Ellerston Australian Share Fund (ASF)

Performance Report, March 2021

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	1 April 2009
Portfolio Manager	Chris Kourtis
Application Price	$1.0092
Net Asset Value	$1.0067
Redemption Price	$1.0042
Liquidity	Daily
No Stocks	21
Management Fee	0.90%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

Net (%)	1 Month	3 Months	FYTD	Rolling 12 Months	5 Year (p.a.)	10 Year (p.a.)	Since Inception (p.a)
ASF	3.59	7.19	22.56	38.54	7.20	6.49	8.30
Benchmark	2.44	4.26	18.02	37.47	10.25	7.80	9.89

Past performance is not a reliable indicator of future performance.

MARKET OVERVIEW

Global equity markets had another positive month even as bond yields continued to rise. Signs of a reflationary cycle were evident, with GDP growth estimates revised sharply higher, yield curves steepening and inflation expectations also ticking up, however after surging in the first two months of CY2021, commodity prices weakened in March.

USA
US stocks continued to rally as activity indicators pointed to an ongoing recovery in the US economy. Released after the end of the month, the ISM manufacturing PMI jumped to 64.7 in March from 60.8 in February, well above market forecasts and the highest reading since 1983. Faster increases were seen in production, new orders and employment. The US economy also added an impressive 916,000 jobs in March, the most in seven months and comfortably above expectations, following an upwardly revised 468, 000 in February. President Biden signed a US$1.9 trillion COVID-19 relief package into law with direct cheques on their way to Americans. The Dow Jones ended the month up 6.8%, the S&P 500 was up 4.4%, with the Nasdaq Composite Index lagging, but still delivering a positive return of +0.5%. The US bond market experienced significant volatility, as stronger recovery prospects drove up inflationary expectations - US 10-year bond yields rose to 1.74% from 1.44%.

Europe
European markets were buoyant in March as confidence grew that a pick-up in global growth would also support a recovery in Europe, despite key European markets experiencing a third wave of COVID-19. Activity indicators were stronger, with the Flash Eurozone manufacturing PMI for March in-line at 63.0 (57.6 in February) and the composite PMI reading at 52.5 (48.8 previously).

The Euro STOXX 50 Index finished the month very strongly, up 7.9%. Among the major exchanges, France's CAC 40 was up 6.5% and Germany's DAX was the best performer, with a return of 8.9%. The UK's FTSE 100 was up a very healthy +4.2%.

Asia
Asian equity markets were weaker and mixed overall. The Hang Seng Index returned -1.8%, Korea's KOPSI delivered a positive return of +1.6%, and the Nikkei 225 was positive too, with a return of +1.4%. The broader Chinese SSE Index lagged, closing down 4.1%.

Commodities

The Brent Oil price fell 4% to US$63.54 per barrel on concerns over weaker demand due to further lockdowns in Europe. Iron Ore prices pulled back 6% from record highs to close the month at US$165 a tonne. Gold was down 2% to US$1,707 per ounce due to the rise in bond rates and a slightly higher US Dollar. Base metals were broadly flat, but Nickel prices fell 13% following an announcement by China's Tsingshan that it would significantly lift Nickel output in Indonesia.

Bonds

Global bond markets reflected better economic prospects, with yields rising. The US 10-year government bond yield rose to 1.74% and Australian 10-year bonds saw a slight decline to 1.79%.

Australia

The S&P/ASX 200 Accumulation Index had another strong month with a return of +2.4%, boosting the return for the financial year-to-date to +18.0%.

For the month, the Financials sector was the most significant contributor to the Index's performance, adding 125 basis points, followed by Consumer Discretionary, contributing 53 basis points and Real Estate, contributing 38 basis points. Only two sectors detracted from the Index: Materials (-0.6% contribution) and Information Technology (-0.1% contribution).

The best performing sub-Index was the ASX 200 Industrials Index, up 4.3%, followed by the Small Ordinaries Accumulation Index, up 0.8%, with the underperformer being the ASX 200 Resources Index, with a return of -4.1% (reversing some of last month's stellar performance).

The top five stocks that detracted from the Index's performance were: BHP Group (-40 points), Fortescue Metals Group (-24 points), Rio Tinto (-22 points), Afterpay (-22 points) and Zip Co (-6 points).

The top five stocks that made a positive contribution to the Index's return were: Commonwealth Bank of Australia (+43 points), Australia and New Zealand Banking Group (+30 points), National Australia Bank (+24 points), Wesfarmers (+21 points) and Telstra Corporation (+20 points).

The AUD fell by 1 cent to 76 US cents as evidence of a strong pickup in the US economy and higher US treasury yields rates saw support for the greenback.

COMPANY SPECIFIC NEWS

The Market Hits

Mayne Pharma (MYX +27.3%)

This stock has featured regularly on the misses list, but this time makes a rare appearance on the hits list in March from a low base on the back of some encouraging safety data for its new oral contraceptive drug released in March. The drug is currently working its way through the US FDA approval process. It could provide a material lift in earnings for this pharmaceutical manufacturer, if approved.

GrainCorp (GNC +24.4%)

The GNC investor day provided greater confidence and visibility in through-the-cycle earnings which drove significant upgrades. The forum laid out the relatively new CEO's strategic plan and was very well received by the market. Several new initiatives focussed around making better use of its port assets are expected to add $25m to earnings by 2024. Those initiatives will help GNC increase its estimate of "through-the-cycle- EBITDA" of ~$200m p.a. growing to $240m in 2023/24 (based on an average winter crop).

Premier Investments (PMV +23.4%)

PMV reported a very strong set of 1H21 results, ahead of guidance with NPAT up 89%. The apparel brands all did well with Peter Alexander the standout, delivering sales growth of 43% for the half. Whilst the company refused to give FY21 guidance, a very strong start to the second half was encouraging, with global sales up 32%, buoying investors.

Clinuvel Pharmaceuticals (+20.8%)

Nothing materially new from this biotech in March. It seems the management team's appearance at an investor conference in Tokyo was enough to inspire some fresh buying in the stock.

JB Hi-Fi (JBH +19.3%)

After consolidating for several months, JBH was again back in favour as investors gauged that the COVID-19 related sales boom would continue throughout early 2021. Please refer to the write-up in the Fund Activity section for more detail.

