APIR Code ECL7259AU

Ellerston Equity Income KIS Fund

Monthly Newsletter, March 2022

Investment Objective

The investment objective of the Ellerston Equity Income KIS Fund ("KIS" or "the Fund") is to provide investors with returns and income growth greater than the S&P/ASX 200 Accumulation Index over rolling 5-5 year periods.

Investment Strategy

The Fund is a fundamental, bottom up, concentrated Australian equities strategy with a clear focus on delivering sustainable dividend income for investors through an actively managed portfolio of stocks throughout the market cycle.

Key Information

Strategy Inception^^	1 May 2019
Portfolio Manager	Chris Kourtis
Application Price	$1.2274
Net Asset Value	$1.2243
Redemption Price	$1.2212
Liquidity	Daily
No Stocks	30
Strategy FUM	$9.82m
Management Fee	0.70% p.a.
Performance Fee	10%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	$50,000
Minimum Additional Investment	$10,000
Distribution Frequency	Quarterly

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	FYTD	1 Year	2 Years (p.a.)	Since Inception (p.a.)^^
Net^	4.80%	2.62%	7.03%	18.03%	26.43%	12.52%
Benchmark*	6.89%	2.24%	6.17%	14.97%	25.72%	10.02%
Alpha	-2.08%	0.38%	0.86%	3.06%	0.72%	2.50%

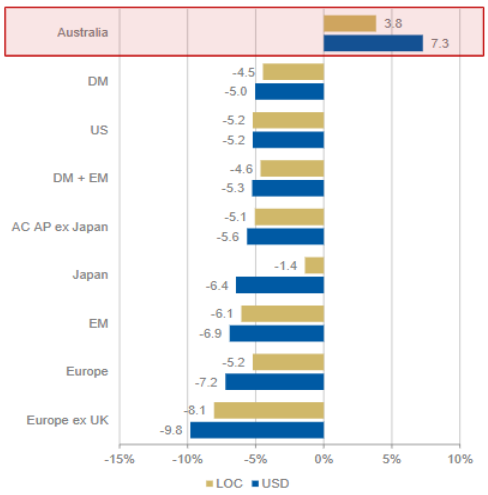
^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

*S&P/ASX 200 Accumulation Index.

MARKET OVERVIEW

Global markets remained resilient in March despite rising interest rates, sky high inflation, lockdowns in China and the ongoing conflict in the Ukraine. Investors bid up equities post the much anticipated FOMC Policy Meeting, where the US Federal Reserve (Fed) raised rates by 0.25% mid-month, despite a view that a material slowdown in growth was unfolding as a result of a more hawkish Fed and the yield curve inverting. Whilst the war in Ukraine was not getting any better, it seemed that the conflict was localising. Bond yields rose, commodities strengthened further and global equities bounced back, particularly in developed markets. The US market closed up 3.7%, European markets posted a 0.5% fall, with Asian markets delivering positive returns but offset by falls in China and Hong Kong.

MSCI Global Country/Regional Indices Performance - CYTD



Source: Morgan Stanley.

USA

Economic indicators during the month were mixed. The March ISM Manufacturing Index was down 1.5 to 57.1, which was below consensus, however February non-farm payrolls rose 678k, way above consensus at 400k and the previous month was revised higher at 481k, with the unemployment rate lower to 3.8%. The February core CPI at +0.5% MoM (+6.4% YoY) was the biggest annual growth since August 1982, while the headline number at +7.9% YoY, was the highest level since January 1982. Finally, US February retail sales rose 0.3%, lower than expected and significantly below January's revised up reading of 4.9%.

US equities were volatile in view of the Fed's hawkish commentary and geopolitical uncertainty. Markets rebounded very hard in the later part of March, with the S&P 500 finishing up 3.7% and the NASDAQ Composite Index closing 3.5% higher, having rocketed 13.0% from its monthly low on 14 March. As for stock moves, Tesla climbed +23.8% following the opening of its Giga facility in Berlin, with EPAM Systems up 42.8%. Food Retail, up 22.6% was the top performing sector amid rising food inflation. The laggard was the Dow Jones Industrial Average, which posted a more modest 2.5% rise

Europe

In Europe, economic activity was stronger with the Eurozone Composite PMI for March at 54.5 from 55.5, but better than expectations given the previous monthly gain was the largest since March of last year.

