Ellerston Overlay Australian Share Fund (OASF)

Performance Report, June 2022

Investment Objective
The Investment objective for the Ellerston Overlay ASF is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

Investment Strategy
The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 stocks in order to capture the neglected opportunities created by under-researched stocks in the broader Australian market.

Key Information

Class Inception**	1 July 2011
Portfolio Manager	Chris Kourtis
Application Price	$1.1968
Net Asset Value	$1.1938
Redemption Price	$1.1908
Liquidity	Weekly
No Stocks	22
Management Fee	0.90% p.a.
Performance Fee	15% p.a. of outperformance
Buy/Sell Spread	0.25% on application 0.25% on redemption

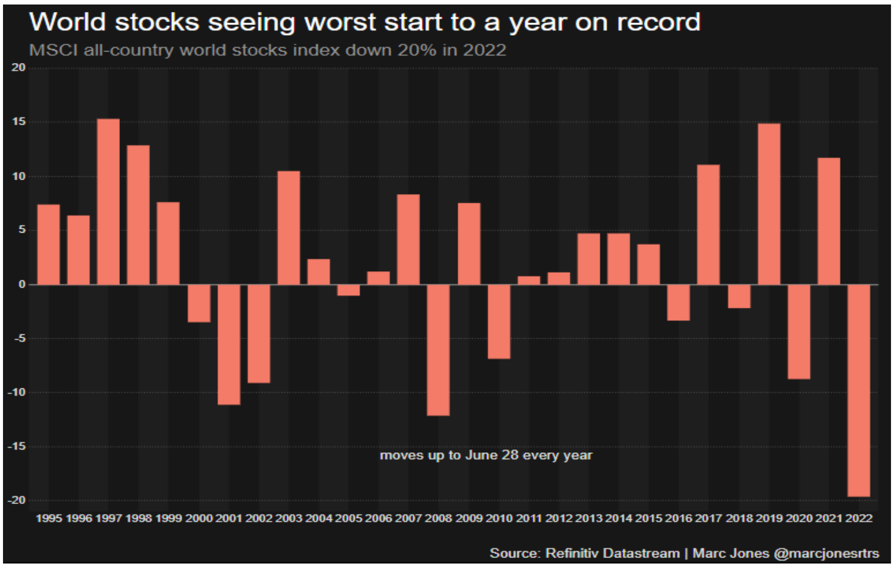
Performance Class A(%)	1 Month	3 Months	FY22	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)**
Net^	-7.46	-10.76	-0.97	14.49	7.56	7.02
Benchmark*	-8.77	-11.90	-6.47	9.33	3.34	8.04

^Net return figure is calculated after fees & expenses. Past performance is not a reliable indication 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

MARKET OVERVIEW

At the start of the year, investors expected 2022 be a bumpy ride, with looming stagflation, but nobody expected this - the most turbulent first half performance global markets have ever seen.

To grasp just how torrid things have been, consider two points. First, MSCI's 47-country world stock index has suffered its biggest 1H drop since its creation in 1990, down 21%. Second, at same time, 10-year U.S. Treasuries - the benchmark for global borrowing markets and traditional go-to asset in troubled times - have had their worst first half (down 10%) since 1788 (not a misprint). Russia's invasion of Ukraine supercharged what was already fast-rising inflation, forcing central banks to jack up interest rates and politicians to warn of new world orders. A $13 trillion wipe-out in world stocks, a 15% plunge in Japan's yen, Italy's worst bond rout since the euro zone crisis, and what is shaping up to be the strongest commodities rally in living memory is keeping investors on their toes.



This is unfamiliar territory for most market participants, with the S&P 500's worst first half since 1970 (-20.1%) according to Dow Jones Market Data and Crypto markets getting hammered - recent collapses of the TerraUSD and Luna "stablecoins" and this quarter's 60% bitcoin slump to sub-US$20,000. Central banks are seeing risk assets coming under pressure, yet haven't reacted.

USA

Economic indicators during the month were softer, but inflation and employment data were much stronger. May retail sales were weaker, falling 0.3%, which compared to April's revised gain of 0.7%. May Nonfarm payrolls were stronger than expected, rising 390k, but with more people entering the labour force, the unemployment rate was steady at 3.6%. The May core CPI at +0.6% MoM (+6.2% YoY) was higher than expected, but not as bad as the headline inflation shock of +1.0% MoM and the highest annual rate in 40 years at +8.6%. This was taken negatively by both equity and bond markets. After the inflation data, the odds of a 75bps hike narrowed dramatically - not surprisingly, the US Federal Reserve (Fed) then raised its benchmark interest rate by 75bps to a target range of 1.5% to 1.75%, the largest rise in the Federal Funds Rate since 1994.

Against this macro backdrop, US equities endured a highly volatile month, as higher interest rates and recession fears hit most sectors. The Dow Jones Industrial Average finally closed down 6.6%, the S&P 500 finished 8.3% lower, with the NASDAQ Composite Index posting an 8.7% fall, extending the loss to 29.2% for the CYTD. The Russell 2000 Index is now down 23.4% for the CYTD.

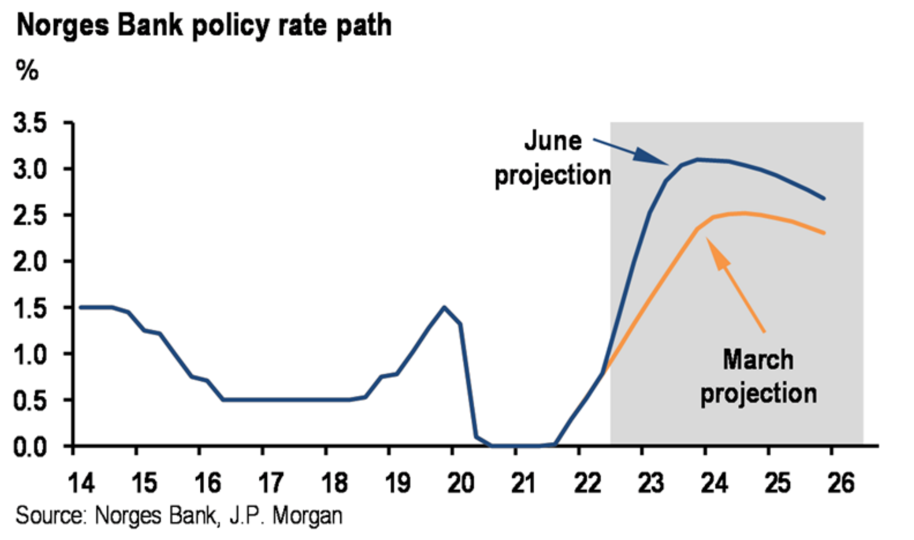
Europe

In Europe, economic activity indicators showed that growth deteriorated sharply to a 16-month low in June, according to the Eurozone Composite PMI which came in at 51.9 from 54.8 in May. Manufacturing output contracted for the first time in two years and service sector growth cooled considerably, easing most notably for consumer-facing services. Inflationary pressures continue unabated, with the Eurozone inflation confirmed at a record 8.1% high from 7.4% in April. This print is now four times the European Central Bank's (ECB) 2% target.

The ECB announced mid-month that it plans to create a new tool to tackle the risk of Eurozone "fragmentation", in a move designed to assuage fears of a fresh debt crisis. The decision came after the central bank surprised market participants with an emergency meeting to address higher borrowing costs for many European governments. This was prompted by growing alarm about the sell-off in Italian government bonds, where their 10-year yield topped 4%, up from 1%, only six months ago. "Since the gradual process of policy normalization was initiated in December 2021, the Governing Council has pledged to act against resurgent fragmentation risks," the ECB said in a statement. "The pandemic has left lasting vulnerabilities in the euro area economy which are indeed contributing to the uneven transmission of the normalization of our monetary policy across jurisdictions," it added. After a regular policy meeting the previous week, the ECB suggested a more aggressive policy tightening, but failed to deliver any new measures to support highly indebted nations in the bloc.

The day after the emergency ECB meeting, the Bank of England (BoE) raised its official interest rate for the fifth time in a row, but surprised analysts with a smaller increase than expected, as Britain's economy teeters on the edge of recession. The bank's Monetary Policy Committee (MPC) voted 6-3 for an increase of 0.25 percentage points to 1.25%, a 13-year high. The dissenting MPC trio shared the markets' view that a 0.5 percentage point increase was warranted, given that the BoE now expected energy prices to push inflation beyond 11% in October this year, from a previous forecast of 10%. This would have mirrored the Fed's propulsive 0.75 percentage point increase and the Swiss central bank's move to jack up its rate for the first time since 2007.

On 24th of June, Norges Bank also decided to jump on the 50bps wagon by hiking rates to 1.25%, thereby breaking with its historically strong forward guidance. The move was against consensus expectations, with the central bank citing little spare capacity in the system and inflation running markedly above its target level. By frontloading rate increases, the committee also sees a reduced risk of sharper tightening further out. On top of the 50bps move, the statement said that the policy rate will most likely be raised by 25bps in August, which is an unusual step for Norges Bank, as rate hikes are normally only delivered at their quarterly meetings. Overall, the rate path showed an additional four rate hikes in 2022 after the June meeting, with a terminal rate slightly above 3%.



