Ellerston Global Equity Managers Fund (GEMS) Class C

Monthly Newsletter, May 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	$1.7301
NAV Price	$1.7258
Redemption Price	$1.7214
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	-8.0%	23.2%	14.1%	14.0%	12.5%

Source: Ellerston Capital.

* 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 June 30, 2021 to May 31, 2022, the Australian S&P/ASX 200 Index is up +2.5%, the US S&P 500 Index is down -2.6%, the Russell 2000 Index is down -18.5% and MSCI World (Local) Index is down -3.6%. **Your Fund is down net after fees -5.1%.**

Calendar Year to Date from January 1, 2022 to May 31, 2022, the Australian S&P/ASX 200 Index is down -1.3%, the US S&P 500 Index is down -12.8%, the Russell 2000 Index is down -16.6% and MSCI World (Local) Index is down -11.4%. **Your Fund is down net after fees -5.1%.**

For the Month of **May 2022**, the Australian S&P/ASX 200 Index was down -2.6%, the US S&P 500 Index was up +0.2%, the Russell 2000 Index was up +0.2% and the MSCI World (Local) Index was down -0.2%. **Your Fund was down net after fees -4.1%.**

Portfolio Commentary:

The GEMS portfolio sustained a drawdown during the month of May, as the Australian market sustained a significant loss while most global markets stabilised. Australian, gold and uranium exposures contributed to the decrement, while hedging was of minimal benefit with US markets broadly flat. During the month, contributors to performance included Celsius, Olin, Golar, Coterra Energy, and Hostelworld. Detractors from performance included Mawson Infrastructure, Alcoa, and both gold and uranium exposures.

As US Federal Reserve Bank ("The Fed") takes decisive action to tame inflation, equity markets have reacted accordingly, volatility has spiked, and the calm equilibrium has been turned on its head. Calendar Year to Date (15/6/2022) the S&P 500 is down -22%, NASDAQ -31%, and Russell 2000 -24%.

The GEMS portfolio carries a net long position, which means that unfortunately there will be moments in time where during extreme market drawdowns, while we will materially mitigate losses, we will still sustain some losses. This has proven to be one of those moments in time. Despite these moments, the GEMS portfolio has generated a 13% compound return over the 20 years since its inception.

Over this period, we have found that the most compelling risk reward skewed opportunities have emerged during periods of extreme market drawdowns. Market panics come, deliver fundamental investors great opportunities, market panics leave, and then outsized returns tend to be generated. While this is a difficult period, we are very excited by the change in landscape from 12 months ago. Equity market crises and dislocations sow the seeds for bumper harvests. We are being given the opportunity to add to high conviction holdings at even more compelling valuations. This is augmented by multiplying new opportunities that the market downturn is presenting us.

Market Commentary:

To say that markets have had a treacherous first half of 2022 would be somewhat of an understatement. The driver of the bus is the The Fed, with bond markets, equity markets and all other asset classes being captive passengers with seatbelts tightly fastened. Sometimes! Any policy shift, tweaks or comments coming from The Fed ecosystem, be it from Chairman Powell or other current and former members, are being scrutinised ad nauseum. This is understandable, as global economies and financial markets have reached a critical juncture, driven by the thing the now silent Modern Monetary Theory (MMT) crowd were certain was a non-issue. INFLATION!!

Since peaking in 1981 at over 20%, the US Fed Funds rate has had a 40 year downwards trend to 0% in 2021. The first round of Quantitative Easing (QE) began in November 2008 with the final COVID QE program ending on March 9th, 2022, during which time The Fed balance sheet expanded from under US$1 trillion to US$9 trillion. This dynamic has been enabled by declining and benign inflation, which peaked in 1980 north of 13% and reached 1.2% in 2020

