Ellerston Capital

Ellerston Australian Share Fund (ASF)

Performance Report | January 2021

PERFORMANCE SUMMARY

Net %	1 Month	3 Months	FYTD	Rolling 12 Months	5 Yr p.a.	Strategy Since Inception p.a.
ASF	0.47	13.00	14.88	-6.45	7.40	7.83
Benchmark	0.31	11.89	13.55	-3.11	10.03	9.68

Past performance is not a reliable indicator of future performance.

MARKET COMMENTARY

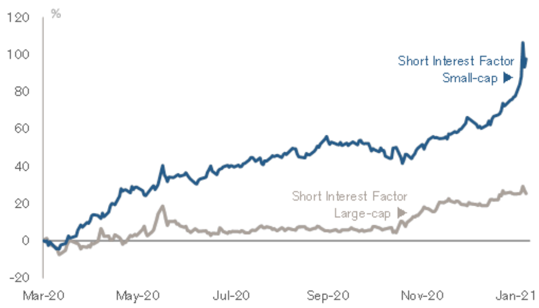
Market Overview

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).

Investment Objective

The Investment objective for the Ellerston Australian Share Fund is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

Investment Strategy

The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 stocks in order to capture the neglected opportunities created by under-researched stocks in the broader Australian market.

Key Information

Strategy Inception Date	1 April 2009
Fund Net Asset Value	$0.9460
Liquidity	Daily
Application Price	$0.9436
Redemption Price	$0.9412
No Stocks	23
Management Fee	0.90%
Buy/Sell Spread	0.25%
Performance Fee	15%

Ellerston Capital Limited
ABN 34 110 397 674
AFSL 283 000

Level 11
179 Elizabeth Street
Sydney NSW 2000

Ph: +61 2 9021 7701
Fax: +61 2 9261 0528

info@ellerstoncapital.com
www.ellerstoncapital.com

APIR Code: ECL0005AU

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. The Hang Seng Index returned +3.9%, Korea's KOPSI 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, 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 a 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.

COMPANY SPECIFIC NEWS

The Market Misses

Polynovo (PNV -32.2%)

The trading update in January proved disappointing, revealing slower revenue growth in recent months than was expected for its burn treatment products. PNV's management team suggested COVID-19 has been impeding the global rollout of its product and that this will normalise as the vaccine programs starts to have the desired effect.

Nanosonics (NAN -14.8%)

There was no company specific news to explain the share price weakness in January, but the stock price had bounced hard through November and December after the company provided a better than expected update in early November. So it appears the stock was caught up in likely profit taking and general weakness across the healthcare sector.

Adbri (ABC -14.3%)

ABC's share price took a large hit back in the middle of 2020 when it lost its largest lime contract with Alumina Limited. The announcement in January that it had secured a five year extension for the largest remaining lime contract with South 32, on "materially similar commercial terms" was not sufficient to stop the share price significantly underperforming the broader market.

Link Administration Holdings (LNK -13.9%)

LNK's price fell after the company revealed on 4 January that SS&C Technology had withdrawn its proposal to acquire 100% of LNK for $5.60 in cash. SS&C had put forward its indicative proposal on 7 December. This was the second bid that LNK had received and the shares rose sharply in response to the announcement in December. Despite a positive business update on 21 January, LNK's shares underperformed the broader market in January.

Resolute Mining (RSG -13.2%)

RSG shares fell following its pre-released weaker 2Q production at its Syama gold mine in Mali.

Xero (XRO -11.5%)

In the context of a +162% move from the March 2020 lows, XRO had a minor pull-back to kick off 2021, on no company specific news.

IOOF Holdings (IFL -11.4%)

IFL provided an update on its FUM and flows on 28 January indicating that it has lost a large mandate, with net outflows of c. $10 billion in the quarter to December 2020. While the loss of the BT mandate was flagged previously, the size of the outflow, absence of material business traction in other divisions and the looming challenge of the MLC integration, including the loss of key advisors spooked investors.

Flight Centre Travel (FLT -11.2%)

FLT's share price continues to be dominated by COVID-19, random State border closures and sentiment surrounding global travel. The market remains concerned that the severe lockdown across Europe and increasingly throughout Asia, means international travel is a long way off, despite the roll-out of vaccines.

Westgold Resources (WGX -11.0%)

After strongly outperforming the gold sector in the previous month, WGX gave most of it back following a slightly weaker 2Q production report.

Sydney Airport (SYD -10.8%)

Sydney Airport continued to underperform, as the number of lockdowns both domestically and globally increased. The share price was also not helped by a continued sell-off in longer dated bond yields.

The Market Hits

Zip Co (Z1P +37.4%)

Z1P shares soared following a trading update in January which confirmed the company as one of the fastest growing Buy-Now-Pay-Later players in the US. It reported a record quarter, with revenue of $102 million, up 88% year-on-year. Transaction numbers and customers were up an impressive 149% and 97% year-on-year respectively.