Not to be outdone, the National Bank of Hungary raised its base rate by a whopping 185 basis points to 7.75% on 28 June, ramping up the pace of hikes after the Hungarian Forint plunged to a record low.

Not surprisingly the Euro STOXX50 Index finished the month down 8.8%, and among the major exchanges, Germany's DAX fell 11.2%, France's CAC 40 was 8.3% lower and UK's FTSE 100 was a relative outperformer, down 5.5%. For the CYTD, the Euro STOXX50 has retreated 17.9%.

Asia

With COVID restrictions gradually easing in May, Industrial Production (IP) (+0.7% YoY), exports (+16.9% YoY), and investment activities improved, thanks to improving logistics and in the supply chain. In particular, auto production and sales rebounded notably from April, contributing to over 35% of the IP growth recovery and over 40% of retail sales growth. Retail sales registered a smaller YoY decline (-6.7% YoY) and property sales and new starts were still in deep contraction, albeit slightly less bad than April. FAI growth improved across the board (+4.7% YoY), with infrastructure FAI leading the uptick and manufacturing FAI also edging up.

President Xi Jinping delivered a keynote speech at the BRICS business forum on 24 June stating that China would step up macro policy support and work hard to achieve full year economic targets, while minimizing the impact from COVID outbreaks. This is the first time the notion of "striving to achieve full year economic targets" was mentioned by President Xi himself. Given the first half has been sluggish with rolling lockdowns, even trying to hit the full year target of 5.5% would result in a massive surge in the second half of this year. Whilst the market is sceptical, history has taught us to never underestimate China's ability to fire up the growth engines when pushed.

The surge in the US dollar has driven Asian currencies to post their worst quarter since 1997, with the Bloomberg JPMorgan Asia Dollar Index falling by 4.4%. Most emerging Asian currencies came under pressure, led by the South Korean Won as investors, increasingly worried about a US recession, sought the safety of the dollar. The Philippine Peso, India's Rupee and the Thai Baht also sold off. Asian policy makers (already grappling with the fastest inflation in decades), now face stark choices: forcefully raise borrowing costs to defend currencies and risk hurting growth, spend reserves that took years to build to intervene in foreign exchange markets, or stand aside and let markets run their course. Central banks in Asia have lagged emerging-market peers in raising rates as they seek to boost the recovery from the pandemic. Albeit for different reasons, the yen has lost 11% of its value against the dollar since the end of March, amid a growing yield differential as the Fed raises rates, while the Bank of Japan sticks to its ultra-easy monetary policy.

Certain key Asian equity markets bucked the global trend and were very strong in June, especially China, with the SSE up 8.5% and the Hang Seng, which rose 3.4%. The Nikkei 225 finished 3.1% lower, India's SENSEX was down 4.5% and the laggard was the Korean KOSPI which fell 13.2%, as the Won collapsed.

Asia ex-Japan is now priced at 11.3x forward PE, with India remaining the most expensive market, trading at 19.2x.

Commodities

Commodity prices weakened on concerns over demand destruction from elevated prices and a more co-ordinated global rise in interest rates. Brent oil price retreated 7% to US$115/barrel, as did thermal coal down 10% to US$386/tonne. Natural gas prices spiked in Europe and Asia - the JKM spot LNG price ended 60% higher at US$39/mmbtu, as Russia's Nord Stream 1 pipeline cut supply by ~40%, citing German company Siemens' failure to deliver equipment to Russia, lifting demand for more Asian LNG. Iron ore prices fell 12% to US$120/tonne and coking coal retreated 32% to US$302/tonne. The base metals complex was also weaker, with the major metals; copper down 13%, aluminium 12% lower and nickel down 20%. Gold proved more resilient, just down 2% to US$1,823/ounce, despite the stronger greenback and higher bond yields.

Bonds

Global bonds sold off sharply in early June as rate hikes were coming from all directions. Bond yields finished the month down nearly 50bps from their intra-month highs, as recession risk soon took hold, with the US 10-year treasury yield up 16bps to 3.01%. The Australian 10-year bond yield spiked 32bps to 3.66%, after the Reserve Bank of Australia (RBA) increased the official interest rate by an unexpected 50bps to 0.85% at the beginning of the month.

Australia

Domestically, the RBA's June meeting shocked observers by hiking the cash rate by 50bps to 0.85%, the first +50bps hike since 2000 and the 2nd biggest increase since 1994. The RBA completely removed their comment from May that "aggregate wages growth was subdued during 2021 and no higher than it was prior to the pandemic". Instead, the RBA further shifted their reaction function as "liaison ...continues to point to a lift in wages growth from the low rates of recent years as firms compete for staff in a tight labour market". The rate hike was clearly tied to international factors, including the sharp rise in interest rates by global central banks, the ongoing war in Ukraine and COVID-related disruptions to supply chains. The offshore experience supports getting on the front foot, but domestic factors also contributed, including labour market tightness, floods, higher petrol, gas and electricity prices which is likely to see near term inflation higher than was expected a month ago. The nation's largest lender, CBA, immediately raised its fixed-rate loans for investors and owner-occupiers by a shock 1.4% and NAB followed suit with a 1.1% rise.

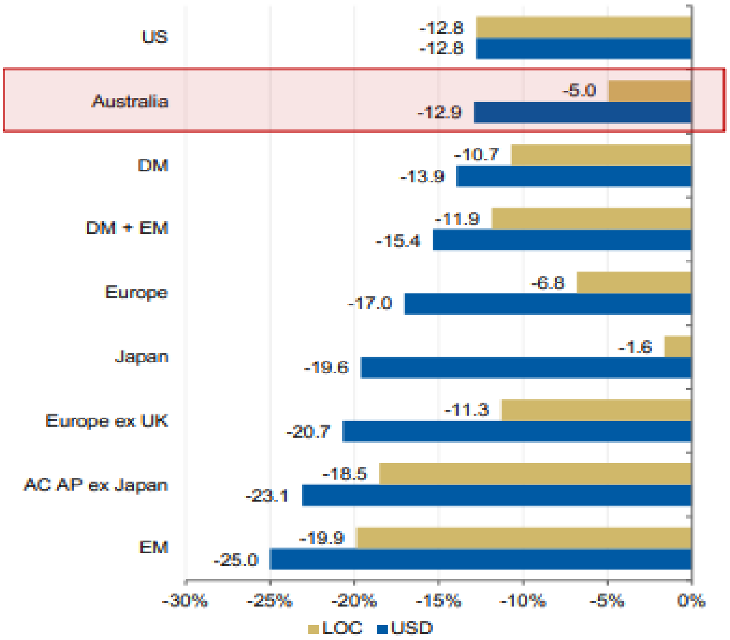
On the 15 June the Fair Work Commission (FWC) raised the minimum wage by 4.6% - 5.2%, effective 1st July for most industries. This was well above current aggregate wage growth (2.4%YoY) and mechanically adds ~0.5ppts to wage growth over 2H22. The FWC placed significant weight on ensuring that wages kept up with inflation and noted that where this did not happen, there was scope to make this up in future decisions. This suggests there may be some persistence to larger minimum wage increases. This decision is also important for broader wage expectations and negotiations - particularly for the ~40% of workers on collective bargaining agreements. These agreements lock in wages growth rates for several years, which would usually imply a relatively gradual rate of aggregate wage growth change. However, data suggest a greater degree of stale agreements currently being renegotiated, which may mean a faster pass-through (and lock-in) of higher wage outcomes.

Australia's unemployment rate remained flat at 3.9%, despite a 61k increase in employment as the participation rate rose by 0.3 percentage points and the employment to population ratio increased to 64.1% - the highest on record. Strong labour market conditions and/or rising cost of living are encouraging people to join the labour market, especially young people (15-24 years old) which had their highest participation rate since the 1980s. The lift in the participation rate in Australia contrasts to other major countries like the US - where older and female workers have exited the labour force and the UK, where migrant workers with high participation rates have left the country. Both economies are yet to see participation back to pre-pandemic levels. The sting in the tail is that the FWC wages decision together with a more utilised labour force will drive wages growth much higher.

Mid month, the Australian Energy Market Operator (AEMO) suspended the National Electricity Market (NEM) - the first time it has happened across the NEM since it was established in 1998 and seized control of the supply of power from generators to stabilise the grid and avoid blackouts in NSW. AEMO took this action to help the NEM alleviate the unplanned withdrawal of generation from the wholesale market and keep the lights on. Generators will get paid prices to be set by AEMO in each region, which will be different in each area but are understood to be not far from the controlled price of $300/MWh that was in place before the announcement. This highlights the importance of having a co-ordinated State and Federal plan for the energy transition such that the lights stay on, businesses survive and stagflation isn't a way of life over the next decade.

The AUD was 4% weaker at US$0.69, given the stronger US dollar and the weakness in commodity prices offsetting the RBA's larger than expected rate hike.

The Australian share market was second in FY22 performance in Local and USD terms



Source: Morgan Stanley.

In June, the S&P/ASX 200 Accumulation Index finished 8.8% lower, in line with global peers, with very little green on the screen. For FY22 the S&P/ASX 200 fell 6.5%, the 6th worst financial year going back to 1983, with Utilities (+35.9%) being the best performing sector and Information Technology (-38.2%) the worst.

