

Ellerston Low-Vol Income Strategy Fund

Performance Report | October 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	1.17%	1.30%	11.40%	-1.60%	-	3.65%
Benchmark*	1.93%	0.98%	8.67%	-8.15%	-	-0.79%
Alpha	-0.76%	0.32%	2.73%	6.55%	-	4.44%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

*S&P/ASX 200 Accumulation Index

COMMENTARY

In Australia, our market meaningfully outperformed the MSCI Developed Markets in October by 5.06%, with almost every sector outperforming its developed market counterpart. This outperformance was driven by a supportive Federal Budget, further accommodative action by the Reserve Bank of Australia and the re-opening of Melbourne. The Fund had a weaker relative month achieving a net, relative performance outcome of -0.76 bps. The Fund's value rose 1.17% vs the benchmark increasing 1.93%. Weaker relative sector performance for the Fund predominantly came from Financials (underweight major banks), which cost 0.90%, whilst being underweight Energy (BHP), contributed 0.5%. Over the past year, the Fund has outperformed its benchmark by 6.6% on a net basis.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month we added Australian Finance Group, a mortgage brokerage company operating a wholesale mortgage broking business that provides its contracted brokers with infrastructure and administrative support as well as access to a panel of lenders. Additionally, AFG Home Loans offers the group's branded mortgage products, funded by third party wholesale funding providers, through its distribution network. The company's profitability is highly correlated to residential settlements and loan balances, which we expect to see meaningful acceleration over the next few years on the back of low interest rates and looser lending standards from the banking sector. We also added to our holdings in Ampol, Credit Corporation, QBE Insurance and South 32.

In October, we reduced our position in a number of stocks as they approached our valuation target. These included Super Retail Group, JB Hi-Fi and Nine Entertainment.

MARKETS AND MACRO NEWS

The ASX 200 was one of the few global markets to deliver a positive return during October, rising 1.9% against the MSCI World which dropped 2.5%. Value underperformed Growth globally, but outperformed locally for the first time in 3 months. The looming US Election was the key driver of market volatility, with long-end US yields rising in anticipation of a 'Blue Wave'. Commodities rose, with industrials metals rising 3.0%.

The month of October was all about the surging COVID-19 cases in Europe and the US. Europe now has a higher daily rate of infection than in April/May, resulting in the re-imposition of lockdowns and curfews in the UK, France and Spain. This has led to downgrades to 4Q20 global GDP forecasts. As a consequence, we are seeing a divergence in PMI (Purchasing Manufacturers Index) data between the US/EM and Europe.

We also saw the Communist Party of China hold its fifth Plenum session in October, during which the 14th Five year Plan (2021-2025) was discussed. The focus was on economic transformation from high growth, to high quality, sustainable growth based on promoting domestic demand, digitalising the economy and driving technological innovation. We expect that the Chinese Government will lower the longer term GDP growth rate to 5.5% (2021-2025), from 6.5% (2016-2020).

On the commodities front, Gold weakened slightly to \$1,870 per Oz as the expectation of rising real yields placed some pressure on the price. Base metals were strong, with aluminium rising over 6% and nickel over 4% on better economic data. Oil suffered a very tough month, with Brent Crude falling over 11% over fears of another lockdown. Iron ore prices also fell as Chinese inventories continued to build from increased supply from Brazil.

In Australia, the Reserve Bank delivered several new easing measures at the November meeting, where the cash rate and 3Y and YCC targets were cut from 0.25% to 0.10%. The RBA also committed to a \$100bn of asset purchases, focusing on the 5-10 Yr part of the yield curve. This purchase commitment now places Australia in line

Investment Objective

The investment objective of the Ellerston Low Volatility Income Strategy Fund ("ELVIS" or "the Fund") is to provide investors with returns and income growth greater than the S&P/ASX 200 Accumulation Index over rolling 3-5 year periods.

Investment Strategy

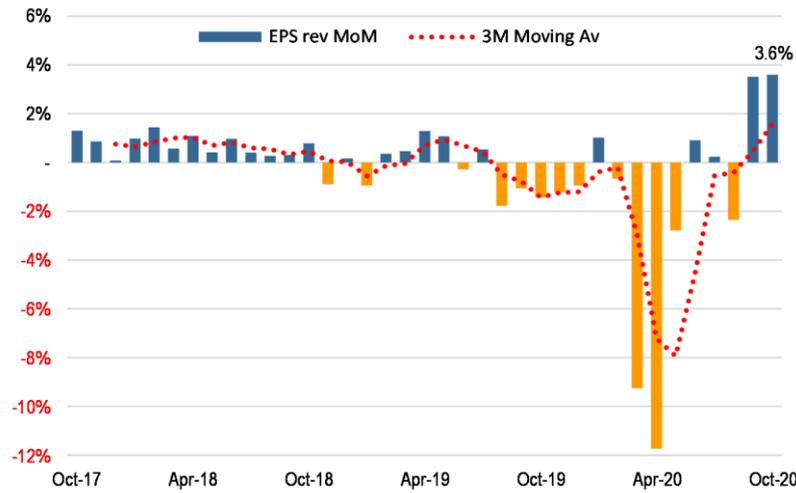
The Fund is a fundamental, bottom up Australian equity strategy with a clear focus on delivering low volatility, sustainable income for investors through actively blending multiple, distinct dividend yield strategies throughout the market cycle.