The Euro STOXX 50 Index finished the month down 0.5%, not surprising given the region's proximity to the ongoing conflict and rampant energy costs. Among the major exchanges, Germany's DAX fell 0.3%, France's CAC 40 was 0.1% higher and the UK's FTSE 100 was the standout, closing up 1.4%. This marked the worst quarter for European stocks since 1998, with the STOXX50 finishing down 9.0% CYTD.

Asia

China's activity data for Jan-Feb was stronger than anticipated. Industrial production jumped to 7.5% YoY, fixed asset investment was up 12.2% YoY and retail sales rose 6.7% YoY, all better than consensus expectations. March statistical data will likely be weaker as China endured major COVID lockdowns in a number of key cities during the month. Economic stimulus should continue to pick up with its cabinet pledging to boost policy coordination and monitor international events on the domestic capital market and maintain currency stability and stronger monetary policy support.

Asian equity markets were mixed, with the Nikkei 225 up 5.6% (a weaker Yen is seen as a plus for the economy), India's SENSEX rising 4.1%, the Korean KOSPI finished 2.2% higher, but the Hang Seng fell 2.8%. The laggard was China's SSE, down 6.8%, as investors mulled the potential consequences of China's support for Russia's aggression in the Ukraine.

Commodities

Commodities remained centre stage, pushing higher, albeit at a slower pace, due to the addition of further sanctions on Russia. Energy prices continued to be the focus with Brent rising 7% to US$108/barrel, but coming off its monthly high of US$129/barrel, as the US looked to sell 1 million barrels per day for six months from its Strategic Petroleum Reserve. Thermal coal ended the month down 6% to US$259/tonne, although it spiked 60% to a record US$446/tonne in early March and gas prices continued their monumental rise, with the JKM spot LNG price 25% higher at US$35/mmbtu. Iron ore strengthened by 13% to US$158/tonne and coking coal ended 13% higher to US$515/tonne, after having set a new record high of US$670/tonne in mid-March. The base metals complex was firmer, with the major metals; nickel rallied 30% (see our comments in the Hits & Misses on Nickel Mines for the low down on a classic short squeeze), copper up 4% and aluminium lagged, up 3%. Note that alumina (used to produce aluminium) prices were also very strong, rising 10% to $478/tonne. Gold acted as a safe haven and inflation hedge, edging up 2% to US$1,937/ounce, despite rising interest rates. The bullion price actually hit a high of US$2,070/ounce intra month, but failed to hold as top officials began inconclusive peace talks in the Ukraine conflict.

Bonds

The US 10-year treasury yield rose 50bps during March to 2.34%, spiking 20bps immediately post the FOMC meeting whereby the Fed Funds rate was lifted by 0.25% and a more hawkish outlook was delivered than at the previous meeting. Not surprisingly, in sympathy, the Australian 10-year bond yield also saw a massive rise of 70 bps to 2.83%.

As expected, the RBA announced its decision to leave its official interest rate target on hold at 10bps and remains a lone dove.

The AUD was 3% higher at US$0.75, given the strength in Australia's major export commodities.

Australia

In March, the S&P/ASX 200 Accumulation Index finished 6.89% higher, again significantly outperforming global peers.The Financials sector (up 8.5%, driven by the major banks, particularly CBA's 13.2% rise) was the highest contributor to the Index's performance, adding 249bps, followed by Materials (up 8.9%, with BHP 10.9% higher), contributing 214bps and then Information Technology (up 13.2%, with Block rebounding 19.3%) adding 45bps. The bottom three contributing sectors were Utilities (+9 points being the worst), followed by Real Estate (+10 points) and Communication Services (+21 points).

The best performing sub-index locally was again the ASX 200 Resources Index, which closed up 9.9%, outperforming the broader benchmark, whilst the major underperformer was the ASX 200 A-REIT Index, which closed up 1.2%.

For the month, the top stocks that made a positive contribution to the Index's return were: BHP Group (+117 points) again, Commonwealth Bank (+107 points), National Australia Bank (+55 points), Macquarie Group (+39 points), and Westpac Banking Corporation (+24 points). Conversely, the top five stocks detracting from the Index's performance were: James Hardie Industries (-8 points), Insurance Australia Group (-3 points), Nickel Mines (-2 points), Amcor (-2 points) and Sandfire Resources (-2 points).

