Ellerston Global Equity Managers Fund (GEMS) Class C

Monthly Newsletter, March 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	$1.8262
NAV Price	$1.8216
Redemption Price	$1.8170
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	6.2%	32.0%	15.2%	14.2%	13.2%

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 (Quarter) from January 1, 2022 to March 31, 2022, the Australian S&P/ASX 200 Index is up +2.2%, the US S&P 500 Index is down -4.6%, the Russell 2000 Index is down -7.5% and MSCI World (Local) Index is down -4.6%. **Your Fund is up net after fees +0.2%.**

For the Month of **March 2022**, the Australian S&P/ASX 200 Index was up +6.9%, the US S&P 500 Index was up +3.7%, the Russell 2000 Index was up +1.2% and the MSCI World (Local) Index was up +3.1%. **Your Fund is up net after fees +2.2%.**

Portfolio Commentary:

The GEMS portfolio performed strongly during the month of March, generating a net +2.2% gain, during what proved to be a highly volatile month with most global markets sustaining material falls in the first half of the month before a very powerful rally in the second half.

Looking back over the quarter to the end of March 2022, the index performances highlighted above demonstrate that most global markets had a tough period, sustaining meaningful declines combined with heightened volatility. The GEMS portfolio generated a positive net return during this period, primarily driven by a strong performance in the long portfolio. While the portfolio hedging additionally generated strong performance and achieved its desired outcome for the quarter through till mid-March, the velocity of the rally during the last two weeks of March detracted from performance. During the quarter gains were broad based and included Alcoa, Golar LNG, Uranium exposure, Golden Agri, Coterra Energy, Booking Holdings, Gold exposure, Animoca Brands, Reliance Industries, Mosaic and Graincorp. Detractors included Cemex, Mawson Infrastructure, Celsius Holdings, Cellnex and Soitec.

Stock selection, sector positioning, and dynamic hedging are always important, but in a market that is far more volatile and no longer benign or forgiving it is more important than ever.

Market Commentary:

In a world where traditional media, social media, the internet, and other distribution platforms enable the masses to articulate their views and opinions so readily, the noise that surrounds investors every day is deafening. It can be insightful but it can also be very costly. The most instructive insights arguably come from the front line, *primary insights*. That includes from company management, Central Bank representatives, anecdotes and other primary sources.

The past month has seen significant commentary from US Federal Reserve (Fed) representatives, including:

March 16, 2022 – Jerome Powell, Fed Chairman

"We are strongly committed to achieving the monetary policy goals that Congress has given us: *maximum employment and price stability*." "The *economy is very strong*, and against the backdrop of an *extremely tight labor market* and *high inflation*, the Committee anticipates that *ongoing increases in the target range for the federal funds rate* will be appropriate. In addition, *we expect to begin reducing the size of our balance sheet at a coming meeting*." "The labor market has continued to strengthen and is extremely tight." "FOMC participants expect the labor market to remain strong." "Inflation remains well above our longer-run goal of 2 percent." "Inflation is likely to take longer to return to our price-stability goal than previously expected." "The Fed's monetary policy actions have been guided by our mandate to promote maximum employment and stable prices for the American people." "The Committee is determined to take the measures necessary to restore price stability. *The American economy is very strong and well positioned to handle tighter monetary policy*." "We expect growth to continue. *It's clearly time to raise interest rates and begin the balance sheet shrinkage.*" "We have a plan over the course of this year to raise interest rates steadily and also to run off the balance sheet."

April 5, 2022 – Lael Brainard, Fed Governor

"Currently, inflation is much too high and is subject to upside risks." "The [FOMC] will continue tightening monetary policy methodically through a series of interest rate increases and by starting to reduce the balance sheet at a rapid pace as soon as our May meeting." "Given that the recovery has been considerably stronger and faster than in the previous cycle, I expect the balance sheet to shrink considerably more rapidly than in the previous recovery."

April 6, 2022 – Bill Dudley, former Fed President

"Investors should pay closer attention to what Powell has said: Financial conditions need to tighten." "One thing is certain: To be effective, [The Fed] will have to inflict more losses on stock and bond investors than it has so far." "The Fed will have to shock markets to achieve the desired response." "This would mean hiking the federal funds rate considerably higher than currently anticipated. One way or another, to get inflation under control, the Fed will need to push bond yields high and stock prices lower."

