Ellerston Capital

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | January 21

PERFORMANCE SUMMARY

Performance*	CYTD	FYTD	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)^^
GEMS C	8.26%	39.84%	42.54%	12.37%	14.08%	13.39%

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 January 31, 2021, the Australian ASX 200 is up +13.6%, and the US S&P500 is up +20.9%. **Your Fund is up net after fees +39.8% (On December 31, 2020, at the half year, it was up 29.2%).**

For the **Month of January 2021**, the Australian ASX 200 was up +0.3%, and the US S&P500 was down -1.0%. **Your Fund was up net after fees +8.3%.**

The portfolio performed very strongly in January in what was a very subdued month for global equity markets. Our high conviction and significant investment in Bed, Bath and Beyond (BBBY) contributed very materially to performance.

As of January 21, the portfolio had a net exposure (delta adjusted) of circa 70.5%, plus an exposure to gold and silver of circa 9.0%, uranium of circa 8.5%, and had minimal foreign currency exposure.

The Fund has performed well during the February month to date period.

Portfolio:

Bed Bath and Beyond, one of our highest conviction investments started the month below $20, peaked north of $50, and is currently trading at circa $28. While we believe that the stock could be worth north of $60 if management executes its clearly defined strategy, we exited our initial position at $45 as the reason for the rally was not fundamentally driven, and we do not believe the current risk reward was justified at that level. We have since re-established a position at an effective entry price of circa $24. This has been a fantastic outcome. We will provide a more in-depth overview of the Bed Bath and Beyond thesis in coming newsletters.

We have more recently increased our exposure to cyclicals through investments in companies including Cemex, one of the largest cement producers globally. The portfolio also continues to maintain significant exposures to uranium, through companies including Cameco, Kazatomprom, and Paladin, and to US financials, including JP Morgan and Comerica. We are invested in and continue to identify new opportunities that excite us and fit our asymmetric risk reward profile requirements.

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. **If equity markets were to have a material decline, we would expect the delta of the put options to significantly increase and reduce the net exposure of the Fund very dramatically**. The nature of our protection is such that we are protecting against material market falls as opposed to smaller market pullbacks.

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	$ 2.0513
Net Asset Value	$2.0462
Redemption Price	$ 2.0411
Liquidity	Monthly
No Stocks	97
Gross Exposure	224.42%
Net Exposure	70.50%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

Market Commentary:

The GameStop saga makes complete sense to us. No single person or authority is the definitive oracle on price discovery. Since the dawn of futures markets two thousand years ago, demand and supply determine this. The market is just a meeting that usually happens every day between buyers and sellers. The US equity market is the greatest market in the world. Playing with its ability to function is a terrifying thought. Everyone is pointing fingers. As an analogy, the Buffet effect is fine but if it's someone who is pointing in another direction, then let's lynch him, stop them, investigate them. Wow! What would have happened if Trump got his band on to GameStop?

Tactical considerations

Markets now appear to be operating in parallel universes. The lesson from Reddit is somewhat more profound than appears at first sight. The valuations of Reddit stocks is multiples of order what normal fundamental valuation principles dictate. For example, we believe that GameStop has various secular headwinds such as game streaming which could affect its revenues at a seismic level. This would normally lead it to trade at a low earnings and cash flow multiple.

That leaves it with a valuation range of $10 - 30 at an extreme level. As we well know it trades nearer $50 today and has been as high as $400. Why? A share in GameStop became a commodity where there were buyers and sellers at $400. Today they agree on a price of $50. Is that crazy? Well, let's look at the parallel universe of revenue multiple stocks. In many cases they do not have good unit economics. Additionally, they may not have an addressable market large enough to justify their enterprise values. Eerily, they have cult like followings and millennial style shareholders who own these companies based on factors such as love of the product, peer group ownership and powerful momentum. They have no interest in valuation principles. The Reddit brigade, the FOMO brigade, the millennial brigade, they all have one thing in common. Zero interest in the investment science of valuation. To us, the GameStop saga is almost like a lightbulb moment. A viciously clarifying example of how the thinking goes in this parallel universe. The "Good News" is that it tells how to manage our exposure to these type of stocks and profit from this phenomenon. Is it going away? Is Social Media going away? It's not, and it's come to Wall Street!