Bingo Industries (BIN +32.4%)

Bingo confirmed media reports on the 19th of January that the company had received a highly conditional, non-binding, indicative proposal from CPE Capital and its potential co-investors. The indicative cash proposal is for $3.50 per share, a 30% premium, but is subject to a number of conditions, including due diligence and financing. The proposal is being considered by an Independent Board Committee of Bingo and discussions with the consortium are ongoing.

Pro Medicus (PME +25.4%)

This provider of software for the radiology industry won a large new contract with a hospital group in the US. The new contract, worth $40m over seven years, will see the company's software used across 24 hospitals and 200 clinics in Idaho, Nevada and Utah.

Lynas Rare Earths (LYC +20.1%)

LYC announced it will build a light rare earth facility in Texas with the help of the US Government. Whilst modest compared to LYC's plan to expand its overall production, it highlighted the US concerns with China's market dominance in rare earths. LYC is the largest rare earths producer outside China and this US facility may enable further expansion in the future.

Nufarm (NUF +18.3%)

An upgrade to earnings forecasts from two prominent stock broking firms highlighted the improving operating environment in most of NUF's key regions (Europe, Australia and North America). The research reports also provided a timely reminder of the earnings improvement likely to come from internal restructuring and the unwinding of temporary input cost increases and supply chain issues that have historically plagued the company.

Incitec Pivot (IPL +15.8%)

IPL rallied throughout January on no company specific news but the rise can be attributed to a sustained move higher in the price of a number of agricultural commodities such as corn, soybeans and wheat, which have the knock-on effect of improving the outlook for fertiliser demand.

IDP Education (IEL +15.8%)

IDP moved higher on the back of a broker upgrade note. The note suggested the immediate outlook for IEL continues to get better and expects the company's competitive position to have improved through COVID-19, underpinning the outlook for the business over the next 4-5 years.

Afterpay (APT +14.5%)

APT shares caught another bid as the whole BNPL sector was again well supported by investors. Volumes and basket size continue to increase and the outlook for growth was supported by improved credit metrics, with the economy doing better than expected.

ARB Corporation (ARB +14.1%)

ARB has continued its tremendous run post the COVID-19 sell-off further into 2021. It provided a pleasing trading update for the half year ended 31 December 2020, with the company expecting revenue growth of 22% to $284mil and also guided profit before tax for the half to be $70m to $72m, well above consensus.

Harvey Norman (HVN +13.9%)

HVN's continues to benefit from strong retail sales across electronics and household goods. A positive update from fellow retailers JB H-Fi and Super Retail Group, indicated momentum remained strong through Christmas. In addition, encouraging feedback from retailers in January further supports the sector.

FUND PERFORMANCE

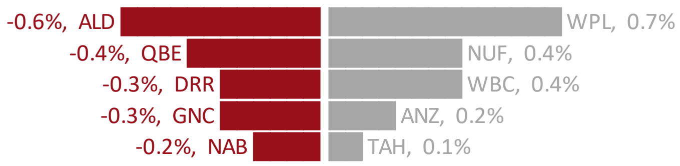
In January, the Fund posted a return of 0.56%, outperforming the benchmark return of 0.31%. This brings the return for the FYTD to 15.63%, outperforming the benchmark of 13.55%.

RETURNS[1] (%)	GROSS	BENCHMARK*	EXCESS	NET
1 MONTH	0.56	0.31	0.25	0.47
3 MONTH	13.32	11.89	1.43	13.00
FYTD	15.63	13.55	2.07	14.88
ROLLING 12 MONTHS	-5.44	-3.11	-2.33	-6.45
5 YEARS (P.A.)	8.54	10.03	-1.48	7.40
SINCE INCEPTION (P.A.)	8.99	9.68	-0.69	7.83

Past performance is not a reliable indicator of future performance.

Month of January Attribution

Securities Held



Securities Not Held

Source: Ellerston Capital.

The main positive contributors to this month's performance were overweight positions in: Woodside Petroleum (WPL +7.6%), Nufarm (NUF +18.3%), Westpac Banking (WBC +9.1%), Australia and New Zealand Banking (ANZ +4.5%) and Tabcorp Holdings (TAH +2.3%).

Zero weight positions that also helped included CSL (CSL -4.1%), Fortescue Metals Group (FMG -7.0%), Macquarie Group (MQG -5.1%), Goodman (GMG -6.5%) and Xero (XRO -11.5%).

The main detractors to performance for the month were overweight holdings in: Ampol (ALD -7.9%), QBE (QBE -5.9%), Deterra Royalties (DRR -10.2%), Graincorp (GNC -3.6%) and National Australia Bank (NAB +4.2%).

Not holding larger cap shares that outperformed the broader market and constrained returns included: Wesfarmers (WES +8.4%), Afterpay (APT +14.5%), BHP (BHP +2.7%), Commonwealth Bank of Australia (CBA +1.7%) and Woolworths (WOW +3.9%)

[1] The return figures are calculated using the redemption price for Class A Units and on the basis that distributions are reinvested. The Gross and Excess return figures are before fees and expenses whereas the Net Return figures are net of fees and expenses for the Class A Units. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.

* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

FUND ACTIVITY

In January, we further strengthened the Fund's positions in ALS (having introduced it into the portfolio only last month), ANZ Banking Group, Deterra Royalties and Tabcorp Holdings. These additions were funded by reducing the positions in Downer, Medibank and South32, whilst taking profits in Woodside Petroleum and Western Areas (before its share price fall on the back of a disappointing quarterly update).

As you would be aware, since October we have been lifting our exposure to the major banks. This month, we introduced National Australia Bank into the portfolio (see brief write up below and a more detailed update on our thinking with respect to the bank sector in the fund strategy section).

National Australia Bank (NAB)

NAB's strategy is clear. It has a strong CET1 capital position (at the upper end of peers) and operational performance has been sound and looks to be on track. There are further cost out opportunities given its reinvestment program over past three years, and under CEO Ross McEwan, NAB is closing branches. The main risk is that NAB continues to face a potential Austrac issue (timing uncertain) and is overweight SME exposure in its business banking book. On balance, we believe the positives of earnings, ROE and dividend recovery outweigh the risks.

NEW STOCKS ADDED	STOCKS EXITED
• National Australia Bank	
INCREASED	**DECREASED**
• ALS	• Downer
• ANZ Banking Group	• Medibank Private
• Deterra Royalties	• South32
• Tabcorp Holdings	• Woodside Petroleum
	• Western Areas

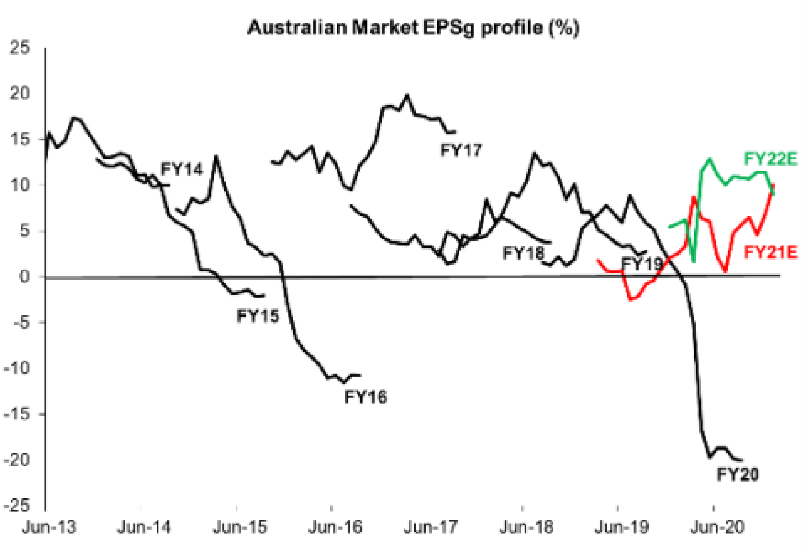
FUND STRATEGY AND OUTLOOK

We commence interim results season with a tailwind of positive earnings, revision strength and upbeat pre-releases. Companies should engage with investors with greater clarity around COVID-19, given the impact of the vaccine rollout and government policy settings. We expect companies to provide more definitive outlook statements again, given the path to recovery is clearer, in sharp contrast to 2020 which was characterised by limited updates and the absence of formal guidance. This confidence should extend EPS momentum into outer years.

Dampened expectations leave room for upside surprise and overall, we remain positive on the earnings outlook, supported by fiscal stimulus, strong commodity prices and the expectation that the vaccine rollout will drive increased activity and stronger growth. **Net EPS revisions have now been positive for the last five months.** In fact, earnings revisions have not been this positive since the commodity boom in 2004 or 2005. A seven to one ratio of beats to misses in the US results season is also encouraging. We believe the outlook for dividends has also improved markedly.

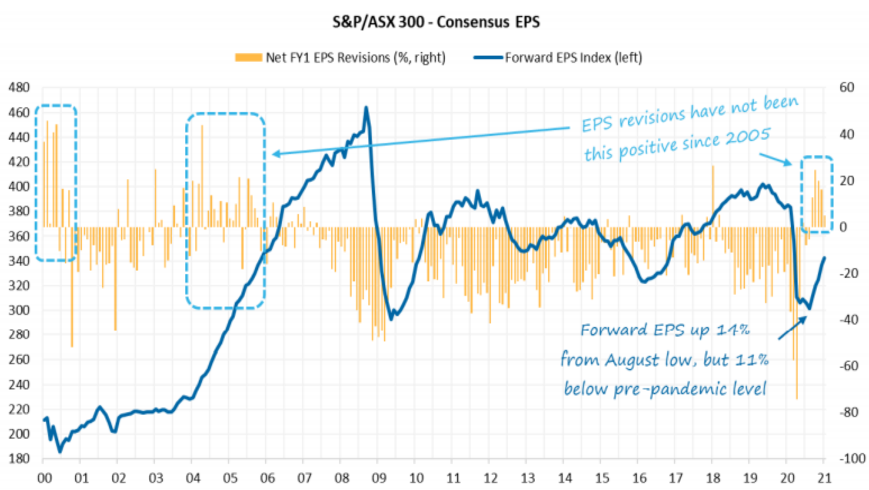
Macquarie Research is forecasting bottom-up EPS growth in Australia of only 10% in FY21, up from 4.5% in November. (Other research houses are more optimistic with earnings forecast to increase by 20% plus in FY21 based on consensus aggregates). The Resources sector is the key driver, with EPS growth of approximately 24%, supported by higher commodity prices. **Consensus Bank earnings are also expected to be in the high single digits in FY21 and low double digits in FY22**, supported by lower bad debts, provision releases and cost reductions. Industrials are forecast to grow earnings in the mid-single digits in FY21. Disruptions from COVID-19 are expected to drive a low double digit fall in property earnings in FY21, with a c.20% recovery forecast in FY22. Not surprisingly, the earnings outlook for the Utilities sector looks just plain awful.