Inflation may or may not yet prove to be more benign and transitory than currently anticipated by the Fed, and that may or may not lead to more moderate action, however we have a cabal of key US Federal Reserve representatives clearly articulating that rates are going up and the Fed balance sheet will be shrunk. This is an extremely hawkish stance. Rates have been trending down for 40 years while the Fed balance sheet has expanded from under $1 trillion to almost $9 trillion since the GFC. "Release of the minutes from the March policy meeting revealed plans for monthly asset sales of as much as $95 billion to battle inflation that reached 7.9% in February as measured by the year-over-year change in CPI. For a sense of scale in that proposed 180, the Fed added nearly $1 trillion in interest-bearing assets since mid-June." (Source: Grant's Almost Daily). This is a seismic liquidity shift.

We have also seen some very instructive commentary from the consumer goods construct including:

March 30, 2022 - RH (Upscale American home-furnishings omni-channel retailer) - Gary Friedman, Chairman and CEO

"We have experienced softening demand in the first quarter." "I think there's a lot of -- everybody thinks supply chains are getting better. I don't think we've gotten better at all. I mean product is on the water for a long time, getting ships into port. It's taken a long time. We've got generally about five extra weeks in our supply chain right now. That's a lot of time. It's a lot of money. And that's the average. So that means some steps coming on time and some steps 10 weeks to 12 weeks behind. And when you run a kind of an integrated business like ours, where you need all the pieces to the puzzle to kind of paint the picture, that just makes it more complex and more difficult." "I don't think anybody really understands what's coming from an inflation point of view, because either businesses are going to make a lot less money or they're going to raise their prices. And I don't think anybody really understands how high prices are going to go everywhere. In restaurants, in cars and everything. I think it's going to outrun the consumer. And I think we're going to be in some tricky space." "Two years ago, price of a container for us went from 2,400 to 4,800. Yes, yes, it's doubled. I'm not going to tell you what it just went to. But just let's say that looked like a nice increase. So -- and it's not just us, it's everybody. So either people are going to do stupid things like take quality down to make their goods like -- look like it's better value or they're going to not -- they're going to have to take prices up and where they won't take prices up and they'll hurt -- their margin profile is going to change. But it's not just us, it's everybody I know in every industry." "I've never been in my 22 years here, I've never been more excited. I've also never been more uncertain, right? So -- and I think you have to take a real balanced view right now." "We're in an economy. There's new kinds of businesses, there's new kinds of wealth creation, there's new kinds of productivity, things driving the economy, so I don't know. Is there enough good things whether in our business or other parts of the economy that motor is through and we don't have a recession, we don't have a slowdown, does Ukraine gets settled sooner. I don't know." "We are pretty disciplined about taking price increases and so on and so forth. But these are going to be bigger. I mean, what's going to be the real -- when you have this kind of impact from freight and raw materials and price increases from suppliers and so on and so forth, I mean, you can say, oh, we're big. We're -- we can absorb it. That's kind of BS on what's happening in the world today, like prices are going up everywhere. And if they're not, earnings are going to go down." *"And so, the question people have to ask is, do I want a bigger lower-margin business and do I want to chase sales, or do I want maybe for a while, a smaller, higher-margin business and then come out of this really positioned for the long term?"*

Consumer goods, especially anything associated with the work from home/lockdown dynamic, benefitted greatly from COVID. That COVID dynamic is now largely behind us. Consumer goods companies are also facing headwinds from significantly higher raw material, freight, and labour costs. The top line and margin impacts and outlooks will be closely scrutinised this earnings season which kicks off this week.

