APIR Code: ECL0012AU

Ellerston Overlay Australian Share Fund (OASF)

Performance Report, July 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	$1.0311
Net Asset Value	$1.0285
Redemption Price	$1.0259
Liquidity	Weekly
No Stocks	24
Management Fee	0.90% p.a.
Performance Fee	15% p.a. of outperformance
Buy/Sell Spread	0.25% on application 0.25% on redemption

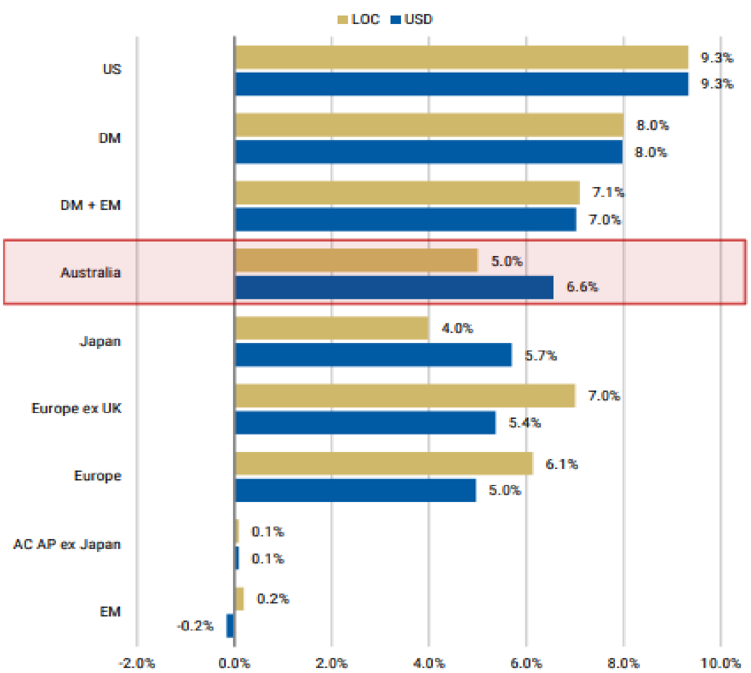
Performance Class A (%)	1 Month (FYTD)	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)**
Net^	4.48	-6.18	2.04	16.95	6.97	7.39
Benchmark*	5.75	-6.04	-2.17	12.15	4.27	8.52

^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

After the MSCI's 47-country world stock index suffered its biggest 1H drop since its creation in 1990, down a whopping 21%, global markets had a reprieve, rising 7.9% in July. The bond market was clearly the most important driver, with yields falling sharply on prospects that the US Federal Reserve (Fed) could pivot by hiking to a lower interest rate end point. Economic data was generally weaker and markets embraced "bad is good" again. The rally was led by strong 2Q earnings in tech, where investors rushed back into totally beaten-up names and in Russell 2000 small cap stocks.

MSCI Global Country/Regional Indices in July 2022



Source: Morgan Stanley.

USA

Economic indicators continued to soften during the month, but inflation and employment data was again much stronger. June nonfarm payrolls were stronger than expected, rising 372k, with the unemployment rate steady at 3.6%. The June core CPI at +0.7% MoM (+5.9% YoY) was higher than expected, but not as bad as the headline inflation shock of +1.3% MoM and the highest annual rate in four decades (+9.1%). This was initially taken negatively by both equity and bond markets, with odds on of a minimum 75bps hike.

Unsurprisingly, the Fed then raised its benchmark interest rate by 75bps (+225bps in 2022 so far) to a new target range of 2.25% to 2.50%. Q2 GDP, posted after the hike, fell for a second straight quarter at a 0.9% q/q annual rate - indicating a technical recession. Inventories contracting was the main cause of the fall, with consumer spending increasing (+1%) driven by strong services spend, offset by weak goods spend. A true recession is a "broad-based weakening of the economy," according to Treasury secretary Janet Yellen. "That is not what we're seeing right now". Focus has now shifted to whether the Fed pivots from its hawkish stance, with the September rate hike now expected at only 50bps. Amid rising recessionary expectations, bonds rallied, with the US 10-year bond yield falling to the lowest level since mid-April this year, 85bps below the June high at 3.5%.

US equities had a very strong "risk on" move upwards with the prospect of a Fed pivot gaining momentum and investors starting to embrace a clearer image of recession and changed expectations. With more than half of the S&P 500 companies that have reported earnings so far beating the Street's estimates, the rate of beats trails the 62% average pace set in the past five quarters.

In the wash up, the Dow Jones Industrial Average finally closed up 6.8%, the S&P 500 finished 9.2% higher, with the NASDAQ Composite Index leading the charge by posting a 12.4% rise, one of its highest monthly moves ever.

US stocks have now jumped 12.6% since the market's mid-June lows, with multiples expanding and earnings expectations declining marginally. Growth outperformed Value in July.

