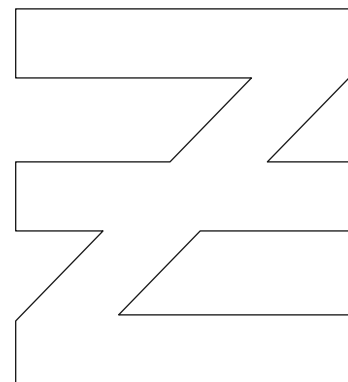


# Ellerston Global Equity Managers Fund (GEMS) Class C



## Monthly Newsletter, May 2023

### 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	\$1.4435
NAV Price	\$1.4399
Redemption Price	\$1.4363
Gross Exposure	89.68%
Net Exposure	52.90%
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)*	FYTD	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.)^^
GEMS C	-8.3%	-12.3%	8.3%	5.0%	10.5%	10.1%

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 May 31, 2020 to May 31, 2023**, the compound annual returns for the Australian S&P/ASX 200 Total Return Index was +11.4%, the US S&P 500 Index was +12.9%, the Russell 2000 Index was +9.2% and MSCI World (Local) Index was +11.7%.

**Your Fund returned +8.3% p.a. (after fees).**

**For the Month of May 2023**, the Australian S&P/ASX 200 Index was down -2.5%, the US S&P 500 Index was up +0.43%, the Russell 2000 Index was down -0.9% and the MSCI World (Local) Index was down -0.22%.

**Your Fund returned -0.11% (after fees).**

### PORTFOLIO COMMENTARY

Uranium (U3O8) has constituted one of the largest positions in the GEMS portfolio for more than 3 years now. We may sound like a broken record to some, however, the combination of compounded deep fundamental knowledge, a clear mispricing and compelling risk/reward skew is precisely the opportunity to which we look to allocate capital. To date, our investment in uranium and the related construct has materially added to performance, however, given the development of broader industry supply/demand fundamentals, we continue to see an attractive risk/reward skew as it relates to the listed physical uranium holding vehicles, Sprott Physical Uranium Trust (U-U.CN) and Yellow Cake (YCA.LN). Outside of a small position in NexGen Energy (NXE.CN), which is endowed with the highly strategic greenfield Arrow deposit, it is difficult to justify the implied valuations of the majority of listed production and exploration players, based on risk-adjusted cash flow economics.

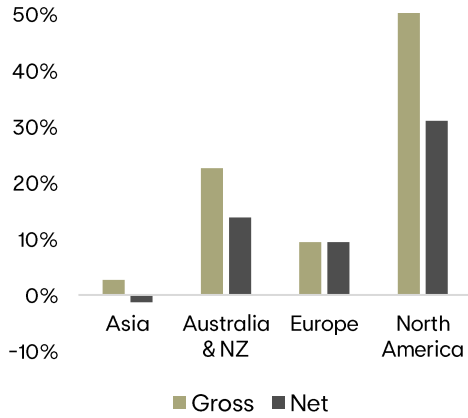
On the demand side, given 99.9% of U3O8 produced goes into nuclear fuel production and the highly predictable profile of nuclear reactors fuel consumption, the demand side has been relatively straightforward to forecast. More than 3 years ago, when we were first investing in the space, based on the current global reactor fleet, new reactors permitted and under construction, barring any dramatic accelerated shutdown scenario, the demand profile was sufficient to outweigh primary supply, particularly as we move into the back half of this decade and beyond. As such, a U3O8 price above the marginal cost of production is required to incent new supply additions. However, in recent months and years we are potentially witnessing a slow-moving shift back towards nuclear energy as the world searches for solutions to the negative externalities of the current energy

production mix. Importantly, not only is nuclear a potential greenhouse gas free energy source, it also provides baseload energy, critical to complimenting intermittent renewable sources such as wind and solar. Early examples of this shift continue to appear across various parts of the globe. Perhaps the most unambiguous illustration of this shift is that of Diablo Canyon in California. California's fleet of operating nuclear reactors has been declining for decades and Diablo Canyon represents the final operating nuclear power plant in the state with its two units originally scheduled for regulatory end of life in November 2024 and August 2025, respectively. However, following many years of debate, Californian Governor, Gavin Newsom has now passed legislation that will extend the life of the units by five years and the plant owner, Pacific Gas and Electric (PG&E), is pushing for that extension to be closer to 20 years. There are numerous examples in other countries of reactor life extensions, re-starts and new builds in the UK, Belgium, Netherlands, Sweden, Japan, among others. Small Modular Reactor (SMR) designs from players such as Westinghouse, NuScale, X-energy and Rolls-Royce are also gaining the necessary combination of regulatory support and commercial traction and are likely to play a material role in the next wave of demand for nuclear energy. SMRs have a number of inherent advantages vis-à-vis traditional large-scale reactor designs, not the least of which is the ability to 'plug-in' to the existing transmission and grid infrastructure, potentially at legacy coal power plants as they are decommissioned in time. Importantly, any plant extensions, re-starts, SMRs, etc. are all incremental to the current demand forecast and are not required for our investment thesis to play out. Nonetheless, these are positive developments for both our investment thesis and the world at large (in our opinion at least) and will only add to the convexity of the investment risk/reward skew.

