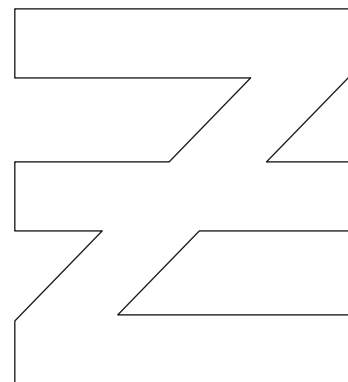


# Ellerston GEMS Fund Class A and B



Monthly Newsletter, January 2023

## Investment Objective

The investment objective is 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 January 2002
Portfolio Manager	Ashok Jacob & Arik Star
Class A Redemption Price	\$1.3980
Class B Redemption Price	\$1.3659
Gross Exposure	169.39%
Net Exposure	82.03%
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*	FYTD	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.)^^
GEMS A	-3.5%	-2.7%	10.5%	6.1%	11.7%	12.0%
GEMS B	-3.5%	-2.7%	10.5%	6.1%	11.6%	11.9%

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 January 31, 2020 to January 31, 2023**, the compound annual returns for the Australian S&P/ASX 200 Total Return Index was +6.0%, the US S&P 500 Index was +9.9%, the Russell 2000 Index was +7.5% and MSCI World (Local) Index was +8.1%.

**Your Fund (GEMS A) net after fees returned +10.5% pa.**

**For the Month of January 2023**, the Australian S&P/ASX 200 Index was up +6.2%, the US S&P 500 Index was up +6.3%, the Russell 2000 Index was up +9.7% and the MSCI World (Local) Index was up +6.5%.

**Your Fund (GEMS A) returned net after fees +0.1%.**

## Portfolio Commentary

January's lower US CPI print, followed by Powell's lack of push back on easing financial conditions at the Jan/Feb FOMC Press Conference gave equity markets the green light to price in that inflation is over, the Fed is done and a *'soft landing'* will prevail. Equity markets viscosly rotated back to the playbook of the prior decade, as *Animal Spirits* returned with a vengeance. In January the NASDAQ was +10.7%, MS Unprofitable Tech Basket +23.7%, and Bitcoin +38.8%.

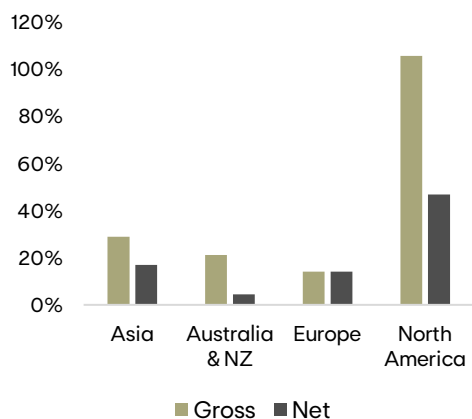
Dogecoin, +39.0%, rocketed back up to a market cap of US\$11.5 billion. Compare that to our holding in Olin, which owns structurally competitively advantaged Chlor-Alkali capacity, given a US natural gas input cost advantage. Olin has produced US\$3.1 billion of free cash flow over the past two years. Not US\$3.1 billion of revenue or Adjusted EBITDA or NPAT, but genuine free cash flow, the majority of which was used for boring things like share buybacks and dividends. Olin will do US\$1 billion of free cash flow in a trough recessionary year and has a market cap of US\$8.2 billion, which represents materially less than half of replacement value. Conversely, Dogecoin's utility is best summarised by its founders reddit post a few years ago:

*"I am Billy Markus, the original creator of Dogecoin. As you may have heard, it was indeed created for sillies after Jackson Palmer made an flippant tweet about it that idea being the 'next big thing' and I threw it together, without any expectation or plan. It took about 3 hours to make, with the bulk of that time making alterations to the client to make the text Comic Sans and some custom graphics and wording for different pieces of the UI."*

Our long book performance was satisfactory in January, however, it was effectively offset completely by index hedging and shorts in low quality business models that disproportionately benefitted from the return of animal spirits. This rapid shift in market pricing seems to be fuelling a growing disconnect as equity markets appear to be looking through to a Fed rate cutting cycle, whilst also dismissing the economic and earnings contractions that will likely be necessary first to lead to said rate cuts. We remain cautious as the equity market is now pricing an almost perfect disinflationary soft landing, creating an unfavourable risk/reward skew, given the range of other potential scenarios that exist.