Europe

In Europe, economic indicators showed that business activity unexpectedly contracted in July due to an accelerating downturn in manufacturing and a near-stalling of service sector growth, as burgeoning costs forced consumers to cut back on expenditure. According to the Eurozone Composite PMI, which came in at 49.4 from 52.0 in June, the reading below 50 indicates a contraction. Excluding pandemic lockdown months, July's surprising contraction is the first signalled by the PMI since June 2013. Eurozone inflation was confirmed at a record high of 8.6% in the year to June from 8.1% in May, well above the European Central Bank's (ECB) 2% target. As a result, the ECB did not hesitate to raise its key interest rate, for the first time since 2011, by 50bps - twice than its previously indicated hike.

Euro STOXX50 Index finished the month up 7.4% and among the major exchanges, France's CAC 40 was 9.0% higher, Germany's DAX rose 5.5% and UK's FTSE 100 was a relative underperformer up 3.7%, given the current political imbroglio.

Asia

China's Q2 GDP growth decelerated notably to 0.4% YoY from 4.8% in Q1. With lockdown curbs and supply chain disruptions in April, followed by a slow recovery in May/June, almost all key economic activities weakened in Q2. Consumption took the biggest hit, with retail sales declining by 4.6%YoY in Q2, while some services not covered in retail sales likely weakened more. Property activities weakened further on subdued market sentiment and COVID restrictions, with property sales declining by a material 28%YoY and investment declined by 9%YoY in Q2. Fixed asset investment slowed but on the other hand, thanks to resilient global demand, Q2 export growth held up at 13%YoY. On the production side, IP for the quarter was only up 0.6% YoY but the pace in June of 3.9% was an improvement. China has intensified policy support after the COVID hit accelerating special LG bond issuance, increasing tax rebates, pumping more liquidity and relaxing property policies. However, COVID restrictions have limited the effectiveness of these policies, while an estimated RMB 2.7 trillion government revenue shortfall in H1 meant limited actual fiscal stimulus so far.

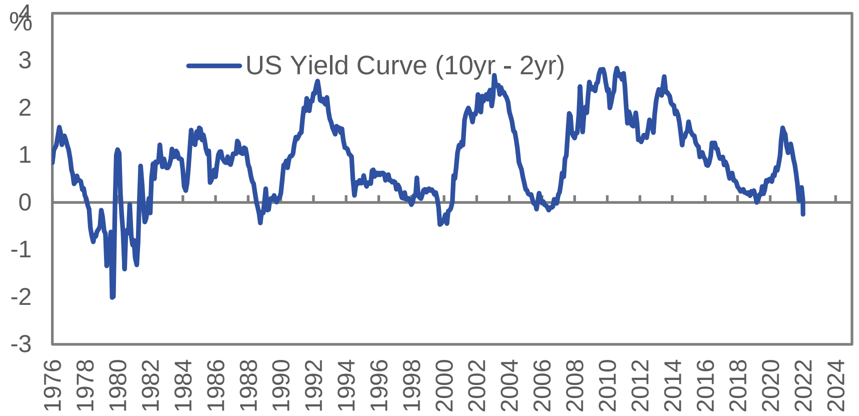
Certain key Asian equity markets bucked the global rebound trend and were very weak in July, especially China, with the SSE down 5.2%, not helped by further regulatory fines on internet companies and halted mortgage payments by Chinese home buyers. Poor sentiment spilled over next door to the Hang Seng, which dropped 8.2%. India's SENSEX on the other hand rallied 8.7% on softening CPI momentum at 0.3% for June, a relief from the 0.9% average seasonally adjusted recorded over the past three months. The Nikkei 225 finished 5.3% higher, and the laggard in the region was the Korean KOSPI, which rose a more modest 5.1%, after its consumer sentiment index plunged 10.4pt to 86 in July, the third consecutive monthly loss.

Commodities

Commodity prices initially weakened on synchronised slow down and recession fears, but then bounced hard from their mid-month lows. Brent oil price was the biggest casualty and retreated 13% to US$104/barrel. However natural gas prices continued to rise in Europe and Asia - the JKM spot LNG price ended 9% higher at US$42/mmbtu, as Russia's Nord Stream 1 pipeline had a 10 day maintenance shut down, but re-opened at only half the previous 40% capacity. This has the effect of lifting demand for more Asian LNG and pushed thermal coal prices 5% higher to $405/tonne - a rare occurrence where the thermal coal price is higher than the coking coal price, let alone 112% higher currently! Iron ore prices fell 5% to US$114/tonne and coking coal retreated 37% to US$191/tonne. The base metals complex was generally stronger with the major metals; aluminium and nickel 4% higher, but copper was down 4%, gold eased 2% to US$1,766/ounce, given the stronger greenback, despite lower bond yields.

Bonds

Global bonds rallied in July as weak economic activity data and rate hikes persisted, even by the ECB. The aggressive Fed rate hikes have now clearly led to an inverted yield curve. The US 10-year treasury yield finished down 36bps to 2.65% and the Australian 10-year bond yield fell a whopping 60bps to 3.06%.



