APIR Code: ECL0006AU

Ellerston Global Equity Managers Fund (GEMS) Class C

Monthly Newsletter, October 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	$1.5008
NAV Price	$1.4970
Redemption Price	$1.4933
Gross Exposure	123.89%
Net Exposure	46.58%
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	-18.3%	9.4%	8.1%	11.8%	10.9%

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 3 Year period from October 31, 2019 to October 31, 2022, the compound annual returns for the Australian S&P/ASX 200 Total Return Index was +4.8%, the US S&P 500 Index was +10.2%, the Russell 2000 Index was +7.0% and MSCI World (Local) Index was +7.6%. **Your Fund net after fees returned +14.1%.**

Calendar Year to Date from January 1, 2022 to October 31, 2022, the Australian S&P/ASX 200 Index is down -4.1%, the US S&P 500 Index is down -17.7%, the Russell 2000 Index is down -16.9% and MSCI World (Local) Index is down -16.3%. **Your Fund is down net after fees -17.5%.**

For the Month of October 2022, the Australian S&P/ASX 200 Index was up +6.0%, the US S&P 500 Index was up +8.1%, the Russell 2000 Index was up +11.0% and the MSCI World (Local) Index was up +7.1%. **Your Fund returned net after fees +0.7%.**

The GEMS portfolio gained during the month of October, generating a net return of +0.7%, during what turned out to be a very strong month for global equity markets.

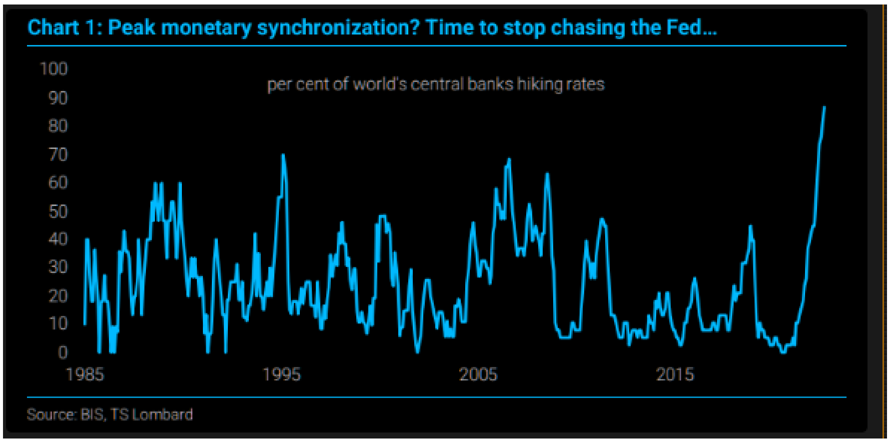
The long portfolio performed very strongly delivering great returns, with the velocity of the rally during the month leading to hedging losses that stymied the fund's performance. During the month gains were broad based and included Light and Wonder, Alcoa, Occidental, LSB Industries, Coterra Energy, Ciena, Celsius, Advisorshares Pure US Cannabis ETF, Hostelworld, Booking Holdings, and Golar. Detraction was driven primarily by index hedging and short positions.

US indices were unusually resilient in the face of very weak earnings out of the Big Tech complex. Data for the month came in mixed as well, with US GDP surprising to the upside and the labor market still red hot but EU Inflation surprising to the upside too while US PMIs weakened. Behind the recent rally is once again investors hope (or desperation) for a US Federal Reserve (Fed) Pivot or at least a Fed "slowdown", together with earnings that up until now, have been holding up rather well.

We remain focussed on capital preservation and idiosyncratic stock selections that have compelling risk/reward skews. We remain cautious but constructive, and open minded while invested in a portfolio of strong companies. In recent months we have added positions in Howden Joinery, Zalando, Soitec, and LSB Industries.

Macro and Portfolio Investments:

On the macro front, there are over 90 central banks currently increasing interest rates and there have been over 240 rate hikes globally this year. Gives new meaning to the saying "don't fight the Fed". At the risk of sounding like a broken record, we highlight another Fed meeting with another 75 basis point rate increase, on November 2nd. Once again there was an extreme sense of hope that the Fed might allude to a pivot, and once again the market was disappointed. This time, on the day, the market rallied hard off the back of the news release, only to have Chairman Powell remind investors at his conference following the release that he remains committed to and focussed on reigning in inflation back to the Fed's 2% target rate.