Crown Resorts (CWN +18.2%)

This casino operator has been under a magnifying glass of late with inquiries and royal commissions taking place in several States. But there was some relief for shareholders in March with Blackstone (which already owns 9.9%), making an indicative takeover proposal at $11.85 per share. The CWN board has yet to form a view on the merits of the proposal.

Whitehaven Coal (WHC +16.1%)

A strong rise in thermal coal prices back up towards US$95/t, due to supply issues in both Australia and South Africa, boosted the WHC share price.

BlueScope Steel (BSL +16.0%)

Ongoing industry supply issues have resulted in record US steel prices continuing for BSL's North Star steel mill in Ohio. BSL also moved higher late in the month on the Biden administration's US$2 trillion infrastructure focused spending plan.

Unibail-Rodamco-Westfield (URW +14.8%)

Shopping centre developer and operator, URW outperformed the A-REIT sector which was up 7% in the month, as reopening economies, in particular the US, should see URW benefit from pent up demand of consumers who have been home bound.

Computershare (CPU +14.5%)

CPU's shares rose in March as investors bet that short-term rates would continue to rise, following the long end of the curve in due course and that CPU would benefit from its leverage to rising rates. Also, CPU announced the strategic acquisition of Wells Fargo Corporate Trust Services late in the month - a sizeable acquisition that is materially earnings accretive in the longer-term and doubles CPU's exposure to margin income.

The Market Misses

Resolute Mining (RSG -31.8%)

RSG's mining license for the Bibiani gold mine in Ghana was unexpectedly terminated, meaning its agreed sale of the mine for US$105m is unlikely to proceed. This acted as a tipping point, given the ongoing labour strikes and US$66m of taxes in dispute at its Syama gold mine in Mali.

Western Areas (WSA -20.5%)

WSA had an equity raise of $85m - $100m to strengthen its balance sheet as it develops it new long life Nickel mine, Odysseus. The dilution together with the 13% fall in the LME Nickel price were responsible for the share price fall.

CIMIC Group (CIM -17.4%)

CIM was a well-known user of Greensill's supply chain financing facilities, which suffered a very public collapse over the past month or so. CIM's credit rating was also downgraded by S&P during the month.

Cooper Energy (COE -16.9%)

Investors' patience with COE achieving nameplate capacity at its Sole gas project, after 12 months of production, has worn thin. The problem lies with the Orbost gas plant, owned by APA Group, which has struggled with the front end sulphur extraction, limiting the volume of gas that can be processed. APA has written down the book value of the plant by ~50% and no quick fix has been proposed.

AMP (AMP -15.7%)

Another dreadful month for AMP as speculation of the CEO's departure upset already fragile investor sentiment. After initially denying the departure of CEO, Ferrari, the company subsequently confirmed his retirement, with Alexis George to replace him as new CEO. Adding to the uncertainly, the likely suitor for AMP Capital's assets, Ares, appeared to be getting cold feet and as yet, no firm offer has materialised.

Afterpay (APT -15.1%)

As the leader of the Australian Tech brigade on the way up, Afterpay pulled back 15% in March as bond yields rose and growth stocks generally underperformed. Competition also continues to rapidly increase in the BNPL space, with PayPal announcing their entrance into the Australian market in March, as well as CBA announcing its very own BNPL product in conjunction with MasterCard, despite its investment in Klarna.

Chorus (CNU -13.0%)

CNU unperformed due to broader bond market weakness and late in the month announced a regulatory update with an estimated valuation of its initial regulatory asset base for its ultra-fast Broadband. Disappointingly, CNU's allowable operating costs were lower than the market expected.

The A2 Milk Company (A2M -12.9%)

A2M once again underperformed during the month on no company specific news. Following three material downgrades and some heavy director selling over the past nine months, the continued poor share price performance reflects a complete loss of management credibility, lack of visibility in Chinese distribution and investor uncertainty as to when the downgrades will end.

IDP Education (IEL -12.1%)

Following prior communication that Education Australia was looking at ways to monetise at least some portion their 40% holding in IDP, surprisingly, it announced that it will make an in-specie distribution of its 25% shareholding in IDP. This will be offered to all of its 38 University shareholders and divest its remaining 15% shareholding in IDP via a market sell-down, which must occur by no later than 11 December 2021.

Fortescue Metals Group (FMG -11.7%)

FMG which recently went ex a large dividend, was impacted by Iron ore prices falling 6% during the month, albeit from record high levels. Its strategy to invest 10% of annual profit in Fortescue Future Industries projects also weighed on investor sentiment, with concern over lower future returns on those investments, which are not without risk.

FUND PERFORMANCE

The Fund outperformed in a strong month for global equity markets, despite rising bond yields.

Pleasingly, the Fund was able to capture the upside, with a solid return of 3.69%, outpacing the benchmark return of 2.44%, bringing the return for the 2021 FYTD to a solid 23.58% and outperforming the benchmark return of 18.02%. The main drivers of performance were zero holdings in the three big iron ore miners which sold off and our large overweight in GrainCorp which rallied significantly post its investor day.

The return for the year is now 40.06%.

Returns[1] (%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	3.69	2.44	1.24	3.59
3 Month	7.48	4.26	3.22	7.19
FYTD	23.58	18.02	5.56	22.56
Rolling 12 Months	40.06	37.47	2.59	38.54
5 Years (p.a.)	8.34	10.25	-1.91	7.20
10 Years (p.a.)	7.56	7.80	-0.24	6.49
Since Inception (p.a.)	9.47	9.89	-0.43	8.30

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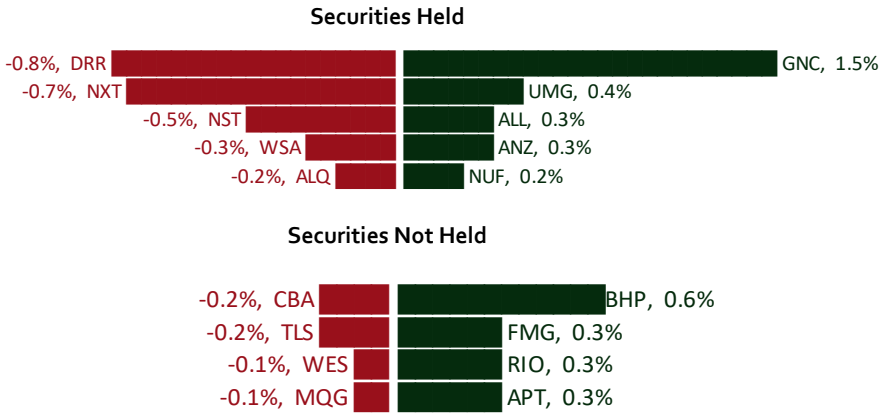
Month of March Attribution



Source: Ellerston Capital.

