

Ellerston Australian Market Neutral Fund

Performance Report | November 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)
Net ^A	6.55%	10.57%	20.37%	14.11%	6.02%	5.14%	8.25%
Benchmark [*]	0.01%	0.05%	0.11%	0.37%	1.03%	1.27%	1.64%
Alpha	6.54%	10.52%	20.26%	13.74%	4.99%	3.87%	6.61%

Source: Ellerston Capital

^ANet return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

^{*}RBA Cash Rate

PORTFOLIO CHARACTERISTICS

KEY PORTFOLIO METRICS

Positive months	68%	Net Equity Exposure	20.0%
No. Relative Value positions	41	Gross Portfolio Exposure	219.7%
No. Special Situations	31	Correlation Coefficient (vs ASX 200 Accum)	52.8%
Beta Adjusted	-0.8%	Net Sharpe Ratio (RFR = RBA Cash)	0.71

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Financials	38.9%	-17.8%	21.1%
Industrials	42.2%	-4.9%	37.3%
Resources	36.6%	-29.2%	7.4%
Index	0.0%	-46.3%	-46.3%
Total	117.7%	-98.2%	20.0%

COMMENTARY

The Fund produced a net return of +6.55% in November, significantly outperforming the benchmark return of +0.01%. A number of long-term positions came good during the month, both in Relative Value and Special Situations. Net exposure was +20.0% at the end of the month, with a beta-adjusted net of just -0.8%. Gross exposure closed the period at +219.7%.

After causing some performance anxiety in September and October, the spread between telco companies Uniti (+31.1%) and TPG Telecom (+6.8%) narrowed substantially during the month, adding to the value of the Fund. Uniti's takeover of OptiComm (+0.1%) was finally settled during the period, following a 5 month battle with the First State Superannuation Scheme (now called Aware Super).

Another significant contributor to performance was our paired position between Karoon Energy (+30.3%) and Santos Energy (+30.2%), with Karoon rallying strongly after it finally settled the Bauna oilfield acquisition. Like the OptiComm takeover, the Bauna transaction took a lot longer and was more complicated than anyone expected, but closed in the end, and at better terms than those originally agreed. Despite the rally in the share price, Karoon still looks incredibly cheap, trading at an FY21 EV/EBITDA multiple of just 2.1x.

Vitalharvest (+24.4%) received a takeover bid from a Macquarie Infrastructure and Real Assets (MIRA) vehicle during the month, with the bid struck at a 27.4% premium to the prevailing market price. Our long position, hedged with Rural Funds (+7.1%) added to the performance of the Fund.

Our paired position between Ingenia Communities (+2.2%) and Lifestyle Communities (+10.7%) detracted from performance, with the share price of Lifestyle Communities benefitting from the "reopening" of Victoria in the month. The current outlook for the land-lease asset class is very attractive given its leverage to a cohort

Investment Objective

The Fund targets Absolute Returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

Investment Strategy

The Fund will seek to provide investors with a return profile that has low correlation with traditional asset classes. The Fund aims to generate positive returns in all market environment by reducing the majority of market risk and focusing on capital preservation and alpha generation. The Fund will utilise a Relative Value and a Special Situations strategy.

Key Information

Strategy Inception	3 June 2013
Portfolio Manager	Paul Drzewucki
Application Price	\$1.1288
Net Asset Value	\$1.1316
Redemption Price	\$1.1260
Liquidity	Daily
Management Fee	1.20%
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25%/0.25%

of the aging population that has insufficient retirement savings, where the majority of household wealth is tied to the family home. We believe that Ingenia's strong growth will continue over the medium term, and expect cap rates to tighten given offshore examples and the current low rate environment. We also see the benefit in Ingenia's diversified income stream with Holiday Parks (20% of group sales) providing defensive optionality in the current environment, unlike Lifestyle that exclusively develops land-lease communities in Victoria (which is becoming increasingly competitive).