Source: Goldman Sachs.

Australia

As expected, the Reserve Bank of Australia (RBA) at its early July meeting hiked the cash rate by 50bps to 1.35%, with its messaging continuing to emphasize high inflation and the resilience of the domestic economy and flagged further tightening. Labour market conditions remain extremely strong with the June data beating expectations, across all aspects. The unemployment rate fell to a fresh 48-year low of 3.5% as 88k jobs were added in the month. This saw the employment to population ratio increase further to a record high 64.4% (versus 62.5% pre-COVID). The skew of jobs continues to be tilted towards full-time (+53k), which has grown 5.2% over the past year (with part-time down 0.8% YoY). Importantly, labour demand indicators remain strong and point to further momentum in coming months.

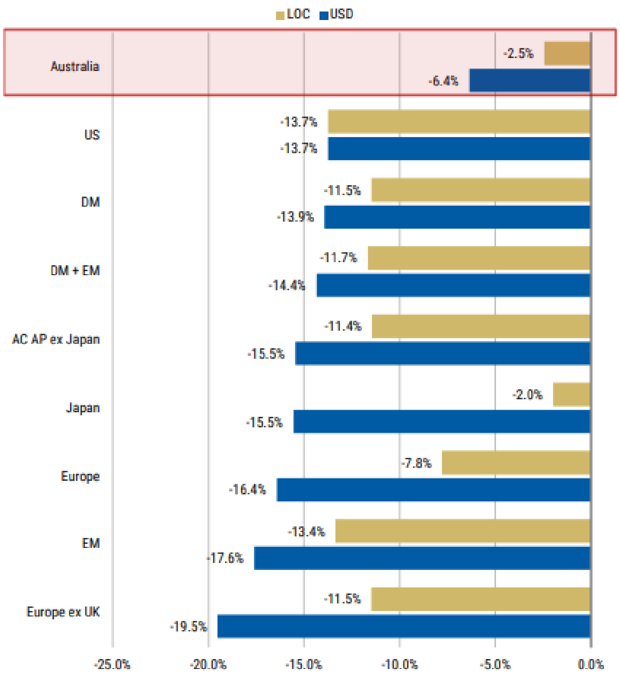
Annual CPI inflation increased to 6.1% in the June quarter, due to higher dwelling construction costs and automotive fuel prices. Annual trimmed mean inflation, which excludes large price rises and falls, increased to 4.9%, the highest since the Australian Bureau of Statistics (ABS) first published the series in 2003. This together with the strong employment data, set the stage for another 50bps hike on 2nd August.

All Groups CPI Australia, annual movement (%)

Source: ABS.

The AUD was 1% higher at US$0.70, despite the stronger US dollar and the weakness in bulk commodity prices.

The Australian share market was second in CYTD22 performance in Local and first in USD terms



Source: Morgan Stanley.

In July, the S&P/ASX 200 Accumulation Index finished 5.7% higher, broadly in line with global peers, but still doing better than most for the calendar year to date. Industrials outperformed Resources during the month. The Financials sector (up 9.3%, driven by Commonwealth Bank, which was up 11.5%) was the highest contributor to the Index's performance, adding 262bps, followed by Healthcare (up 7.7%, with CSL 7.8% higher), contributing +81bps and then Real Estate (up 12.1%, with Goodman Group delivering 16.0%) adding +77bps. The bottom three contributing sectors were Materials (-26bps) being the worst, followed by Utilities (+5bps) and Energy (+12 bps).

The ASX Small Ordinaries bounced 11.4%, significantly outperforming the broader benchmark by 5.7% and within the ASX Small Ordinaries, **the Small Industrials were up 11.8%.** REITs were the best performing sub-index rising 11.9%, benefitting from the sharp bond rates detour during the month.

For the month, the top stocks that made a positive contribution to the Index's return were: Commonwealth Bank (+93bps), CSL (+55bps), National Australia Bank (+54bps), Westpac Banking (+37bps), and Macquarie Group (+31bps). Conversely, the bottom five stocks detracting from the Index's performance were: BHP Group (-74bps), Rio Tinto (-10bps, following an underwhelming 1H result with a major dividend disappointment), Newcrest Mining (-8bps), QBE Insurance (-5bps) and South32 (-4bps).

COMPANY SPECIFIC NEWS

The Market Hits

Zip Co (ZIP +158.0%)

ZIP announced that its merger with junior US focused partner Sezzle, had been terminated after a savage reassessment of the BNPL sector's growth model and outlook. The stock reacted positively, as scrapping the deal would benefit ZIP by slowing its near-term cash burn, given Sezzle was EBITDA negative and loss-making. ZIP also provided a Q4 trading update which showed a volume miss, but investors saw this as a step towards adjusting its risk settings to more sustainable levels and aiding near-term cash burn. The dramatic stock price move seems more to do with short covering and momentum investing during a strong "risk on" month. To put Zip Co into perspective, it was the single worst performing stock in the ASX 200 for FY22, losing 94% of its market cap!

