Ellerston Capital

Ellerston Low-Vol Income Strategy Fund

Performance Report | November 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net^	6.90	5.55	12.36	-0.09	-	7.91
Benchmark*	10.21	8.22	14.76	-1.98	-	5.54
Alpha	-3.31	-2.67	-2.40	1.89	-	2.37

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

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

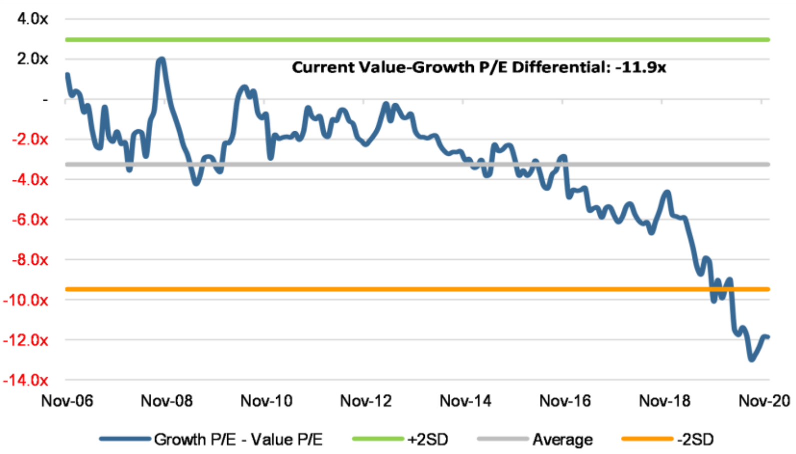
The Fund is a fundamental, bottom up Australian equity strategy with a clear focus on delivering low volatility, sustainable income for investors through actively blending multiple, distinct dividend yield strategies throughout the market cycle.

Key Information

Strategy Inception	1 May 2019
Portfolio Manager	Chris Hall
Application Price	$1.1210
Net Asset Value	$1.1182
Redemption Price	$1.1154
Liquidity	Monthly
No Stocks	37
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

Despite a backdrop of record global COVID-19 cases and a contested US election, equity markets ripped on the back of an expected policy gridlock (based on the Republicans keeping control of the Senate), renewed vaccine hopes and strong economic and earnings recovery data. In conjunction with this, we witnessed the biggest sector rotation in 30 years, with Value outperforming Growth by 11.7% in Australia. Despite this turnaround, the Value-Growth PE gap only narrowed 1.1 pts, leaving the differential at close to 12.0x, well over 2 standard deviations below the 20 year average.



Source: JP Morgan

The Australian market rose 15.3% in USD terms, outperforming the MSCI World Developed Markets Index, up 13.5% in USD terms. This rotation did not suit the strategy of the Fund, which has a stronger focus on quality companies with sustainable dividend generation compared to higher risk, leveraged companies. Therefore, the Fund had a weaker relative month achieving a net, relative performance outcome of -3.31%. The fund's value rose 6.90% vs the benchmark increasing 10.21%. Weaker relative sector performance for the Fund came from our underweight position in Banks, which detracted 1.0% in relative performance, whilst Energy and A-REITS detracted a further 1.1%. Our Healthcare overweight also hurt performance as the market rotated heavily out of this sector into cyclicals. This cost the Fund a further 0.50%.

Portfolio Activity – Major Transactions

During the month, we added ANZ Banking Group as it becomes more apparent that bank provisioning remains too conservative, meaning the ability to write-back profits and reinstate dividends is far more likely over the next 6 months as the economy recovers faster than expected. We also added NRW Holdings, a mining contracting business, which will strongly benefit from increased capital expenditure from mining companies as commodity prices continue to bounce. We further increased our weighting in South 32 given its operating leverage to improving base metal prices. In November, we exited or reduced our position in a number of defensive, growth stocks as they approached our valuation target.

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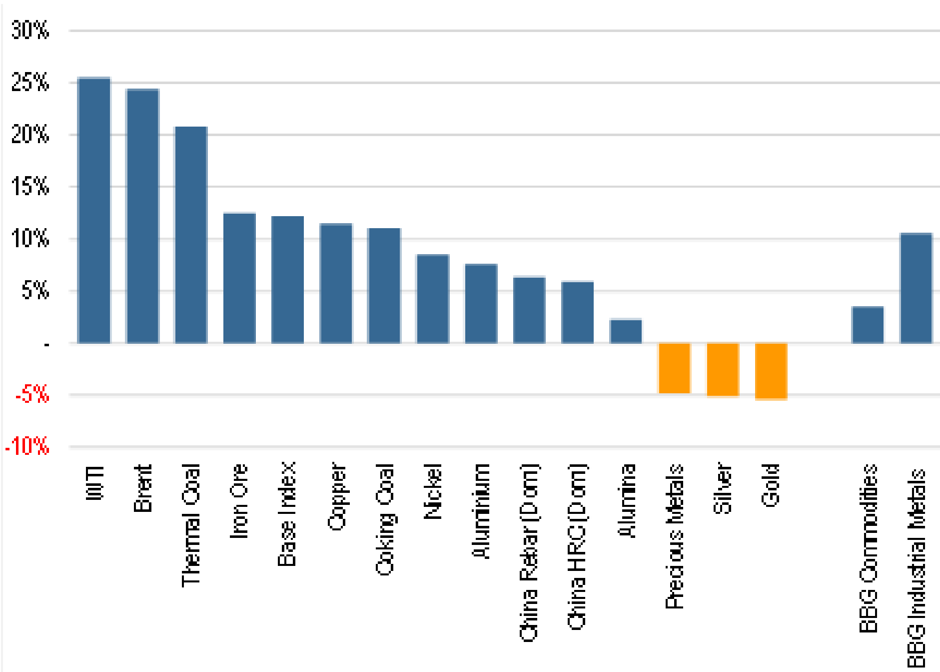
These included ASX Limited, Breville Group, Ramsay Healthcare and Spark New Zealand.

