

Ellerston Australian Market Neutral Fund

Performance Report | January 21

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	-0.68%	7.01%	11.54%	11.31%	5.44%	5.21%	8.13%
Benchmark [*]	0.01%	0.03%	0.09%	0.26%	0.96%	1.21%	1.61%
Alpha	-0.69%	6.98%	11.45%	11.04%	4.48%	4.00%	6.52%

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	66%	Net Equity Exposure	18.1%
No. Relative Value positions	1	Gross Portfolio Exposure	24.7%
No. Special Situations	43	Correlation Coefficient (vs ASX 200 Accum)	52.8%
Beta Adjusted	24.6%	Net Sharpe Ratio (RFR = RBA Cash)	0.70

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Financials	4.5%	-0.2%	4.3%
Industrials	14.8%	-1.5%	13.3%
Resources	1.9%	-1.4%	0.5%
Index	0.0%	0.0%	0.0%
Total	21.3%	-3.2%	18.1%

COMMENTARY

The Fund produced a net return of -0.7% in January, underperforming the benchmark return of +0.01%. Pleasingly, FYTD, the Fund has returned +18.2% net compared with the benchmark return of +0.1%. Net exposure was +18.1% at the end of the month, with a beta-adjusted net of +24.6%. Gross exposure closed the period at +24.7%.

ACTIVITY

Relative Value – Gross Contribution -0.18%

Our paired position between Karoon Energy (-5.2%) and Santos Energy (+3.8%) detracted from performance. This is a disappointing result given Karoon's recently completed final settlement for the Bauna oilfield acquisition. Despite the recent share price performance, Karoon still looks incredibly cheap, trading at an FY22 EV/EBITDA multiple of just 0.3x, compared with Santos on 6.0x.

Special Situations – Gross Contribution -0.58%

Primewest Group (PWG)

In January we participated in the capital raising of Primewest Group (PWG) - \$55m at an 8.6% discount to the 5-day VWAP of \$1.39. The raising was undertaken to fund cornerstone investments in two unlisted funds managed by PWG and provide underwriting capacity for new funds. These funds include the Primewest Property

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

Fund Inception	3 June 2013
Application Price	\$1.1365
Net Asset Value	\$1.1337
Redemption Price	\$1.1309
Liquidity	Daily
Management Fee	1.20%
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25%/0.25%

Income Fund (PPIF) which is an open ended investment trust with \$30m of assets under contract with the group targeting to secure \$150m of assets in the next 12 months. PWG also expanded the mandate of its existing Primewest Agricultural Trust No 1 (PAF) to \$350m, given the opportunities in the market. We believe it is likely that PWG will look to list this Fund on the ASX in time. At the time of the raise, PWG also pre released its 1H21 results where the group delivered AUM growth of 8.9% to \$4.9bn with a further \$134m under contract. PWG also provided FY21 distribution guidance of 5 cents per security. We continue to believe there is imbedded value in PWG given the optionality over its assets which will play out over the coming years.

Japara Healthcare (JHC)

Japara Healthcare (JHC) share price rallied 19% in January as optimism crept into the sector on the anticipated Royal Commissions Final report which is due in late February. The market anticipates that funding may improve for the aged care providers and therefore FY21 could be the low point in earnings for the group.

Kina Securities (KSL)

The share price in Kina Securities (KSL) continued to rally in January (+12%) as the market gained comfort and digested the significant scale and reach that the acquisition of Westpac's Pacific (PNG and Fiji) business will have on the group. We believe KSL should continue to perform strongly as the market gains further comfort around the EPS accretion and synergies which KSL is likely to extract over time.

MARKET COMMENTARY

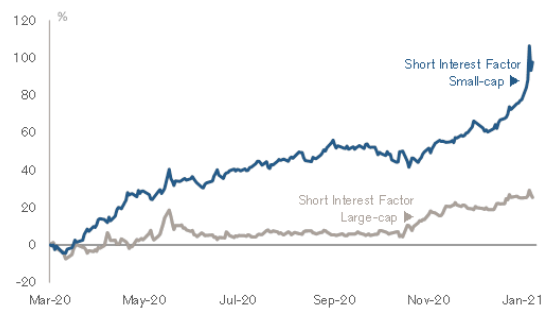
Market Overview

Global markets were volatile in January as investors weighed up the hiccups of the vaccine rollout, delays in the US fiscal stimulus and elevated valuations. Emerging Markets outperformed Developed Markets by 4%. Commodity prices were generally stronger and bond yields rose modestly. The ASX was broadly flat and the AUD gave up some of its recent strength.

USA

US stocks were weaker in a roller-coaster January. A feature of the month was the trading frenzy and short squeeze in specific stocks coordinated by smaller retail investors on popular platforms like Robinhood and Reddit. Stocks at the centre of social media forums were driven by investors exchanging trading ideas online, resulting in the meteoric rise of previously lesser known small-cap stocks like GameStop and AMC Entertainment. Retail investors relentlessly squeezed hedge fund shorts, causing significant losses in some high profile hedge funds. Time will tell how this battle between professional short sellers and marauding retail speculators plays out, but ultimately, the music must stop.

