Ellerston Global Equity Managers Fund (GEMS) Class C

Monthly Newsletter, February 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	$1.7869
NAV Price	$1.7824
Redemption Price	$1.7779
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	3.6%	25.7%	14.6%	14.2%	13.1%

Source: Ellerston Capital.

* 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, 2022 to February 28, 2022, the Australian S&P/ASX 200 Index is down -4.3%, the US S&P 500 Index is down -8.0%, the Russell 2000 Index is down -8.7% and MSCI World (Local) Index is down -7.5%. **Your Fund has returned net after fees -2.0%.**

For the Month of **February 2022**, the Australian S&P/ASX 200 Index was up +2.1%, the US S&P 500 Index was down -3.0%, the Russell 2000 Index was up +1.1% and the MSCI World (Local) Index was down -2.7%. **Your Fund returned net after fees +2.5%.**

Portfolio Commentary:

The GEMS portfolio performed strongly during the month of February, generating a +2.5% positive return, in the face of treacherous and volatile markets. During the same period, the S&P 500, Nasdaq, and MSCI World Index all generated losses of -2.5% or more. On February 24th Russia commenced a military invasion of Ukraine, which brought to the fore issues around security of supply of many commodities, including Oil, Gas, Aluminium, Wheat, and Uranium. This benefited our holdings in Alcoa, Golden Agri, the Uranium sector and the Oil and Gas sectors. Our capital light but significant delta adjusted exposure to the gold sector served us well as did our traditional hedging strategy.

Calendar year to date through to the 11th of March global indices are down anywhere from 4% to 15%, however there are many equities that are down anywhere from 20% to 80% from their highs. There is real carnage under the hood. While not looking to catch falling knives, we are excited at the opportunity set that we feel is emerging in high quality franchises which will present enticing risk reward profiles. This is an amazing time to be invested in a hedge fund strategy that has the tools to protect capital and also the scope to capitalise on additional compelling opportunities as they present themselves.

Market Commentary:

The Federal Reserve (Fed) policy pendulum has swung hard from extreme dovish to hawkish, inflation is running 1980's style hot, the Russian invasion of Ukraine has caused pain and suffering for innocent civilians, while exposing the fragility of the global supply of critical commodities. Supply chains and corporate gross margins are under significant pressure, and global economic growth rate expectations are being wound back, and now we have lockdowns in China as COVID ramps up. Welcome to 2022!

Fed policy is entering a new era as the bull market rocket fuel policies of Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE) come to a close. This has been telegraphed by Governor Powell for many months now. More significantly it was reiterated post the commencement of the hostilities in Ukraine. During his recent testimony to congress Powell said, *"Our monetary policy has been adapting to the evolving economic environment.". "We have phased out our net asset purchases. With inflation well above 2% and a strong labor market, we expect it will be appropriate to raise the target range for the federal funds rate at our meeting later this month." . "I'm inclined to propose a 25 basis point rate hike." "If we don't see inflation behaving in the way we expect it to behave, then we're prepared to raise by more than that amount in a meeting or meetings." "We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. We know that the best thing we can do to support a strong labor market is to promote a long expansion, and that is only possible in an environment of price stability." "The near-term effects on the US economy of the invasion of Ukraine, the ongoing war, the sanctions, and of events to come, remain highly uncertain." "Given the current situation, we need to move carefully."*

Then there was a very powerful and prescient exchange between Powell and Senator Shelby that gave great insight:

SHELBY: About 40 years ago or more, you know, we had rampant inflation in the US. We had a chairman, Dr. Volcker, who was chairman of the Fed, and he was maligned for a little while by people but praised later. But he brought the leadership to the Fed and to the country that we had to squeeze inflation out at all costs, just about. And a lot of it was draconian – you have to do it. Is the leadership that the Fed under you, and the Fed prepared to do what it takes to get inflation under control, and protect price stability?
POWELL: Well, let me say, I knew Paul Volcker, pretty sure I saw him testify in this room many years ago. I think he was one of the great public servants of the era, the greatest economic public servant of the era. And I hope history will record that the answer to your question is yes.
SHELBY: So you're... you're... you're prepared to do what it takes without any reservation to protect price stability?
POWELL: Yes.
SHELBY: That would be a departure of what you've done. Thank you very much.

While on one hand the Fed feels completely boxed into a corner with limited room to move, it would be a foolish person to write off Jerome Powell and the tools at his disposal and new tools that might emerge as the Fed navigates these tricky times.

