

Ellerston Capital Monthly Newsletter March 2023

Monthly Returns – Top 3 Performers

Fund	1Month	1Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)*
Ellerston Asia Growth Fund	3.2%	-4.7%	-1.0%	0.0%	3.6%
Ellerston Australian Share Fund	2.9%	2.8%	21.5%	7.2%	9.1%
Ellerston Global Mid Small Cap Fund	2.0%	-0.2%	12.4%	9.6%	10.9%

Performance figures shown are net of fees and expenses. Past performance is not a reliable indication of future performance.

*Please refer to summary of fund performance page for Fund inception dates and APIR codes.

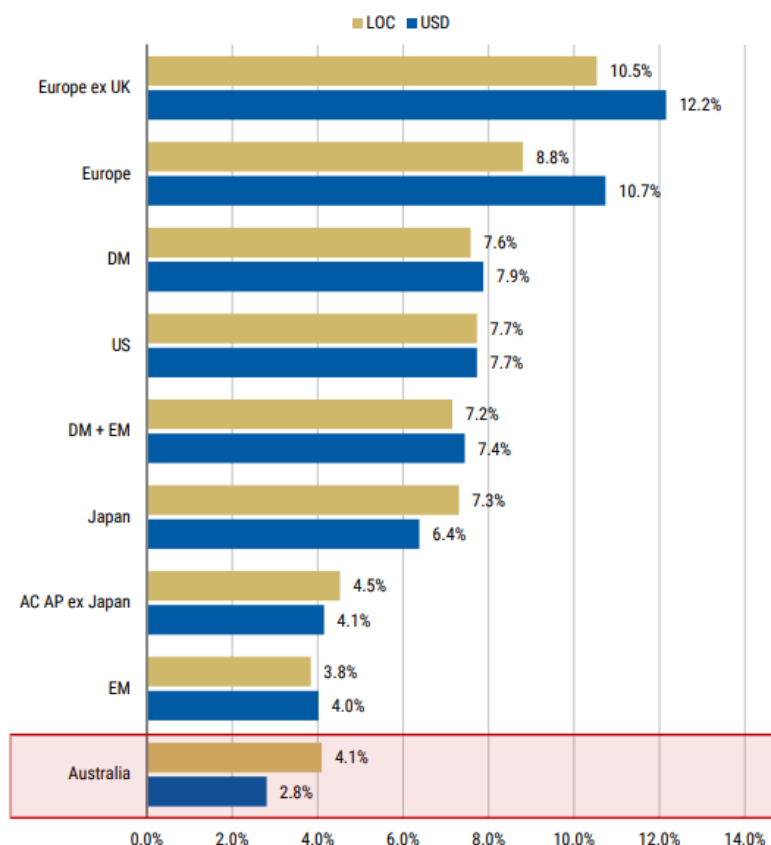
Monthly Update

Australian Update

In an eventful month, global equity markets bounced off their lows in March against the backdrop of bank failures, which stoked hard landing fears and drove bond yields sharply lower. The MSCI Developed Markets eventually closed up 2.5% in local currency, driven by the bond fuelled Tech sector, which rose 9.2%. The fast and furious start by the local ASX 200 observed in the month of January was quickly eroded and surpassed by its regional peers over subsequent months, moving from the top position to the foot of the ladder in Q1 CY23. The domestic market finished at 7,178pts, down 0.2% for March, with Financials (-4.9%) and REITS (-6.5%) weighing the index down.

In the month of March, the S&P/ASX 200 Accumulation Index finished down 0.2%. The Materials sector (up 5.9%), was the best performer (the biggest contributors were BHP +7.5%, Newcrest Mining +19.9% and Northern Star Resources +19.1%), followed by Communication Services (+3.4%) and then Consumer Discretionary (+1.7%). The bottom three sectors were Real Estate (-6.5%, as banking issues drove concerns over CRE and dragged down heavyweights Goodman Group, Scentre Group and Charter Hall Group), Financials (-4.9%) and Energy (-1.5%).

MSCI Global Country/Regional Indices Performance for March 2023



Source: Morgan Stanley.