High short interest factor return: Small versus Large cap



Source: Credit Suisse Research

Joe Biden was sworn in as the 46th President of the United States on 20th January and hours later, signed an executive order to reinstate the US to the Paris Agreement on climate change, to which the renewable energy sector reacted positively. The dispute on the size of the US stimulus continued with no agreement reached - Biden pushing for his US\$1.9 trillion package without Republican support. On the economic front, overall key US data points improved, with the US manufacturing ISM rising to 60.7 (consensus: 56.8; previous: 57.5) and the US composite services ISM ahead of expectations rising to 57.2 (previous: 56.8).

The Dow Jones ended the month down almost 2%, the S&P 500 was down 1.0% (despite having hit several new record highs), but the Nasdaq Composite Index delivered a positive return of +1.4%. Style performance was undifferentiated and sector leadership revealed no obvious pro or counter-cyclical pattern for the month, but Small caps were the clear outperformer.

Europe

European markets were also weaker in January. An ill-tempered public argument broke out between the European Commission and the suppliers of some vaccines, with the EC accusing AstraZeneca and Pfizer of not meeting their contractual obligations, but the pharmaceutical companies hit back. Cooler heads prevailed, but the uncertainty and likely delays in the rollout of the vaccine in Europe weighed on investor sentiment. Discovery of new mutant strains of the so-called South African and UK variants, fuelled vaccine efficacy concerns, also dampening sentiment.

The Euro STOXX 50 Index ended the month down 1.9%. Among the major exchanges, the UK's FTSE 100 fared relatively better, down only 0.8%, compared to France's CAC 40 which fell 2.6% and Germany's DAX's down 2.1%. European activity indicators were stronger than expected with the Eurozone manufacturing PMI for December rising to 55.2 (previous: 53.8) and the composite PMI higher at 49.1 (previous: 45.3).

As we write, the rollout of vaccines has picked up pace, with the UK having administered doses to approximately 14% of its population, compared to Germany, Italy and Spain at around 3%.

Asia

Asian equity markets were stronger as investors continued to see activity levels increase, with the virus seemingly kept under control in most Asian countries. Sentiment was boosted by the strong GDP results which showed the Chinese economy expanding 6% in the last quarter of 2020. The Hang Seng Index returned +3.9%, Korea's KOSPI was even stronger (with a return of +3.6%) and the Nikkei 225 was up only 0.8%. The broader Chinese SSE Index was up almost 1% in January.

Commodities

Brent Oil prices rose 8% to US\$56 per barrel, driven by vaccine optimism and a surprise Saudi oil supply cut. Iron ore prices surged 8% inter month to levels not seen since 2011, but finished down 1% at \$US158 per tonne. Gold fell 2% to US\$1,850 per ounce as the US dollar moved marginally higher. Metallurgical coal prices rose an astonishing 57% to US\$160 per tonne now that Australian sales have been redirected from China to other key markets, combined with supply disruptions and strong non-Chinese demand.

Bonds

Global bond yields squeezed higher, with the US 10 year government treasury yield rising 17bp to 1.09% and the Australian 10 year government bond yield also rose by 12bp to 1.09%.

Australia

Following a very strong start to the New Year and hitting 11-month highs of 6832.6, early gains faded and the S&P/ASX 200 Accumulation Index ended the month marginally in the black, with a return of +0.3%. The return for the financial year-to-date is still a credible +13.6%.

For the month, the Financials sector was the most significant contributor to the index's performance, adding 59 basis points, followed by Consumer Discretionary, contributing +0.3% and the Consumer Staples sector contributing +0.1%. Real Estate was the worst performer, with a total return of -4.4% and detracting -0.3% from the index's performance, followed by Industrials (-0.2% contribution) and Health Care (-0.2% contribution).

The best performing sub-index was the ASX 200 Industrials Index, with a modest +0.6% return, followed by the Small Ordinaries Accumulation Index, -0.3% and the ASX 200 Resources Index, -0.6%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were: CSL (-28 points), Fortescue Metals Group (-14 points), Macquarie Group (-13 points), Goodman Group (-11 points) and Xero (-11 points).

The top five stocks that made a positive contribution to the index's return were: Westpac Banking Corporation (+33 points), Wesfarmers (+24 points), Afterpay (+20 points), BHP Group (+19 points) and National Australia Bank (+16 points).

The AUD retraced by 0.4 cents to 76.7 US cents.

CONTRIBUTION

Relative Value Gross Contribution -0.18%

Positive	Negative
	KAROON GAS AUSTRALIA LTD - SANTOS -0.18%

Special Situations Gross Contribution -0.58%

Positive		Negative	
KINA SECURITIES LTD	0.28%	IMPEDIMED LTD	-0.55%
JAPARA HEALTHCARE LTD	0.05%	ATOMOS LTD	-0.14%
CENTURIA CAPITAL GROUP	0.03%	DAMSTRA HOLDINGS LTD	-0.14%
MAGELLAN FINANCIAL GROUP LTD	0.03%	IDP EDUCATION LTD	-0.04%
ADAIRS LTD	0.03%	BETMAKERS TECHNOLOGY GROUP LTD	-0.03%

Top 10 Relative Value Positions

KAROON GAS AUSTRALIA LTD - SANTOS

Top 10 Special Situation Positions

IMPEDIMED LTD	BIGTINCAN HOLDINGS LTD
KINA SECURITIES LTD	FISHER & PAYKEL HEALTHCARE CORP
ATOMOS LTD	BETMAKERS TECHNOLOGY GROUP
DAMSTRA HOLDINGS LTD	JAPARA HEALTHCARE LTD
PRIMEWEST GROUP LTD	IDP EDUCATION LTD

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