Ellerston Global Equity Managers Fund (GEMS)

Performance Report, February 2021

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

Inception Date ^^	1 December 2009
Portfolio Managers	Ashok Jacob & Arik Star
Class C Redemption Price	$2.1906
Liquidity	Monthly
No Stocks	86
Gross Exposure	223.03%
Net Exposure	65.31%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25% on application 0.25% on redemption

Performance Summary

Performance*	CYTD	FYTD	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^^
GEMS C	16.20%	50.09%	52.50%	15.49%	16.07%	13.99%

Source: Ellerston Capital
* The 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 February 28, 2021, the Australian S&P/ASX 200 Index is up +15.20%, and the US S&P500 Index is up +24.26%. **Your Fund is up net after fees +50.1%**

Calendar Year to Date from January 1 to February 28, 2021, the Australian S&P/ASX 200 Index is up +1.77%, and the US S&P500 Index is up +1.72%. **Your Fund is up net after fees +16.2%**

For the Month of **February 2021**, the Australian S&P/ASX 200 Index was up +1.45%, and the US S&P500 Index was up +2.76%. **Your Fund was up net after fees +7.3%.**

The portfolio performed very strongly during February with contributions to performance coming across the portfolio.

At March 22, 2021, the portfolio had a net exposure (delta adjusted) of circa 53%, plus an exposure to gold and silver of circa 10%, and uranium of circa 11%.

The Fund is currently circa flat during the March month to date period.

Portfolio:

Along with our non-thematic stock specific investments, we maintain material exposures to cyclicals, financials and uranium. Investments in cyclical companies include Cemex, one of the largest global cement producers, and Olin, one of the largest global chlorine, caustic soda and epoxy manufacturers. Investments in US financials include JP Morgan, Citigroup and Comerica. Exposure to uranium includes Cameco, Kazatomprom, and Paladin. 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 significantly reduce the net exposure of the Fund. The nature of our protection is such that we are protecting against material market falls as opposed to smaller market pullbacks.

Market Outlook

Barrack Obama came to power in 2008 at the time when The Tea Party, a fiscally conservative movement that called for lower taxes and decreased government spending, was gaining ascendancy over the Republicans in the US. Obama, being a young president, was too nervous to push bold initiatives through, and then in 2010 he lost control of the Senate. Normal crises see powerful responses from the Government, however the GFC saw no fiscal response, forcing the US Federal Reserve to overcompensate with QE 1, 2, 3 and so forth. This has completely destroyed the whole concept of business cycles and the normal Economic Clock is no longer even mentioned.

COVID-19 has ushered in a new fiscal response era, initially with the introduction in March 2020 of the $2.2 trillion CARES Act, an economic stimulus response to the immediate economic fallout of Covid-19. President Biden kick started a new fiscal response when his "American Rescue Plan" passed through the Senate this month, a $1.9 trillion helicopter spend, which includes sending direct payments of up to $1,400 to most Americans. This is augmented by $2 trillion of excess unanticipated savings generated during the Covid-19 period, and a great infrastructure spend estimated as high as $3 trillion coming in September. The Economic Clock is working again! Real rates are rising. We have Biden's "Made in America" campaign starting up, which compels federal contractors to purchase more US manufactured products. We have Biden's environmental push gathering steam, a potential $2 trillion plan that puts the U.S. on a path to zero carbon pollution from the electricity sector by 2035 and net-zero emissions by 2050. We have demand rising across the spectrum.

Every old capital heavy industry is seeing a pickup in real demand for the first time since 2006. Old fashioned industries like Chemicals, Cement, Steel and Aluminium are moving towards or operating at in excess of 90% of capacity, with little to no chance of going through the permitting and heavy capex required to bring new supply on. There is a reasonably high chance that the "left behind" sectors of the economy and stock market could have their day in the sun this year. It's not Value vs Growth. It is Capital Heavy vs Capital Light!

Real demand and real interest rates could rise all year. Inflation is coming. The only question is whether it will be transitory or persistent. Citing pent-up demand, supply-chain bottlenecks and the comparison with very weak price pressures last year, Federal Reserve Chairman, Jerome Powell, told the House Financial Services Committee this week, that "We do expect that inflation will move up over the course of this year. Our best view is that the effect on inflation will be neither particularly large nor persistent." "We have been living in a world of strong disinflationary pressures -- around the world really -- for a quarter of a century. We don't think a one-time surge in spending leading to temporary price increases would disrupt that."

