history as companies and PE swoop on low valuations.

We expect valuations to remain elevated in the growth sector but heavy dispersion if the Fed slows down. A low rate environment appears non-negotiable and asset plays could get unlocked easily. A Democrat win will help rotation towards economically sensitive and cyclical stocks which in our view are cheap even in a historical basis.

We believe that there is an extraordinary opportunity set in front of us from the perspective of a Global Long Short Fund. The ability to pivot quickly and change our net exposures radically, gave us flexibility in a very uncertain world. Flexibility in portfolio structuring allows us to not only move quickly to protect capital but also capitalise on emerging opportunities. Investors should rest assured that **we remain committed first and foremost to preserving capital. Absolute risk adjusted positive returns remain our driver.**

## PORTFOLIO CHARACTERISTICS

### Market Exposure as a % of NAV



Source: Ellerston Capital

### Top 10 Holdings (Alphabetical, Long Only)

- ADAIRS LTD
- CELSIUS HOLDINGS INC
- FACEBOOK.COM
- GRAINCORP LTD
- NEXTDC LTD
- OPEN LENDING CORP
- SCIENTIFIC GAMES CORP
- SKY CITY ENTERTAINMENT GROUP
- UNITED MALT GROUP LTD
- VANECK JR GOLD MINERS

All holding enquiries should be directed to our registrar, [Link Market Services](http://linkmarketservices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

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Should investors have any questions or queries regarding the Fund,

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or visit us at <https://ellerstoncapital.com/>

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<sup>^</sup> Actual performance for your account may vary from that set out in this newsletter and will vary for investments made in different classes, or at different times throughout the year. Some performance data is estimated and preliminary and subject to change.

<sup>^^</sup> For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

<sup>#</sup> The standard deviation is often used by investors to measure the risk of an asset. The standard deviation is a measure of volatility; the more an asset's returns vary from the average return, the more volatile the asset. A higher standard deviation means a greater potential for deviation of return from the average return of the asset.

The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 095 (Fund). This newsletter has been prepared by Ellerston Capital Limited without taking account of the objectives, financial situation or needs of investors. Before making an investment decision you should consider your own individual circumstances and obtain a copy of the Product Disclosure Statement for the Fund which is available by contacting Ellerston Capital. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete.

### GEMS Strategy Performance & Volatility<sup>^</sup>