For the month, the Consumer Staples sector (up 0.2%, driven by Woolworths Group, which was up 2.7%) was the highest contributor to the Index's performance, adding 4bps, followed by Utilities (down 6.8%, with Atlas Arteria 12.1% higher), contributing -10bps and then Energy (down 0.3%, with Woodside Energy, benefiting from buoyant LNG prices, delivering 7.0%) detracting -11bps. The bottom three contributing sectors were Materials (-330 points) being the worst, followed by Financials (-327 points) and Real Estate (-63 points).

The ASX Small Ordinaries was down 13.1%, significantly underperforming the broader benchmark by 4.3% and within the ASX Small Ordinaries, **the small resources took a beating, down 22.1%!**

It's also been a big month for REITs, with security prices still reflecting a tough outlook given the pressure on consumer discretionary and retail spending, coupled with higher cap rates. In a volatile month for the sector, the REIT XPJ Index closed -10.5% versus - 8.8% for the S&P/ASX200, with Australian 10 year bond yields retreating from their 4.2% intra month highs (+253bps CYTD at high vs 1.67% at start CY22). With the majority of REIT's typically trading ex-dividend (on 29 June), the REIT sector is now -23.5% CYTD vs -9.9% for the broader S&P/ASX200.

For the month, the top stocks that made a positive contribution to the Index's return were: Woodside Energy Group (+11 points), Woolworths Group (+7 points), Transurban Group (+5 points), Computershare (+4 points), and Atlas Arteria (+4 points). Conversely, the bottom five stocks detracting from the Index's performance were: Commonwealth Bank (-108 points), BHP Group (-96 points), Westpac (-70 points), NAB (-55 points) and ANZ (-38 points).

COMPANY SPECIFIC NEWS

The Market Hits

Tabcorp Holdings (TAH +14.5%)

The selling in TAH, post the demerger of its much sought after lotteries business in May, dried up in June with the stock price recovering to where it was prior to the demerger.

Atlas Arteria (ALX +12.1%)

Interest in global and domestically listed infrastructure assets exhibiting stable volume demand recovery post-COVID, CPI-linked escalation as a defence against cost inflation and security from long-dated concessions and/or regulation remained elevated. ALX rallied after the IFM Global Infrastructure Fund (IFM) announced that it had acquired a 15% interest in an after-market raid through a combination of total return swaps and share purchases. Nearly 7% of IFM's stake was acquired via after-market crossings at a price of $8.10 per share. IFM indicated its intent to conduct due diligence that might lead to a non-binding indicative proposal to acquire all of the securities in ALX, however Atlas management immediately responded saying that the company had not yet received a request for information, nor an acquisition proposal from IFM. Based on existing FCF forecasts, the $8.10 per share paid for ALX implied an equity IRR of ~4.5% (versus ~6.0% for TCL) and implied a 12m forecast EV/EBITDA of ~11.5x (TCL ~25x FY23E). The stock rallied ~16% to close at $8.24/share on the day.

IRESS (IRE +9.9%)

A table-thumping sell-side initiation report which put forward a number of reasons why IRE remains massively undervalued, in line with our views (see the Fund Activity section for our write-up) got investors more interested.

Collins Foods (CKF +7.5%)

Fast food operator, CKF, gained this month after reporting a zinger (KFC pun intended!) FY22 result, with strong new restaurant roll out plans and a solid 1H23 trading update (same store sales rose 4.1% in the first seven weeks of FY23). For reference, CKF operates 263 KFC outlets and 23 Taco Bells in Australia, 62 KFCs in Germany and the Netherlands and 66 Sizzlers in Thailand and Japan. Despite raw material costs creeping upwards and a chronic lettuce shortage (resulting in cabbage blend on burgers), CKF has been able to push through three menu price increases in 2022, which the market welcomed. While CKF is well placed as a low-cost takeout option amid rising food inflation and interest rates, the mounting input cost pressures in FY23 will likely put the squeeze on margins.

Woodside Energy (WDS +7.0%)

WDS was a beneficiary of elevated oil prices and more importantly, 60% higher Asian spot LNG prices which account for ~15% of WDS's LNG sales - the prevailing spot LNG price is around 2.5x their contracted price at current oil prices.

Computershare (CPU +6.2%)

Brokers have been materially upgrading CPU's earnings on stronger margin income given increased interest rate expectations. CPU is particularly leveraged to US 2-3 year interest rates, which were ~50bps higher in June.

Resmed Inc. (RMD +5.2%)

RMD announced that it will acquire Medifox Dan, a German SaaS solutions provider for US$1bn. This is RMD's third big acquisition in the SaaS space after Brightree (Apr 2016) and MatrixCare (Nov 2018). With this recent bolt on acquisition, RMD will be able to expand its SaaS business footprint outside the USA. Investors took the news positively, especially as the acquisition is expected to be modestly EPS accretive in FY23.

Endeavour Group (EDV +4.3%)

Given the uncertainties that face consumer discretionary stocks with higher inflation and brought forward spending during COVID, EDV fit the bill as a more defensive stock in the space. Experience through the pandemic in 2020 has highlighted that EDV's core businesses appears to offer a natural hedge to changing customer preferences. While COVID triggered government-mandated closures of hotel venues which adversely impacted the on premise trade, increased time at home offset this impact through a surge in alcohol consumption off-premise. 52% of Dan Murphy's sales origination comes from the online channel, while BWS also noted that online channels are also key drivers, supporting performance in off-premise.

TPG Telecom (TPG +3.8%)

TPG bounced after its investor day briefing which was certainly a welcomed step towards greater engagement with the investment community. Though it was largely focused on medium term aspirations to simplify and grow the business, there was no obvious silver bullet from the event. The content in the presentation did however provide a level of comfort to investors that the operational turnaround was on-track.

IPH (IPH +3.3%)

Intellectual property services and products provider, IPH is a reliable cash flow company benefiting from a weaker AUD/USD, which provided a tailwind in June.

The Market Misses

Zip Co (ZIP -51.9%)

The whole BNPL space has been a graveyard for investors, with Block (formerly Afterpay) down 28.2% and US stocks like Affirm down 33.3% for the month of June. ZIP announced that it was assessing options for its troubled UK business, given the current external trading environment and also responded to recent government comments regarding the potential regulation of BNPL products. This further rattled investors, with Block finishing down 71% and ZIP slumping 94% for FY22.

Lake Resources (LKE -49.4%) / Novonix (NVX -44.3%) / Core Lithium (CXO -31.5%)

Lithium stocks came under intense pressure, as two major reports by Goldman Sachs and Credit Suisse painted a bearish view on lithium prices going forward, given Chinese plans to significantly increase production. The reports acted as a sanity check on what has been feeding frenzy for lithium plays - five of the top ten performing stocks in FY22 were lithium stocks. In fact, three of those five were hopefuls rather than actual producers, LKE and CXO. NVX was collateral damage, caught up in the sell-off, even though it is an aspiring synthetic graphite producer focused on the battery anode, rather than lithium, which is used in the battery cathode.

St. Barbara (SBM -40.9%) / Chalice Mining (CHN -40.6%) / Evolution Mining (EVN -38.0%) / Regis Resources (RRL -35.6%) / Ramelius Mining (RMS -33.8%)

Gold stocks have been under enormous pressure and have bifurcated from the AUD gold price over the past year, with the sector was down 23% in the month of June. The re-opening of the Western Australian border in March 2022 has resulted in even higher labour costs in the June-quarter, given the level of absenteeism due to COVID and also lower gold production. Together with higher fuel and electricity costs, plus extended equipment lead times, this has resulted in lower short term production, higher operating costs per ounce and budgeted capital expenditure blow-outs across the sector.

EVN announced ~10% lower production guidance for FY23 and FY24, predominantly from its Canadian Red Lake Mine production ramp up being delayed by 12 months. SBM announced a strategic review of its Simberi operations in PNG, including the potential sale and spooked investors by raising the possibility that its Canadian gold operations could be halted, due to permitting issues. RRL reported its annual reserves and resources statement which disappointed investors, with depletions outstripping gains. RMS also downgraded FY22 production and explorer cum developer CHN, was negatively impacted by rising capital costs on its key development project.

G.U.D. Holdings (GUD -30.4%)

GUD again revised its FY22 EBITDA guidance to $147 million, which was 7% below the midpoint of its recently stated $155 million to $160 million range and 10% below FactSet Consensus of $163 million. The street subsequently downgraded the stock aggressively, reflecting increased uncertainty surrounding the earnings recovery, which is primarily reliant on Original Equipment Manufacturer (OEM) supply normalising. This will take longer than previously expected and is largely outside GUD's control. A deterioration in new vehicle sales since April 2022 has also adversely impacted the recently acquired APG business, with certain OEM vehicle launch timings and volumes negatively impacted. These OEM supply shortages do not appear likely to be resolved anytime soon. The weaker earnings outlook, combined with higher inventory levels due to Chinese lockdowns, suggests GUD's balance sheet may take longer than expected to de-gear. Forecast FY22 Net Debt/EBITDA (adjusted for acquisitions annualised) now sits at 2.6x, troubling investors who headed straight for the exit gate.