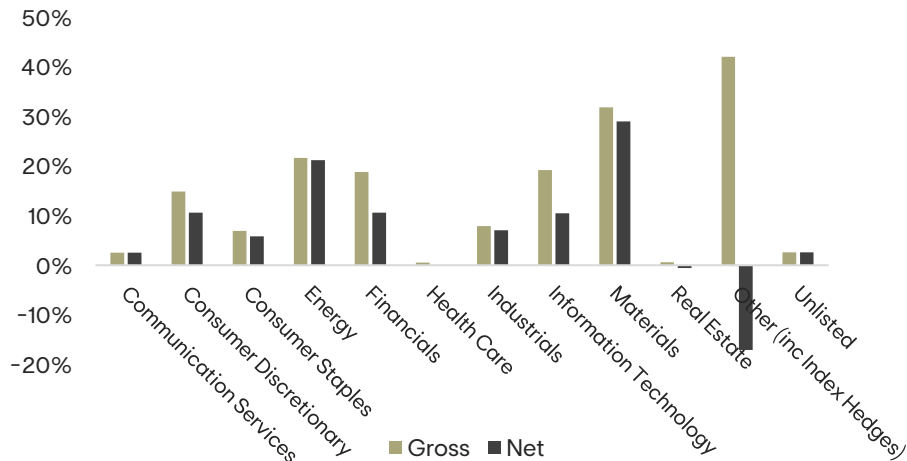
## PORTFOLIO CHARACTERISTICS

### Region Exposure



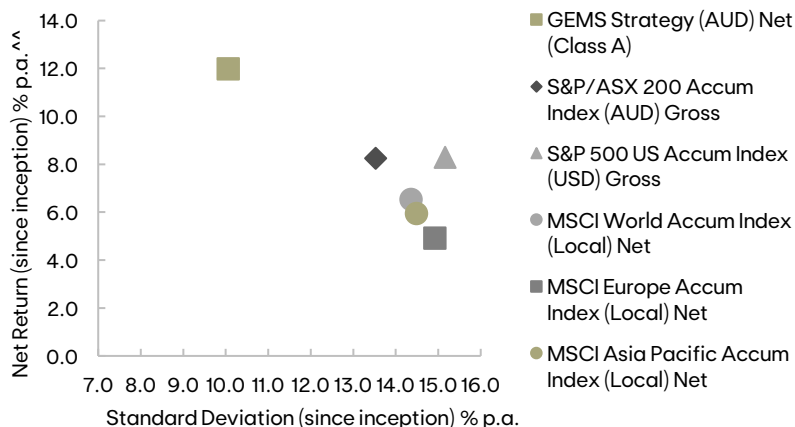
Source: Ellerston Capital.

### 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 January 2002

### Top 10 Holdings (Alphabetical, Long Only)

- BOOKING HOLDINGS
- CALUMET SPECIALTY PRODUCTS PARTNERS
- CELSIUS HOLDINGS
- FLUTTER ENTERTAINMENT
- GOLAR LNG
- LIGHT AND WONDER
- LYNAS CORP
- OLIN CORP
- SOITEC
- 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 page one.

- **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 page one.

- **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 page one; there have been no changes to the primary investment personnel responsible for managing the Fund

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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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com)

All holdings enquiries should be directed to our register, Automic Group on 1300 101 595 or [ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au).

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^ 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.

^^For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

# 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.

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