FY21 EPS growth forecasts in an upgrade cycle driven by Resource stocks



Source: Macquarie Research, January 2021

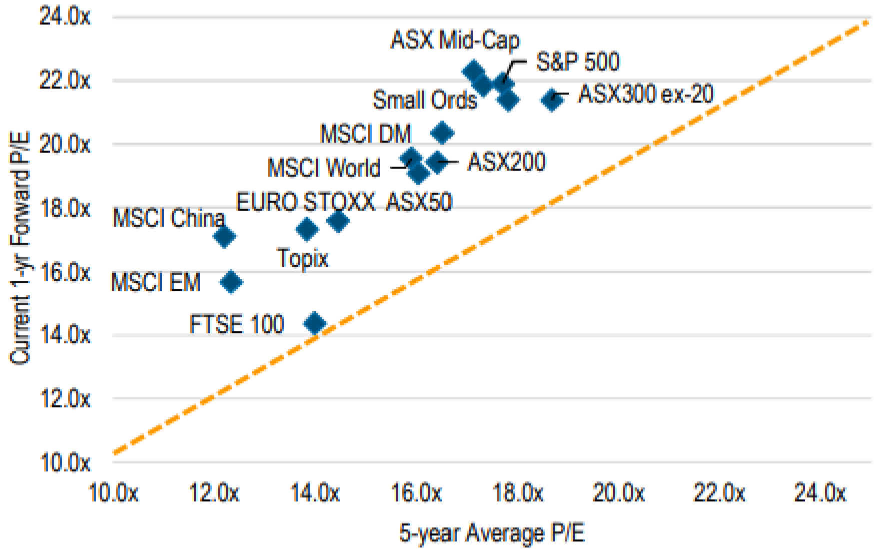
Earnings revisions are the most positive since the 2000s commodity boom



Source: FactSet, Macquarie Research, January 2021

The MSCI World is trading at 20 times, which is four points above its 10-year average. Earnings growth will be required to support the current market valuations. On a five-year view, all major global markets, with the exception of the FTSE 100, are trading well above average, with most markets rising by at least three multiple points. The forward multiple for the Australian ASX 200 Index has expanded noticeably in the past year and now stands at 20 times earnings, more than two standard deviations above the 10-year average, with near zero interest rates the key factor in supporting near-record high valuations.

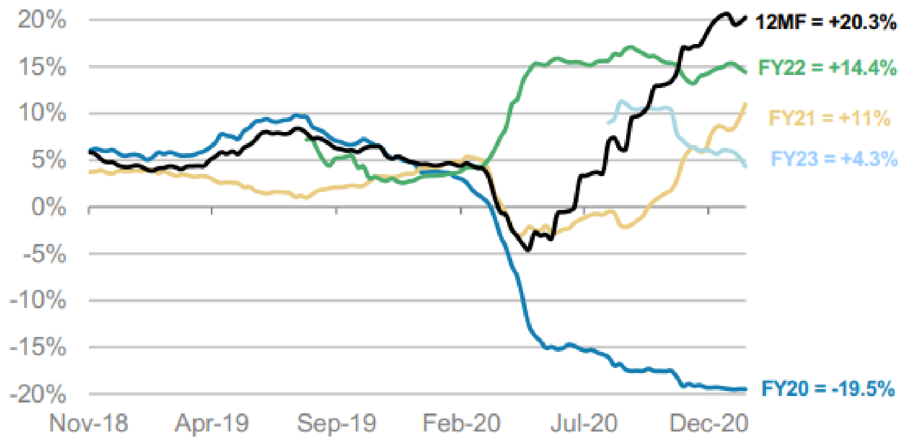
PE landscape – current versus five-year average



Source: JP Morgan, Bloomberg

As mentioned previously, aggregate consensus EPS growth has been ticking up and we expect the upcoming reporting season to be supportive of forward earnings forecasts. Domestic cyclicals outperforming overly fearful market expectations was a dominant theme in the August reporting period, which we believe will continue.