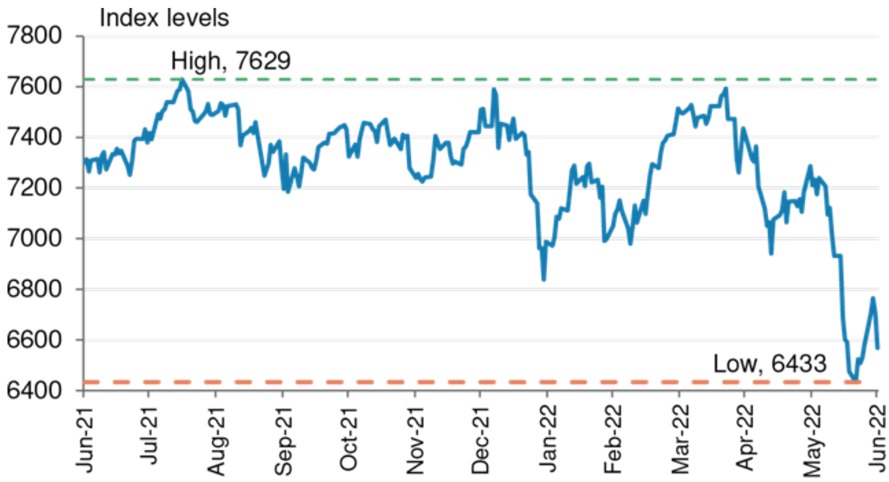
FUND PERFORMANCE

Against the backdrop of a brutal selloff in global equities, in a highly volatile and eventful market, the Fund return of -7.38% during the month of June outperformed the benchmark return of -8.77%.

Whilst no one wants to deliver negative numbers, we take solace to report that following on from last Financial Year's stellar performance, where the Fund returned 33.85% vs. benchmark of 27.80%, generating alpha of 605 bps, we have once again significantly outpaced the market. The Fund has delivered a stable return in an environment where equities delivered a negative return of 6.47% for the Financial Year, thanks to our superior stock selection. So we have protected capital relatively well. The FY22 return of +0.09%, slightly outperformed the benchmark return of -6.47% and we are very satisfied with this outcome, as we have never style drifted, played the momentum game or compromised our valuation discipline and beliefs.

We were never seduced by concept stocks, the likes of the Nuix's, ZIP's, Afterpay's, B4P's and Redbubble's of the world, trading on stratospheric valuations based on Total Addressable Markets (TAM's) and fancy Price to Revenue multiples. They have all just proven to be Davnet, Looksmart, Solution 6, Melbourne IT and Sausage Software incognito two decades later, for those who remember the dot.com boom.....

The S&P/ASX200 benchmark index was above 7000 for most of the financial year, but fell 8.77% in June to close at 6568.



Source: Morgan Stanley.

Despite underperforming in the month in USD, the ASX200 still outperformed most developed and emerging market peers in terms of FY22 performance, helped in particular by its strong structural Resources exposure.

FY22 performance was all about lithium, rare earths and coal, (AVZ Minerals, Core Lithium, Whitehaven Coal, Lake Resources, Coronado Global Resources, New Hope Corporation, Allkem, Pilbara Minerals and Lynas Rare Earths) represented 8 of the 10 best performing stocks in the domestic market. **WE OWNED NONE OF THEM**, yet still outperformed the market. The only other top 10 performer that we held was **GrainCorp (GNC),** where we were consistently long and true believers, with the company delivering in spades.

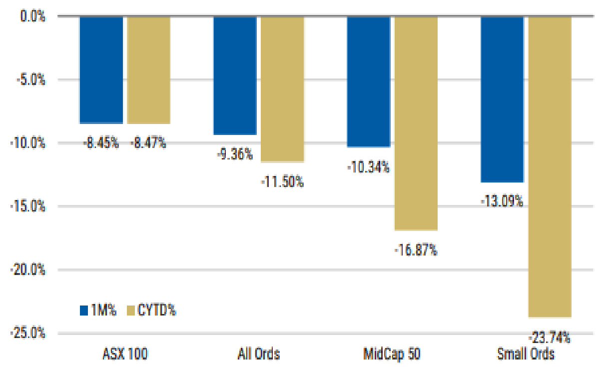
It's been another bumper year for GNC, prompting three earnings upgrades over the last twelve months. Recently re-affirmed FY22 EBITDA guidance now sits at $590-670m, which at the mid-point, is now over 99% above original consensus estimates back in February 2022 of $316m! Given the strong balance sheet and confidence on cash-flow, the company commenced a $50m buyback, cementing its number seven top mover position in the ASX200 index, with a FY22 return of 90.0%. It is also worth noting that since the demerger of United Malt in 2020, GNC has delivered a total shareholder return of 221%, significantly outperforming the broader market. Ample rainfall across the Australian East Coast grain belt from the La Nina weather cycle continues to provide high subsoil moisture, supporting a third successive year of bumper crop conditions for grain producers and driving record volumes for GNC. Compounding this, the war in Ukraine (often referred to as the "bread basket" of the world) has resulted in severe supply tightness for grain, as global stock levels are already diminished to their lowest levels in ~20 years. This has elevated grain export prices - a large basis benefit for GNC. Further, at GNC's investor day in June, management stated that they expect this to persist another 2-3 years. These two major tailwinds aside, GNC's top tier management team continue to execute on the company's articulated core strategy, including delivering on operating initiatives which provides for a $40m EBITDA uplift in 2023/2024.

The company has a very strong balance sheet position, with a core net cash balance of $129m, and management continue to improve the efficiency, utilisation and scale of their supply chain, which provides optionality and a competitive advantage. New opportunities in renewable energy, as GNC supplies tallow and used cooking oil for processing into renewable fuel, combined with new emerging growth initiatives from strategic investments in Agtech starts ups that focus on alternative proteins, sustainability, grower services and agri-energy also provide growth optionality and support our longer term positive outlook. We have confidence in the management team and the long term operational and agricultural outlook, given FY23 is going to be another ~30mt bumper crop. In our view, the earnings momentum should continue, with FY24 expected to benefit from strong carry in tonnage from the FY23 crop (ABARES forecast 30% above average). FY25 should represent the first "through-the-cycle" year and we believe the company is exceptionally well positioned. Population growth, particularly in Asia, is supporting GNC's position in the market for grains and edible oils (8bn world population in 2022 forecast to grow to 9.8bn by 2050).

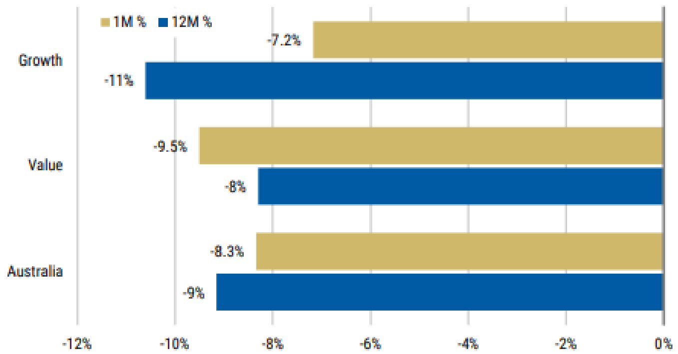
Large Cap stocks also continued to outperform which did not suit our bias away from the Top 20 and style (namely Consumer Staples, Energy and Defensive Industrials) relative to their Mid and Small Cap counterparts. **The Consumer Staples sector was easily the best performer (led by Woolworths and Coles)**, followed closely by Energy (Woodside Energy), and Health Care (led by Resmed).

Information Technology and Financials were two of the three poorest performing sectors and Materials, down 12.4%, was the worst (South32 fell 21.2%, Fortescue Metals 12.8% was lower, Rio Tinto down 10.3% and BHP Group dropped 7.5%).

Mid-Caps and Smalls still lagging significantly. Large Caps still lead CYTD



All style factors ended June in the red, with Growth outperforming Value in June



Source: Morgan Stanley.

Returns^ (%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	-7.38	-8.77	1.39	-7.46
3 Months	-10.54	-11.90	1.36	-10.76
FY2022	0.09	-6.47	6.56	-0.97
2 Years (p.a.)	15.75	9.33	6.42	14.49
3 Years (p.a.)	8.71	3.34	5.37	7.56
5 Years (p.a.)	5.78	6.83	-1.05	4.72
7 Years (p.a.)	7.17	6.91	0.26	6.15
10 Years (p.a.)	9.73	9.29	0.44	8.63
*Since inception (p.a.)***	8.15	8.04	0.11	7.02

^The return figures are calculated using the redemption price for Class A Units and are and are net of fees and expenses. Returns are also calculated on the basis that distributions are reinvested. 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.

** Since Inception is 1 July 2011.

Month of June Attribution

Securities Held

Securities Not Held

Source: Ellerston Capital.

For the month, the main positive contributors to this month's performance were overweight positions in: Ampol (ALD +2.6%), Resmed (RMD +5.2%), Reliance Worldwide (RWC +3.1%) GrainCorp (GNC -3.2%) and Amcor (AMC -1.6%).