Market outlook

We continue to believe that goods inflation is coming. Central Banks will keep interest rates down. Many industry sectors such as Cyclicals and Financials continue to trade at very reasonable levels. The Fund is heavily exposed to this space and we anticipate that it could be a major beneficiary of the fiscal stimuli coming all over the world. Global pent up consumer demand meets Global stimulus meets Global infrastructure spending. It's a trifecta the likes of which no one at any time has seen before.

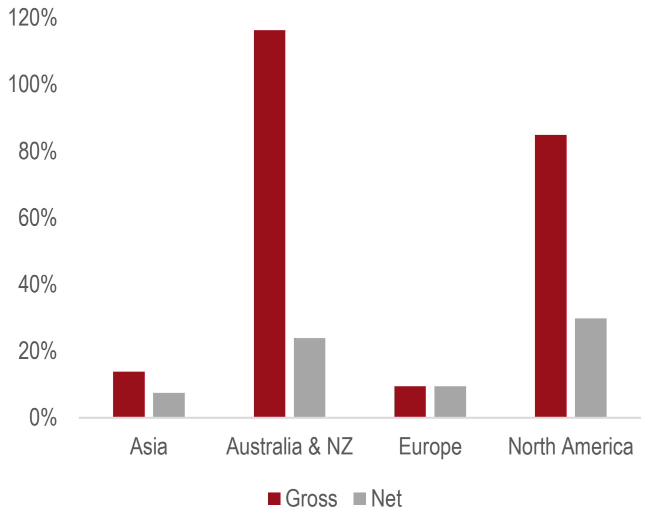
Market valuations

As a continuation to last month's newsletter, it is important to point out that as we see it, the markets recovery to a reasonable valuation relative to current interest rates is now largely over. This leads us to the view that the market is in the reasonable value zone. In a scenario where 10yr USTs seem to be heading to 1.25%, the market is going to be volatile relative to rates going up and down. Government and Central Bank activity which affects rates could have the effect of whipsawing equity markets for some time.

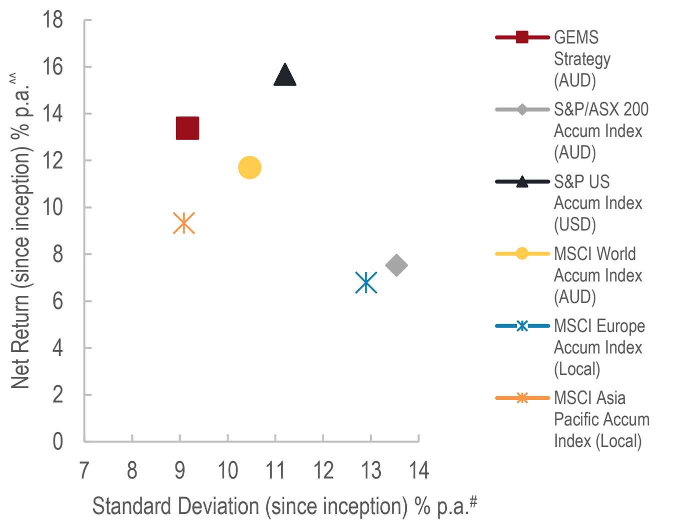
If there are further signs of inflation coming, we could easily see rates head towards 1.5% which could dampen the animal spirits prevalent in equity markets today. Most at risk is the universe of revenue multiple stocks. Conversely this may lead to a seismic rotation away from growth/tech/froth to value/financials/cyclicals. Possible further stimulus packages in the U.S and all over the world are going to make the rotation all the more likely. We could therefore have the odd scenario where underlying indices are weak but long suffering, underperforming sectors drive equity market performance.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



GEMS Strategy Performance & Volatility^



Source: Ellerston Capital

Top 10 Holdings (Alphabetical, Long Only)

- ADAIRS LTD
- BED BATH & BEYOND INC
- BETMAKERS TECHNOLOGY GROUP
- GRAINCORP LTD
- LYNAS CORPORATION LTD
- NEXTDC LTD
- OPTION CARE HEALTH INC
- S.O.I.T.E.C.
- SKY CITY ENTERTAINMENT GROUP
- UNITED MALT GROUP LTD

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 7701 or info@ellerstoncapital.com

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

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