The FY23 Federal budget was delivered on 29 March which is a short-term positive for the consumer. It adds modestly to infrastructure and housing but does not change the outlook for the RBA or rate-sensitive spending in 2023. And this is not a budget that reshapes the outlook for rates but should add stimulus to the consumer and the economy quickly.

COMPANY SPECIFIC NEWS

The Market Hits

AVZ Minerals (AVZ +56.3%)

AVZ is in the early stages of developing the Manono lithium and tin project in the Democratic Republic of Congo. The stock received a tailwind from its surprise inclusion in both the S&P/ASX 200 and S&P/ASX 300, now appearing in small cap managers' benchmark and radar.

Uniti Group (UWL +43.8%)

Australian telecommunication services and fibre owner, UWL's shares soared in March after receiving multiple takeover bids. After months of speculation, the bidding opened up in mid-March with a $4.50 per share proposal from Morrison and Co., which propelled UWL shares 27% higher intraday in response. This bid was soon trumped by a $5.00 per share offer from Macquarie Asset Management and PSP Investments a few days later, with the crescendo being a revised bid from Morrison and Brookfield which matched their bid, forcing Macquarie/PSP to walk away from the deal.

Liontown Resources (LTR +31.0%)

LTR rocketed after releasing a number of tantalising drilling results from its Buldania spodumene deposit at Norseman in Western Australia, which defined mineralisation outside the existing resource of 15Mt at 1% Li_2O. It is currently developing the Kathleen Valley spodumene project further north in the State, which is ten times the size of Buldania, although the current drill results showing that the mineralisation is still open at depth means the Buldania resource looks certain to continue to grow as a potential new project.

Whitehaven Coal (WHC +29.3%)

WHC started its 10% buyback during March, but this month's stock price driver was the massive 60% spike in thermal coal prices to a record high of US$446 per tonne, almost entirely due to higher gas prices and the uncertainty of supply from Russia. Even though thermal coal prices eased back and finished lower for the month, the likelihood of stronger for longer coal prices kept the WHC share price elevated.

IGO Limited (IGO +29.2%)/ Allkem (AKE +26.0%) / NOVONIX (NVX +23.3%)

These battery minerals companies once again benefitted from the "risk on" move in the second half of March, given that lithium carbonate prices were flat for the month. The NASDAQ rose 13% from its 14 March low, but still only finished up 3.4%. Battery bellwether, Tesla, in contrast bounced hard from its low point (by a whopping 41%) and finished up 24% for the month, as did the above companies mentioned.

EML Payments (EML +24.9%)

EML announced its entry into the A$88bn Employee Benefits Market (EBM) in Europe. This covers meal vouchers and employee benefit solutions, initially through a multi-year agreement with Up Spain, which has over a million users, 4,700 clients and a network of 30,000 restaurants alone. Even though this foray is initially immaterial to FY23 financials, investors were impressed with the expected ramp up in FY24 and more importantly, the potential expansion to other geographies which could become quite significant.

Incitec Pivot (IPL 22.7%)

IPL manufactures fertiliser and ammonium nitrate and also produces ammonia, which saw US Tampa spot ammonia prices soar 40% to US$1,600 during the month. Recent developments in Ukraine/Russia have added to what is an already tight global supply and demand balance. Russia is a top-3 global fertiliser exporter, accounting for 19% of global fertiliser exports by volume with China 23% and Morocco 16%. Sharply higher European gas prices act to increase nitrogen cash costs in Europe versus low-cost producers in US, such as IPL, placing them in a better competitive position.

Champion Iron (CIA +21.3%)

CIA benefitted from the 14% rise in iron ore prices and the Russian invasion. Ukraine is a major iron ore pellet exporter to Europe and North America, with production currently severely constrained. CIA produces a high grade (66%) low impurity iron ore concentrate in Labrador, Canada and is completing a feasibility study on producing a 67.5% direct reduction iron ore pellet.

The Market Misses

Zip Co (Z1P -32.8%)

Following a 30% share price slide after announcing a merger with US-based BNPL name, Sezzle, in February, Z1P collapsed again in March. Global sentiment has shifted in the past several months away from profitless tech companies, in the face of rising interest rates and question marks over valuations. For Z1P, rising interest rates, inflation and a reported bad debt load of ~50% of its revenues is a major risk the market is now finding difficult to stomach.

Nickel Mines (NIC -17.0%)

NIC's major shareholder and nickel pig iron partner in Indonesia, Tsingshan, was on the wrong side of a material short position on nickel. The nickel price skyrocketed 63% to US$48k per tonne and in the following session, briefly traded above US$100k per tonne, forcing the LME to suspend trading for the first time since the 1985 "Tin Crisis" when an international producers' cartel collapsed. The LME suspended trading for a number of days, but it is still not clear how much the position will ultimately cost Tingshan and its founder Xiang Guangda (aka "Big Shot") and what, if any, collateral damage will occur to NIC.

Telix Pharmaceuticals (TLX -15.4%)

TLX notched its third straight month of losses, dropping 17% intraday after a competitor received FDA approvals. Shares recovered slightly towards month end after TLX was granted orphan drug designation by the FDA for its TLX66 product and the company also signed an agreement with Xiel for the distribution of its prostate cancer investigational imaging product, Illuccix, in the UK. Given the macroeconomic backdrop, it remains a tough environment for emerging biotechnology names.

Sandfire Resources (SFR -14.7%)

Copper producer, SFR, failed to recover after a disappointing 1H22 result posted on the last day of February. Despite the weaker, below consensus result, the big concern for investors was the issuance of first guidance for MATSA, its recent US$1.86bn copper acquisition in Spain. The production guidance was 5-10% worse than the guidance provided at the time of acquisition, mainly due to lowering of the head grades, as well as unit cash costs which were almost twice as high, due to the spike in European energy prices.

Magellan Financial Group (MFG -13.4%)

MFG provided a funds under management update mid-month, with $5bn of net outflows in the two weeks prior. During the month, the founder Hamish Douglas resigned from the board and the company announced a 5.4% an on-market share buy-back of 10 million shares which stabilised the stock.

City Chic Collective (CCX -13.0%)

Plus-size clothing retailer, CCX, continued to sell off in March after reporting sluggish half year accounts in late February. The market was alarmed by higher inventory levels and higher operating costs, paired with weaker trading conditions, which will make cycling lockdown inflated comps very difficult.

Fisher & Paykel Healthcare (FPH -12.5%)

Medical device company, FPH, fell after issuing a profit warning which reflected lower hospital sales due to reduced COVID-19 demand. Management's revenue guidance of NZ$1.68-1.7b was 4% below consensus estimates, triggering analyst downgrades across the board.

United Malt Group (UMG -10.8%)

Despite the improvement in underlying demand trends in key geographies for on premise consumption, UMG shares softened following the Russia's invasion of Ukraine. While UMG has no direct exposure to Russia or Ukraine, the market is worried that the existing pressures from supply chain constraints and input costs (freight and barely) will be exacerbated. UMG have the ability to pass ~90% of the cost of production on to the customer, but the 30% rise in global barely costs and the volatility in energy prices leave the market questioning their price elasticity and potential downside risk to earnings.

Virgin Money (VUK -9.4%)

VUK performed similarly to other UK banks which initially rallied on higher interest rates, but then fell away when the yield curve started to flatten.

James Hardie Industries (JHX -9.1%)

JHX, like most US home builders, was impacted by rising US mortgage rates, with the expectation of a slowdown in the housing market, despite the pent up demand, given historically low inventory levels. The shares have now fallen from $55.30 at the start of this year to close at $40.60 at month end, consistent with the performance of its US peers.

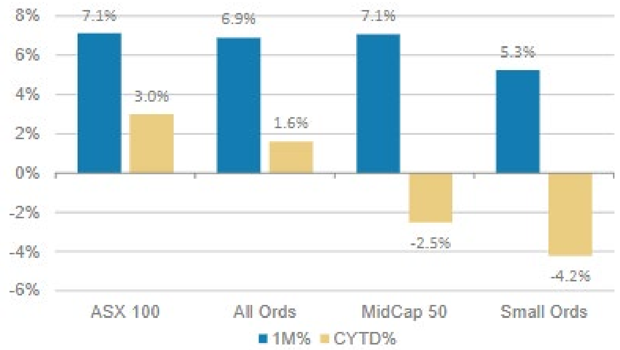
FUND PERFORMANCE

Given the strength in the Banking sector (+10.0%), the rally in green metals and the rebound in technology stocks (+13.2%), not surprisingly, we struggled to keep pace in a rallying market during the month of March.

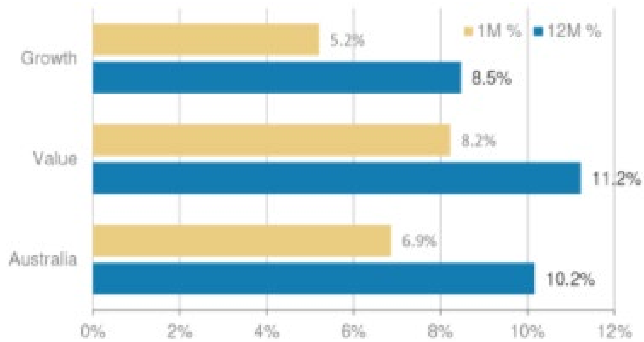
In a market with very narrow breadth, and where we were more defensively positioned, the Fund rose 4.80%, lagging the market's astonishing advance of 6.89%. This brings the Fund's FYTD performance to a credible +7.95%, still ahead of the benchmark return of +6.17%. We remain positive given the optimistic results of our stocks recently released. For the month however, it was more a case of many of our core holdings consolidating their recent gains and flat lining, in a market that confounded many observers and ripped.

The US Fed's more hawkish stance and geopolitical tensions translated into yield curve volatility, resulting in another month of wild intra-day and intra-month swings. The ASX200 Accumulation finally closed out the month up 6.89%, but the dispersion of returns and volatility was quite phenomenal. Large Cap stocks (namely banks and large miners), technology and "risk on" stocks fared best relative to their Mid and Small Cap counterparts. Resources (BHP, Fortescue Metals and RIO) again ruled supreme over Industrials, with the Energy (namely Woodside and Santos) and the Materials sectors performing strongly, along with Financials and Information Technology. The defensive Real Estate and Healthcare stocks were last across the line (with Zip Co, down 32.8%, being awarded the wooden spoon).

Large and Mid Caps in line but Smalls still lagging. Large Caps still lead CYTD

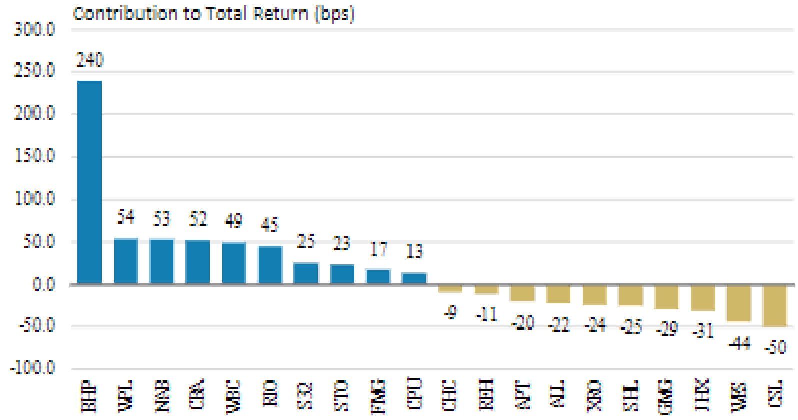


Value outpaced Growth again in March



Source: Morgan Stanley.

Top/Bottom 10 Stock Contribution to Benchmark Performance (TR) - CYTD



Source: Morgan Stanley.

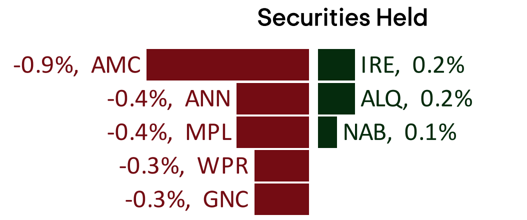
Returns[1] (%)	*Gross*	*Benchmark**	*Excess*	*Net Return*
1 Month	4.80	6.89	-2.09	4.80
3 Months	3.03	2.24	0.79	2.62
2022 FYTD	7.95	6.17	1.78	7.03
1 Year	19.38	14.97	4.41	18.03
2 Years (p.a.)	27.56	25.72	1.85	26.43
Since Inception (p.a.)	13.69	10.02	3.67	12.52

Past performance is not a reliable indicator of future performance.

[1] The return figures are calculated using the redemption price for Class A Units and on the basis that distributions are reinvested. The Gross and Excess return figures are before fees and expenses whereas the Net Return figures are net of fees and expenses for the Class A Units. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.

* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

Month of March Attribution



Source: Ellerston Capital.

The main positive contributors to this month's performance were overweight positions in: IRESS (IRE +15.3%), ALS (ALQ +13.3%) and National Australia Bank (NAB +11.8%)

Zero weight positions that also helped included James Hardie Industries (JHX -9.1%) and Telstra (TLS +2.0%).

The main detractors to performance for the month were overweight holdings in: Amcor (AMC -3.5%), Ansell (ANN +0.3%) Medibank Private (MPL -1.2%), Waypoint REIT (WPR -0.7%) and GrainCorp (GNC +1.2%).

Not holding the following shares that significantly outperformed the broader market and somewhat constrained returns were: Commonwealth Bank (CBA +13.2%), Macquarie Group (MQG +12.4%) and Fortescue Metals (FMG +13.8%).

FUND ACTIVITY

Whilst many stocks and sectors have re-rated significantly from their March 2020 pandemic lows, we continue to seek, and more importantly are still finding plenty of opportunities that we believe are highly compelling, are mispriced and should deliver over the medium term.

We have been repositioning the Fund to better suit current conditions, aiming for higher dividend growth and enhanced yield. In March, we introduced Wesfarmers at recent lows and further strengthened the existing holdings in Amcor, Medibank Private and Woolworths Group. We took profits in GrainCorp, Northern Star Resources and exited Integrated Diagnostics and Regis Healthcare.

NEW STOCKS ADDED	STOCKS EXITED
• Wesfarmers	• Integrated Diagnostics
	• Regis Healthcare

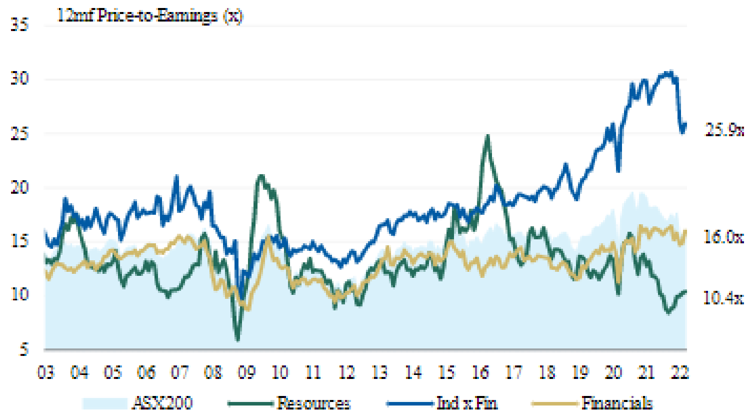
INCREASED	DECREASED
• Amcor	• GrainCorp
• Medibank Private	• Northern Star Resources
• Woolworths Group	

FUND STRATEGY AND OUTLOOK

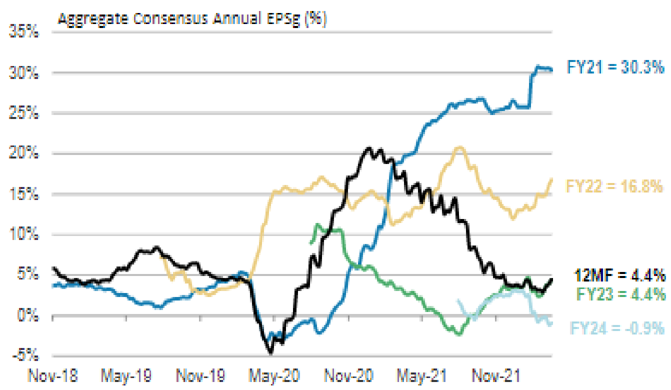
As we have stated in recent communications, given the tumultuous events geopolitically, rising interest rates will heighten volatility and shift perceptions of risk. This was experienced again in March and will persist for some time. We continue to aggressively pivot where necessary to take advantage of sentiment driven mispricing and dislocations in the market, as discussed in the Fund Activity section.

Valuations have accordingly adjusted lower, with Industrials ex Financials now at 26x, whilst outer-year earnings growth expectations stay anchored in the low-single-digit territory.