While the Travel sector is exhibiting an upbeat outlook with commentary including:

March 8, 2022 - Booking Holdings (Travel, Largest Global OTA) – Glenn Fogel, CEO and David Goulden, Executive Vice President and Chief Financial Officer

"Human driven disasters, like we're currently seeing unfortunately, travel as things happen do impact travel, usually it's local. This is a terrible tragic local event." "The family until knowing that was planning to go to Florida and to take the kids to Disney World is not going to change based on this. The same thing in Asia." "The summer bookings from Western Europe are not going to be impacted by what is going on in Ukraine." "Historically, when the price of an air ticket went up, you would see people who may change their travel habit perhaps. Right now though there's something that's unique, I believe happening. And that is the significant amount of travel that did not happen over the last two years has built up this incredible amount of demand, this latent demand just wanted to burst out and travel." "So people are going to spend whatever amount of money they had budgeted for their travel and prices maybe up and then maybe what they'll do is, they'll say okay, we are going to go with a different vacation in terms of maybe destination or maybe lower star rating or maybe not as many days. They are still going to spend all the money they had set aside to travel if they're not going to travel." "We look at what we see on the books for the summer, and that's a good sign as well. So subject to things staying reasonably under control in the Ukraine and Eastern European. I think we're looking at a good recovery this year."

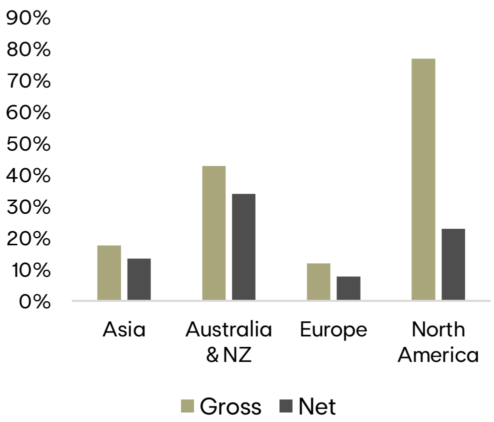
March 8, 2022 – Hyatt Hotels Corp – Joan Bottarini, CFO

"It's extraordinary, the pent-up demand that keeps coming back every time we see a pullback. And this time, it was Omicron which was not as impactful as maybe previous events over the last year, but it has come back strong. Leisure demand is strong, coming from the U.S. into Mexico and the Caribbean and domestically. Business transient, we saw growing momentum over the course of 2021." "We did see in January, late December, January, some cancellations, there was a pullback. They were primarily short term, January and February and 60% of those cancellations rebooked for later in the year."

The travel recovery has had some hiccups and may yet have others as it recovers but the outlook is very strong. Anecdotally, anyone booking any travel will quickly realise that pricing for airlines and hotels is materially higher than pre-COVID and availability can be limited at times. It seems that plenty of consumer spending has been allocated towards travel and there is no discounting.

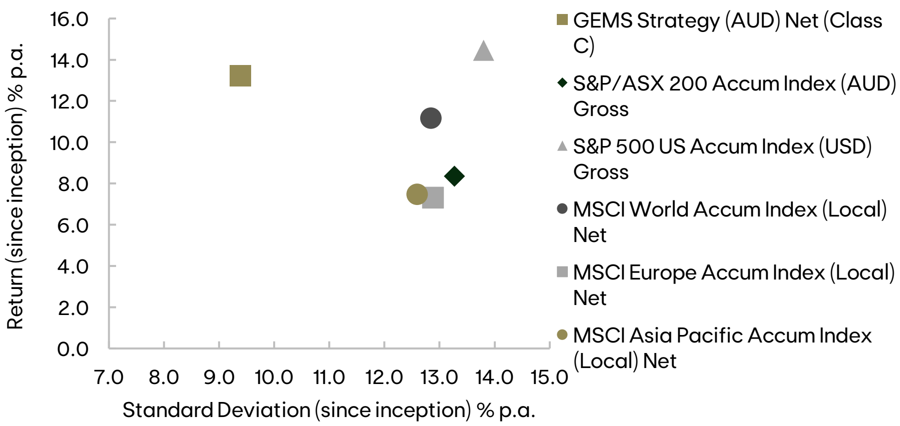
PORTFOLIO CHARACTERISTICS

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
- BOOKING HOLDINGS
- GENERATION DEVELOPMENT
- GOLAR
- GOLDEN AGRI-RESOURCES
- GRAINCORP
- MONEY3 CORP
- MOSAIC CO
- NEXT DC
- SPROTT PHYSICAL URANIUM

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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.

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