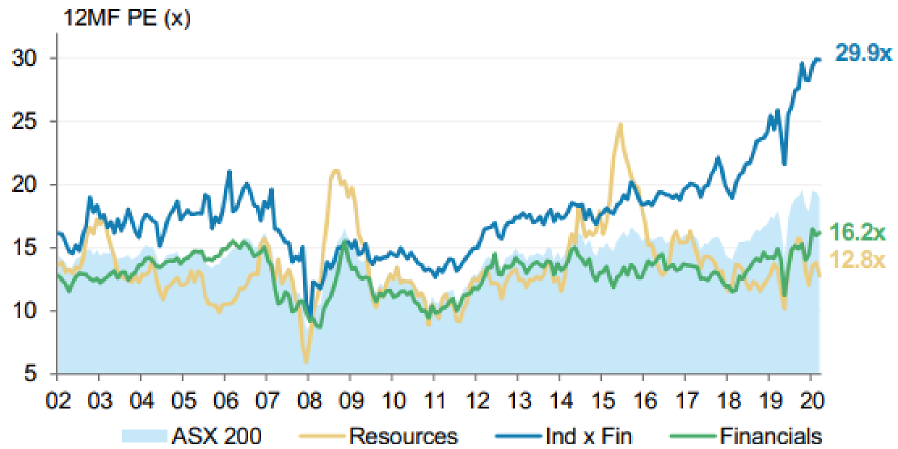
Aggregate Annual Consensus EPSg (%) Trends FY20-23



Source: RIMES, IBES, Morgan Stanley Research.

The market multiple continues to look historically elevated, but this is obviously supported by lower bond yields. This relationship could be tested if yields continue to rise. **Consequently we continue to favour stocks that perform better in periods of reflation** (i.e. certain resource stocks, Ag, select financials - see write up on banks below and Value names). We remain cautious towards those securities that have benefitted in the past from lower yields (bond proxies, growth-at-any-price, and offshore industrials, particularly healthcare - which tend to be $US denominated earners). Lofty valuations here and currency headwinds will temper their future performance.

ASX 200 Macro Sector 12MF P/E



Source: RIMES, IBES, Morgan Stanley Research

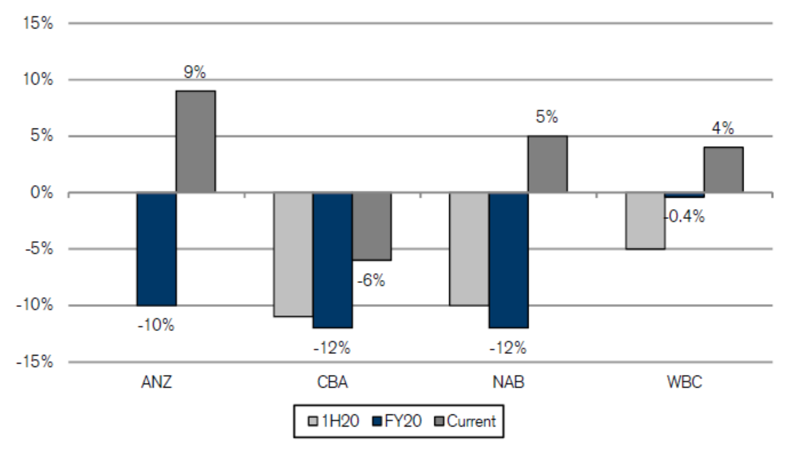
We are now Overweight banks

Having introduced ANZ to the portfolio back in October 2020 (which has thus far born fruit) and **with the introduction of NAB** in January, **for the first time ever, we are overweight the major banks.** We currently hold overweight positions in ANZ Banking Group, National Australia Bank and Westpac Banking Group. CBA is not preferred, trading on a 2 times Price to Book multiple vs ~1.1 times for the other three major banks, but no doubt the rising tide will lift all ships, which means CBA will also rally in the current environment. We believe that post the Banking sector having underperformed for each of the past six calendar years, banks will outperform the S&P/ASX 200 in 2021, building on strong returns recorded during the December quarter of 2020.

The fundamentals for the banks are much more attractive now, as the outlook for the economy (relative to the dire expectations at the depth of the COVID-19 crisis) has improved markedly. Australia's success in keeping COVID-19 under relative control and the substantial fiscal and monetary stimulus have supported the consumer and broader businesses. The economy has opened and activity has picked up, leading to GDP forecasts being revised upwards. The substantial build up in household savings is expected to fuel discretionary consumption and further investment in housing.

House prices ended 2020 showing signs of strength. RBA data has indicated a material increase in mortgage credit growth (almost 6%) at a system and major bank level, - even WBC has recovered its poise and recorded positive growth. Expectations are for Australian mortgage growth for the majors to be around +4%, with upside surprise likely.