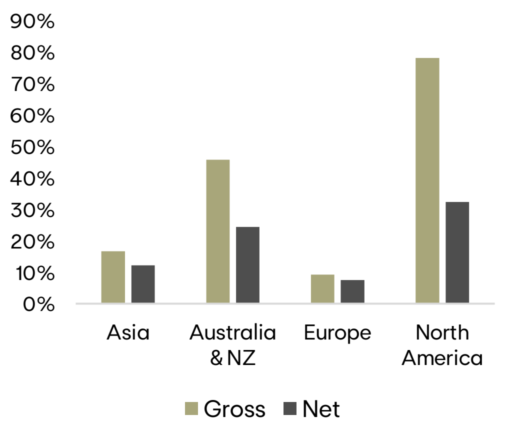
Accelerated QE combined with extreme fiscal stimulus to combat COVID pressures has led to very robust demand for just about everything, DEMAND. At the same time, policies including investor activism and decarbonisation have led to significant downward recalibrations of capital expenditures for oil and gas and many other cyclical industries, therefore limiting supply of inputs required to manufacture all products, SUPPLY. Each of these forces should be inflationary in their own right, however when they collided, BOOM! In 2021 we saw inflation have lift off.

As this inflationary dynamic emerged and progressed, The Fed, and the majority in its ecosystem, held the core view that inflation would be "transitory". Over and over they beat this transitory drum, until it could be beaten no more. There was finally a clear admission that inflation was in fact NOT transitory but likely persistent. The supply side of the issue could not be easily fixed. In fact, global governments are proving to be very adept at worsening that situation as they introduce policies such as oil and gas super profit taxes that disincentivise incremental capital expenditures. The demand side was in the hands of The Fed. Chairman Powell clearly stated that The Fed has two charters - full employment and stable prices. He has strongly articulated the view that the economy is robust, and the full employment charter is being met. Stable prices on the other hand had become a serious issue and The Fed was going to deal with it whatever it takes. So here we are. The Fed looks determined to raise rates, shrink the balance sheet and slay excessive inflation, which in turn means they are determined to slow down demand even if that means a near certain recession.

This is a seismic shift in strategy which is creating tremendous uncertainty, dramatically impacting bond and equity markets, with second derivative impacts on asset prices for sectors like property yet to be unveiled. However, a coin has two sides. What we know to be true is that these types of environments create great opportunities, the shiny side of the coin.

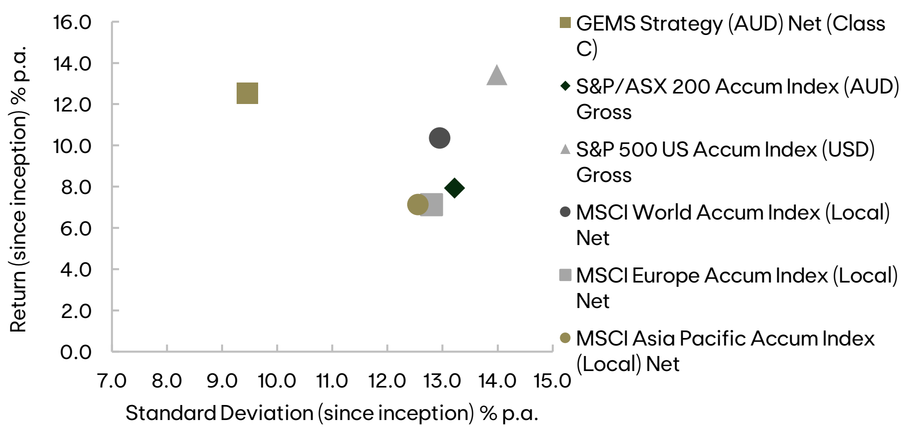
PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility^



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

Top 10 Holdings (Alphabetical, Long Only)

- ALCOA CORP
- BOOKING HOLDINGS
- CELSIUS HOLDINGS
- GENERATION DEVELOPMENT GROUP
- GOLAR
- LIGHT AND WONDER
- MOSAIC CO
- NEXT DC
- OLIN CORP
- 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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