On November 10th, the data that market participants were hoping and praying for came to be. A CPI downside surprise. Headline US CPI inflation came in 7.7%, the lowest since January. Hardly a soft print in an absolute sense but it came in lower than 7.9% expectations and September's 8.2% print. Will this lead to Chairman Powell tempering his consistent and most recent rhetoric, below, as a result?

Jerome Powell, Fed Chairman - November 2, 2022

"My colleagues and I are strongly committed to bringing inflation back down to our 2 percent goal." "Today, the FOMC raised our policy interest rate by 75 basis points, and we continue to anticipate that ongoing increases will be appropriate." "In addition, we are continuing the process of significantly reducing the size of our balance sheet. "Despite the slowdown in growth, the labor market remains extremely tight, with the unemployment rate at a 50-year low, job vacancies still very high, and wage growth elevated." "In determining the pace of future increases in the target range, we will take into account the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity and inflation." **"We still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected."** "Restoring price stability is essential to set the stage for achieving maximum employment and stable prices in the longer run. The historical record cautions strongly against prematurely loosening policy. **We will stay the course, until the job is done.**" "Let me say again, the question of when to moderate the pace of increases is now much less important than the question of how high to raise rates and how long to keep monetary policy restricted, which really will be our principal focus." "Remember though that we still think there's a need for ongoing rate increases and we have some ground left to cover here and cover it we will." "From a risk management standpoint, we want to be sure that we don't make the mistake of either failing to tighten enough, or loosening policy too soon." **"Let me say this, it is very premature to be thinking about pausing. So people, when they hear lags, they think about a pause. It's very premature in my view to think about or be talking about pausing our rate hike. We have a ways to go, our policy, we need ongoing rate hikes to get to that level of sufficiently restrictive."** "We have some ground to cover with interest rates before we get to, before we get to that level of interest rates that we think is sufficiently restrictive."
https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20221102.pdf

Many of our investee companies have reported quarterly earnings in the past few weeks, including Celsius, Cameco, Occidental Petroleum, Booking Holdings, LSB Industries, Alcoa, and Ralph Lauren. Below, we share with you some key points and highlights from their earnings calls.

Celsius Holdings (Functional Energy Drinks) *- John Fieldly, CEO and Jarrod Langhans, CFO*
"The company achieved a **record quarter** in the third quarter of 2022 with sales over $188 million, delivering **revenue growth of over 98%**." "Celsius is now the third-largest energy drink in the United States." "Walmart expansions announced in the first quarter of this year on a year-to-date basis continuing to set new revenue records." "We officially commenced our distribution partnership with **PepsiCo** subsequently to the third-quarter with the distribution to most of our retail accounts transitioning as of October 1st of 2022. **The transition process with respect to our retail partners as well as our consumers also have exceeded our initial expectations**." "International sales only represented approximately by 4.6% of total sales for the quarter. Both **Pepsi and Celsius are committed and expanding internationally**, utilizing Pepsi's best-in class international distribution system. We see significant opportunity to capitalize on a global scale." "Gross profit margins were 41.8% and 49.6% excluding outbound freight. This represents a 330 basis point increase from the second-quarter gross

margin percent and consistent with our expectations." "**Consumer demand for Celsius on a dollar basis accelerated in the third-quarter of 2022 and has re-accelerated after the initial distribution shift on October 1st this year to PepsiCo distribution network.**" "On Amazon Celsius is the second-largest energy drink with an 18.5% share of the energy drink category ahead of Red Bull at 12.01% share and trailing Monster at 26.2% share on a year-to-date basis." "The total increase in revenue is largely attributable to increases in sales volume as opposed to increases in-product pricing." "Obviously we don't provide forward guidance on revenues, but we feel really optimistic on where this brand is positioned, especially leveraging Pepsi and our new distribution partnership."