Zero holdings in large cap stocks, particularly banks, that underperformed also helped, including CBA (CBA -13.4%), Westpac (WBC -18.3%) and NAB (NAB -12.4%).

The main detractors to performance for the month were overweight positions in: Ansell (ANN -18.8%), newly established Evolution Mining (EVN -38.0%) and Northern Star Resources (NST -23.6%) - both gold stocks were purchased on weakness, but they continued to fall, Alumina (AWC -13.8%), and Siteminder (SDR -24.5%).

Not holding the following defensive shares that significantly outperformed the broader market and constrained returns were: Woolworths (WOW +2.7%), Transurban Group (TCL +1.9%) and Telstra (TLS -0.8%).

FUND ACTIVITY

The Fund was highly active during the month of June, re-positioning the portfolio to suit our near term outlook. We totally exited CSL (which did its job as a defensive outperformer during the recent sharp selloff in the market), Orica and Woodside Energy (having received the shares via an in-specie dividend from BHP Group). Profits were taken in Amcor which had also performed exceptionally strongly, in line with its defensive qualities. The positions in Seven West Media and Treasury Wine Estates were also strengthened. We re-deployed the capital in a few attractively priced industrials, namely **IRESS** and **The Lottery Corporation,** and in two completely "bombed-out" gold stocks, **Northern Star Resources** (which we have previously held and exited at significantly higher levels) and **Evolution Mining** into the portfolio (see write-ups below).

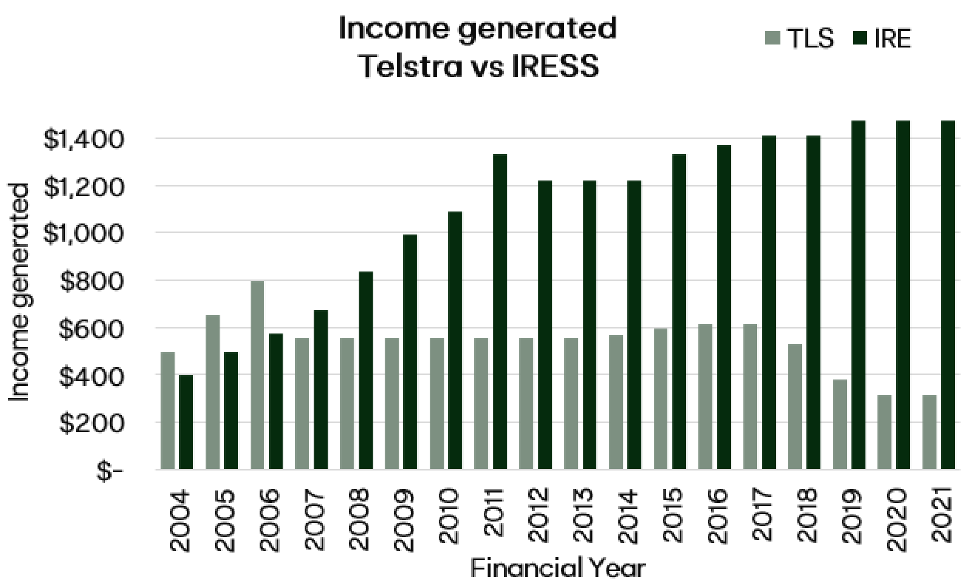
IRESS (IRE)

We believe IRE is an undervalued IT growth stock and that past acquisitions have in fact masked this growth profile by being dilutive to margins. The market remains rather sceptical around IRE's articulated strategy and towards management's guidance for a doubling in EPS between the period FY20 (32cps) and FY25e (67cps). We believe that the prospects for the incumbent Australian Wealth core business have improved and that growth in its Australian Super and Investment Infrastructure (platform and fund administration) division should accelerate. Re-platforming to a more stable IT architecture should drive near term margin improvement after a long period of margin degradation (due to past M&A) and product investment. IRE's Xplan has a ~60% adviser share in Australia and remains the #1 choice for advisers seeking or looking to switch to a new planning software, according to a 2021 survey by Investment Trends. Xplan is well positioned to push through price increases and benefit from a slowing decline in industry adviser numbers (noting management's +6% price rise implemented in Apr-22). Adding a platform proposition to Xplan offers a more efficient, straight-through process and should help advisers to reduce service costs, thereby opening new market opportunities.

With the Australian super fund industry currently focused on mergers/consolidation, the immediate aim is scale and bringing down management fees. However, this activity should peak in the near term and administration strategy will then become the focus. Industry feedback suggests IRE's Super Admin solution is compelling in terms of efficiency and cost, compared to other incumbent solutions like Link Admin (LNK) etc. With a $100m buyback currently underway and a proven rising dividend profile (refer below table), we believe IRE shares are totally mispriced by the market and offer considerable upside.

High dividend yields ≠ high dividend income

		Telstra	IRESS
30 June 2004	Stock Price in 2004	$5.03	$3.12
	Yield in 2004	4.97%	4.00%
	$ Income generated over 2004-2005 (then)	$497	$400
30 June 2021	Value of holding in 2021	$7,475	$41,362
	Stock Price in 2021	$3.76	$12.91
	Yield in 2021	4.26%	3.56%
	$ Income generated over 2020-2021	$318	$1,474
Total $ income generated over 2004-2021*		**$9,781**	**$19,983**



Source: Ellerston Capital, Bloomberg, FactSet.

THE LOTTERY CORPORATION (TLC)

In June we established a fresh position in TLC, the newly demerged lotteries and Keno arm of the former Tabcorp, a company that historically, is well known to us. Our investment thesis is simple, we are attracted to TLC for its strong competitive position in a heavily regulated industry with high barriers to entry and we like its defensive attributes. A combination of high cash conversion, the negative working capital and capital light nature of the business, and low cost of debt driving solid free cash flow conversion, should bode well in the current environment. Lastly, the predictability of TLC's annuity-like revenue streams and its proven earnings resilience during economic downturns should drive a re-rating of the company. TLC also has long dated and/or exclusive licence agreements averaging 33 years, so importantly, there is no material licence renewal risk until 2028.

TLC is currently trading on 16.7x NTM EBITDA, which in our view is undemanding. To put that into perspective, as some investors may remember, in 2016 and again in 2017, Tatts Group was bid for by "The Pacific Consortium" - the first bid was to buy Lotteries and the second bid was for the whole company. The valuation multiple offered for the lotteries business back then was between ~17.9x-19x EBITDA. Since then, however, the company has materially improved the business for the following reasons:

- **Higher margins** - the continued sales channel shift from retail newsagencies to online has supported higher margins. Online sales have a margin 2x higher than retail sales (c.28% versus 15%).
- **Improved pricing strategy and product maths** which has driven a material step change in revenues.
- **The competitive landscape has tightened** following legislation passed in January 2019 against synthetic betting products.
- **Accelerating market growth** - the lotteries market has now grown at an average growth rate of 4.6% over the past 20 years and **7.0% over the past 5 years.**

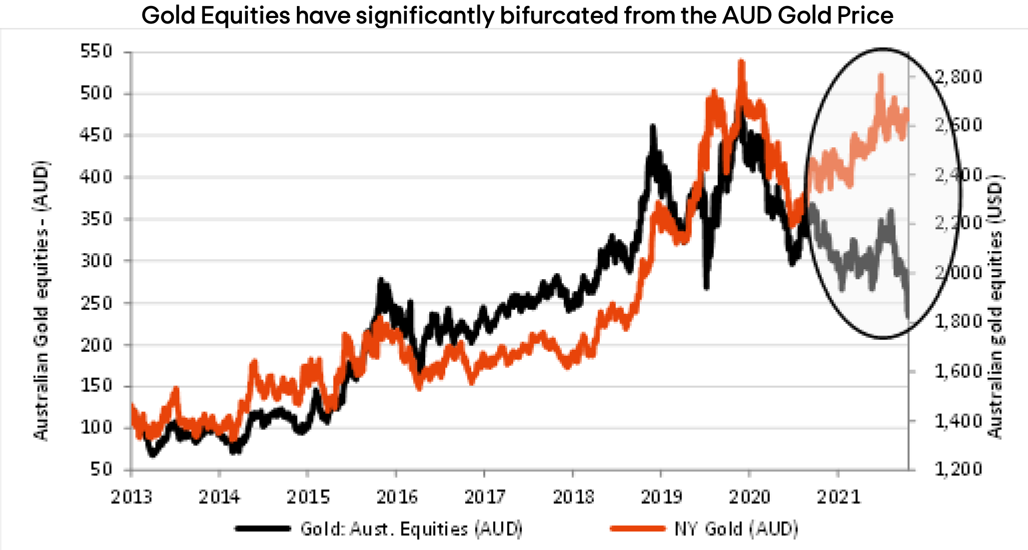
TLC is a defensive growth play and we think the above improvements combined with TLC's dominant market position and strong operational attributes will command a higher multiple over time than where it currently trades.

GOLD

We believe now is the right time to invest in good old fashioned safe haven status gold again. The gold sector has materially underperformed the Australian equity market by ~50% since its peak in July 2020. Since then, the sector has fallen ~45% and more importantly, has underperformed the physical yellow metal over that period which has been stable, up ~3% to A$2600/oz. Gold has been resilient whilst inflation has skyrocketed, which begs the question - why? Over the years, gold has had many correlations with inflation, interest rates, geopolitical turmoil and financial shocks, however, it has long been seen as a store of value, especially during currency depreciation. With the growth in the popularity of cryptocurrencies, particularly in the last 5 years, even "professional" investors have embraced the alternatives, particularly Bitcoin.