The main positive contributors to this month's performance were overweight positions in: GrainCorp (GNC +24.41 %), United Malt Group (UMG +11.51%), Aristocrat Leisure (ALL +13.14%), Australia and New Zealand Banking Group (ANZ +7.68%) and Nufarm (NUF +10.62%).

Zero weight positions that also helped included BHP Group (BHP -5.37%), Fortescue Metals (FMG -11.71%), Rio Tinto (RIO -9.24%), Afterpay (APT -15.08%) and ZIP Co (Z1P -29.04%).

The main detractors to performance for the month were overweight holdings in: Deterra Royalties (DRR -13.34%), Nextdc (NXT -6.96%), Northern Star Resources (NST -6.22%), Western Areas (WSA -20.54%) and ALS (ALQ -2.02%).

Not holding a number of larger cap shares that outperformed the broader market and somewhat constrained returns included: Commonwealth Bank (CBA +5.57%), Telstra Corporation (TLS +10.39%), Wesfarmers (WES +6.97%), Macquarie Group (MQG +7.26%) and Goodman Group (GMG +9.42%).

[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 March, the Fund was highly active again. **We took profits and reduced the Fund's exposure to the banks** after the sector's stellar run off their share price lows. We also added to key holdings. Importantly, we introduced four new stocks into the portfolio. See detailed write-ups below.

Having divested the majority of your **TWE** shares at near record highs of ~$18.50 back in the December quarter of 2019, we sold the residual holding at ~$11.00. The impost by MOFCOM for 5 years of a 175.6% anti-dumping tariff on Australian bottled wine from March 28 (applied retrospectively) is extremely disappointing and since the tariffs were imposed in November 2020, Australian wine exports to China have fallen by 98%, rendering the market effectively closed to Australian wine. Clearly TWE has borne the brunt of the political dispute between Canberra and China. We cannot add any value here, but conclude that the issue will not go away any time soon, making it difficult for TWE to reallocate the volume of premium Penfolds and other key brands at the same lofty margins that were being generated in China.

We exited JHX as it has doubled in the past 12 months, is now trading at all-time highs and is fully valued. We also sold out of FBU as we believe that the cyclical recovery and most of the value is now reflected in the current share price.

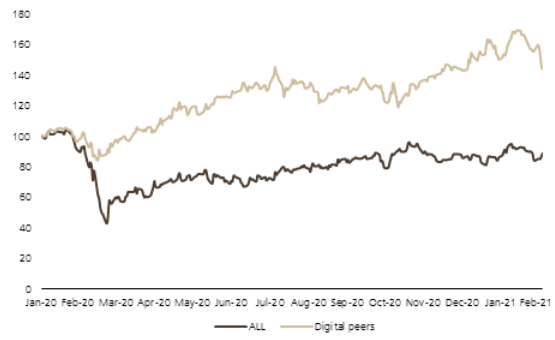
NEW STOCKS ADDED	STOCKS EXITED
• Aristocrat Leisure	• Fletcher Building
• JB Hi-Fi	• James Hardie Industries
• Paladin Energy	• Treasury Wine Estates
• Resmed	• Woodside Petroleum

INCREASED	DECREASED
• ALS	• Australia and New Zealand Banking Group
• Deterra Royalties	• Bank of Queensland
• Janus Henderson Group	• Liberty Financial Group
• NEXTDC	• National Australia Bank
• Western Areas	• Reliance Worldwide Corporation
	• Tabcorp holdings
	• Westpac Banking Corporation

Aristocrat Leisure (ALL)

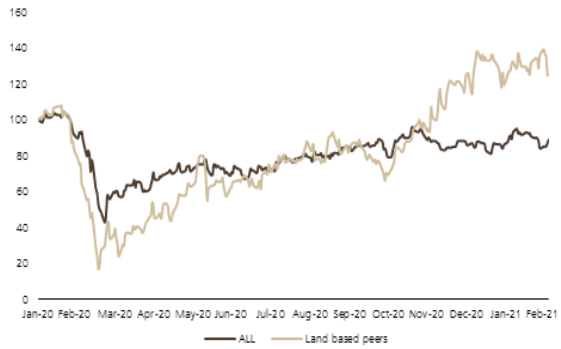
Aristocrat Leisure (ALL) made a return to the portfolio in early March as a high conviction position. ALL had underperformed the market and peers since its impressive FY20 result in Nov-20 (flat share price performance vs. +32%/+63% for peers Scientific Games/IGT respectively), largely attributable to COVID-19 and currency related drags. COVID-19 drags are now easing, with a large number of US casinos having re-opened since the Nov/Dec-20 re-closures, and US commercial casino revenue trends are on the improve. We view ALL as very attractive at current levels (on a PE of ~22x/19.5x our FY22/23 supported by very strong eps recovery from '20/'21). This is reinforced with ample balance sheet capacity (estimated FY21/22 Net Debt/EBITDA of <1x) for strategic bolt-on M&A, in either digital or land-based over the next 6-12 months. If suitable bolt-on opportunities cannot be identified, capital management will be on the agenda.

ALL share price vs digital peers



Source: Factset, UBSe

ALL share price vs land based peers

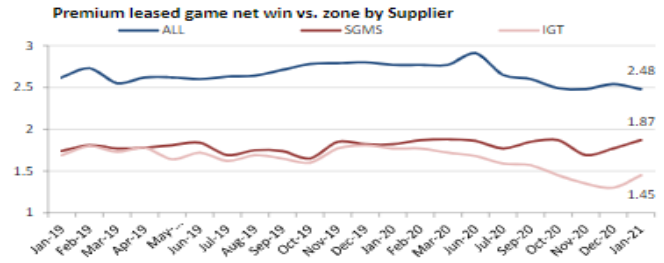


Source: Factset, UBSe

Note: Share prices presented in local currency. AUD appreciation v the USD in recent months explains ~10% of the underperformance but there is still a large unjustifiable gap in relative share price performance compared with ALL's digital and land-based peers.

ALL's large US land-based business continues to deliver high performing games for its customer base. The strong relative performance of the game portfolio continues to drive market share gains in the high value gaming operations (leased) segment and the for-sale segment.

ALL's Premium Leased games consistently index well ahead of key peers SGSM and IGT



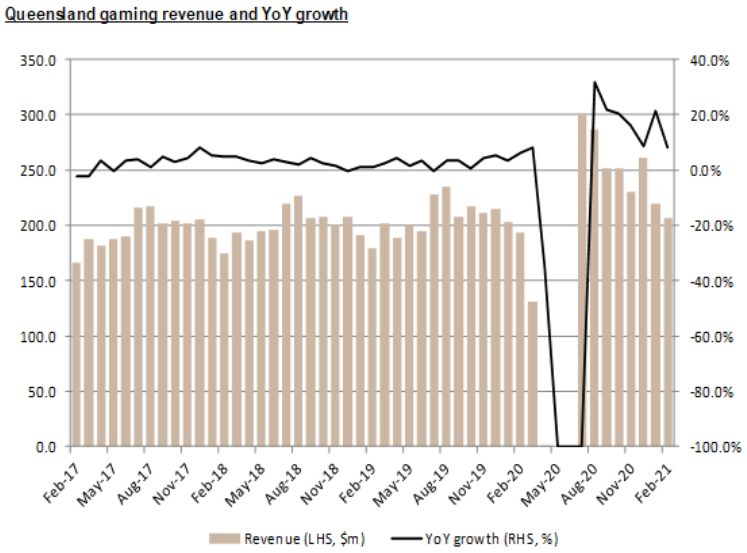
Source: Eilers-Fantini, Morgan Stanley Research. Note: data is unavailable for April-May due to COVID-19 shutdowns and so has been excluded.

ALL has in fact extended its product development lead over key competitors over the last 12 months. The decision to maintain investment in design and development through the worst of the pandemic, when peers were furloughing staff, means ALL now has a deep pipeline of new games to offer customers and support the existing fleet of boxes, as the US casino market normalises.

ALL's Digital division was the big beneficiary of the lockdowns and social distancing in 2020. Despite the large revenue uplift in 2020, ALL is still well placed to grow revenue and earnings again in FY21. The social casual side of the business is starting to harvest the very large revenue base built up in its hit game, Raid: Shadow Legends and redeploy some of the user acquisition spend to scale up its newer title, EverMerge and launch other titles, including Mech Arena.

Most importantly, ALL continues to diversify the revenue mix within the Digital division so it becomes less reliant on any one game or genre.

Australia was where it all started for ALL. While the region accounts for a smaller proportion of group profit than it used to, it remains relevant at ~15% of EBITDA. The Australian business is heavily reliant on box sales to pubs and clubs. The initial fear when the pandemic hit was that capex budgets for the customer base would be cut for an extended period of time. It appears those fears were totally misplaced. A rapid bounce back in gaming turnover in the pub and club market is encouraging gaming managers to restart floor refresh programs, such that demand for new boxes across the market is down approximately 20-30% on pre COVID-19 levels, not the 60-70% many feared. At the same time, the good game performance, previously mentioned, is helping ALL gain further market share on its already high base.

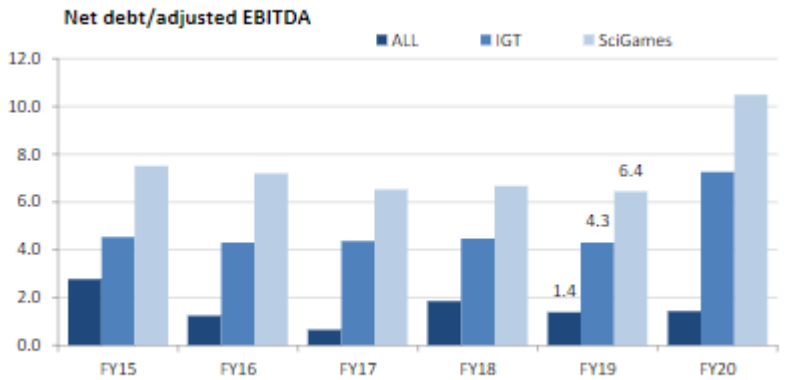


Source: MST, QLD OLGR

The recovery in ALL's International division is lagging the rest of the Group. This business sells slot machine games into markets such as Macau, Philippines, Europe, South Africa and South America - countries that are still struggling to control the pandemic. But the division is only 5-7% of Group profit (and getting less significant). As such, any drag on the overall recovery for Group earnings will be minor.

ALL's financial position is as strong as ever, especially in comparison to its key global peers. The spare capacity on the balance sheet creates optionality for the Board and management team to supplement growth, fill gaps in strategic capability or undertake capital management.

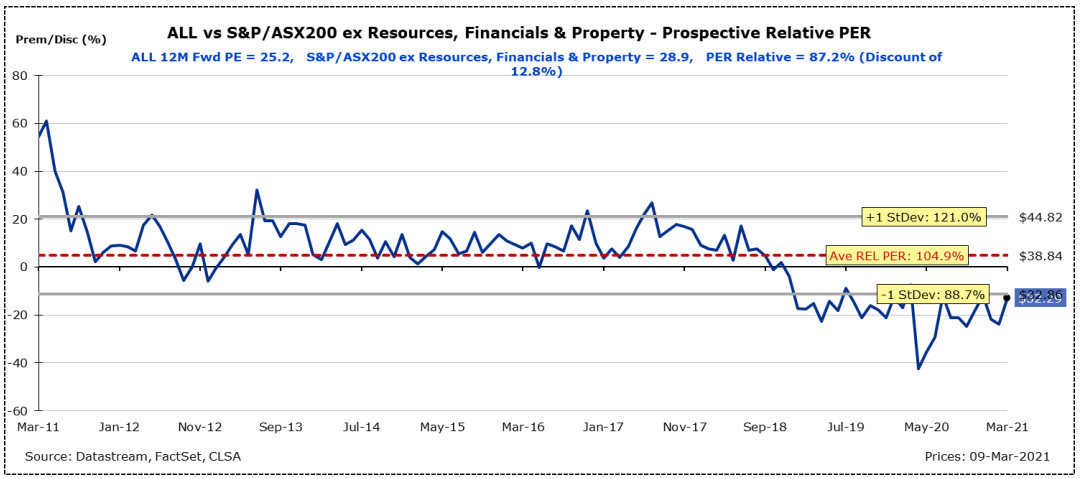
ALL's competitors are significantly more leveraged



Source: Company data, Morgan Stanley Research.