Key Information

Strategy Inception	1 May 2019
Portfolio Manager	Chris Hall
Application Price	\$1.0486
Net Asset Value	\$1.0460
Redemption Price	\$1.0434
Liquidity	Monthly
No Stocks	38
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

with other developed market QE purchase programs, with the aim to keep interest rates low to help stimulate the economic recovery. On another constructive note, earnings projections continue to improve across most of the world, including Australia. Forward earnings for the ASX 200 were upgraded by 3.6% during October (see below).

Strength in EPS Revisions continued in October.



Source: JP Morgan

CONCLUSION

The upcoming US election result in both houses of government, along with any further updates on vaccine development will have a meaningful impact on portfolio positioning going forward. A “blue wave” clean sweep and any positive updates on a vaccine will be more constructive for cyclical stocks as we are likely to see another very meaningful stimulus package out of a Biden Presidency coupled with the continued, expected re-opening of global economies once a vaccine is found.

The recent portfolio reweighting towards cyclical yield still remains elevated. A constructive Federal Budget in Australia and accommodative monetary policy for a long period of time should favour those stocks exposed to cyclical earnings recovery generated by the significant amount of stimulus that has been spent by governments globally.

The beta of the Fund (a measure of volatility) sits comfortably at 0.96 vs a market beta of 1.00. The expected FY 21 dividend growth rate of investee companies held within the portfolio is comfortably above that of the market, at 12.9% vs 4.4% respectively. The expected dividend yield of investee companies held within the portfolio is currently 2.9%, 77% franked vs the market dividend yield of 3.1%, 78% franked.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

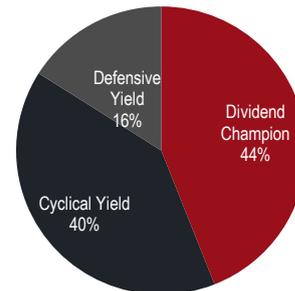
HOLDINGS

Top 10 holdings	Sector	%
Westpac Banking Corporation	Financials	6.9
CSL Limited	Health Care	6.2
Goodman Group	Real Estate	5.0
Macquarie Group Limited	Financials	4.0
Aristocrat Leisure Limited	Consumer Discretionary	3.6
ASX Limited	Financials	3.5
Coles Group	Consumer Staples	3.3
Ampol Limited	Energy	3.3
James Hardie Industries	Materials	3.2
Ramsay Health Care Limited	Health Care	3.0

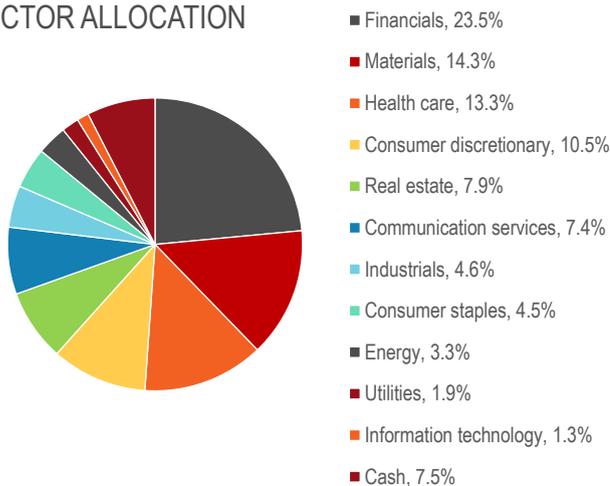
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	22.2	21.2
Dividend Yield (%)	2.9	3.1
Dividend Growth rate (%)	12.9	4.4
Beta*	0.96	1.00

PORTFOLIO YIELD EXPOSURE



SECTOR ALLOCATION



Source: Ellerston Capital

Market Capitalisation



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

Should investors have any questions or queries regarding the Fund, please contact our [Investor Relations team](mailto:info@ellerstoncapital.com) on 02 9021 7797 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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