Gold is part of the old analogue world and cryptocurrencies have up until now, been the new digital kids on the block, more correlated with interest rates rather than everything else that has happened since the start of the pandemic. In fact, post the start of COVID, Bitcoin was up ~650% to its peak in late 2021, it then corrected ~40%, as interest rates rose and the war started. The implosion of the TerraUSD algorithmic "stablecoin" and its sister token Luna LFG last month, as we highlighted in May's Fund Commentary, saw it fall a further ~25%. Crypto-bombs have exploded everywhere this month, with the space falling another 40%. What this price action has recently showed, is that as a store of value, Bitcoin and other cryptocurrencies have failed dismally e.g. Bitcoin is now down ~70%, NASDAQ is down 30%, but the gold price was STABLE, despite gold shares decoupling from the underlying precious metal!

Gold Equities have significantly bifurcated from the AUD Gold Price

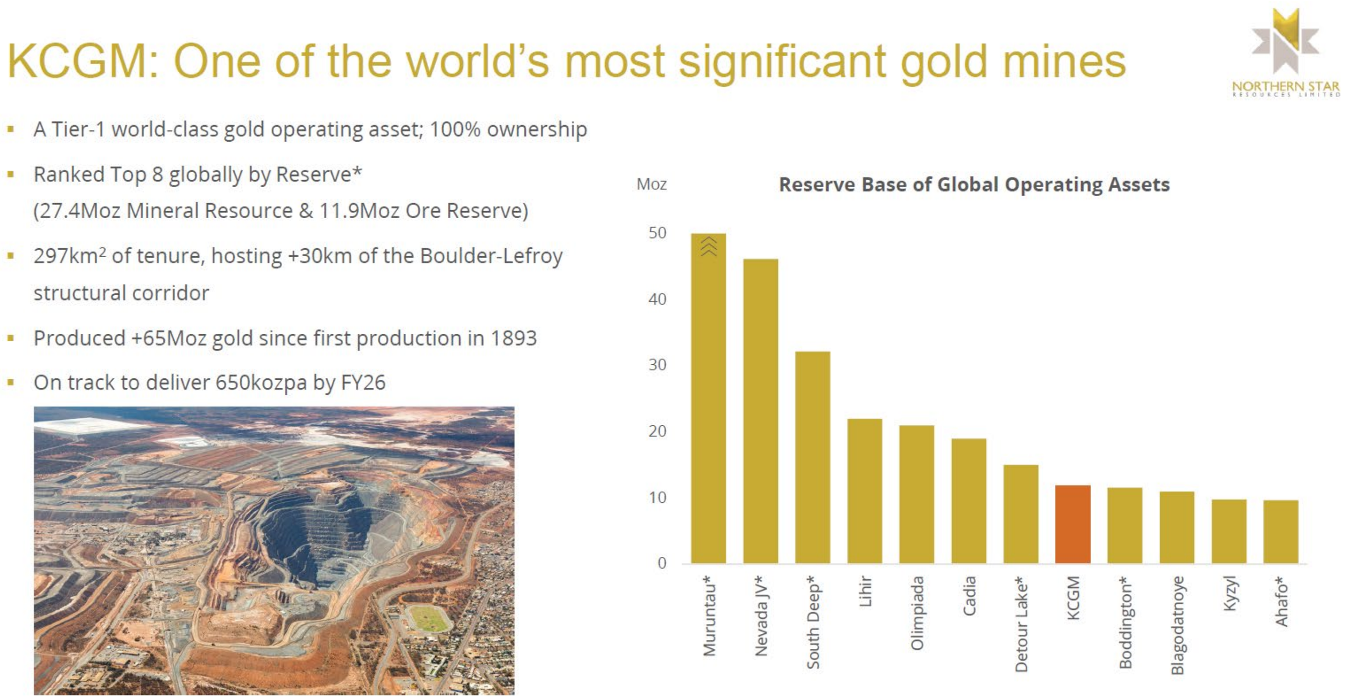


Source: Shaw & Partners.

NORTHERN STAR RESOURCES (NST)

Over the last month, most gold equities have underperformed gold prices in AUD due to higher risk-free rate and costs of capital, reflecting the rising Fed funds rate and cost pressures. An increasing number of gold miners have flagged higher operating costs and high labour absenteeism (especially in WA since borders were re-opened and between 20-30% of the workforce has been COVID impacted). The sector is also flagging increased budgets for capital projects. All of these issues will no doubt be a common theme during the June-quarter and late July reporting season, however we believe much of this has now been priced in and have bought into NST and EVN. We intend to add to the position in July on any further weakness.

We re-introduced gold miner NST (a familiar name too us) which owns 100% of the globally significant KGCM mine. KGCM will increase production by 35% over the next three years, with the prospect of increasing milling capacity production by 75% to 850kozs per annum. The market seems to have become concerned on the risk of industry-wide cost escalation impacting NST's earnings. We share this concern, but think that for NST it is more than priced in. As a reminder, Northern Star own their own power business in Kalgoorlie (with plenty of cheap gas available in the West), so is insulated from east coast electricity prices.



Source: Northern Star Resources.

EVOLUTION MINING (EVN)

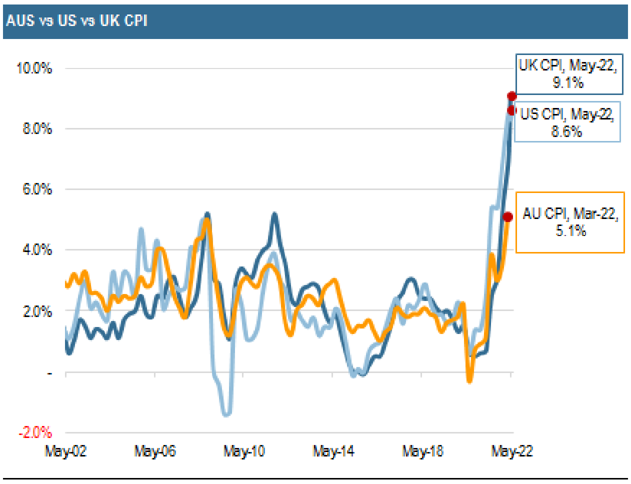
EVN used to trade at a massive premium to the sector due to its very low all in sustainable unit cost (AISC). However, the value of their problematic Red Lake Mine in Canada, which we previously always held doubts about its turnaround potential, has now been priced in by investors after the company provided a market update in June. EVN is now trading at a FY23 EV/EBITDA of less than 5x, has ~25% production growth over the next two years and boasts the lowest AISC of the major Australian gold producers. It adds portfolio balance to our NST position, which is higher cost, but has a significantly higher production growth profile.

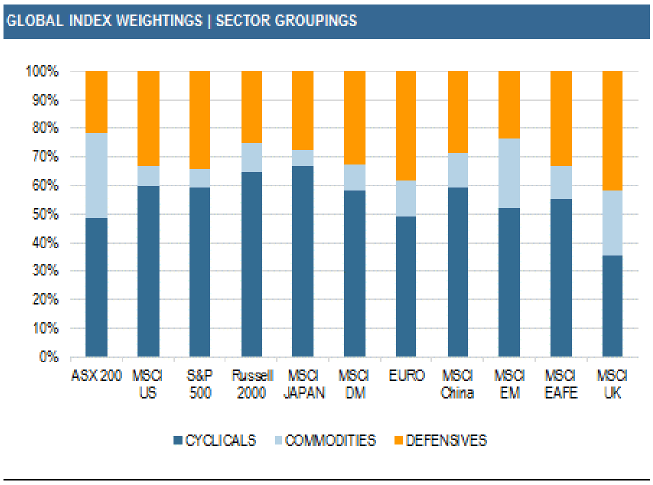
NEW STOCKS ADDED	STOCKS EXITED
• Evolution Mining	• CSL
• IRESS	• Orica
• Northern Star Resources	• Woodside Energy
• The Lottery Corporation	

INCREASED	DECREASED
• Seven West Media	• Amcor
• Treasury Wine Estates	

FUND STRATEGY AND OUTLOOK

Front and centre are investor concerns about recession risk. US consumption (which is 70% of GDP) has seen a big slowdown recently, with the demand environment shifting quickly from May. As a result, US 10 Treasuries have turned on a dime and the bond market is signalling a sharp slowdown. The recent barrage of central bank commentary out of the ECB's Sintra conference reiterated the extent to which policymakers have prioritized combating inflation, even if it means risking recession. While inflation is rising in Australia, the rate of increase is less intense than the vast majority of Developed Markets. This should see interest rates peak at a lower level than the likes of the UK and US. In an environment of rising global inflation, Australia is theoretically better positioned, with a much larger share of the index in sectors that should offer an inflation hedge.