The share price of ImpediMed (+96.4%) almost doubled in the month, following a number of positive announcements, including:

- AstraZeneca selecting ImpediMed's SOZO device in a second Phase II trial to measure fluid volumes (the first being announced in October),
- The first commercial sales of the SOZO device for use in managing heart failure patients; and
- The publication of the long-awaited Meta-Analysis, which illustrates the effectiveness of the SOZO device versus using a tape measure.

Our long-held position in ImpediMed was a major contribution to performance in the period.

Another strong contributor in the period was video technology company Atomos (+58.3%) which traded higher following a positive update at the company's AGM. At the meeting, Atomos reported that they were on track to deliver a first half sales result in excess of \$28m, well ahead of the guidance given earlier in the year.

The contribution from IPOs in the period was mixed, with Universal Store (+18.4%) adding value whilst Access Innovation Holdings (-14.3%) and Harmony (-11.4%) detracted. The rising equity market also led to the derivative position detracting from the Fund's value.

ACTIVITY

Relative Value – Gross Contribution 9.58%

We were very active in November, mainly harvesting existing positions where the spread had narrowed.

After detracting from performance in October, the spread between Buy-Now-Pay-Later (BNPL) companies Afterpay (-1.7%) and Humm Group (+34.6%) narrowed dramatically in November, resulting in the position being unwound. During the period, Humm announced a strategic partnership with Mastercard to expand the application and distribution of bundll, the worlds first BNPL offering that will be acceptable everywhere that Mastercard is offered. We also unwound our pair between Zip (+5.9%) and Afterpay.

We reduced our exposure to the Uniti and TPG Telecom pair as well as the Karoon and Santos Energy pair following significant positive contributions from each position. We also reduced our exposure to packaging companies Pro-Pac (+2.5%) and Orora (+2.7%).

We were particularly active within the REIT sector, unwinding pairs between Australian Unity Office (+4.9%) and Centuria Office (+8.3%), Arena (+6.1%) and Charter Hall Social Infrastructure (+3.4%), Cromwell Property (-2.3%) and Centuria Capital (+9.9%), and Scentre (+33.3%) and Vicinity (+36.4%). We also introduced a paired position between Charter Hall Retail (+10.8%) and Shopping Centres Australasia (+10.3%), after Charter Hall traded back towards its Net Tangible Assets.

Special Situations – Gross Contribution -1.97%

Compared with Relative Value, it was a quiet month in Special Situations with new positions established in Antisense Therapeutics (-4.5%), Aurelia Metals (-8.1%), and NZ-based software company Plexure Group (-20.4%), all of which raised capital in the period.

We reduced our exposure to ImpediMed, following an incredible 300%+ rally since the capital raise earlier in the year. Despite the rally, the company still trades at an FY22 revenue multiple of 6.6x, significantly lower than other listed medical device peers.

We reduced our exposure to Atomos (+58.3%), Kalium Lakes (+10.8%), Mader Group (+10.0%) and Limeade (-10.1%) in November and completely exited our position in Dubber (+36.1%). Our position in the Nufarm (-2.5%) and Suncorp (-3.0%) hybrid securities was also trimmed.

MARKET COMMENTARY

Market Overview

In November, global equity markets surged as positive news on vaccine efficacy from Pfizer, AstraZeneca and Moderna drove investor optimism. Also helping sentiment was Joe Biden being declared the President-elect in the US (despite Donald Trump not having conceded yet!). Domestically, the RBA lowered official interest rates to a record low of 0.1% and announced a new bond buying QE program. Border openings and better jobs data saw Australian equities post an astonishing monthly return (despite a technical hiccup forcing trading to halt for six hours early in the month). Bond yields edged higher and the good news on the vaccine front led to “risk on” sentiment generally.

USA

US equities had an extraordinary month, rallying sharply on the back of a Biden victory and the positive announcements on the vaccine front.

The NASDAQ Composite finished the month up 11.9% and is now up an eye-watering 37.1% in the calendar year to date. The S&P 500 Index delivered a no less impressive return of almost +11%, but the Dow Jones was the clear winner with a return of +12.1%.

