

Ellerston Global Equity Managers Fund (GEMS) Class C

Monthly Newsletter, January 2022

Investment Objective

To generate superior returns for unitholders with a focus on risk and capital preservation.

Investment Strategy

The Fund provides investors with exposure to global markets through a long short equity strategy. The strategy overlays fundamental bottom-up stock selection with global macroeconomic and market outlook.

Key Information

Inception Date ^^	1 December 2009
Portfolio Managers	Ashok Jacob & Arik Star
Application Price	\$1.7433
NAV Price	\$1.7389
Redemption Price	\$1.7346
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 (Net)*	1 Year	2 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.) ^^
GEMS C	8.5%	24.3%	13.5%	14.2%	13.0%

Source: Ellerston Capital.

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

PERFORMANCE

For the rolling 12 months through to 31 January 2022, the Australian S&P/ASX 200 Index is up 9.4%, and the US S&P 500 Index is up +23.3%. **Your Fund is up net after fees +8.5%.**

For the Month of **January 2022**, the Australian S&P/ASX 200 Index was down -6.4%, the US S&P 500 Index was down -5.2%, and the US Russell 2000 was down -9.6%. **Your Fund was down net after fees -4.4%.**

Portfolio Commentary:

The portfolio sustained a drawdown during January, largely driven by the indiscriminate punishment handed out to Mid/Small capitalisation companies globally. This is best illustrated by the 9.6% fall in the Russell 2000 and replicated by other global comparable indices. Our portfolio was more correlated to this factor basket with GrainCorp, Celsius, Olin, Cellnex, and others sustaining significant pullbacks as a result. We strongly believe that this is a year where stock selection will carry the day. During February we have seen powerful recoveries for portfolio companies, including GrainCorp, Alcoa, Celsius, Olin, as well as more recent additions to the portfolio such as Ralph Lauren. We have followed and owned these companies for a long time. They have compelling valuation metrics with strong risk reward profiles, which gives us confidence to own them through the volatility. To balance our long exposure we also maintain a very active portfolio hedging strategy.

During January/February most of our portfolio companies release half yearly earnings reports. With inflationary pressures sweeping the world and the importance of pricing power being strongly highlighted, the commentary and insights provided this earnings season are extremely important. 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.

Below we share with you some commentary provided by Alcoa and Olin that have reported strong earnings and outlooks, and GrainCorp which materially upgraded earnings guidance:

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

Industry construct – **"The global push to reduce carbon emissions is a boon for aluminium demand at a time when supply constraints are becoming more prevalent, particularly in China."** "The average view from analysts is that 2021 ended with close to a 1 million metric ton global deficit and another **deficit of approximately 1.4 million metric tons is expected in 2022**. All of this is happening at a time when inventories are at their lowest level in a decade." "On the demand side, **we expect annual global demand for primary aluminium to increase this year between 2% and 3%, relative to 2021**. Demand in 2021 had already eclipsed the pre-pandemic levels of 2019." "Despite deficit market conditions in inventories at low levels, we are continuing to see **supply constraints due to challenges related to power and the emphasis on sustainable production.**"

Company – "We've made very good progress in addressing our production capacities to create a set of **cost competitive and sustainable operating assets.**" "Adjusted EBITDA (for Q4) was up from \$168 million to \$896 million sequentially and up \$535 million or 148% compared to last year. **Adjusted EBITDA increased 140% from \$1.15 billion to \$2.76 billion (CY 2021).**" "We expect higher premiums relative to 2021 and continued demand for any remaining open volume. We **continue to benefit from our position as a domestic supplier to the deficit markets in North America and Europe**, where regional premiums remain high. **The factors supporting higher aluminium prices represent fundamental structural changes that we believe will remain in place over the next decade**, supported by a drive towards more sustainable solutions." "Return on equity increased to 33.4% for fiscal 2021." "For the first quarter of 2022, as outlined in the appendix **at current price levels, we expect adjusted EBITDA and adjusted net income to be similar to the fourth quarter of 2021**. Expected metal index price benefits will roughly offset the raw materials and energy challenges, and improvement from portfolio actions and sales contract pricing are expected to mitigate other seasonal changes and headwinds." "Our adjusted proportional net debt was \$1.1 billion at December 31st 2021, an improvement from \$3.4 billion from year-end 2020, and **net debt is now net cash of \$12 million.**" "And on pensions, our remaining US qualified pension plans are fully funded." "For the past five years, we have worked on improving our foundation, financially, operationally and strategically. Now we are ready for the future." "The structural changes driven by de-carbonization should give low carbon operators like Alcoa a sustained competitive advantage in the future."

Olin – Leading global manufacturer/distributor of chlorine and caustic soda, vinyl's, and epoxies.