Megaport (MP1 +77.8%)

MP1 delivered a better than expected 4Q result considering the slowing demand environment, with monthly recurring revenue growth the key highlight, while most other key metrics were back on trend. Further, the reduced cash burn and potential new debt facility addresses balance sheet concerns and provides ample runway to reach FCF break-even, while investing for growth. MP1 had fallen 70% in FY22 and there was short covering on the back of the update, propelling the stock price higher.

Telix Pharmaceuticals (TLX +63.1%)

TLX, a biotech company, released its quarterly activities report which showed encouraging early sales of its Illuccix imaging agent for prostate cancer. Although it's early days from Illuccux's mid-April's commercial launch, extrapolation of that short period lines up with a similar profile to a competitor's product, Pylarify. It resulted in upgrades to sell-side revenue estimates and together with a short squeeze, saw the stock price tear away.

Life360, Inc. (360 +58.8%)

360, the San Francisco-based device tracking company, has been under pressure since last November, like most tech stocks. This month it floated with the rest of the global tech sector high tide, with no material news.

St. Barbara (SBM +50.0%) / Regis Resources (RRL +35.8%)

Both gold producers were recipients of corporate advances during the month. RRL was subject to a raid by Andrew Forrest's Wyloo to acquire 15% of its shares, but having fallen short, Wyloo immediately walked away, having amassed an initial position of 4.9%. This was together with a pre-reporting of a very strong June quarter production report. Perennial disappointer, SBM was approached by Genesis Minerals (GEM), led by Raleigh Finlayson of Saracen fame, to merge and consolidate the historic Leonora mining district in Western Australia. GEM had already recently struck a scrip merger deal with Dacian Gold to acquire milling capacity. A strong Q4 production report also helped to catapult SBM' stock price from bombed out, five year lows.

Pinnacle Investment Management Group (PNI +42.4%)

Manager of boutique investment businesses, PNI caught two tailwinds in July - the rebound in equity markets and the strong performance of Growth versus Value, where one of Australia's larger growth managers, Hyperion is a key member of the PNI stable.

Nanosonics (NAN +40.2%)

Medical device manufacturer, NAN has been one of the most shorted healthcare companies, at 13% of its free float. NAN delivered a surprisingly positive trading update for FY22, with revenue ~4% ahead of consensus, resulting in revenue and earnings upgrades. Importantly, NAN accounted for 91% of all new installed base units in Q4, which alleviated market concerns regarding the disruption risks arising from the transition of its General Electric distribution agreement. Aggressive short covering drove the stock price way beyond the upgrade.

Imugene (IMU +36.1%)

IMU, a clinical stage immune-oncology company, is also a heavily shorted stock which saw its price climb on short covering across the sector.

BrainChip Holdings (BRN +35.6%)

Artificial intelligence company, BRN benefitted from the global tech rebound. Despite falling 15% near month end after a reality check in the form of a quarterly activities and cash flow report, it still made it into the top ten performers this month.

The Market Misses

Coronado Global Resources (CRN -14.8%)

Coking coal miner, CRN posted a very soft June quarter production report, with a miss on costs, production and pricing. CRN blamed the miss on wet weather, inflationary pressures and planned maintenance. With coking coal prices down 37% during the month, it was always going to come under pressure. The stock closed at $1.41, a far cry from its recent May 2022 high of $2.28.

EML Payments (EML -14.6%)

Payment card solutions company, EML fell early in the month after the resignation of long serving CEO, Tom Cregan, then later spiked on press reports it was in discussions with two parties regarding proposals for a potential change of control. However EML responded by confirming recent discussions, but that they had ceased. Thereafter, EML dropped a bombshell by announcing that the Bank of Ireland had pushed back on EML's remediation programme, requesting further remediation / controls and assurances, resulting in the programme being deferred into CY23. This will negatively impact new sales growth and cost out initiatives. What a roller coaster month!

Champion Iron (CIA -10.9%)

CIA was impacted by the 13% fall in benchmark iron ore prices, as well as reporting higher costs and lower price realisations with its June quarter report, leaving shareholders underwhelmed.

Elders (ELD -10.4%)

Market rumours continued that ELD was running the ruler over listed animal nutrition business, Ridley Corporation, spooking investors.

Costa Group Holdings (CGC -10.1%)

CGC gave a trading update which confirmed that 1H CY results were on track. However, management raised the alarm for its winter citrus crops, siting that despite volumes at the 2PH business which it acquired for $220 million this time last year were tracking in line with earlier expectations, "some quality issues have been encountered due to weather events occurring in recent weeks". As expected, the stock was sold down on the news.