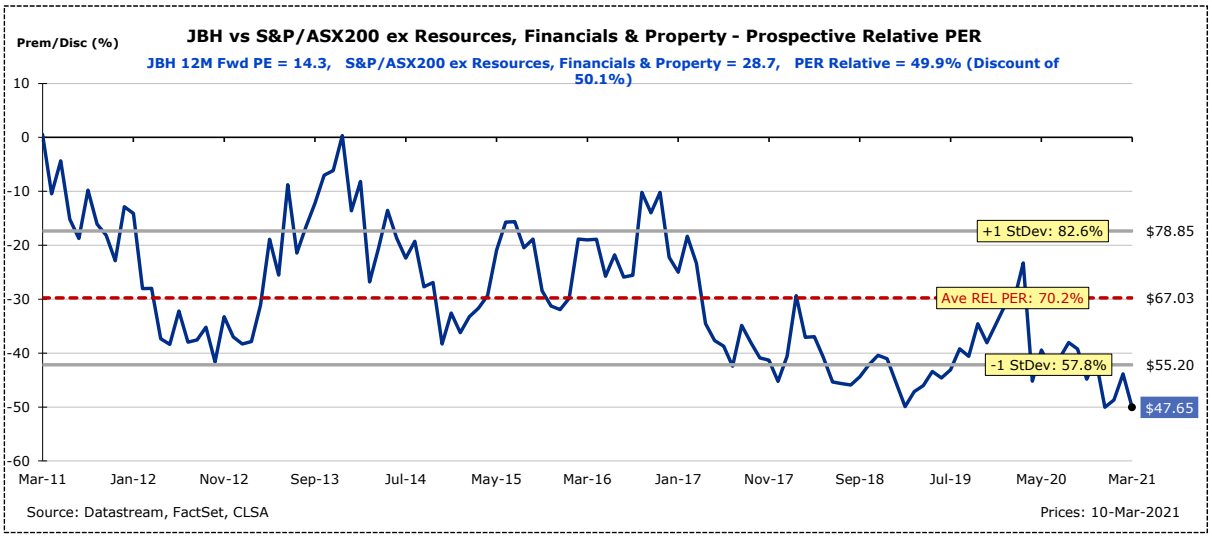
Critics of ALL will argue one of its main rivals, Scientific Games, is reinvigorated under the guidance of ALL's old and well respected CEO and CFO and Scientific Games is poaching staff critical to ALL's historic success. To date, Scientific Games has primarily hired management talent from ALL, not the creative personnel responsible for the games that have been crucial to ALL's success.

Despite the attractive outlook that comes from a general rebound in revenues for its core casino customers, increasing market share in the land-based business, a digital business that is simultaneously growing and diversifying and a strong balance sheet that provides optionality, the ALL share price continues to trade at a large discount to other Australian industrials and well below historical comparable multiples. This has created a rare buying opportunity.



JB Hi-Fi (JBH) - reintroducing an old friend

We stepped back into JBH during the month, a name we know well which has been fruitful for investors in the past. JBH Australasia and TGG have delivered strong sales and earnings performance over the past year and continue to do so, demonstrating the significant shift in consumption towards household equipment and technology. Astonishing comparable store sales growth was accomplished without reliance on rent relief or JobKeeper payments by the Government. Importantly, working capital was wound back materially from strong sales, boosting cashflow significantly, reducing net debt rapidly and putting the balance sheet in a strong position. After a stellar run in its share price to ~$52.50 in October 2020 and then spending six months consolidating, the market is concerned about the risk of earnings normalising over the next 18 months and falling off a cliff – we disagree. On a P/E of 12x FY21 and 14x consensus FY22 forecasts, it is still trading well below its long term average and on our numbers (which are above market), looks like a good risk-return payoff again. Channel checks with suppliers and non-listed competitors suggest buoyant trading conditions are holding and market expectations for a 25% fall in FY22 bottom line earnings appear far too bearish.



Resmed (RMD)

During the month, Resmed (RMD) was reintroduced to the portfolio. This quality name has underperformed the ASX 200 index by ~15% over the last 12 months. That underperformance is a function of a confluence of factors, but the main headwinds have been the appreciation of the AUD vs the USD (where RMD earns the majority of its profit outside of Australia) and COVID related weakness in new patient demand. Coupled with some disappointing revenue growth in the relatively new software as a service (SaaS) segment and the market's rotation from growth/defensive stocks to value oriented stocks, RMD shares have become out of favour.

Earnings per share in AUD have stalled and tracked sideways over the last 12 months following a sustained period of steady earnings growth in prior years (pink line below). We expect earnings growth to return to moderate levels over the medium term for several reasons and that resumption should trigger outperformance.

Importantly, new patient volumes are rebounding back towards pre COVID-19 levels. Sleep testing centres are returning to normal operation as vaccinations in the US are rapidly rolled out. The industry is also adjusting to COVID-19 restrictions through greater use of in-home sleep tests.

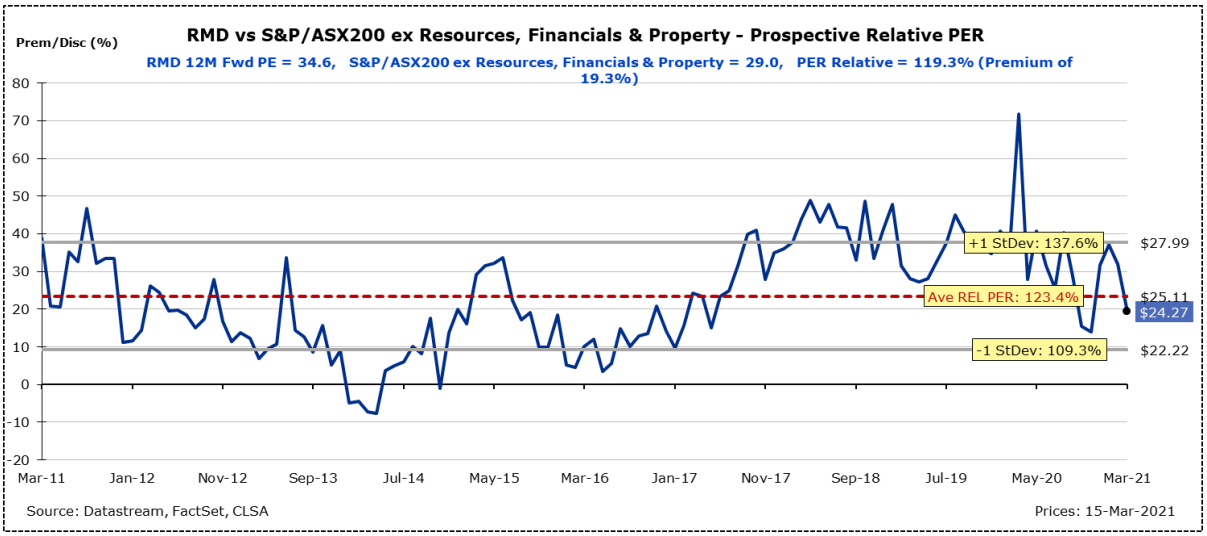
Price pressure is likely to be more sedate than in previous years. A halt to competitive bidding in the US, the process by which RMD's distributors compete for US government-funded contracts every few years, removes a significant headwind on revenue growth.

The number of new masks that existing patients purchase each year continues to climb. Online monitoring is increasing patient adherence to the sleep apnoea therapy. Better sales techniques and systems employed by RMD and its distributors encourage patients to replace their mask more frequently.

The release of a new sleep apnoea device by RMD is now overdue (causing users to defer replacement of their current device) and likely to be released soon. The launch of a new model has historically stimulated churn in the existing patient base and supplement underlying growth.

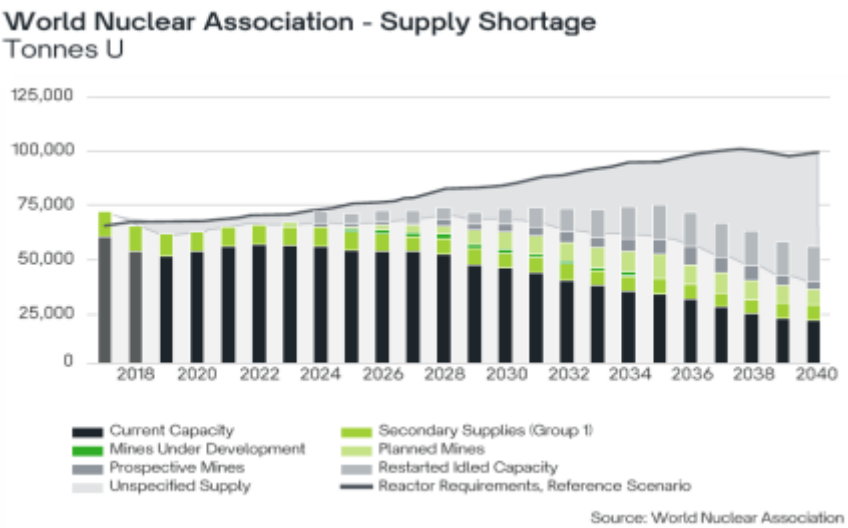
The rest of the world has generally been slower to embrace the health benefits of RMD's sleep apnoea therapy compared with the US. Funding levels and reimbursement structures are improving. We expect that this positive change will continue. Korea and France are good recent examples.

Finally, the relative valuation of RMD is as attractive as it has been for several years. Relative to ASX 200 Industrials, the stock is back in the low end of the 10 year trading range.

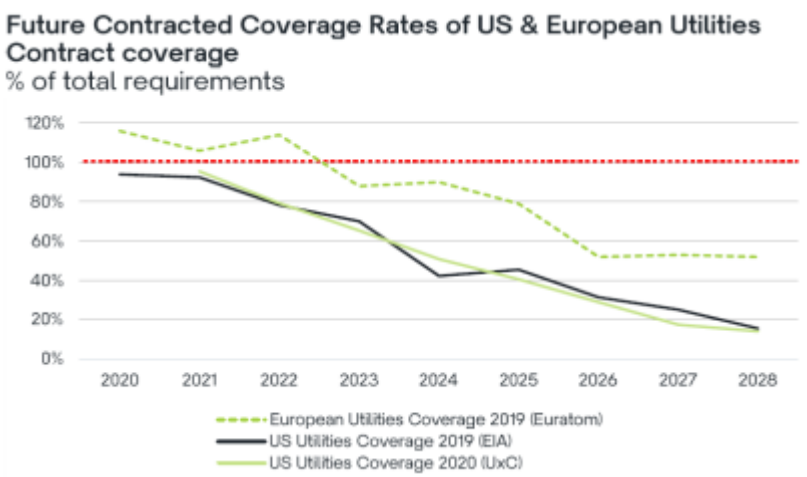


Paladin Energy (PDN)

PDN is a globally significant uranium long life miner with a 75% interest in the Langer Heinrich mine in Namibia, currently on care and maintenance, but with a defined restart plan which is effectively awaiting higher uranium contract prices. It also has 3 advanced exploration projects with mineral resources of ~ 300 million pounds uranium oxide. During the month, it raised $219m in equity to reset its capital structure (riddled with expensive legacy corporate debt) and strengthen its marketing position ahead of a restart of Langer Heinrich. We took part in the capital raise at 37 cents, given our positive outlook for the uranium price and PDN being one of the few global plays with imminent production, a proven production track record and now a prudent capital structure. PDN has already produced to date over 43Mlbs of U_3O_8 .



The outlook for uranium, now making up 10% of global electricity generation, has improved significantly with substantial inventory depletion and increasing demand driven by the energy transition away from high carbon sources (mainly coal) creating a structural supply deficit. Currently there are 54 nuclear reactors being constructed in 19 countries (442 reactors currently in operation). In 2021/22 US utilities contract coverage will be approaching critical lows and large global supply shortages in the medium term both need much higher uranium prices to incentivise supply. Uranium is the 2nd largest source of global clean energy with almost Zero Carbon emissions.