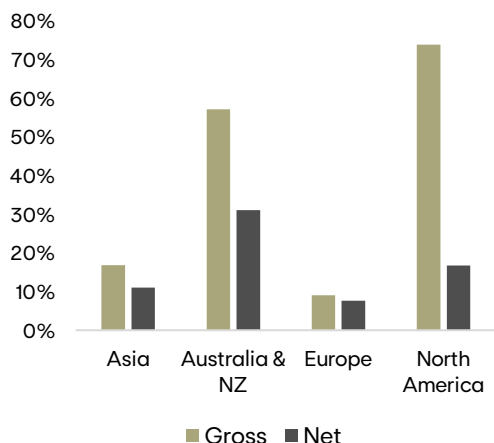
"It is time to demonstrate that we have broad control over improving our value delivery in 2022 and that we have **multiple 2022 and 2023 growth vectors at all three of our businesses.**" "The favourable supply-demand structural thematic is up on us and as the world appears to be under-investing in ECU capacity on the order of 17 world-scale ECU plants over the next six years." "The **forward-structural thematic suggest demand growth is much greater than the supply growth.**" "The result is that Olin defeats the cycle, **expects to deliver \$8 billion of levered free cash flow over the next five years, approximately equal to our current market capitalization**, and achieves the improved valuation multiple we deserve." "We must **have the right ESG program, so we have decided to raise the bar on some of our targets after having met many of our initial ESG goals earlier than targeted.**" "I mean the only way that we end up at a \$2.5 billion mark is for these good conditions that we're in right now to continue. The outlook looks better than that." "The **scenario is set up where 2022 is likely better performance than 2021 and 2023 is likely better performance than 2022. So even in 2022, we're looking at levered free cash flow liberation of about \$1.6 billion. So just call that \$10 a share, so it's greater than a 20% yield.** I think the dilemma we have is that the forward valuation set-up is for an imaginary cliff, that cliff just doesn't exist." "Our expectation for margins in Epoxy is for them to expand from where we are in the fourth quarter. And there are just so many upsides in that business." "We are the best value for the use of our own cash at the moment and we've been leaning into that and we're going to lean into that a bit harder."

Graincorp – Agribusiness leader in storage and logistics, marketing and processing of grains.

"GrainCorp Limited (ASX: GNC) expects to report FY22 underlying EBITDA in the range of \$480 – 540 million (FY21: \$331 million) and FY22 underlying NPAT of \$235 – 280 million (FY21: \$139 million)." "**Strong outlook reflects the Company's outstanding supply chain execution, continued delivery of operating initiatives, and high global demand for Australian grain and oilseeds.**" "GrainCorp delivered an excellent result in FY21, and I am pleased to report that we **expect this performance to be further improved in FY22.**" "In addition to a second consecutive bumper crop and the global demand for Australian grain, **our strong start to FY22 demonstrates the efficiency of our supply chain and the resilience of our industry.**" "GrainCorp experienced minimal supply chain issues and provided over 1.5 million tonnes of additional storage capacity for growers in time for the 21/22 harvest and broke multiple site receival records across our network." "The strong harvest, coupled with supply shortages and adverse weather conditions in the northern hemisphere, is driving **excellent global demand for Australian grain and oilseeds and strong supply chain margins for grain exports.**"

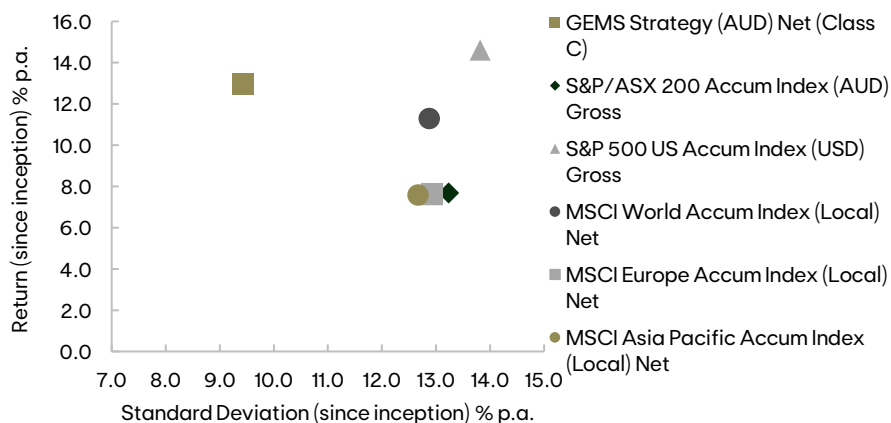
PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility[^]



Source: Ellerston Capital.

Top 10 Holdings (Alphabetical, Long Only)

- ALCOA CORP
- CEMEX
- GENERATION DEVELOPMENT GROUP
- GRAINCORP
- MAGGIE BEER HOLDINGS
- MAWSON INFRASTRUCTURE
- MONEY3
- OLIN
- ORIGIN
- YELLOW CAKE

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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.

The standard deviation is often used by investors to measure the risk of an asset. The standard deviation is a measure of volatility; the more an asset's returns vary from the average return, the more volatile the asset. A higher standard deviation means a greater potential for deviation of return from the average return of the asset. The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance. This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 095 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement and Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page. 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. Past performance is not a reliable indicator of future performance.