Source: J P Morgan

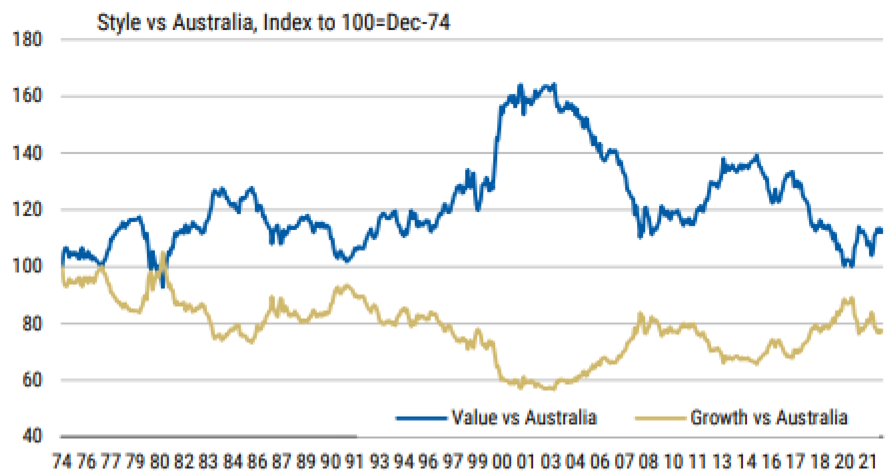
Weak economic data and deepened worries over stagflation continue to dominate headlines and remain front and centre stage. Tumultuous geopolitical events, rolling lockdowns in China and prolonged supply chain challenges (just to mention a few), rising mortgage rates domestically and in the US all point to a heightened mood to risk-off. This was experienced once again in the June-quarter and it is apparent that no amount of Government or Central Bank Intervention will remedy the ongoing supply side issues caused by a decade long under-investment in key industries. A risk asset bubble was created by negative interest rates, manifesting itself in such things as SPACS (as kids we called them lucky dips), NFT's, mainstream Cryptocurrencies and "concept" TAM stocks. Crypto's rocket ship has crash-landed back to Earth in the second quarter, saddling individual investors and hedge funds alike with steep losses.

The secular underperformance of Value to Growth since the GFC was synonymous with low inflation and extremely accommodative monetary policy, negative real and absolute interest rates. This has played out and has completely reversed. Growth at any price names, fuelled by a world of zero interest rates, have also crash-landed. We were never seduced by these inflated, eye-watering valuations….The rotation has not spared the former growth poster children like Block Inc. (SQ2), Zip Co Ltd (ZIP), Xero (XRO), EML Payments (EML), Life360 (360), Redbubble (RBL), and Megaport (MP1), just to name a few. Astonishingly, ZIP is now down over 94% in the last 12 months and MP1 is down 70%.

We continue to avoid the above names and pivot towards companies with real earnings, strong balance sheets and attractive valuations. To date, staying true to label has served (and continues to serve) us well, particularly as we navigate the current elevated volatility and challenging macroeconomic environment.

Growth is no longer a one way bet!

Value/Growth Relative to MSCI Australia



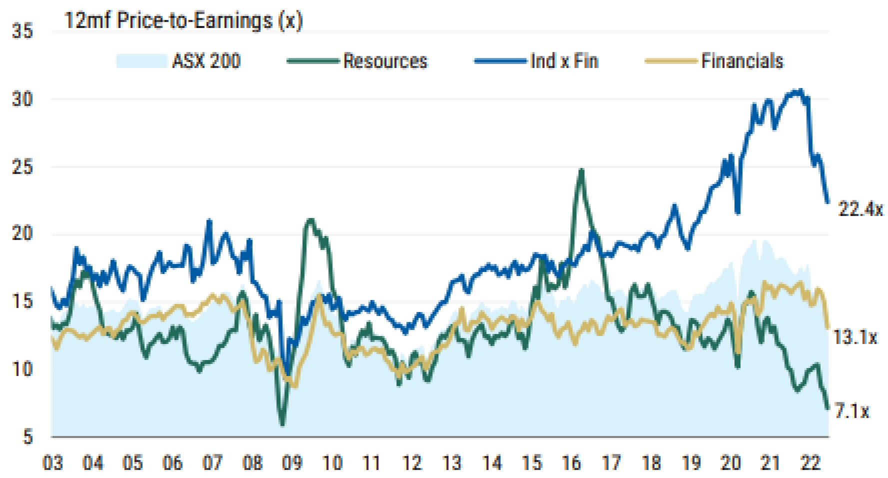
Source: Morgan Stanley.

Value starting to appear? We say YES!

When the S&P 500 has fallen at least 15 cent in the first six months of the year, as it did in 1932, 1939, 1940, 1962 and 1970, it has risen an average of 24 per cent in the second half, according to Dow Jones Market Data. The S&P 500 fell 21% in 1H22.

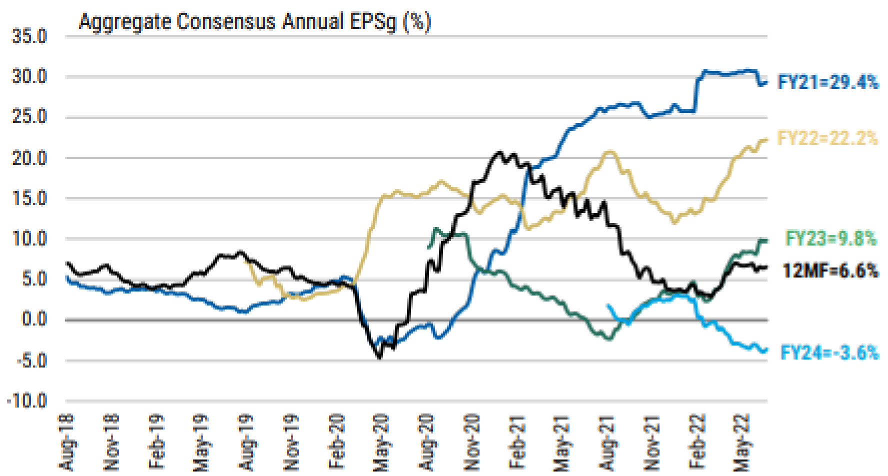
The Australian equity market has been more resilient than many global peers and valuations having adjusted lower. The domestic market multiples continue to de-rate meaningfully, with the 12MF P/E now standing at 12.6x. Industrials ex-Financials have de-rated to 22x from 30.2x nine months ago, whilst outer-year earnings growth expectations stay fairly anchored in the low-single-digit territory. Resources have fallen from 9.9x to 7.1x through 2022.

The 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 22.4x



Source: Morgan Stanley.

Annual Consensus EPS Growth Trends FY21-24



Source: Morgan Stanley Research.

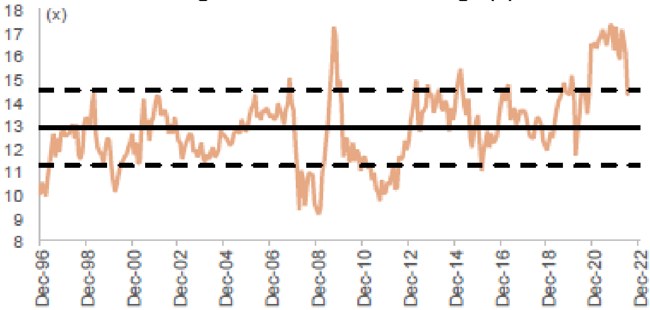
After defying gravity during the period January 2022 to the end of May on expectations of interest rate leverage and perceived defensive characteristics, Australian banks fell off a cliff in the month of June post the RBA's surprise 50bps increase in the official cash rate and its intention to further tighten to combat inflation.

We have been concerned for some time that investors have been far too complacent and that the domestic banks have been pricing in a "Goldilocks" recovery scenario. Consensus still implies that: (1) NII/CRWA (risk adjusted margins) expand materially to 4.49% in FY24E from 3.91% expected pre-COVID; (2) Ongoing solid credit growth at 4-5%; (3) 27% growth in Major Bank PPOP from FY22-24E. **This would be the fastest growth in bank PPOP since the mid-1990s, good luck**!; (4) Very benign credit cycle with Credit Impairment Charges to GLA rising to just 17bp by FY24E.

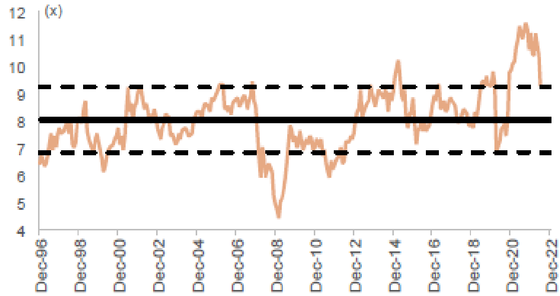
While the banks' share prices are likely to remain volatile and could soon find a floor, **we believe it is too early to become more positive on banks** and re-enter the sector. Bank share prices are highly leveraged to the economic cycle and to a housing downturn. Over the last 25 years, events leading to a 3-4x PE point de-rating of the banks were seen as follows: 1998 (Asian crisis); 2001 (9/11); 2008 (GFC); 2012 (Euro Debt Crisis); 2015 ("unquestionably strong"); 2020 (COVID).

Fast forward today, the banks are currently trading on a PE of 14.3x and P/PPOP of 9.3x, which is one standard deviation above their 25-year average.