On the supply side - we wrote in our 2022 end of year letter about the importance of the dynamics relating to SWU (Selective Work Unit) prices and what that means in terms of upstream impact on U3O8. As quoted by UXC (independent third-party nuclear industry advisor), SWU prices as of last month have moved up to US\$134, this is up from <US\$60 just over a year ago. This is an enormous increase, namely on the back of higher energy input costs and the structural shift away from Russian enrichment supply to constrained Western enrichment suppliers. The average enrichment supply contract Utilities have in place is 3-5 years in duration with the ability to re-set various contract components (i.e., tails assay) typically once a year. Therefore, we would expect this substantial move up in SWU prices to flow through to U3O8 over several years. We estimate the impact of this SWU price increase could be somewhere in the order of a 20%-40% increase in demand for U3O8, in what is already a market operating in a primary supply deficit. The outlook for U3O8 in the second half of 2023 looks as bullish as ever.

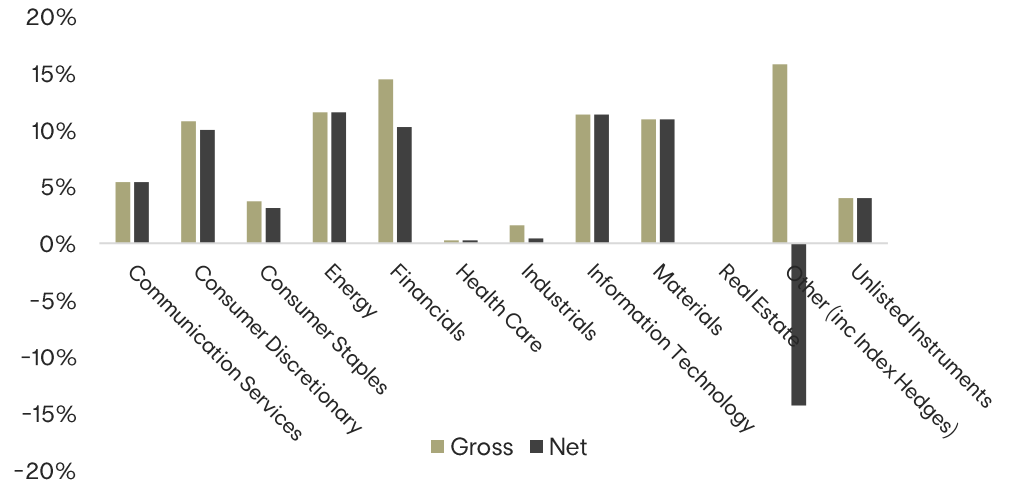
# PORTFOLIO CHARACTERISTICS

## Region Exposure



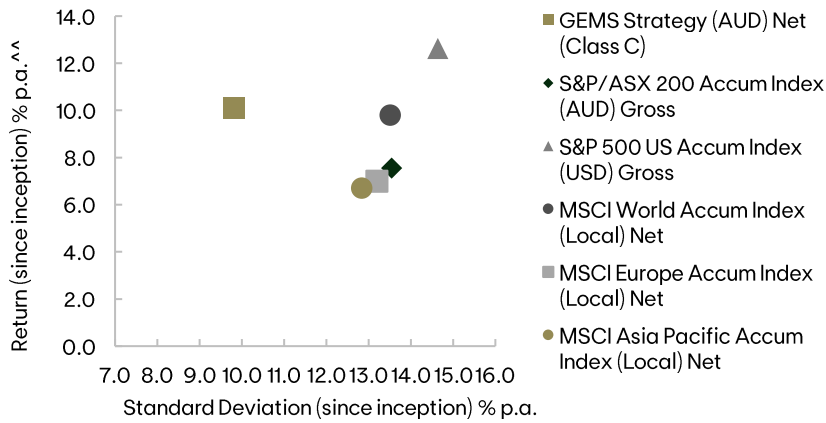
Source: Ellerston Capital.

## 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)

- AMAZON.COM INC
- BOOKING HOLDINGS INC
- CALUMET SPECIALTY PRODUCTS PARTNERS
- CELSIUS HOLDINGS INC
- FLUTTER ENTERTAINMENT PLC
- GOLAR LNG LTD
- LIGHT AND WONDER INC
- META PLATFORMS INC
- MICROSOFT CORP
- VANECK VECTORS GOLD MINERS

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.

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### Contact Us

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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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<sup>^</sup> 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](http://www.ellerstoncapital.com) or by contacting [info@ellerstoncapital.com](mailto: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. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.