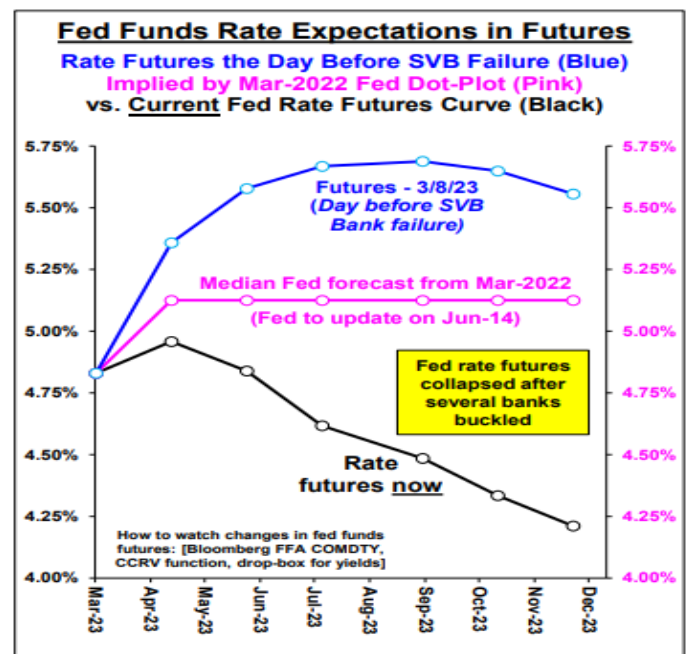
Global Update

There is an old saying that to combat inflation central banks will tighten monetary conditions until something breaks, well something broke. Over the past year, the US Federal Reserve has raised rates at the fastest pace since the 1980's and this new rate regime is now manifesting itself in the world's banking system and primarily in the US regional banks.

Firstly, it does appear that this is more about near term liquidity rather than capital or asset quality issues. The failures of Silicon Valley Bank (SVB) and Signature Bank (SBNY) were very specific to the concentration of exposures within each bank. There was an asset/liability mismatch, a weakness which an elevating rate environment uncovered at the expense of equity and bond holders. Subsequently, we have seen Credit Suisse being purchased by UBS and continued liquidity speculation around large and small banks alike.

Although we have just experienced the second and third largest bank failures in US history, the resolution of a globally systematic important bank (G-SIB) in Credit Suisse and a \$300bn expansion of the US Federal Reserve's (Fed) balance sheet in a matter of days, the Fed continued to raise short term interest rates as it maintains its focus on getting the job done on inflation.

Global economic conditions remain relatively solid at this point and while the most recent inflation print in the US was roughly in line with expectations, the previous report came in higher than market expectations at 0.5% month on month (0.4% was expected) when it was reported mid-March. Following the March release, expectations for the next Fed meeting quickly moved from a 25bps increase to 50bps with the forecast of potential cuts being pushed out to 2024.



Source: Bloomberg Data, Stifel.

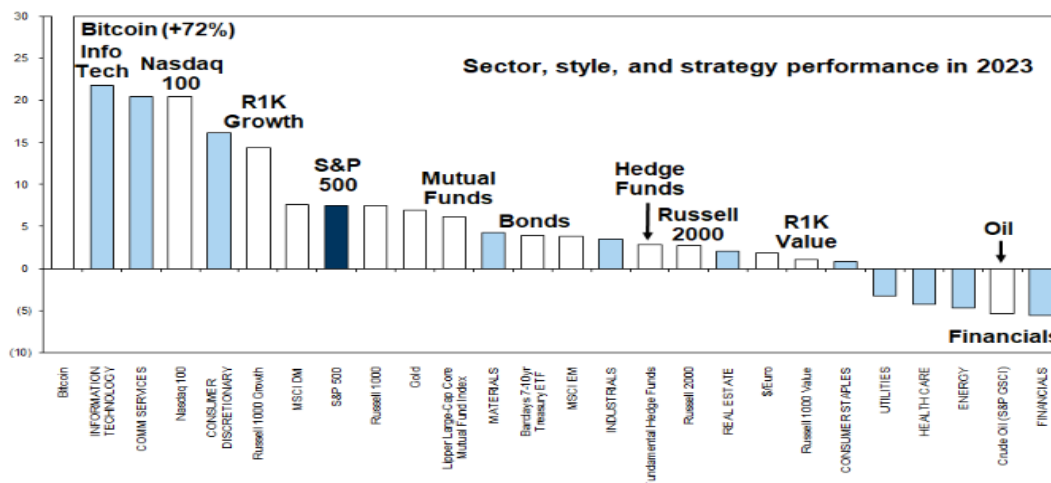
This was enough to break the back of Silicon Valley Bank and we all know the outcome. Interestingly, following the bank failures, rate cut expectations quickly moved from 2024 to mid-summer 2023 as rate volatility skyrocketed.

The events during March have exposed some idiosyncratic issues regarding mismanagement of balance sheet rate risk however they don't appear to be endemic in the broader financial system – look how fast these defunct bank books are being bought by other players. Going forward these events are likely to weigh on near term economic growth (and potentially the pace of further rate increases) as regional banks hoard capital, restrain loan growth and increase provisioning to bolster balance sheets. The key from here is remain mindful and vigilant around any further contagion flow on effects and focus on earnings resiliency, cash flow and balance sheet strength.

