

Ellerston Australian Market Neutral Fund

Performance Report, February 2021

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 environments 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	\$1.1529
Net Asset Value	\$1.1500
Redemption Price	\$1.1471
Liquidity	Daily
Management Fee	1.20% p.a.
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25%/0.25%

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)**
Net [^]	1.44%	1.88%	12.65%	19.36%	5.75%	5.73%	8.23%
Benchmark*	0.01%	0.03%	0.08%	0.22%	0.92%	1.18%	1.59%
Alpha	1.43%	1.85%	12.57%	19.14%	4.83%	4.55%	6.64%

[^] Net 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	67%	Net Equity Exposure	17.9%
No. Relative Value positions	1	Gross Portfolio Exposure	33.2%
No. Special Situations	47	Correlation Coefficient (vs ASX 200 Accum)	52.9%
Beta Adjusted	24.4%	Net Sharpe Ratio (RFR = RBA Cash)	0.72

Sector Allocation

Sector	Long Equity	Short Equity	Net Equity
Financials	4.3%	-0.2%	4.1%
Industrials	19.0%	-1.7%	17.4%
Resources	2.1%	-1.6%	0.5%
Index	0.0%	-4.0%	-4.0%
Total	25.4%	-7.5%	17.9%

Commentary

The Fund produced a net return of +1.4% in February, outperforming the benchmark return of +0.01%. Pleasingly, FYTD, the Fund has returned +19.9% net compared with the benchmark return of +0.1%. Net exposure was +17.9% at the end of the month, with a beta-adjusted net of +24.4%. Gross exposure closed the period at +33.2%.

Activity

Relative Value – Gross Contribution +0.02%

Our paired position between Karoon Energy (KAR) and Santos Energy (STO) contributed to performance. We continue to believe the value argument for KAR is easy, with a FCF yield of 30% in FY23 based off the current spot Brent oil price, or 2x EV/EBITDA in FY23. We think given the fact

that KAR is a pure oil producer and has no debt, it will benefit strongly from the recovery in oil. This compares to STO which is trading on 6.2x EV/EBITDA in FY23 and has a more diversified exposure.

Special Situations – Gross Contribution +1.78%

Betmakers, one of our high conviction positions was a standout performer during the month, increasing by 30%. While the interim result was solid, the spotlight was stolen by the news bookmaking legend Matt Tripp had been welcomed into the fold, which really drove the share price rally. For context, Matt Trip grew Sportsbet from a small start-up into Australia's second largest bookmaker behind Tabcorp, and he is widely known as a pioneer of online sportsbetting. Matt signed an exclusive partnership, with the objective of utilising both his expertise and contacts to accelerate Betmakers global B2B wagering strategy. Furthermore, he purchased a \$25m stake in the business, joining Matt Davey and Tom Warehouse in what has become an all-star line-up of strategic shareholders. With the support of these three wagering heavyweights, positive momentum on the regulatory front, and plenty of cash in the bank – the stage has been set. Everything is in place for Betmakers to successfully execute its global expansion.

Atomos had a great month, finishing up 20%, driven by a solid 1H21 result. While sales volumes rebounded to pre-COVID levels, it was gross margin expansion, strict cost control and cash conversion which exceeded market expectations. The company is enjoying structural tailwinds with increasing consumption of video content and increasing prevalence of online streaming platforms accelerating demand for Atomos' hardware. The outlook is positive and we expect this strong momentum to continue, supported by a healthy pipeline of new product launches, ongoing sales of recent releases, and expansion into new verticals.

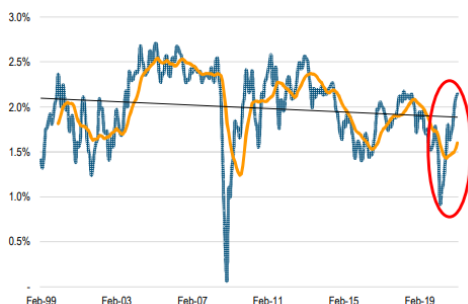
Market Commentary

Market Overview

Global equity markets had a positive month but pulled back off their highs towards the end of February as the dislocation in the bond markets saw yields rise sharply. The ASX 200 ended the month in positive territory in a strong reporting season, but underperformed other developed markets. The Australian 10-year bond yields rose 79 basis points to end the month at 1.92%, and the AUD continued to firm as commodity prices remained buoyant.

USA

US stocks rallied as activity indicators pointed to the ongoing recovery in the US economy: composite services ISM improved ahead of expectation and non-farm payrolls rose in January too. A surge in US retail spending - up 5.3% in January - mostly driven by the US\$600 stimulus checks from the December Response and Relief Act and a likely boost from the US\$1.9 trillion stimulus plan saw economists raise expectations for US growth. The Dow Jones ended the month up 3.2%, the S&P 500 was up 2.8% (despite having hit several new record highs), with the Nasdaq Composite Index lagging, but still delivering a positive return of +1.0%. The US bond market experienced significant volatility as stronger recovery prospects drove up inflationary expectations - US 10-year breakeven rates have risen by 72 basis points over the past 12 months (see chart below).