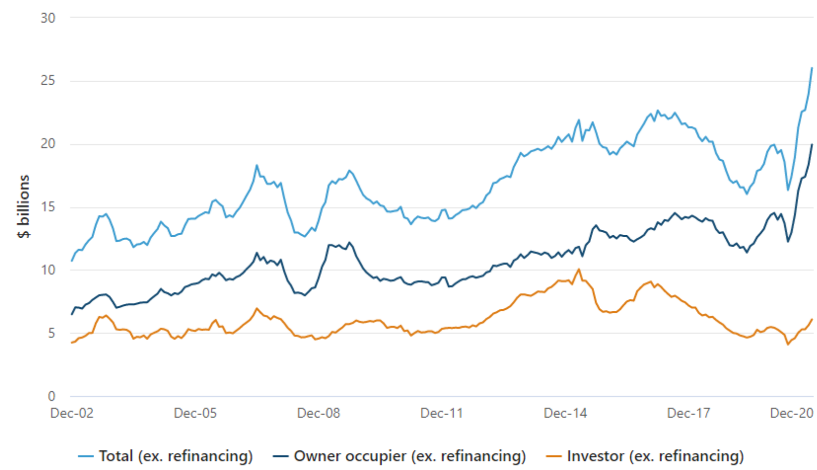
Bank Assumptions for House Prices in CY21



Source: Company Data, Credit Suisse

The total value of new loan commitments for housing and the value of owner occupier home loan commitments both **reached all time record highs in December**, according to the ABS. New loan commitments (seasonally adjusted) rose 8.6% month-on-month and 31.2% year-on-year.

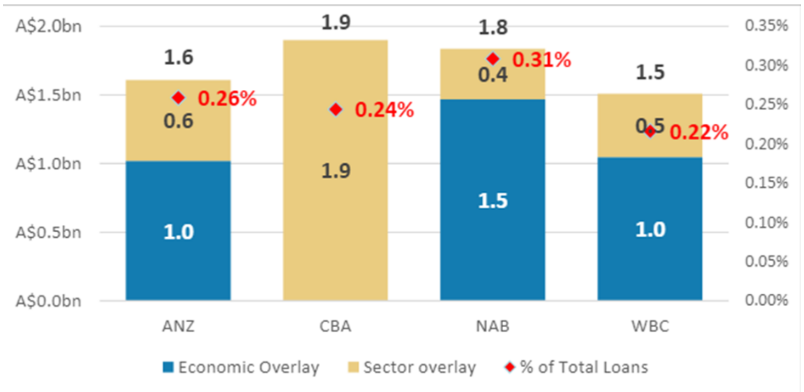
New loan commitments, total housing (seasonally adjusted), values



Source: ABS data

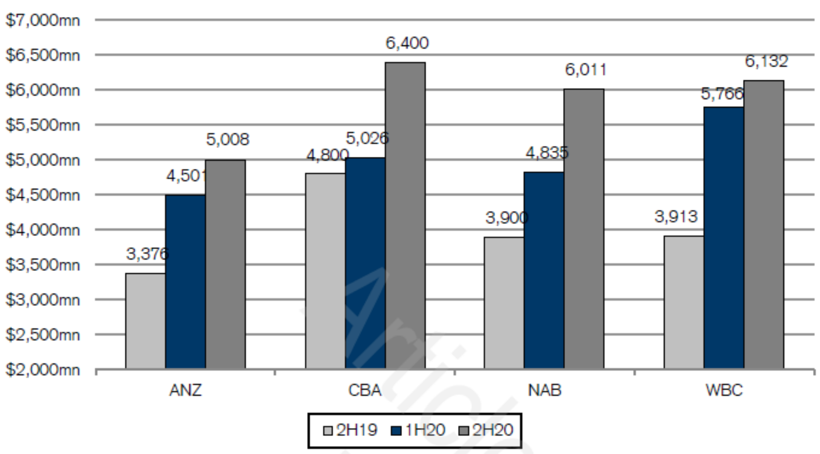
The substantial provisions for bad and doubtful debts driven off extremely bleak macroeconomic assumptions will prove to be excessive. The loan loss cycle expected at the start of COVID-19 has not eventuated. Unprecedented fiscal and monetary support have come to the rescue. Successful vaccine development and its expected rollout have also buoyed consumer sentiment. **As the key macroeconomic data points improve, we expect the banks will move, conservatively at first, to release their excessive collective provisions and overlays built on the back of substantially worse economic loss assumptions that have not transpired.** The loan loss charge in 2021 is also likely to be less than previously forecast. This has been a feature of the recent (January 2021) US bank reporting season.