The 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 25.9x



Annual Consensus EPS Growth Trends FY21-24



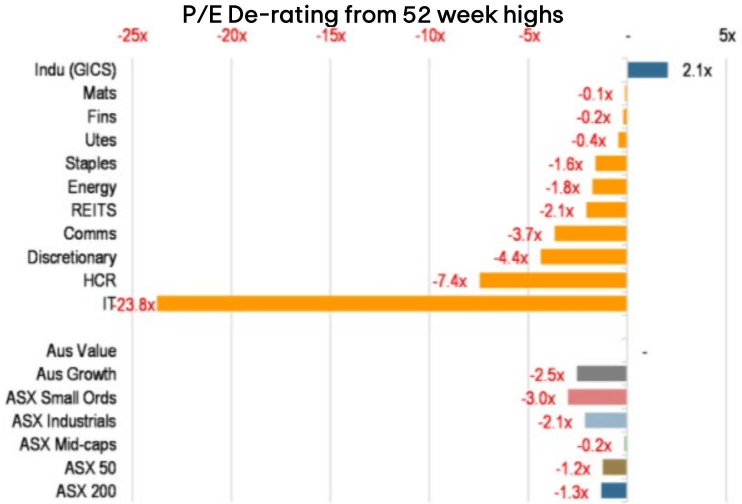
Source: Morgan Stanley Research.

The FOMC meeting on 15-16 March resulted in a 25bps rise in the Federal Funds Rate (FFR), as expected. More importantly, the path of future rate hikes in the so-called 'dot plot' was revised substantially higher, including the end point. The FOMC signalled seven 25bps rate hikes in 2022 compared to market expectations of four and the December meeting's three rate hikes trajectory. This now implies the FFR rate will rise to 1.875% in 2022, and 2.375% in 2023 and the yield curve has inverted.

Whilst there is no clear line of sight as to how the Ukrainian crisis will unfold and the conflict has dragged on longer than expected, there will be longer term economic and geopolitical ramifications. There will no doubt be impacts on inflation, global growth, energy transition, the US dollar, global trade and defence budgets. The effects on energy and other commodity markets are front and centre and are being felt right now. These can be rectified over time with large capital deployment, however, in the short to medium term, the effects will be painful and add to already high inflation. The only conclusion we can draw is that it reinforces our existing view that rates will trend higher with growth lower.

Valuations have been supported by historically record low bond rates and solid earnings growth. The "expensive" side of the Australian market, the Industrials ex-Financials, which is mainly driven by Healthcare and IT, has endured a material de-rating.

P/E De-rating from 52 week highs



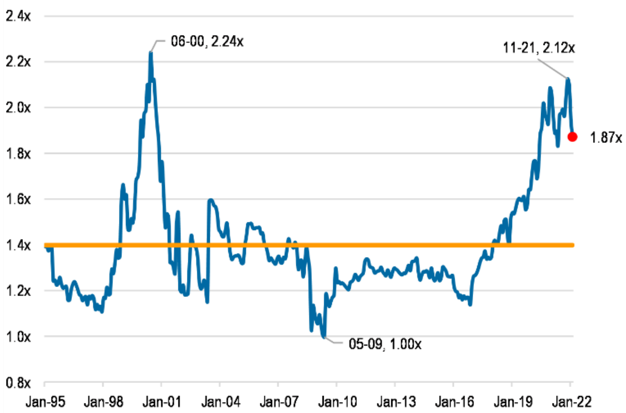
Source: JP Morgan.

The direction of key interest rates and a potential relapse in growth as economies re-open (with some observers sighting the R word), coupled with disruption caused by the current geopolitical crisis, will no doubt dominate the investment debate. **This has culminated into constant risk on/risk off behaviour and restless sector and factor rotation.**

The secular underperformance of Value to Growth since the GFC has been synonymous with low inflation and extremely accommodative monetary policy, negative real and absolute interest rates, but this has largely played out and is reversing.

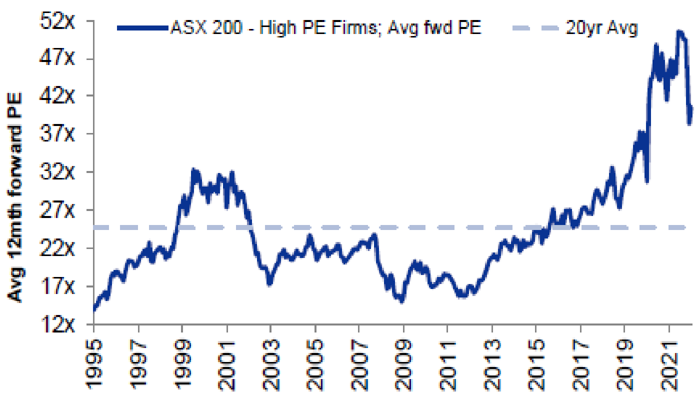
Growth is no longer a one way bet!