Bega Cheese (BGA -8.9%)

BGA updated the market on its outlook for FY23. The largest supply region, Victoria was expected to experience a farm gate milk price increase for FY22 in the range of 15%-20% based on the stability and strength of global dairy commodity markets and currency relativities. Initial milk price announcements by Bega Cheese and other dairy companies on 1st June reflected this level of expected milk price increases. However, particularly strong competition amongst milk processors for FY23, have further increased prices to a level ~ 30% higher than FY22 prices. As a result, BGA's FY23 EBITDA guidance range of $160-$190m sat around 20% lower than market estimates.

Viva Energy Group (VEA -8.0%)

VEA released it 2QCY22 operational update and 1H financial result which was a record half EBITDA of $614m, 29% ahead of consensus estimates, on the back of strong refining margins. Despite record EBITDA, the stock was wrapped up with weaker performance of the global energy sector and lower spot refining margins, albeit at levels much higher than those baked into consensus forecasts.

GrainCorp (GNC -7.9%)

Following a stellar run in the market and hot on the heels of an upbeat Investor Day in late June where guidance was reaffirmed, GNC shares went ex a 24 cent dividend, then drifted lower on no new news. Persistent heavy rains on the east coast seemed to dampen investor sentiment, coupled with talks over unblocking Ukraine's grain exports. The talks, held in Istanbul with representatives from Ukraine, Russia and Turkey, plus the United Nations agreed on the "main technical principles" and were constructive, but inconclusive. None the less, international grain prices continued to ease from their recent May high of $12.7 per bushel, weighing on sentiment.

Newcrest Mining (NCM -7.6%)

NCM reported a solid quarter beating gold production by ~2% and also coming in 4% better on all-in costs. Investors are concerned about higher industry operating costs highlighted by its local and offshore peers in recent updates, but NCM gave no FY23 guidance, which they normally provide with their financial results in August. In addition, a large block trade of stock was done late in the month by a substantial shareholder overhanging the market, which weighed on the share price.

Tabcorp Holdings (TAH -7.0%)

TAH sold off on no particular news, although UK sports betting and gaming company, Entain, had a 2Q trading update which highlighted that Australia was doing very well and gaining market share, implying TAH were losing share. It was not clear however, whether the share gains were in the online business rather than retail - the bricks and mortar space where TAH primarily operates.

FUND PERFORMANCE

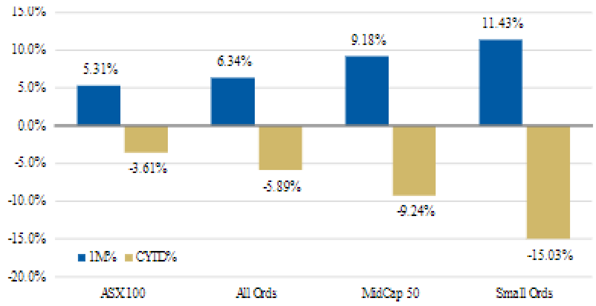
The month of July saw a very strong risk reversion rebound in markets, lead by Tech, Growth and Financials. As the Fund did not own any Banks which rallied 10.3% or REITS, which significantly outperformed as long bond yields fell, the Fund was unable to keep pace with the market and capture the upside. The Fund delivered a return of 4.56%, underperforming the benchmark return of 5.75%.

Despite the ASX200 lagging global peers for the month of July, local equities still continued to outperform most developed and emerging markets in terms of CYTD22 performance, helped in particular, by the strong Resources exposure and structural composition of the index.

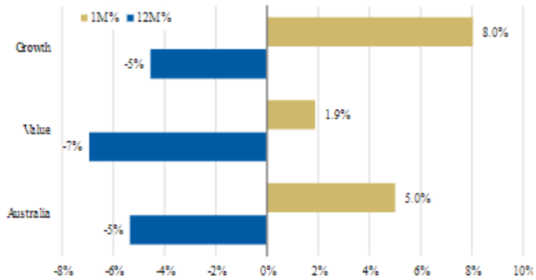
In a reversal of trend, Large Cap stocks (namely Materials and Energy) underperformed this month relative to their Mid and Small Cap counterparts. **The Information Technology sector was easily the best performer (led by Xero),** followed closely by Real Estate (Goodman Group), and Financials (driven by Commonwealth Bank, +11.5%).

Energy and Utilities were two of the three weakest performing sectors and Materials, down 0.7%, fared the worst (Newcrest Mining fell 7.6%, BHP Group dropped 6.2%, Rio Tinto was down 4.7% and South32 fell 3.3%).

Mid-Caps and Smalls outperformed in July but Large Caps still lead CYTD



All style factors ended July in the black, with Growth significantly outperforming Value



Source: Morgan Stanley.

