

Ellerston Global Equity Managers Fund (GEMS) Class A and B

Monthly Newsletter, July 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 January 2002
Portfolio Manager	Ashok Jacob & Arik Star
Class A Redemption Price	\$1.6313
Class B Redemption Price	\$1.5959
Unit Pricing	Monthly
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25% on application 0.25% on redemption

PERFORMANCE SUMMARY

Performance*	FYTD	CYTD	1 Year	2 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
GEMS A	-2.5%	19.6%	45.0%	33.7%	13.9%	13.9%
GEMS B	-2.5%	19.6%	45.1%	33.7%	13.9%	13.7%

* The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

PERFORMANCE

Calendar Year to Date from January 1 to July 31, 2021, the Australian S&P/ASX 200 Index is up +14.1%, and the US S&P500 Index is up +18.0%. **Your Fund (GEMS A) is up net after fees +19.6%.**

For the Month of **July 2021**, the Australian S&P/ASX 200 Index was up +1.1%, and the US S&P500 Index was up +2.4%. **Your Fund (GEMS A) was down net after fees -2.5%.**

Market Outlook:

The trillion-dollar question facing the economy generally and capital markets specifically, is NOT whether inflation is coming, inflation is transitory or inflation is insidious. It's about valuations. With the seismic output gaps lurking in plain sight, will the capital intensive, old economy businesses be able to generate a quantum of free cash flow that is significant relative to their enterprise values over this business cycle. 2021 and 2022 look set to be great years. The global economy will expand by a fifth between 2021 -24. There is an infrastructure bill coming and a spending package of US\$3.5 trillion designed to let Biden hold the Senate. If the output gap coupled with ongoing fiscal stimulus allows pricing in commodities to hold up, this sector is extraordinarily undervalued. Management are not expanding capacity and are ruthless about pricing. Decarbonisation is a game changer and should extend the cycle materially as long as China plays ball. Every indication is that they will.

The only fly in this ointment is Delta and its future. If it does come under control and the world figures out how to live with it, we have a powerful cyclical advance in our sights.

Portfolio Commentary:

During July/August many of our portfolio companies released quarterly or half yearly earnings reports, which in the main proved to be very robust. In a world where the noise that surrounds us as investors can be deafening, and macro issues pervasive, we have always found it most valuable and instructive to listen carefully to what the companies are telling us. Some high-level commentary for some portfolio companies from the recent quarterly earnings calls include:

Olin – Leading global manufacturer/distributor of chlorine and caustic soda, vinyls, and epoxies.

*"Across all our businesses, **supply chains are closer to empty than full**. And in 2022, we expect demand growth to outpace supply growth." "Demand is superb and improving across multiple segments that epoxy goes into." **"If you fast forward to 2022, ECU demand growth outstrips ECU supply growth**. Same exact thing in epoxy and epichlorohydrin... Demand growth far outstrips supply growth." "The lynchpin products that I talked about, so the two that go into that ECU PCI, our elemental chlorine and epichlorohydrin... I'll just say right now that neither one of them sell in the merchant market anywhere close to reinvestment economics, so we have some room to move there."*

Cemex – Leading global building materials company focused on Cement, Ready-Mix Concrete and Aggregates.

*"With strong demand momentum, we expect pricing in the near term to adjust accordingly." "Operation resilience strategy is predicated on the belief that developed markets and Mexico will deliver the best growth opportunities over the next few years due to the unprecedented monetary and fiscal stimulus being deployed. This quarter certainly confirmed that view, with cement volumes in the U.S., Mexico and Europe growing double digits versus pre-pandemic levels." "All businesses were responsible for EBITDA growth." "In the first half of the year, **pricing has significantly outpaced variable cost inflation**... we have **already announced additional pricing increases in the U.S. and Mexico**." "U.S. continued to enjoy strong demand in the second quarter, with **most of our markets sold out**... To meet higher-than-expected demand, we significantly increased imports in the quarter beyond the level locked in for the full year." "In Mexico, our operations are experiencing exceptional supply demand conditions." **"The reality is that our market supply demand dynamics are tight virtually everywhere**." "No matter how you skin this cat, I mean \$550 billion on top of the current FAST Act which is probably going to be extended by five years, that's what's being proposed by the Biden proposal and **the bill that has been put forward, is going to translate somewhere between 20% to 30% higher demand for cement in the U.S.**"*

Bed Bath & Beyond – Omnichannel retailer that sells a wide assortment of merchandise in the Home, Baby, Beauty and Wellness markets.

*"For Q1, we delivered our fourth consecutive quarter of comp sales growth and achieved gross margin that exceeded our expectation. We continue to execute quarter after quarter, and we are pleased to be **raising our full year guidance outlook today**." "We have started the new fiscal year in a position of strength, and are clearly on track to accomplish our 2021 goal as part of our three-year growth plan." "Our footprint plays a vital role in our Digital First, Omni-Always strategy." "Early data from our remodel shows positive indications that **sales and margin growth are exceeding our plans across both our prototype A and B upgrades** in our pilot Houston market." "Owned Brand penetration is currently at a high-teens percentage, **almost double last year's levels**. We are well on our way to our 20% goal for 2021 and 30% by 2023." "We are confident of Buybuy BABY's bold trajectory towards our 2023 goal of more than \$1.5 billion in sales." **"We're doing more sales on less inventory**. We're getting that inventory faster to the customer than ever before."*

Alcoa – Global leader in the production of Bauxite, Alumina and Aluminium products.