US activity indicators were generally better than expected. The Manufacturing ISM rose to 59.3 from 53.0 previously, well above consensus expectations and Non-farm payrolls lifted by 638K in October, seeing the unemployment rate fall to 6.9%.

Europe

European markets, which have lagged the US, also bounced hard as the positive COVID-19 vaccine efficacy results buoyed sentiment and promised light at the end of the lockdown tunnel.

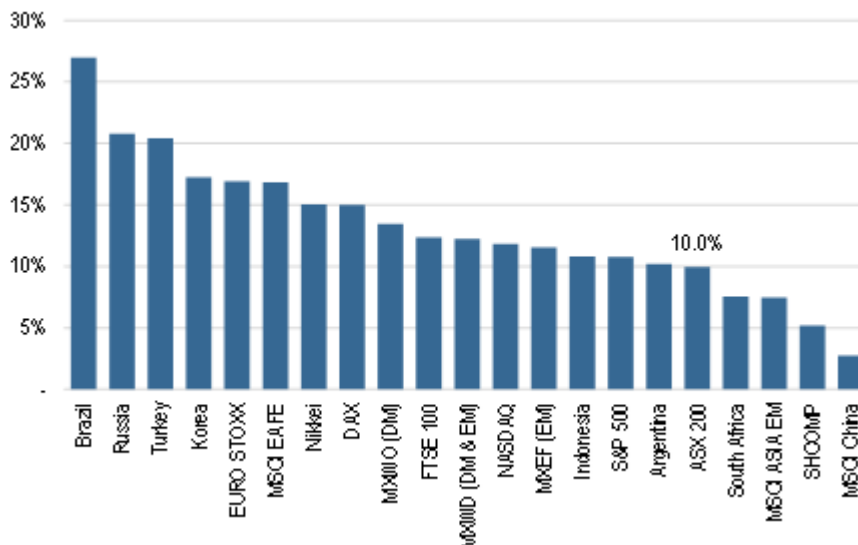
The Euro STOXX 50 Index rose sharply, rising 18.1%. Among the major exchanges, France’s CAC 40 rallied 20.1%, Germany’s DAX’s delivered a return of +15.0% and the UK’s FTSE 100 was up 12.7%.

Activity indicators in Europe remained mixed. The flash Eurozone manufacturing PMI for November was ahead of consensus expectations, but fell to 53.6 from 54.8 and the Composite PMI fell to 45.1 from 50.0.

Asia

Asian markets joined the vaccine-induced exuberance. The Hang Seng Composite Index returned +9.4%, India’s BSE SENSEX was up 11.5%, Korea’s KOSPI was up 14.3% and Japan’s Nikkei 225 Index delivered +15.1%! The Chinese SSE Composite Index posted a more modest return in comparison, up 6.2%. The recovery in China gathered pace, with China’s October trade report showing that merchandise exports rose 11.4% year-on-year and its Caixin manufacturing print came in at 53.6 vs 52.8, the highest level since 2011.

Global markets performance in November 2020

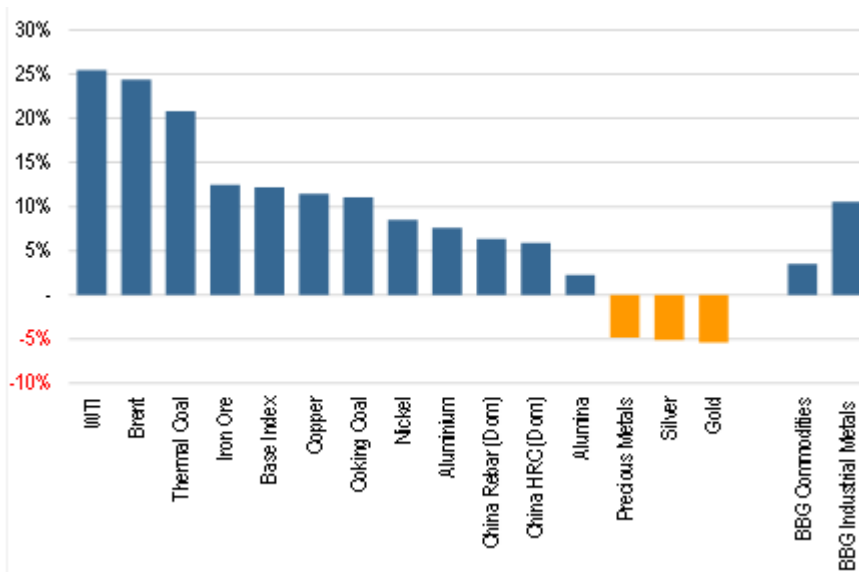


Source: JP Morgan, Bloomberg

Commodities

While the commodities index rose solidly in November, the standout performance was the 25% rise in oil prices, also driven by vaccine optimism and hopes that OPEC would look to taper or delay any production increases. The benchmark Iron ore price continued to strengthen, rising by 12% to US\$119 per tonne driven by constrained exports from Brazil and robust Chinese steel production. On the flip side, gold suffered its worst month in 2020, falling 5% to \$1,777 per ounce, given the “risk on” sentiment, despite broad-based dollar weakness.

Global commodity performance in November 2020



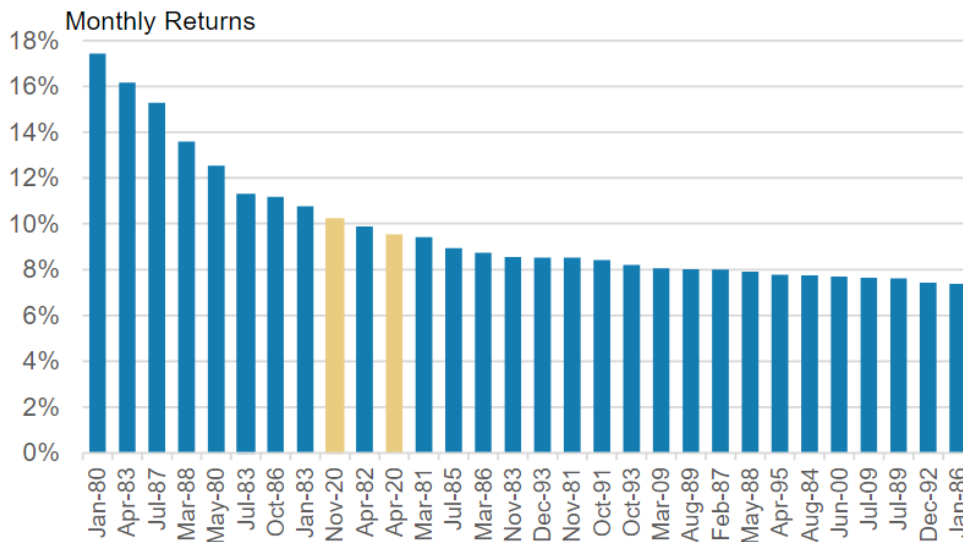
Source: JP Morgan, Bloomberg

Bonds

US bond yields spiked at the start of the month, on increased certainty of the presidential election outcome and importantly, confirmation that the Pfizer vaccine was over 90% effective against COVID-19 but later fell back, as rising infection rates in the US raised concerns over the sustainability of the economic recovery. Bond yields ended the month flat, with the US 10-year treasuries unchanged at 85 basis points and in Australia, the 10-year government bond yield rose by 5 basis points to 0.87%.

Australia

The S&P/ASX 200 Accumulation Index rose an impressive 10.2% in the month, joining in with the huge rally in global equity markets. The November 10.2% return ranks within the top 10 monthly returns since 1980 and the best monthly performance in 32 years!



Source: RIMES, Morgan Stanley Research.

The Financials sector was once again the most significant contributor to the index's performance, adding 4.2%, followed by Materials, contributing +1.4% and Real Estate (+1.0% contribution). The Consumer Staples sector was the only small detractor (-0.02%).