Markets and Macro News

The US market had one of the strongest months on record following the Biden victory in the US election and more positive news on the vaccine rollout. Strong economic data underpinned the markets rise, with the manufacturing ISM rising from 53.0 to 59.3 over the course of the month, along with continued declines in the unemployment rate as stimulus measures begin to kick in. European Markets also bounced hard as positive vaccine data was released, despite COVID-19 cases, particularly in Germany, continuing to worsen. Activity indicators were mixed in November and are likely to remain so until lockdown restrictions are lifted. Asian markets were equally strong, with the Hang Seng Composite index rising 9.4%. China economic data was especially strong, with the Caixin Manufacturing Index at its highest level since 2011.

Commodities continued to rally, led by a 25% rise in the oil price on the back of stronger economic demand and an indication by OPEC that further production increases may be delayed. Furthermore, iron ore rose 12% due to continued robust Chinese steel production, coupled with production cuts from Brazil. The iron ore price closed at US$119 per ton and has continued its strong run in December thus far. Conversely, gold selling pressure escalated, delivering its worst monthly price performance for the year. The gold price declined 5% to US$1,777 per Oz.

Global Commodity Price Performance in November



Source: JP Morgan, Bloomberg

In Australia, the Reserve Bank left the official cash rate at 0.1% post its meeting in December. GDP rebounded strongly in September, rising 3.3%, the highest since March quarter 1976. Australian 10 year bond yields rose by 5 basis points to 0.87%. In the US, the bond yield curve continued to steepen, with more expected in H1'21 as the economy continues to recover.

CONCLUSION

This type of market is the most challenging for the Fund, where high beta, leveraged cyclical stocks have periods of outperformance. The Fund has increased its Cyclical Yield exposure to its highest level since inception without jeopardising its focus on earnings and dividend quality and growth.

We are cautious on the market in the near term given a) valuations are looking stretched vs history, b) cash weightings of fund managers are approaching historical low levels of less than 4%, c) global equity offerings of US$1.1 tn in 2020 are at their highest level since 2009 and d) bond yields continue to rise at a time when the USD continues to weaken.

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 16.2% vs 7.4% respectively. The expected dividend yield of investee companies held within the portfolio is currently 2.9%, 74% franked vs the market dividend yield of 3.0%, 78% franked.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

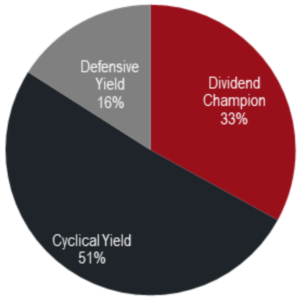
HOLDINGS

Top 10 holdings	Sector	%
Westpac Banking Corporation	Financials	8.6
CSL Limited	Financials	6.1
Australia and New Zealand Banking Group Limited	Real Estate	5.4
Goodman Group	Real Estate	4.7
Dexus	Real Estate	4.4
Aristocrat Leisure Limited	Consumer Discretionary	3.8
QBE Insurance Group Limited	Financials	3.8
Ampol Limited	Energy	3.6
Macquarie Group Limited	Financials	3.2
South 32 Ltd	Materials	3.2

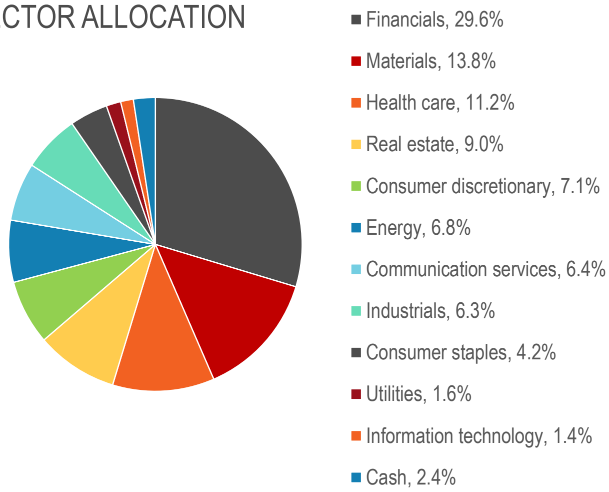
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	21.2	21.9
Dividend Yield (%)	2.9	3.0
Dividend Growth rate (%)	16.2	7.4
Beta*	0.96	1.00

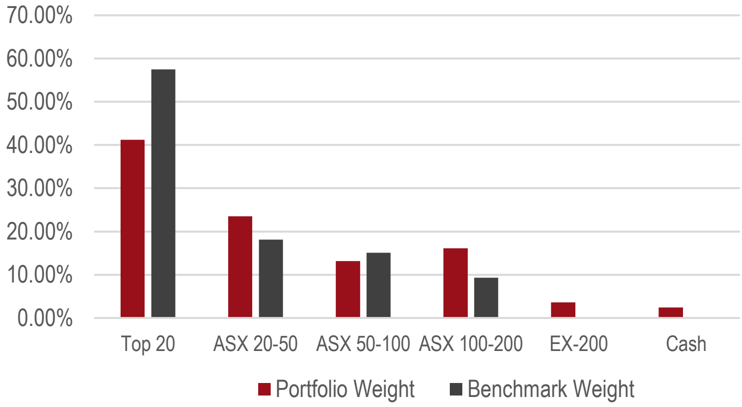
PORTFOLIO YIELD EXPOSURE



SECTOR ALLOCATION



MARKET CAPITALISATION



Source: Ellerston Capital

All holding enquiries should be directed to our registrar, Link Market Services 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 on 02 9021 7797 or info@ellerstoncapital.com

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