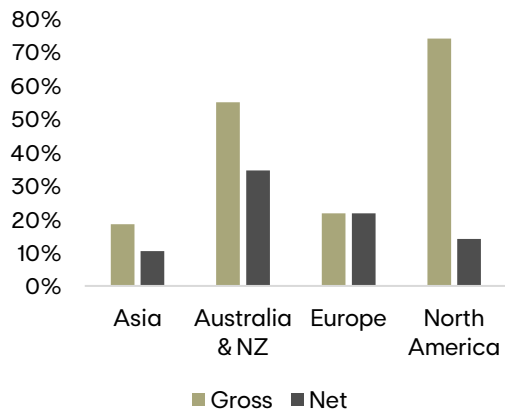
*"We posted our **highest ever quarterly earnings per share** since becoming an independent company in 2016. It's also our **most profitable first half of the year in the Aluminium segment**." "Ongoing strength and customer demand and China's efforts to reform its industry suggest continued strength in global aluminium pricing." "We expect the third quarter to be another very solid quarter. Operations are expected to continue performing at a high level, **current aluminium prices are significantly higher, and alumina prices are higher too compared to the second quarter**." "We continue to see China moving to constrain supply growth in energy intensive industries like aluminium to help meet its own goals to reduce carbon emissions." "Chinese policies on carbon emissions reduction and energy have the potential to drive significant positive change in global aluminium industry fundamentals." "From a sustainability perspective, we are well-positioned in an evolving marketplace that is placing greater emphasis on low carbon products." "We **developed a zero carbon smelting process** that helped create the technology basis for our ELYSIS joint venture. The technology eliminates all direct greenhouse gas emissions from the traditional smelting process, producing instead pure oxygen." **"There's just not enough metal inside of North America, which is really what is the very basic structural change that is driving those premiums up."***

BlueScope – Provider of innovative steel materials, products, systems and technologies, with operations spread across North America, Australia, New Zealand, Pacific Islands and throughout Asia.

*"Our financial strength provides us with the **unique opportunity to simultaneously invest in the long-term future of the business and to deliver solid shareholders returns**." "Underlying EBIT of A\$1.72 billion being 3 times higher than last year." "All operating segments delivered significantly better results this year, with a common thread of buoyant demand and higher steel spreads." **"On the supply side, a step change in rationalization and consolidation has occurred in the U.S. steel industry. And China's efforts to reduce exports and limit other production are major structural positives."** "Government infrastructure programs are expected to drive demand for steel intensive products across the coming decade." "Steel will play a critical role in the transition to a clean energy future, including wind turbines, solar power and transmission infrastructure." **"Demand is strong and order books are robust."** "We've seen an extraordinary level of demand and we have ratcheted up every asset that we have and we are running as hard as we can on all of the assets." "In the space that we're in right now, **it's pretty much drum tight across the value chain**."*

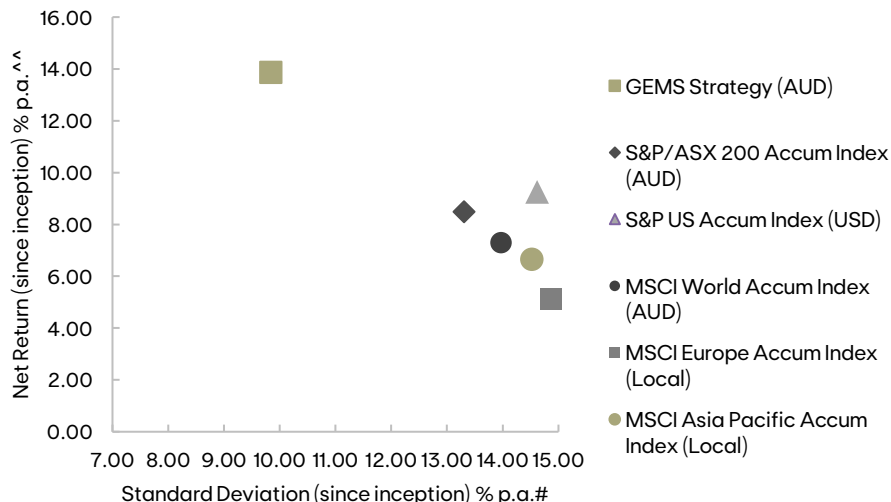
Portfolio Characteristics

Market Exposure as a % of NAV



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility[^]



Source: Ellerston Capital.

Top 10 Holdings (Alphabetical, Long Only)

- BED BATH AND BEYOND
- BLUESCOPE STEEL
- CELLNEX
- CEMEX
- GRAINCORP
- NEXTDC
- OLIN CORP
- RELIANCE INDUSTRIES
- SOITEC
- WELLS FARGO

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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**

[^] 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 performance figures presented are for the Ellerston Global Equity Managers Fund GEMS A and B 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. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 095 (Fund). This newsletter has been prepared by Ellerston Capital Limited without taking account of the objectives, financial situation or needs of investors. Before making an investment decision you should consider your own individual circumstances and obtain a copy of the Product Disclosure Statement for the Fund which is available by contacting Ellerston Capital. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete.