Ellerston Global Equity Managers Fund (GEMS)

Class A and B

Monthly Newsletter, October 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	$1.6916
Class B Redemption Price	$1.6553
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	1.1%	24.0%	46.4%	34.8%	14.5%	13.9%
GEMS B	1.1%	24.0%	46.5%	34.8%	14.6%	13.7%

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

PERFORMANCE

Fiscal Year to Date from July 1 to October 31, 2021, the Australian S&P/ASX 200 Index is up +1.6%, and the US S&P500 Index is up +7.6%. **Your Fund (GEMS A) is up net after fees +1.1%.**

Calendar Year to Date from January 1 to October 31, 2021, the Australian S&P/ASX 200 Index is up +14.7%, and the US S&P500 Index is up +24.0%. **Your Fund (GEMS A) is up net after fees +24.0%.**

For the Month of **October 2021**, the Australian S&P/ASX 200 Index was down -0.1%, and the US S&P500 Index was up +7.0%. **Your Fund (GEMS A) was up net after fees 0.4%.**

Market Outlook:

The stars appear to be so perfectly aligned from the lens of an investor. Vaccines for COVID-19 and now new therapeutic pills, a historic trillion-dollar infrastructure spend approved in the US, consumer savings at all-time highs, central banks determined to keep interest rates at historic lows, and a view by many that current inflationary pressures are transitory. What a phenomenally potent cocktail. Are equities and other assets priced for this, or are we at the start of the next innings of asset inflation as the world embraces freedom of movement with two feet on the accelerator? One thing is sure, even with the headwinds of supply chain issues and rising input costs, the current US quarterly earnings season has been very robust.

Portfolio Commentary:

During October/November 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:

Reliance – Leading Indian telecommunications, retail, textile and petrochemicals conglomerate.

*"Performance **record quarterly EBITDA** led by O2C (Petrochemicals), Retail and Digital services. Our EBITDA was up 30% year-on-year" Digital: "We ended the quarter at **429.5 million customers.**" "ARPU has also significantly grown to north of 140. This is also because of the **improving subscriber mix**." Retail: "Our **revenues have surpassed pre-COVID levels.**" "**Record orders** across our platforms, most notably on JioMart and AJIO." "Our **merchant base has grown 20x** over last year" O2C: "Domestic market environment for polymer and polyester demand growth is strong with demand up 14% and 7% Q-o-Q respectively." **Polyester demand is now 19% over pre-Covid** and it has recovered fast" "Oil demand in 2021 is from IEA forecast 96 million barrels per day, this is almost 97% of the 2019 levels. The overall direction looks good from a demand point of view." "Overall **structural factors and cyclical factors point towards a very healthy environment for this business**." Overall: "**Cyclical and secular tailwinds are absolutely in our favour**" "We are **completely positioned to accelerate growth** and achieve the objectives that we have across each of the businesses that we talked about."*

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

*"We had another strong quarter, bolstered by **aluminum prices that are higher than we've seen in more than a decade**." "We've **significantly improved our processes**, we've **strengthened our balance sheet**, we've reshaped our portfolio, we responded to societies need for responsible production launching the **industry's most comprehensive portfolio of low-carbon products**" "Before this year our best full year adjusted net income was in 2018 at $698 million. In 2021, our adjusted net income for the first nine months is already $822 million or $124 million higher. "**Earnings should be even better in the fourth quarter.**" "Most importantly, our key leverage metric proportional adjusted net debt is now below our $2 billion to $2.5 billion target range at $1.7 billion." "The continued economic recovery and the **tightness of supply** have continued to support this LME rally and high regional premiums." "**Strong demand is also being supported by China's continued status as a net importer of primary Aluminum**. In 2021, **China has curtailed more than 2 million tons of annualized capacity** due to power shortages and its enforcement of policies related to energy and the environment. These curtailments represent **one of the largest supply cuts the Aluminum industry has ever experienced**, particularly given that they are occurring during a year in which we have seen strong demand growth."*

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

*"This is a company that is focused on continuing to grow adjusted EBITDA and coupling that with balanced capital management to **deliver more than $10 of earnings per share in the near future**." "While **the longer term fundamental of demand that grows faster than supply** is starting to be exposed here in 2021, our leading actions to get a **higher value for our scarce resources is proving to be successful**." "**Demand growth versus supply growth dynamic just gets better and better across all our businesses**." "We are advancing in our evolution and expect our activities in debt reduction, refinancing, share repurchases and M&A to be big contributors of forward value and that value shows in EPS." "Rising global energy cost is actually a plus for Olin. And that's because trade flows get more expensive and trade movements get more volatile and that's just fits right into our model of lifting the value of these Olin scarce resources. "**Olin has a long runway in front of it**. I mean, all we've done so far is put a bit of a disruptive model in place which is highly complementary to the fact that **for the foreseeable future that demand growth actually grows faster than supply growth**. There is a lot more to come beyond that." "**Each and every segment should show better results in 2022 relative to 2021.**"*

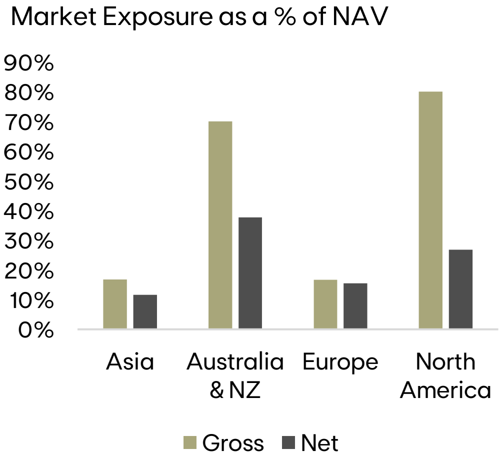
Tesco – Leading grocery retailer in the UK and Europe.

*"I'm delighted that we've **grown market share.** This is the result of our fabulous focus on customer satisfaction which has stepped forward across all areas. In particular, we have **delivered a consistently strong price proposition and maintained great availability despite some significant industry challenges**." "We've **strengthened our digital platform**, combining our digital assets with our **unrivaled store network** enables us to create even more value for customers, our suppliers and in our own operations. We've retained a significant proportion of the customers we gained online through the pandemic. And with **more than 20 million Tesco Clubcard households and nearly 7 million regular app users,** we are **better placed than anyone to benefit from the profound shifts underway in retail,**" "We're **gaining against all the key competitors.**" " We are aiming to grow both top and bottom line maintaining sector-leading margins and in doing so, we will **generate retail free cash flow of between £1.4billion and £1.8billion per year**." "Priorities are about maintaining focus on doing the basic things brilliantly, and then overlaying that with new opportunity to accelerate growth."*

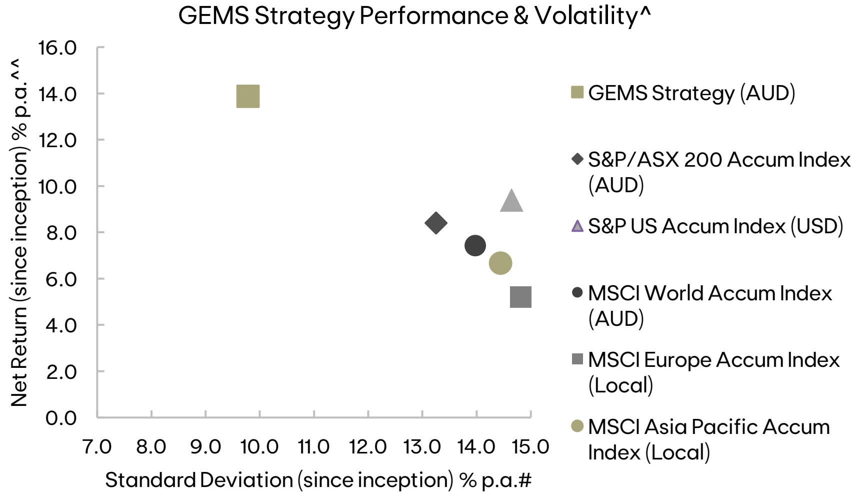
Soitec – Global leader in engineered substrates in the semiconductor industry.

*"We have **raised our revenue guidance** from $950 million to $975 million" "We also **raised our EBITDA margin guidance** from around 3 2% to around 34%, thanks to **higher operating leverage and industrial perfomance**." "H1 2022 revenue to €373 million, which is a **record semester in Soitec's history**. H1 2022 revenue is up 53% on a like-for-like basis compared to H1 2021." "Continue to **enjoy strong traction on all our products and across our three end markets**" "Our revenue growth continues to be **boosted by the deployment of 5G and the increase in Soitec's products content in every 5G smartphone**, and of course, the introductions of new products. As you know, this is mainly benefiting our RF-SOI and POI products. We also **continue to benefit from the recovery of the automotive industry**, which is very positive for our Power-SOI and FD-SOI products." Our revenues in smart devices also increased, driven by stronger sales in FD-SOI and Photonics-SOI wafers. Our efforts in **increasing capacity triggered by a higher customer demand translated into increased production across the board**" "We also achieved another strong quarter in FD-SOI." "FD-SOI technology is bringing significant value to applications dedicated to edge computing, automotive, and 5G." "Our **customer contracts now are covering three to five years** and this is really giving us also a **strong visibility on our investments and the speed of our investments.**"*

Portfolio Characteristics



Source: Ellerston Capital.



Source: Ellerston Capital.

Top 10 Holdings (Alphabetical, Long Only)

- ALCOA CORP
- CEMEX
- GENERATION DEVELOPMENT GROUP
- GINKGO BIOWORKS
- GRAINCORP
- INTERNATIONAL GAME TECHNOLOGY
- MAWSON INFRASTRUCTURE
- OLIN CORP
- RELIANCE INDUSTRIES
- TESCO

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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 holdings 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.

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