In the wash-up, there was very little separating the sub-indices. The ASX 200 Resources Accumulation Index was up 10.4%, followed by the Small Ordinaries Accumulation Index, +10.3% and the ASX 200 Industrial Accumulation Index, +10.2%.

With a "risk on" sentiment fuelling stock prices, it was no surprise that three gold stocks feature at the bottom of the tables. The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were: Newcrest Mining (-10 points), Northern Star (-8 points), Woolworths Group (-7 points), Saracen Mineral Holdings (-5 points) and Sonic Healthcare (-5 points).

The top five stocks that made a positive contribution to the index's return for the second month featured the major banks: Commonwealth Bank of Australia (+102 points), National Australia Bank (+88 points), BHP Group (+74 points), Australia and New Zealand Banking Group (+69 points) and Westpac Banking Corporation (+51 points).

The AUD was a strong performer in November - the second best monthly performance in 2020, rising with global equity markets and buoyant commodity prices, especially base metals and iron ore, to end the month at 0.7344 against the USD, a gain of 4.5%.

Not surprisingly, the RBA left the official cash rate at its historical low level of 0.1% following its meeting in early December. GDP data released post month end recorded that Australia had emerged from its technical recession. The economy expanded by 3.3% in the September quarter. It was the strongest quarterly growth since the March quarter in 1976.

CONTRIBUTION

Relative Value Gross Contribution 9.58%

Positive		Negative	
TPG TELECOM LTD - UNITI WIRELESS LTD	4.35%	CROMWELL PROPERTY GROUP - CENTURIA CAPITAL	-0.46%
KAROON GAS AUSTRALIA LTD - SANTOS	2.11%	CLEANSPACE HOLDINGS LTD - EBOS GROUP LTD (NZ*)	-0.35%
AFTERPAY TOUCH GROUP LTD - FLEXIGROUP	1.13%	APN INDUSTRIA REIT - PEET	-0.34%
RURAL FUNDS GROUP - VITALHARVEST FREEHOLD TRUST	0.69%	INGENIA COMMUNITIES GROUP - LIFESTYLE COMMUNITIES LTD	-0.34%
IOOF – IOOF CALL OPTION	0.62%	TPG TELECOM LTD - TUAS LTD	-0.21%

Special Situations Gross Contribution -1.97%

Positive		Negative	
IMPEDIMED LTD	3.55%	SPI FUTURES	-6.10%
ATOMOS LTD	1.60%	MCPHERSON'S LTD	-0.59%
KINA SECURITIES LTD	0.84%	LIMEADE INC-CDI	-0.42%
KALIUM LAKES LTD	0.38%	ACCESS INNOVATION HOLDINGS LTD	-0.37%
UNIVERSAL STORE HOLDINGS LTD	0.31%	HARMONEY CORP LTD / NZ	-0.33%

Top 10 Relative Value Positions

BHP BILLITON - BHP BILLITON	CROMWELL PROPERTY GROUP - HOMECO DAILY NEEDS REIT
KAROON GAS AUSTRALIA LTD - SANTOS	APN INDUSTRIA REIT - PEET
RIO TINTO - RIO TINTO	APN INDUSTRIA REIT - GDI PROPERTY GROUP
INGENIA COMMUNITIES GROUP - LIFESTYLE COMMUNITIES LTD	HOMECO DAILY NEEDS REIT - RURAL FUNDS GROUP
IOOF - IOOF CALL OPTION	SANTOS - SENEX ENERGY LTD

Top 10 Special Situation Positions

SPI FUTURES	DAMSTRA HOLDINGS LTD
KINA SECURITIES LTD	VOLPARA HEALTH TECHNOLOGIESS
IMPEDIMED LTD	HARMONEY CORP LTD / NZ
MCPHERSON'S LTD	LIMEADE INC-CDI
AURELIA METALS LTD	INVEX THERAPEUTICS LTD

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