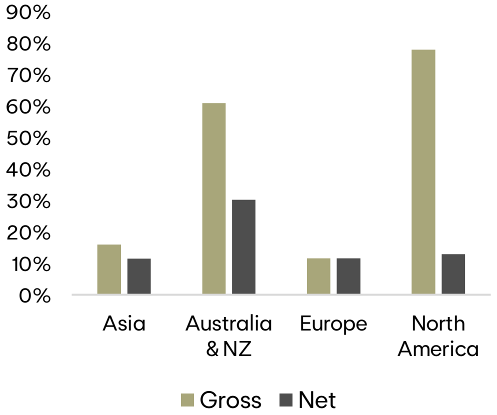
Inflation has become a dirty word not long after struggling for many years to reach the Fed targeted rate of 2%. With a print last week of a 7.9% annualised inflation rate, we are revisiting levels last seen in the early 80's. The debate that ensued late last year about transitory inflation versus persistent or sustained inflation has been decided, with the transitory team being forced to reconsider. Decarbonisation and deglobalisation have been primary drivers of this inflation shock. Some decarbonisation impacts have included - oil companies slashing capital expenditures to historic lows, Fossil fuels being curtailed or banished depending on the country, power prices soaring and forcing curtailment of uneconomic production of commodities, China sanctioning production cuts to reduce carbon emissions. Sanctions have been another contributor. For instance, Iran and Venezuela have oil supply sanctions and there are sanctions prohibiting 20% of the world's Potash supply from Belarus. The shock is a supply shock. This is not readily fixed. In fact, we could be on the cusp of a second inflation shock caused by the sanctions levelled against Russia. Russia and Ukraine combined are the largest global exporters of Wheat, supply in excess of 15% of the worlds Potash, Russia supplies the European Union with 40% of its gas, produces in excess of 10% of the world's oil, and is also a material supplier of Nickel, Coal, Paladium, Uranium and other critical materials. The disruption of supply chains and shipping routes are also causing extreme havoc. The genie is out of the bottle, with the old economics 101 saying "the cure for high prices is, high prices" being tested as the capacity to produce more just doesn't appear to be there and global demand remains strong.

It was always going to take something big to knock COVID off the front page, and The Russian invasion of Ukraine has been that extremely impactful event. First and foremost, it has been a tragic and devastating situation for the citizens of Ukraine who have been forced to either flee and become displaced refugees, stay and suffer the onslaught, or fight for the independence of their country. Other potential second derivative impacts of this situation include a realignment of alliances and geopolitical world order, redrawing of trade routes from optimised to trade blocks, and the inflationary issue discussed earlier. Where does it go from here is the big question? Is there an escalation, miscalculation or an accident that leads to a wider conflict? Is there a deal struck that sees Russia leave Ukraine in exchange for sanctions being lifted, which would see an almighty sigh of relief and a massive market rally? Or is it something in between? Right now, all we know is that we don't know.

Equity markets globally have been under pressure this year, with the issues discussed above being some of the key drivers. We don't direct our focus on being bullish or bearish, but rather on positioning the portfolio to be prepared for the many possible scenarios that may present themselves and using any distress to identify and capitalise on new and compelling investment opportunities that emerge. It really is a great time to be a hedge fund manager and investor!

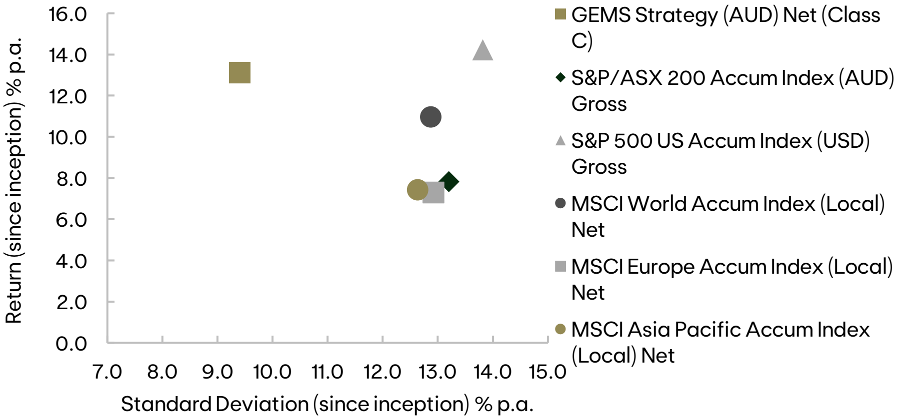
PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility^



Past performance is not a reliable indication of future performance.
Source: Ellerston Capital.

Top 10 Holdings (Alphabetical, Long Only)

- ALCOA CORP
- GENERATION DEVELOPMENT GROUP
- GRAINCORP
- MAGGIE BEER HOLDINGS
- MONEY3
- NEXTDC
- OLIN
- RALPH LAUREN
- SPROTT PHYSICAL URANIUM
- 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.
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