Banking Sector Price to Earnings (x)



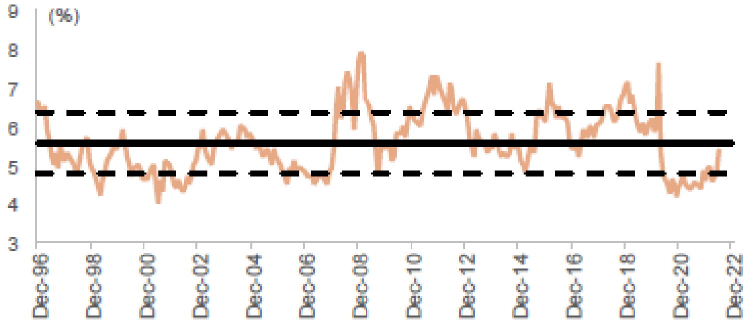
Banking Sector Price to Pre-Provision Profits (x)



Source: Barrenjoey Research.

We believe investors need to be patient and to wait and see how the cycle plays out. The time to buy the banks is when the stagflation/recession scenario approaches consensus and banks are trading at fairer or even material discounts to their historical multiples.

Banking Sector Dividend Yield



Source: Barrenjoey Research.

The investment climate remains murky. The big question on all investor's minds is: will the US be plunged into a recession, which it probably technically is in right now (as the economy is likely to have contracted for the second consecutive quarter) and if so, will it be a hard or soft-landing?

We still don't know the answer, but will be prepared to pivot aggressively either way. In the meantime, we believe that the portfolio is well positioned against the above backdrop. We have deliberately been moving more defensive and remain invested in real companies with real EBITDA and cashflow, as evidenced by our very recent move to go overweight Gold, were we see real value emerging. One thing is for certain, further central bank tightening is coming. We would expect an RBA tightening of 50bps this month. Rising short and long term bond rates which have weighed heavily on the extreme growth at any price and tech-heavy unprofitable names over the past 6-9 months seem to have peaked for the time being, so we could easily see a relief rally in select names in this cohort. That said, it's an area we have consistently avoided and remain massively underweight from a portfolio construction and philosophical perspective. We won't be investing in the ZIP's of the world any time soon. Rather, if US Treasury yields take a breather, we think good quality names like James Hardie and Reliance Worldwide (which have been belted on US housing slowdown concerns and are already priced for recession) should catch a bid from investors and re-rate. We stay true to label through and through.

Some stocks in the portfolio still look friendless and remain out of favour, mostly due to short term/transitory earnings pressure caused by ongoing supply chain and lingering COVID-19 dislocations. These unloved or mispriced stocks continue to trade at deep discounts to the market and we are sticking with them and selectively strengthening many holdings. Patience and faith grasshopper......

To summarise your portfolio's positioning:

1. Quality Franchises, Growth at Reasonable, Attractive Valuations

Solid companies with strong/leading market positions and credible management with good balance sheets.

ALS, Amcor, IRESS, James Hardie Industries, Liberty Group, ResMed, The Lottery Corporation and SiteMinder

2. Businesses that are highly cyclical or seasonal in nature, that have faced headwinds

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather.

Ampol, Ansell, GrainCorp and Reliance Worldwide Group

3. Turnarounds

Sound businesses that have historically generated poor returns, have been badly managed, resulting in poor execution of strategy and have under-earned versus their potential. These stocks are in transition and we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions.

Janus Henderson, Seven West Media, Treasury Wine Estates and United Malt

4. Deep Value Resource Plays

Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self help deleveraging). The commodity cycle is still positive, paving the way for healthy dividends.

Alumina, BHP Group, Evolution Mining and Northern Star Resources

We are truly grateful for, and always appreciate your continued support.

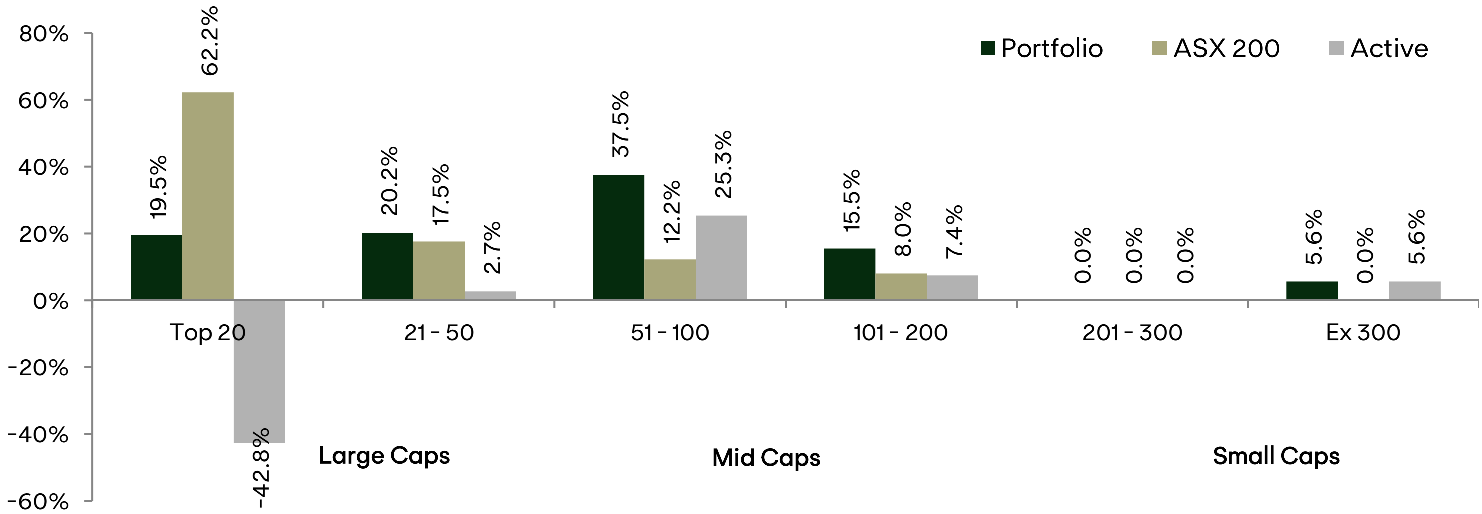
Warm Regards,

Chris Kourtis

Portfolio Manager

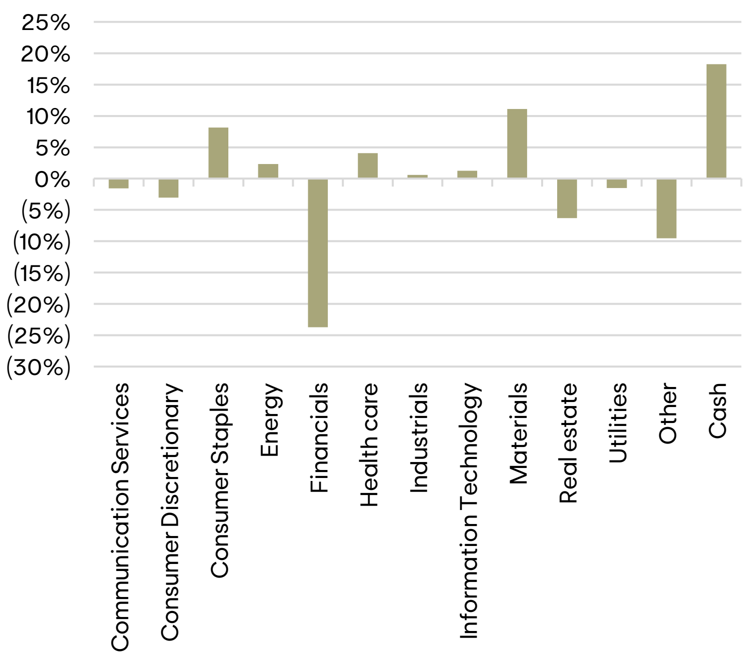
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 30 June 2022.
Source: Bloomberg, Ellerston Capital Limited.

Active Sector Exposures*



Source: Ellerston Capital Limited.

TOP 10 HOLDINGS**
ALUMINA
AMPOL
ANSELL
BHP GROUP
GRAINCORP
JAMES HARDIE INDUSTRIES
NORTHERN STAR RESOURCES
RELIANCE WORLDWIDE
RESMED
TREASURY WINE ESTATES

Asset Class Exposures

Exposure (% of NAV)	Net
Equity	91.28
Long Option	0.00
Short Option	-9.52
Effective Cash	18.24
Grand Total	100.00

* Active sector exposures are determined by subtracting Fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.
** Top 10 Holdings are listed in alphabetical order.

ABOUT THE ELLERSTON OVERLAY ASF

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

FUND FACTS

STRATEGY FUNDS UNDER MANAGEMENT	$192.1 Million
FUNDS UNDER MANAGEMENT – OASF UNIT TRUST	$8.9 Million
APPLICATION PRICE	$1.1968
REDEMPTION PRICE	$1.1908
NUMBER OF STOCKS	22
INCEPTION DATE	1 July 2011

Source: Ellerston Capital.

Contact Us

Sydney

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

Find out more

For new or additional applications into the Fund, please click here.

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.**

Ellerston Capital