Major Banks COVID-19 Overlays



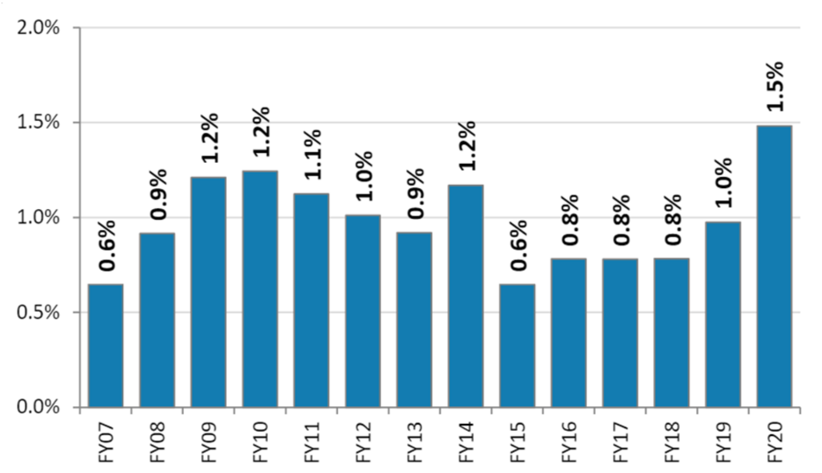
Source: Company data, Morgan Stanley

Major Banks Expected Collective Credit Losses (ECL) Provisions over FY20



Source: Company Data, Credit Suisse

Major Banks: Collective Provisions / Credit Risk Weighted Assets

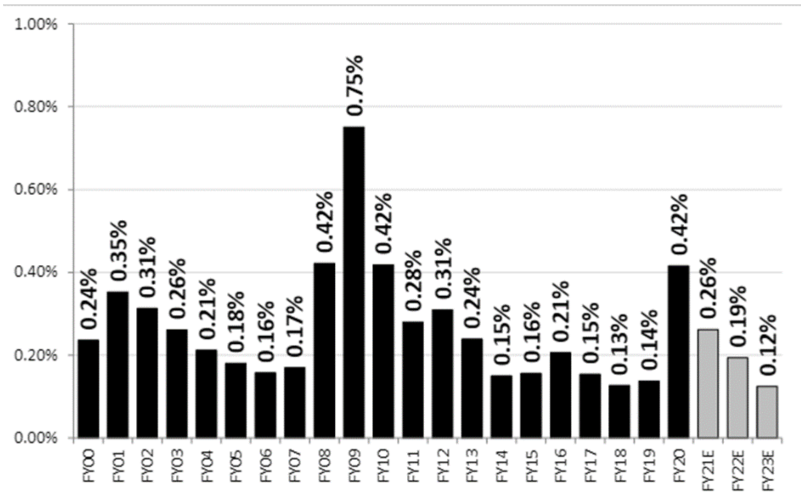


Source: Company Data, Morgan Stanley

Additionally, all the **banks will have to address their cost base in absolute terms too.** The economic recovery will reorient banks towards major cost savings. The past few years (post the Royal Commission) have seen a step up in costs, as banks needed to make necessary investments in regulatory and compliance staff and systems, and to address breaches of the law resulting in substantial fines. Looking forward, 0-2% underlying cost growth is likely to become a goal. ANZ looks to be the most progressed and WBC has promised to address its relatively bloated cost base, with NAB surprising the market with very encouraging productivity aspirations in 2020. Absolute cost reductions will be necessary to balance the subdued revenue outlook, in order to improve the cost-to-income ratio. Given the banks transformation away from wealth management and insurance back to traditional banking, the simpler business models will focus them more on costs and higher returns.

Improved economic fundamentals, leading to stronger credit growth, lower costs and a release of excess provisions, should lead to a strong recovery in earnings. FY20 saw reported cash EPS fall by an average of 35% year-on-year, while cash profit excluding notables (like large fines) fell approximately 25%. It is plausible for EPS to increase by over 20% in FY21, and double digit in 2022, driven largely by the absence of material negative notable items and a substantial release in provisions. This should mark the start of an earnings upgrade cycle as the macro settings continue to firm.

Major Banks Impairment Charges / Total Loans



Source: Company Data, Morgan Stanley

Solid capital positions, steadily built up through disposals, capital raisings and organic generation, see the major banks with CET1 ratios comfortably above the so-called unquestionably strong 10.5% level. **Very importantly, with APRA surprisingly taking the hand-brake off in December and no longer restricting dividend pay-out ratios to 50%**, the boards of the banks should authorise **increased dividend distributions** off much **higher earnings**. CBA at this stage, might be the only bank to undertake a buy-back of some description, but its elevated earnings multiple, 2.0x book multiple and large PE premium to its peers already reflect this prospect, as does its modestly higher ROE. The pay-out ratios for ANZ, NAB and WBC should trend towards 70% and higher over time. **This makes the implied dividend yields of over 4.5% to 5% for the major banks look very attractive in a near zero interest rate environment.**

These factors combine to position the banks in a very favourable light, leading to improved ROEs and driving outperformance relative to the ASX 200. The sector should continue to attract investor support. Everyone is talking about the recovery in dividends, but few are positioned in the banks accordingly.

To summarise your portfolio's positioning:

1. Quality Franchises, Growth at Reasonable, Attractive Valuations

Solid companies with strong/leading market positions and credible management with good balance sheets

James Hardie Industries, NextDC, Medibank Private, Reliance Worldwide, United Malt, Treasury Wines and ALS

2. Businesses that are highly cyclical or seasonal in nature, facing headwinds

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather

Graincorp, Nufarm, Downer EDI and Ampol

3. Turnarounds

Sound businesses that have historically generated poor returns, have been poorly managed, under-earned versus their potential, are in transition and where we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions

QBE, Fletcher Building and Tabcorp Holdings

4. Deep Value Resource Plays

Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self help deleveraging)

South32, Woodside Petroleum, Deterra Royalties, Western Areas and Northern Star Resources

We continued to lift the weighting in Financials, where we now own three of the big four Banks.