MSCI US PE Ratio – Growth/Value (1995 – current)



Source: JP Morgan.

High PE firms trade at an average forward PE of 40.6x, which is 64% above the 20-yr average



Source: Factset, Goldman Sachs.

The investment climate remains murky, but we believe that the portfolio is well positioned against the above backdrop. Despite the relief rally in the IT sector in the month of March, rising interest rates should ultimately weigh heavily on the extreme growth at any price and tech-heavy unprofitable names. This is an area where we have remained consistently underweight from a portfolio construction and philosophical perspective. We have stayed true to label through and through.

Some stocks in the portfolio are still out of favour with the market, mostly due to short term earnings pressure caused by supply chain and lingering COVID-19 dislocations. We believe that these unloved or mispriced stocks continue to trade at very attractive valuations and we are sticking with them and strengthening those positions.

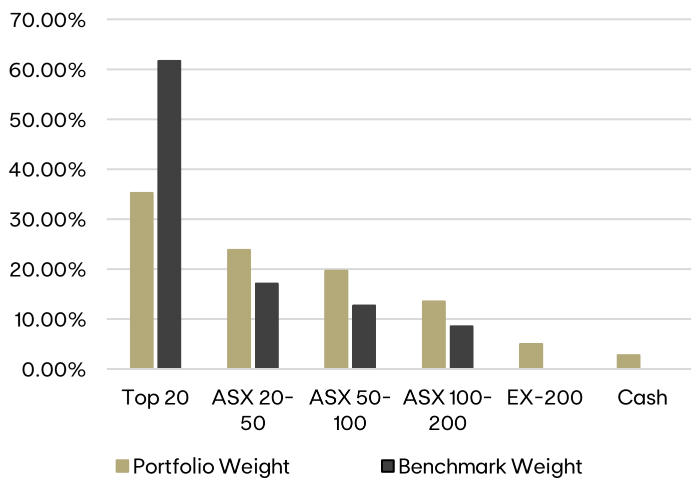
Fy22(E) Key Portfolio Metrics	Fund	Benchmark
Price/Earnings (X)	14.6	16.7
Dividend Yield (%)	4.8	4.0
Grossed Up Dividend Yield (%)	6.0	5.4
Dividend Growth Rate (%)	18.7	10.2
Beta	0.87	1.00

Portfolio Characteristics

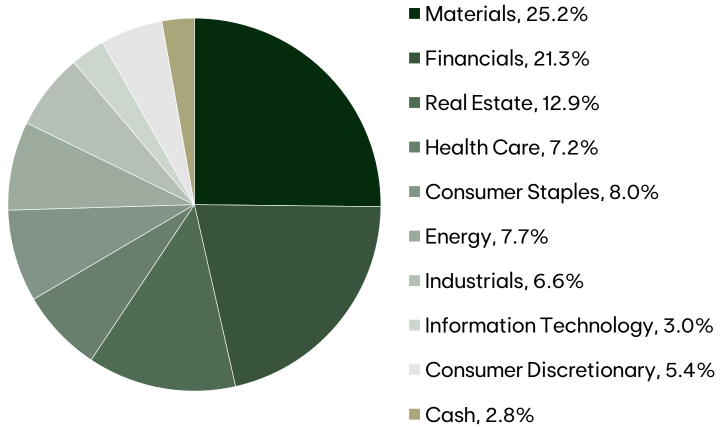
TOP 10 HOLDINGS

BHP Group	9.9%
Amcor	8.7%
NAB	8.4%
Ansell	5.7%
Wesfarmers	5.4%
Medibank Private	4.8%
Ampol	4.2%
GrainCorp	4.2%
Waypoint	4.2%
Liberty Financial Group	3.9%

MARKET CAPITALISATION



SECTOR ALLOCATION



Source: Ellerston Capital.

Contact Us

Sydney

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

Find out more

All holding enquiries should be directed to our register, Link Market Services on **1300 551 627** or **Ellerston@linkmarketservices.com.au**

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

Ellerston Capital