Source: Company presentation

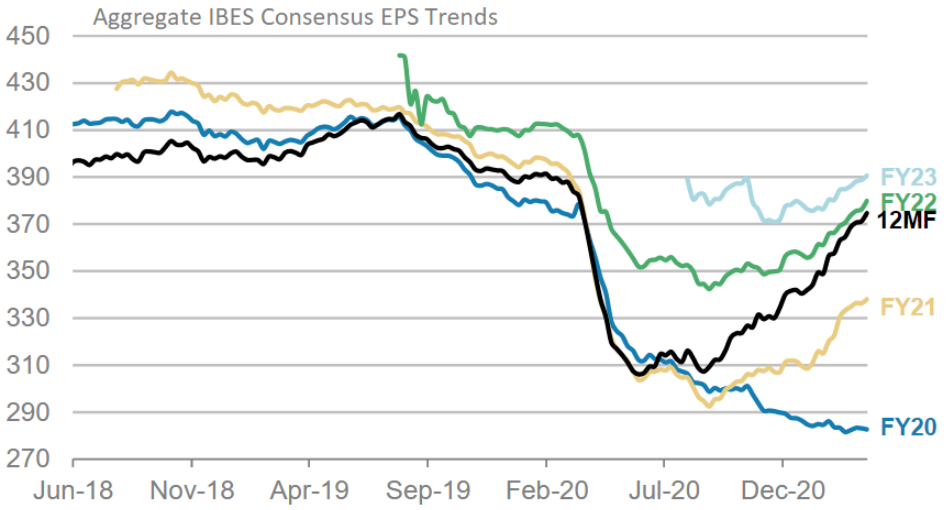
FUND STRATEGY AND OUTLOOK

There is little that has changed with respect to the Fund's strategy since our last update.

We continue to be of the view that the pivot to value over growth and momentum has some way to run yet. Yes, we have seen dislocations in the bond markets causing concerns. But the argument on the drivers of the steepening of the yield curve seems to be steering in favour of reflation, rather than inflation. This should be positive for equities.

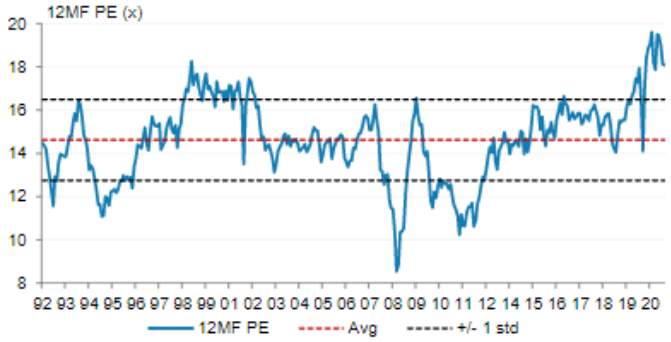
Every month, there is more evidence that the pace of growth in the world's major economies is picking up, especially in the US and China. The risk to the speed of recovery remains subsequent waves of COVID-19 constraining Europe and potentially the US and Asia. The protection against the negative impacts from another wave of COVID-related shocks remains the pace and efficacy of the vaccine rollout. To date, the US and the UK have demonstrated that mass vaccinations can be effectively administered. These countries have seen a steep decline in infections, hospitalisations and deaths. The benefits to these economies are starting to become more evident in payrolls and manufacturing data. The occurrence of rare blood clots following the administration of the AstraZeneca vaccine has provided some fuel the so-called "anti-vaxxers", but as yet, specific causality between the injection of the vaccine and blot clotting remains inconclusive. While Australia is currently lagging behind on the original targets set out by the Federal government, the delay carries less short-term risk as there is no burning platform given the virtual absence of COVID-19 in the community. So we remain positively disposed but recognise, as ever, the challenge of stretched valuations against the backdrop of rising interest rates.

That said, ASX 200 earnings level estimates continue to be revised up across all forward years (see chart below).



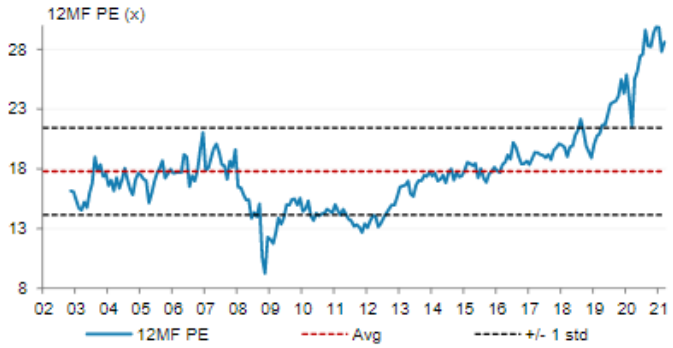
Source: IBES, RIMEs, Morgan Stanley Research.

ASX 200 - latest PE: 18.1x



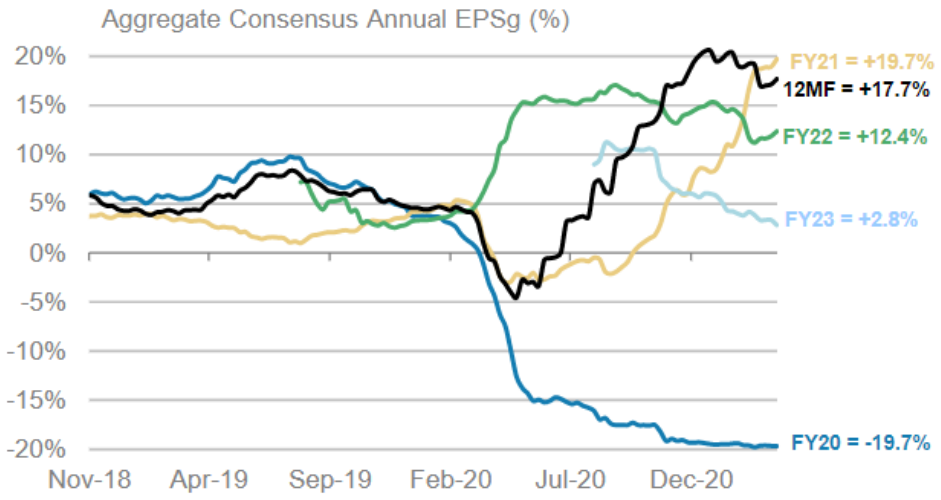
Source: RIMES, IBES, Morgan Stanley Research

ASX 200 Industrials ex Financials - latest PE" 28.6x



We would expect the Tech sector to de-rate further from current levels. Growth at any price lofty valuations are NOT sustainable and the cracks in this sector continue to get wider.