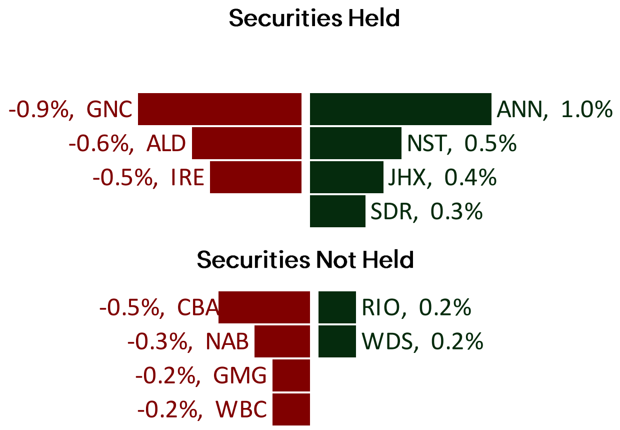
Returns^ (%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month (FYTD)	4.56	5.75	-1.19	4.48
3 Months	-5.96	-6.04	0.08	-6.18
1 Year	3.11	-2.17	5.28	2.04
2 Years (p.a.)	18.23	12.15	6.08	16.95
3 Years (p.a.)	8.11	4.27	3.84	6.97
5 Years (p.a.)	7.57	8.03	-0.46	6.49
7 Years (p.a.)	7.40	7.10	0.30	6.38
10 Years (p.a.)	10.21	9.44	0.76	9.10
*Since inception (p.a.)***	8.52	8.52	0.00	7.39

^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 July Attribution



Source: Ellerston Capital.

For the month, the main positive contributors to this month's performance were significant active overweight positions in: Ansell (ANN +17.5%), Northern Star Resources (NST +14.6%), James Hardie Industries (JHX +10.8%) and Siteminder (SDR +20.8%).

Zero holdings in select large cap stocks, particularly energy names, that underperformed also helped, namely Rio Tinto (RIO -4.7%) and Woodside Energy (WDS +0.4%), which we had totally exited the previous month.

The main detractors to performance for the month were overweight positions in: GrainCorp (GNC -7.9%), Ampol (ALD -2.1%) and IRESS (IRE -1.4%).

Not holding any banks or REITS that significantly outperformed the broader market and constrained returns were: Commonwealth Bank (CBA +11.5%), National Australia Bank (NAB +11.7%), Goodman Group (GMG +16.0%) and Westpac Banking (WBC +10.3%).

FUND ACTIVITY

Changes to the Fund were relatively minor in July. This followed the high activity in June, where we re-positioned the portfolio to suit our near term outlook. Profits were taken in ResMed which continued to perform strongly, in line with its defensive qualities and expectations that the chip shortage was easing. Positions in ALS, BHP Group and James Hardie Industries were also reduced during the month into strength, to help fund other purchases. The existing holdings in **IRESS and Northern Star Resources were materially strengthened and News Corporation was introduced into the portfolio** (see write-up below).

News Corporation (NWS): now is the time to go long.

NWS owns an attractive array of assets built up over many decades, including 61.6% of REA Group (REA), Harper Collins (book publishing), Dow Jones (consumer and enterprise media group), Foxtel (65%) plus an assortment of global newspapers and other news media. NWS's interest in REA and Dow Jones, in our view, account for ~ 75% of NWS's enterprise value and are high quality privileged assets, followed by Harper Collins. The lower quality news media and subscription video businesses represent less than 15% of NWS's enterprise value. The company's share of REA alone, at its current depressed level, represents more than two-thirds of NWS's market cap. So essentially, you're getting the Dow Jones media group, Harper Collins, all the masthead newspapers and Foxtel for a song - and all for less than 3x EV/EBITDA! Now that's underappreciated latent value.

Even allowing for a 20% conglomerate discount that we apply in our valuation, we see over 40% upside in the stock price. The obvious downside risk that most observers would point out, is that Rupert checks out at some stage, but if that happens, given the severity of the discount to inherent our SOP valuation, we wouldn't be surprised to see a Big Media/Tech wanting to own NWS's content businesses at significantly higher than the current implied prices.

NEW STOCKS ADDED	STOCKS EXITED
• News Corporation	• None

INCREASED	DECREASED
• IRESS	• ALS
• Northern Star Resources	• BHP Group
• The Lottery Corporation	• James Hardie Industries
	• ResMed Inc.

FUND STRATEGY AND OUTLOOK

Front and centre are investor concerns about a global synchronised growth slow down and recession risk.