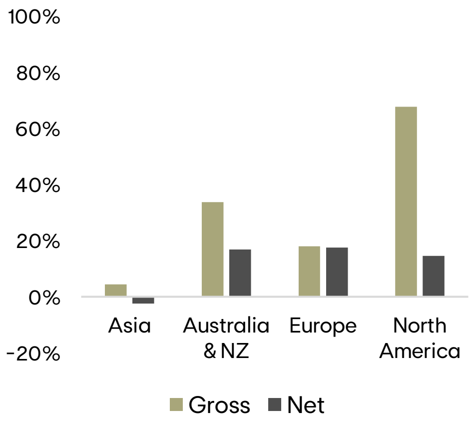
Booking Holdings (Leading Global Online Travel Agent) *- Glenn Fogel, CEO and David Goulden, CFO*
"Our customers booked 240 million room nights, 8% higher than in Q3 2019." "We saw an **improvement in room night growth during the third quarter from 4% growth in July to 10% growth in both, August and September relative to the comparable months in 2019.**" "We **continue to see very strong accommodation ADR growth**, which helped drive a 27% increase in global gross bookings in the third quarter or 41% on a constant currency basis, both versus Q3 2019." "We've not seen evidence of our customers trading down to lower hotel star rating or reducing the length of their trips." "**Third quarter was our highest revenue and adjusted EBITDA quarter ever.**" "Room night growth improving slightly from September levels to about 12% growth estimated for the month of October versus October 2019. Gross bookings in October are estimated to be up about 30% or just over 45% on a constant currency basis." "Our **mix of customers booking directly on our platforms, reached its highest third-quarter level ever**." "**40% of Booking.com's gross bookings were processed through our Payment platform in the third quarter, which once again is our highest quarterly level ever**." "**Adjusted EBITDA was $2.7 billion in the third quarter**, which was better than our expectations and about 7% of above 2019, and would have been about **25% above 2019 on a constant currency basis.**" "In October, all regions were above 2019 levels. The U.S. was up almost 35%, rest of world was up high-teens and both, Asia and Europe were up high single-digits. We estimate that constant currency gross bookings were up just over 45% in October." "We're pleased that the gross bookings we've already received on Booking.com for stays in Q1 are up about 25% in euros versus the same time in 2019."

Alcoa (Global producer of Bauxite, Alumina and Aluminium Products) *– Roy Harvey, CEO and William Oplinger, CFO*
"When comparing the third quarter EBITDA to the second quarter, the largest driver was $516 million of lower metal and alumina prices, followed by higher energy and raw material costs of $126 million." "**The amount of aluminum in passenger vehicles in North America, as one example, is expected to increase by nearly 25% by 2030, using 2020 as the baseline. This change is primarily driven by the transition to electric vehicles, which on average, contained 40% more aluminum than vehicles powered by internal combustion engines**." "Another important end-use market for aluminum is packaging. Demand in that sector is expected to increase steadily and consistently." "Next, both the generation and transmission of solar and wind power will require more aluminum than other forms of energy such as thermal, hydro, or nuclear." "Of the 15 million metric tonnes of new primary smelting capacity that we believe is required by 2030, only six million metric tonnes are currently expected to be sourced with renewable energy. This is one area where Alcoa is already a standout. 81% of our global smelting portfolio is powered by renewables." "**What we see today is an industry with significant supply challenges followed by impacts to aluminum demand as downstream costs continue to inflate, and significant uncertainty weighs on economic growth.**" "Raw material and energy prices are at historic highs, while prices have notched downwards based on continuing uncertainty." "**For Chinese smelting capacity that is operating, we believe that between 20% to 30% is operating on a cash-negative basis. In the rest of the world, between 45% to 55% of aluminium production is currently operating under water. In Alumina, the percentage of refineries operating on a cash-negative basis is less than what we're seeing in metal, but still significant. In China, approximately 25% to 35% of refineries are operating at a loss, and the rest of the world is lower, ranging from 10% to 20% operating on a cash-negative basis**." "Our balance sheet is solid, our proportional net debt is low, and we finished the quarter with $1.4 billion of cash on hand." "

Ralph Lauren (Design, Marketing & Distribution of Premium Lifestyle Products) *– Patrice Louvet, CEO and Jane Nielsen, CFO*
"**We are off to a strong early start with our second quarter performance which exceeded our expectations on both the top and bottom-line.**" "Another quarter of double-digit AUR growth and sales exceeding our plan." "Our top-line growth continued with Q2 revenues up 5% on a reported basis and 13% in constant currency." "**Meaningful increase in full-price sales penetration and digital margins still strongly accretive to our overall profitability**." "Consumers' perception of Ralph Lauren as a luxury brand remain high at 78%. And their perception of our brand's value for money continue to expand both sequentially and versus last year in the second quarter." "We exceeded 50 million social media followers globally this quarter, a high single-digit increase to last year. In our D2C businesses, we added 1.3 million new consumers." "**Second quarter sales for our total Ralph Lauren digital ecosystem accelerated** to mid-teens growth in constant currency. Within our own digital sites, sales grew mid-single digits in the second quarter and more than 40% on a two-year stack" "Our brand momentum and opportunities in China remains strong with sales up more than 30%." "We ended the period with $1.4 billion in cash and short-term investments, and $1.1 billion in total debt." "We believe our inventories are well-positioned with 70% of our business comprised of core and replenishment product." "Fiscal '23, in constant currency with revenues expected to increase high single-digits or about 8% on a 52-week comparable basis, while the first half revenues outperformed our expectations, this incorporates our more cautious view on second half revenues given the challenging consumer backdrop in Europe and North America." "