Source: JP Morgan, Bloomberg.

Europe

European markets were much stronger in February as confidence grew that the vaccine rollout and a pickup in global growth would also support a recovery in Europe. Fourth quarter results were beating expectations of the STOXX 600 companies that had reported thus far, 70% exceeded estimates for earnings per share.

Activity indicators were mixed, but generally had a positive bias: Eurozone manufacturing PMI for January was in-line, flat at 54.8 (but marginally better than consensus at 54.7); composite PMI was also flat at 47.8 but slightly better than the consensus expectation of 47.5. The Euro STOXX 50 Index finished the month well into the green, up 4.5%. Among the major exchanges, France's CAC 40 was the best performer with a return of 5.6% and Germany's DAX delivered a healthy return of 2.6%. The UK's FTSE 100 was up more modestly in comparison at +1.5%.

Asia

Asian equity markets were mixed, although there were encouraging signs that China continued to expand. The January Caixin manufacturing PMI ticked up to 53.9, above consensus expectations of 52.6 and a previous reading of 53.0. The Hang Seng Index returned +1.4%, Korea's KOSPI delivered a negative return of -1.6%, but the Nikkei 225 was very strong, with a return of +4.7%, led by Japanese automakers which climbed following reports that Apple was in talks with several manufacturers as potential EV partners and solid earnings from Mazda Motor. The broader Chinese SSE Index was up 0.8%.

Commodities

Brent Oil prices rose again in February, up 18% to US\$66 per barrel, driven by vaccine optimism, OPEC+ maintaining output levels, the Texan "big freeze" causing supply disruption and leverage to the reflation trade. Iron ore prices surged further, driven by expectations of higher global growth and constrained Brazilian supply, finishing the month up 11% to US\$176 per tonne. Gold fell to US\$1,735 per ounce as 'risk on' sentiment saw investors abandon bullion and gold shares. Base metals were also stronger, with Copper and Aluminium being the standout performers, up 15% and 11% respectively.

Bonds

Global bond markets experienced significant dislocation as inflationary expectations took hold (see a more comprehensive write-up in the Strategy section). The US 10-year bond yield rose 37 basis points to 1.40% and Australian bonds sold off more, with 10-year yields up 79 basis points to 1.92%.

Australia

The S&P/ASX 200 Accumulation Index ended the month in positive territory with a return of +1.5% and underperformed Developed Markets in February.

For the month, the Financials sector was the most significant contributor to the Index's performance, adding 142 basis points, followed closely by Materials, contributing 140 basis points and Energy, contributing 9 basis points. Every other sector detracted from the Index. Information Technology was the worst performer, with a return of -8.9%, detracting 37 basis points from the Index's performance, followed by Health Care (-0.3% contribution) and Consumer Staples (-0.3% contribution).

The best performing sub-index was the ASX 200 Resources Index, with a stellar +7.5% return, followed by the Small Ordinaries Accumulation Index, up +1.6% and the ASX 200 Industrials Index, with a return of -0.1%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were: Wesfarmers (-26 points), CSL (-21 points), Afterpay (-18 points), Coles Group (-17 points) and Northern Star (-15 points).

The top five stocks that made a positive contribution to the index's return were: BHP Group (+84 points), Westpac Banking Corporation (+49 points), Australia and New Zealand Banking Group (+36 points), Rio Tinto (+32 points) and Fortescue Metals Group (+20 points).

The AUD rose by 0.5 cents to 77 US cents and has now strengthened ~21% against the greenback in the past year.

Contribution

Relative Value Gross Contribution +0.02%

Positive	Negative
KAROON GAS AUSTRALIA LTD - SANTOS	0.02%

Special Situations Gross Contribution +1.78%

Positive	Negative		
IMPEDIMED LTD	0.57%	BIGTINCAN HOLDINGS LTD	-0.10%
BETMAKERS TECHNOLOGY GROUP LTD	0.28%	DAMSTRA HOLDINGS LTD	-0.10%
KINA SECURITIES LTD	0.26%	IDP EDUCATION LTD	-0.06%
ATOMOS LTD	0.18%	MONADELPHOUS GROUP LIMITED	-0.03%
PALADIN ENERGY LIMITED	0.14%	FORTESCUE METALS GROUP LTD	-0.03%

Top 10 Relative Value Positions

KAROON GAS AUSTRALIA LTD - SANTOS

Top 10 Special Situation Positions

IMPEDIMED LTD	ATOMOS LTD
PUT OPTIONS ON THE ASX	DAMSTRA HOLDINGS LTD
KINA SECURITIES LTD	PRIMEWEST GROUP LTD
NOVONIX LTD PLACEMENT	BIGTINCAN HOLDINGS LTD
BETMAKERS TECHNOLOGY GROUP LTD	COSTA GROUP HOLDINGS LTD

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Melbourne

Level 4, 75-77 Flinders Lane,
Melbourne, VIC 3000
+612 9021 7701
info@ellerstoncapital.com

Find out more

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 **ellerstoncapital.com**

All holding enquiries should be directed to our register, Link Market Services on **1800 992 149** or **ellerston@linkmarketservices.com.au**

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