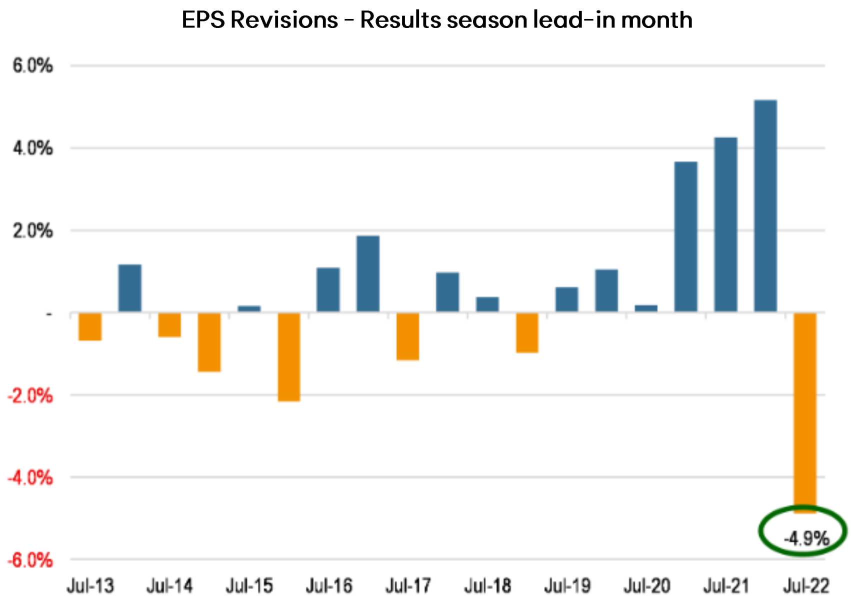
July delivered a welcome relief rally on a dovish interpretation of Fed comments and tech earnings that were not as dismal as the Street expected. US consumption has seen a big slowdown recently, with the demand environment shifting quickly. As a result, US 10 Treasuries have turned on a dime and the bond market is signalling a sharp slowdown in economic activity. The recent barrage of central bank commentary 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.

Geopolitical tensions will also keep markets on edge and elevate volatility, with China nervous as House Speaker Nancy Pelosi made her landmark congressional delegation visit to Taiwan on Aug 3rd. She is the highest ranking US politician to visit in 25 years, immediately prompting China to announce missile tests and military drills around the island. The sabre rattling will no doubt continue but probably amount to nothing, which markets should shrug off.

While Australia has fared better than most markets in the CYTD, concerns are building as inflation climbs and conditions in the China property market deteriorate. This provides the backdrop against which Australian companies will report results through the coming weeks. Margins will be in sharp focus this season, with estimates suggesting higher revenues and cost control will be sufficient to offset inflationary pressures. Following an exceptionally strong February reporting season, where beats were near record highs and earnings estimates climbed this time, we face a more challenging season.

With inflation and rising interest rates creating considerable uncertainty, we doubt that many management teams will stick their necks out on guidance.

The earnings outlook in Australia took a sharp step backwards July. The 4.9% MoM downgrade marks the first downshift in one-year forward EPS projections since last year's delta-induced lockdowns. The decline marks the weakest lead-in month to a results season for over a decade, with the pull-back more than double the downgrade leading into Feb-2016 results season. The chart below outlines the MoM change in consensus EPS projections for the ASX 200 in the month preceding a results season.

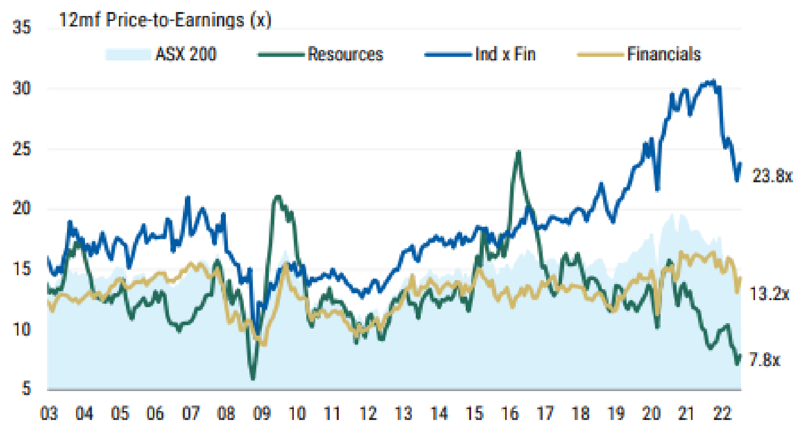


Source: JP Morgan

As we re-enforced in our June monthly, we saw value starting to appear.

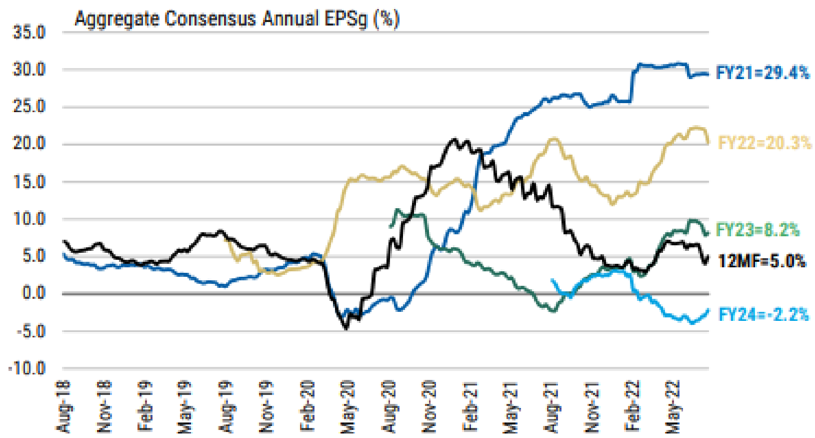
The Australian equity market has been relatively more resilient than many global peers and valuations having adjusted lower. The domestic market multiples have de-rated meaningfully, with the 12MF P/E now standing at 13.7x. Industrials ex-Financials have compressed to 23.8x from 30.2x ten months ago, whilst outer-year earnings growth expectations stay fairly anchored in the low-single-digit territory. **Resources have fallen from 9.9x to 7.8x through 2022.**