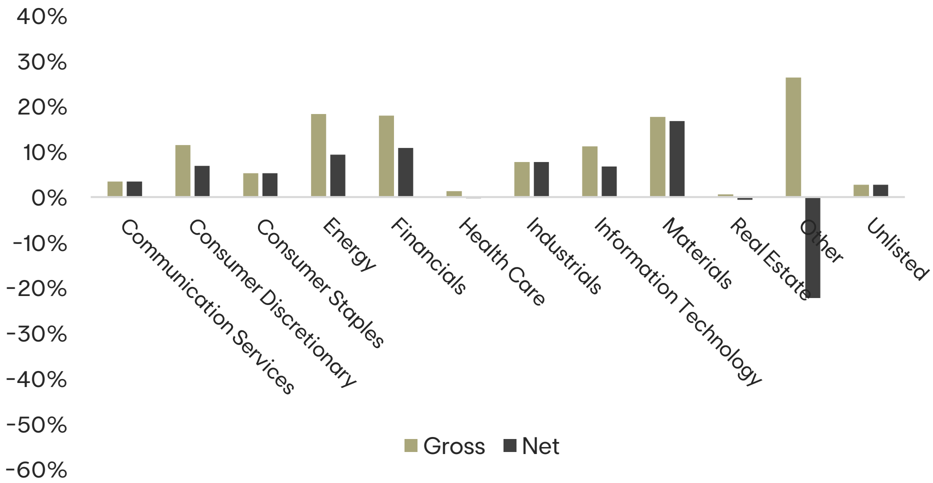
PORTFOLIO CHARACTERISTICS

Region Exposure



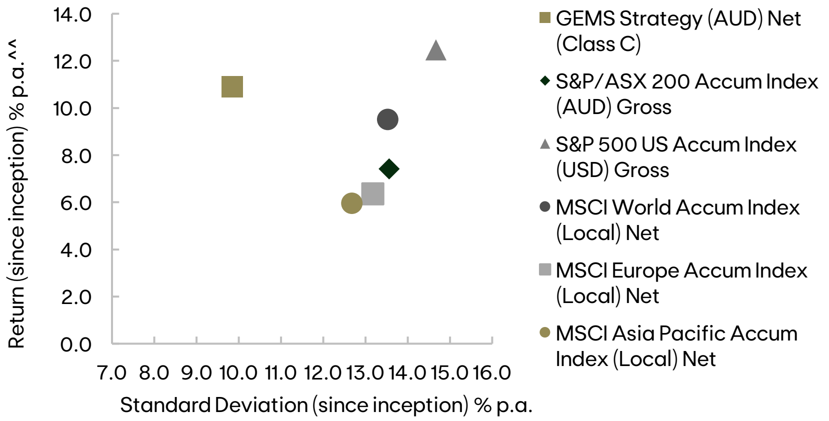
Source: Ellerston Capital.

Sector Exposure



Source: Ellerston Capital.

GEMS Strategy Performance & Volatility^^



Source: Ellerston Capital.
Past performance is not a reliable indication of future performance.
^^Inception Date 1 December 2009.

Top 10 Holdings (Alphabetical, Long Only)

- ALCOA
- CELSIUS
- GENERATION DEVELOPMENT GROUP
- HOWDEN JOINERY
- LIGHT AND WONDER
- LYNAS
- OCCIDENTAL PETROLEUM
- ROYAL DUTCH
- VANECK VECTORS GOLD MINERS
- YELLOW CAKE

Source: Ellerston Capital.

Regulatory Guide (RG240) Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**

Please refer to details on P1.

- **Any changes to key service providers including any change in related party status**

There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**

Please refer to details on P1.

- **Any material changes to the Fund's risk profile and strategy**

There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund**

Please refer to details on P1; there have been no changes to the primary investment personnel responsible for managing the Fund

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.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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