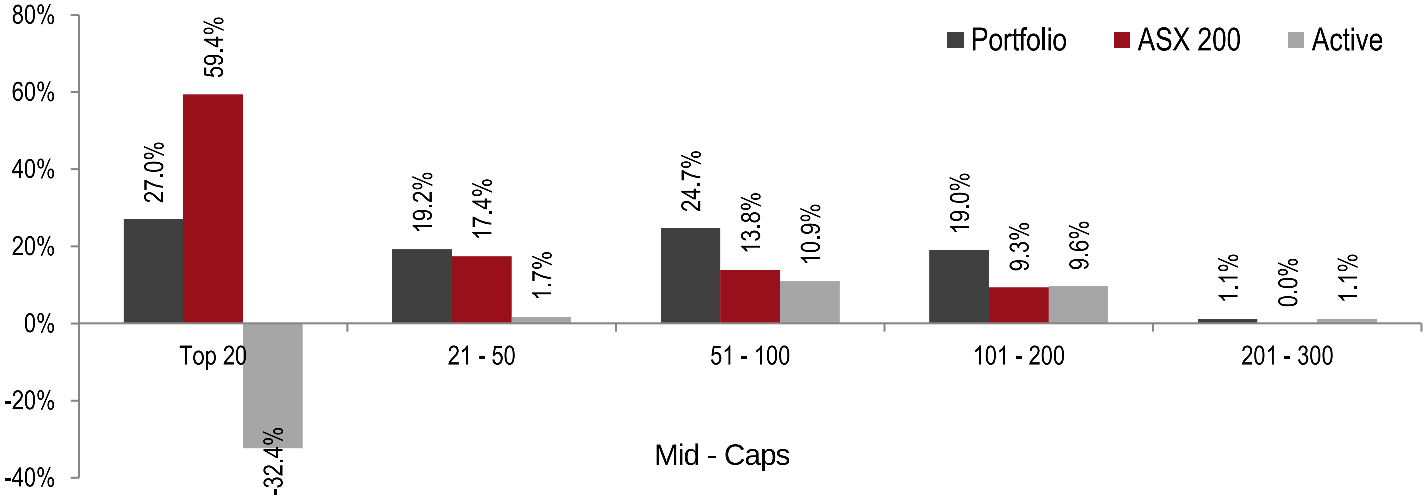
Warm Regards,

Chris Kourtis

Portfolio Manager

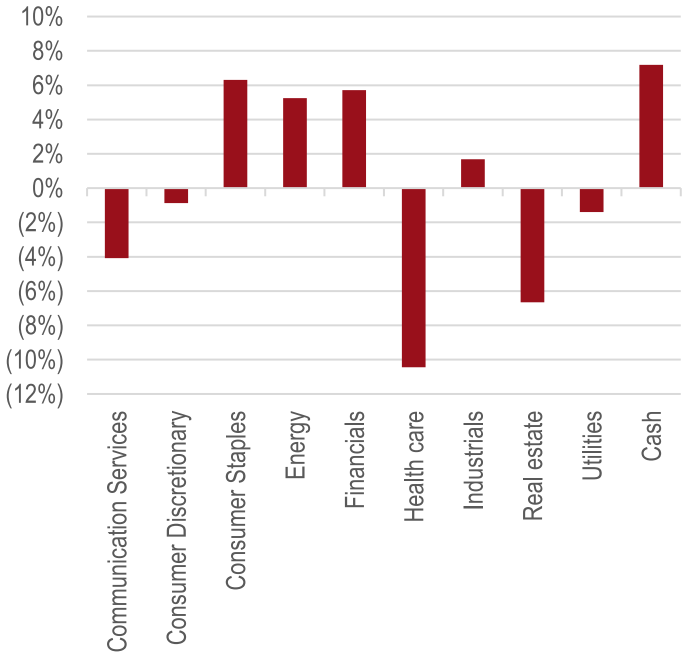
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 29 January 2021
Source: Bloomberg, Ellerston Capital Limited

Active Sector Exposures*



TOP 10 HOLDINGS**
ALS
AMPOL
ANZ BANKING GROUP
GRAINCORP
NATIONAL AUSTRALIA BANK
NORTHERN STAR RESOURCES
QBE INSURANCE GROUP
TABCORP HOLDINGS
UNITED MALT GROUP
WESTPAC BANKING CORP

Source: Ellerston Capital Limited

* Active sector exposures are determined by subtracting fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.

** Top 10 Holdings are listed in alphabetical order.

ABOUT THE ELLERSTON AUSTRALIAN SHARE FUND

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

Fund Facts

STRATEGY FUNDS UNDER MANAGEMENT	$1 Billion
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	$14.93 Million
APPLICATION PRICE	$0.9460
REDEMPTION PRICE	$0.9412
NUMBER OF STOCKS	23
INCEPTION DATE	1 APRIL 2009

Source: Ellerston Capital Limited

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/

SYDNEY OFFICE

Level 11, 179 Elizabeth Street,
Sydney NSW 2000

MELBOURNE OFFICE

Level 4, 75-77 Flinders Lane,
Melbourne VIC, 3000