The 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 23.8x



Source: Morgan Stanley.

Annual Consensus EPS Growth Trends FY21-24



Source: Morgan Stanley Research.

The investment climate remains murky. The big question, still on all investor's minds is: will the US be plunged into a "real recession" (unlike the technical recession which has just happened, with the economy contracting for the second consecutive quarter) and if so, will it be a hard or soft-landing?

We 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 macro backdrop. We have deliberately been moving more defensive and remain invested in real companies with real EBITDA and cash flow, as evidenced by our very **recent move to go significantly overweight the totally bombed out Gold sector,** with a combined EVN and NST weight of ~11.0% and where we see real value emerging. **This is a bold contrarian call.**

One thing is for certain, further central bank tightening is coming. The RBA's 50bps hike on 2nd of Aug was well expected and marks the 3rd straight 50bps rise and the fastest start to a tightening cycle since 1994. The RBA also noted they are not on a pre-set path and that future hikes "will be guided by incoming data, and the outlook for inflation and the labour market", leaving the door open for Governor Lowe to pivot if the economy hits a brick wall, which it will!

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 disruptions, higher input costs and lingering COVID-19 dislocations. In a few cases, outright poor management execution is to blame. These unloved or mispriced stocks continue to trade at very deep discounts to the market and their inherent valuations. We are sticking with them and even selectively strengthening many holdings, as we are confident that latent value exists in these select names, which should be unlocked over time. It just takes a little bit of patience and faith grasshopper……

We would expect the relief rally which commenced in July, to continue into August. The market needs to consolidate the recent gains and digest the pending reporting season.

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, News Corporation, 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 a transition phase 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). Despite the recent correction in commodity prices, the 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

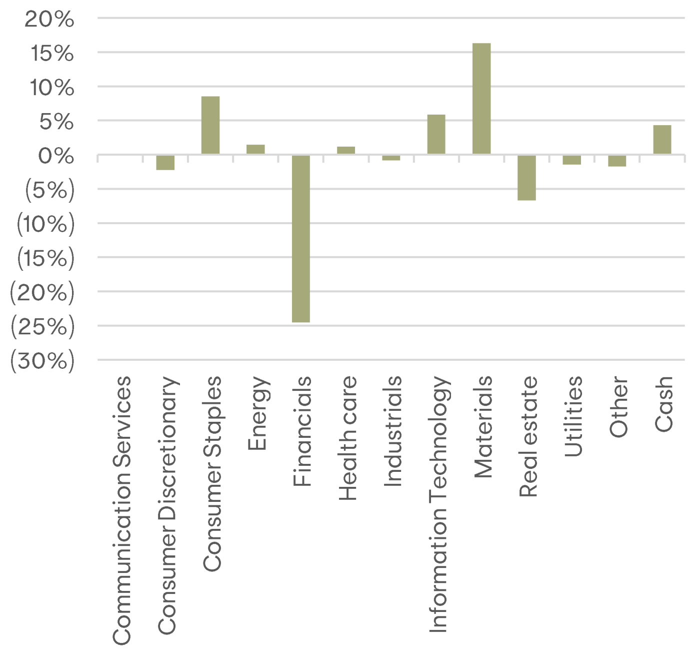
Portfolio Manager

PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^

^Size Comparison Data as at 31 July 2022.
Source: Bloomberg, Ellerston Capital Limited.

Active Sector Exposures*



Source: Ellerston Capital Limited.

TOP 10 HOLDINGS**
ALUMINA
AMPOL
ANSELL
BHP
EVOLUTION MINING
GRAINCORP
IRESS
JAMES HARDIE
NORTHERN STAR RESOURCES
RELIANCE WORLDWIDE

Asset Class Exposures

Exposure (% of NAV)	Net
Equity	97.45
Long Option	0.00
Short Option	-1.74
Effective Cash	4.29
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	$202.7 Million
FUNDS UNDER MANAGEMENT – OASF UNIT TRUST	$8.8 Million
APPLICATION PRICE	$1.0311
REDEMPTION PRICE	$1.0259
NUMBER OF STOCKS	24
INCEPTION DATE	1 July 2011

Source: Ellerston Capital.

Contact Us

Sydney

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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