Aggregate Annual Consensus EPS growth (%) Trends FY20-23



Source: RIMES, IBES, Morgan Stanley Research.

To reiterate, our strategy remains the same. We continue to be invested in stocks we believe are trading below our assessment of value and where the market is underestimating their future medium term earnings and recovery prospects. Central banks are determined to keep rates low, but stronger growth might force a reassessment if there are signs that prices are facing upward pressure from supply constraints and importantly, increased demand.

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
Aristocrat Leisure, ALS, NextDC, Reliance Worldwide, United Malt, JB Hi-Fi and Resmed

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

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather
Graincorp, Nufarm 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
Janus Henderson 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)
Paladin Energy, Deterra Royalties, Western Areas and Northern Star Resources

We reduced the weighting in Financials given their exceptionally strong six month outperformance. We continue to hold three of the big four banks, one regional bank in Bank of Queensland and Janus Henderson.

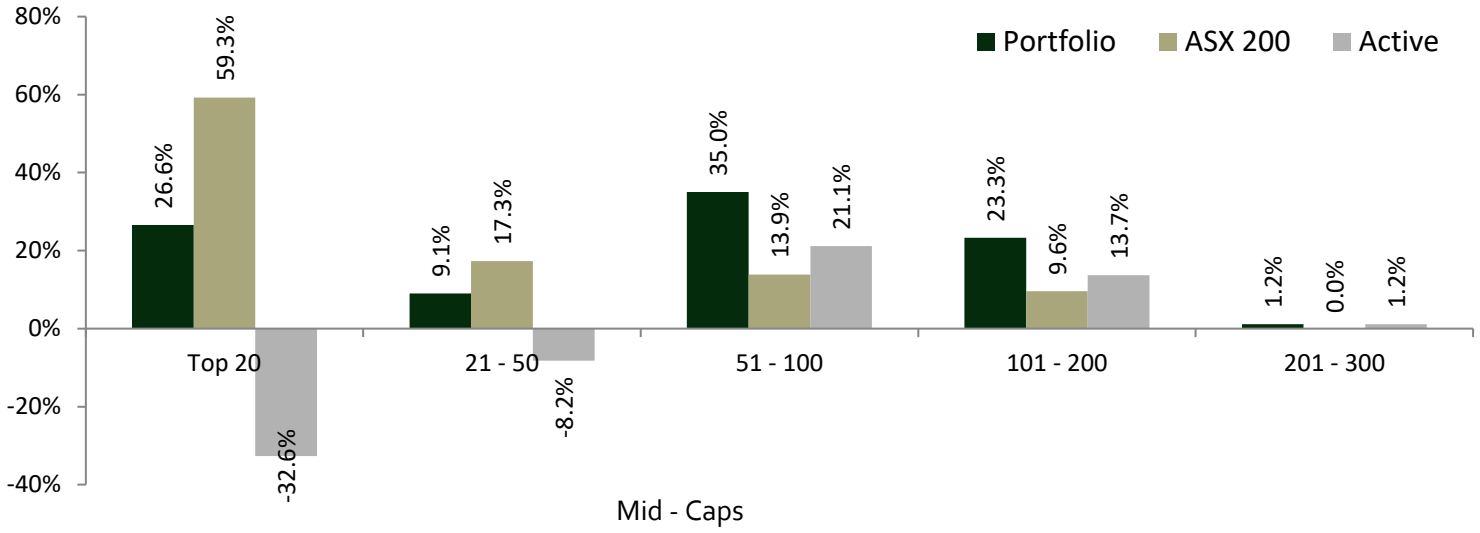
Warm Regards,

Chris Kourtis

Portfolio Manager

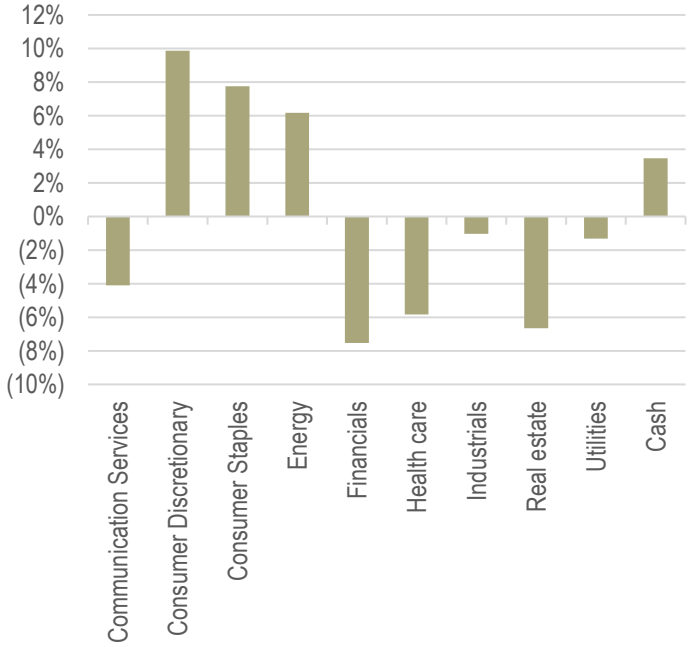
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 26 March 2021
Source: Bloomberg, Ellerston Capital.

Active Sector Exposures*



TOP 10 HOLDINGS**
ALS
AMPOL
ANZ BANKING GROUP
ARISTOCRAT LEISURE
GRAINCORP
NATIONAL AUSTRALIA BANK
NEXT DC
NORTHERN STAR RESOURCES
TABCORP HOLDINGS
WESTPAC BANKING CORP

Source: Ellerston Capital.

* 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	**$700 Million**
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	**$15.94 Million**
APPLICATION PRICE	**$1.0092**
REDEMPTION PRICE	**$1.0042**
NUMBER OF STOCKS	**21**
INCEPTION DATE	**1 APRIL 2009**

Source: Ellerston Capital.

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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, Link Market Services on **1800 992 149** or **ellerston@linkmarketservices.com.au**

Ellerston Capital