What we know for sure is that we don't know for sure. We remember Chairman Bernanke's famous comment back in May 2007 that the "troubles in the subprime sector on the broader housing market will likely be limited". Time will tell with Inflation.

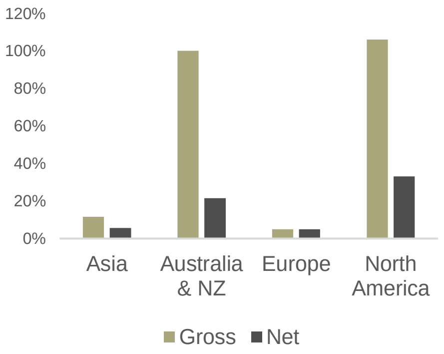
Market Valuations

The US 10Yr treasuries have been the primary driver of equity markets for at least the last five years if not more. The move up to 1.75% has been a powerful gap move which has stirred the frothy end of the market but not quite broken it. We believe that equity markets generally just want to see the treasuries stabilize. Steady moves up in rates tend to spook loose holders and maximize volatility. The Fed is clearly indicating that it sees temporary inflation at circa 2.5% but not persistent inflation. If the Fed can convince the market about this scenario, there is considerable upside. In general, if treasuries can stabilize between 1.5% and 1.75% we think the market will continue to be constructive.

There is however considerable potential for churn under the surface of the actual index levels. Rises in real rates will be constructive for cyclicals but rises in inflation expectations will be extremely negative for the growth/tech space. We do however believe that the actual earnings yield (1/PE) of the S&P 500 remains well within the 2.5 – 3X range relative to 10YR USTs and that in turn leaves the market in a fair value range. The crossover of the market from undervalued to fair value at 1.5% with considerably different valuation dynamics across different sectors is an event we have not seen since the start of COVID 19. We do however remain extremely constructive but extremely cautious.

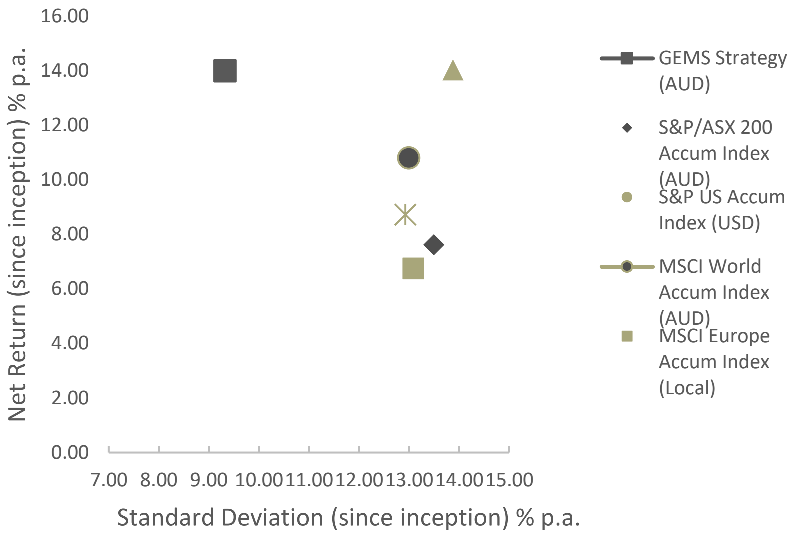
Portfolio Characteristics

Market Exposure as a % of NAV



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility^



Source: Ellerston Capital.

Top 10 Holdings (Alphabetical, Long Only)

- ADAIRS
- BED BATH AND BEYOND
- BETMAKERS TECHNOLOGY
- CAMECO
- CEMEX
- GRAINCORP
- JP MORGAN CHASE AND CO
- OLIN CORP
- SKY CITY ENTERTAINMENT
- TEKKORP DIGITAL

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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, Mainstream Fund Services on **1800 992 149** or **ellerston@linkmarketservices.com.au**

^ Actual performance for your account may vary from that set out in this newsletter and will vary for investments made in different classes, or at different times throughout the year. Some performance data is estimated and preliminary and subject to change.

^^ For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

The standard deviation is often used by investors to measure the risk of an asset. The standard deviation is a measure of volatility: the more an asset's returns vary from the average return, the more volatile the asset. A higher standard deviation means a greater potential for deviation of return from the average return of the asset. The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance.

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