The market in 2023

Exhibit 1: What sectors, styles, and strategies are working in 2023?

as of March 31, 2023



Source: FactSet, MSCI, Lipper, HFR, Goldman Sachs Global Investment Research



	1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	
Australia	S&P ASX 50	0.2	4.0	4.0	1.9	16.1	9.2	8.0
	S&P ASX 200	-0.2	3.5	3.5	0.1	16.5	8.7	8.2
	<i>S&P ASX 200 Industrial</i>	-2.1	2.4	2.4	-2.7	13.0	6.6	7.7
	<i>S&P ASX 200 Resources</i>	5.0	6.2	6.2	8.0	28.7	15.9	9.1
	S&P ASX Small Ordinaries	-0.7	1.9	1.9	-13.2	13.1	3.9	5.2
	<i>S&P ASX Small Industrials</i>	-3.0	1.3	1.3	-12.8	9.3	2.6	5.7
	<i>S&P ASX Small Resources</i>	5.6	2.9	2.9	-15.8	27.5	8.2	2.7
	MSCI Australia Value	0.8	3.6	3.6	4.4	22.9	9.0	7.4
	MSCI Australia Growth	-0.7	4.7	4.7	-0.5	10.0	8.2	8.5

ASX 200 Sectors	Energy	-1.5	-1.0	-1.0	14.7	27.2	5.2	1.5
	Utilities	1.5	1.8	1.8	16.0	10.0	7.5	9.7
	Financials	-4.9	-2.7	-2.7	-5.4	17.2	4.8	6.4
	Materials	5.9	7.7	7.7	5.5	28.0	17.0	11.6
	Industrials	0.3	6.6	6.6	6.7	12.6	6.3	9.1
	Real Estate	-6.5	0.1	0.1	-14.8	12.1	3.4	7.1
	Consumer Discretionary	1.7	11.4	11.4	-1.9	20.1	9.4	10.3
	Health Care	0.1	3.7	3.7	7.0	2.4	11.9	14.9
	Information Technology	-0.3	8.1	8.1	-16.9	13.6	9.3	10.3
	Consumer Staples	0.5	7.6	7.6	2.7	7.4	8.6	6.6
	Communication Services	3.4	9.4	9.4	3.5	17.2	9.8	4.4

Local CCY

World	MSCI World Index	2.5	7.4	7.4	-5.5	16.7	8.9	9.8
	MSCI EM (Emerging Markets)	2.2	3.8	3.8	-6.6	8.8	1.9	5.0
	MSCI AC World ex AU	2.5	7.1	7.1	-5.8	15.7	8.1	9.3
	MSCI World Mid Cap	-1.7	4.2	4.2	-7.0	16.5	6.3	8.7
Americas	S&P 500	3.7	7.5	7.5	-7.7	18.6	11.2	12.2
	DJ Industrial Average	2.1	0.9	0.9	-2.0	17.3	9.0	11.1
	NASDAQ Composite Index	6.8	17.0	17.0	-13.3	17.6	12.6	15.3
	Russell 2000	-4.8	2.7	2.7	-11.6	17.5	4.7	8.0
Asia Pac	Hang Seng Index	3.5	3.5	3.5	-4.1	-1.8	-4.4	2.6
	Japan Nikkei 225	3.1	8.5	8.5	3.1	16.2	7.7	10.6
	MSCI AC Asia ex JP	2.9	4.6	4.6	-4.8	8.3	1.9	5.6
	MSCI India	0.6	-6.9	-6.9	-4.2	26.1	11.4	11.7

	SPOT	1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (%)	5Y (%)	10Y (%)	
FX	AUD/USD	0.67	0.0	-1.3	-1.3	-8.6	-1.7	-3.6	-7.7
	AUD/EUR	0.62	-3.2	-3.1	-3.1	-3.7	-0.5	-1.2	-3.2
	AUD/GBP	0.54	-2.8	-4.1	-4.1	0.9	0.7	-1.4	-2.0
	AUD/JPY	89.14	-3.1	-0.4	-0.4	6.1	4.6	0.2	-0.1



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
Alternatives	Ellerston Global Equity Managers Fund - Class C	-0.8	-5.0	-20.9	11.3	5.3	10.7	10.2	ECL0006AU 1/12/09
	Ellerston Australian Absolute Return Fund	1.5	0.7	-17.3	7.8	1.1	-	5.2	ECL0013AU ^3/6/13
	RBA Cash Rate	0.3	0.8	2.1	0.8	1.0	-	1.5	
	Excess Return	1.2	-0.1	-19.3	7.0	0.1	-	3.7	
Australian Equity	Ellerston Australian Share Fund	2.9	6.8	2.8	21.5	7.2	7.7	9.1	ECL0005AU 1/4/09
	S&P/ASX 200 Accumulation Index (ASF)	-0.2	3.5	0.1	16.5	8.7	8.2	9.5	
	Excess Return	3.1	3.3	2.7	5.0	-1.5	-0.5	-0.4	
	Ellerston Australian Emerging Leaders Fund	-0.3	-1.1	-21.6	-	-	-	-15.8	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index (ALF)	-0.7	1.9	-13.2	-	-	-	-9.7	
	Excess Return	0.5	-2.9	-8.4	-	-	-	-6.1	
	Ellerston Income KIS Fund	-0.7	3.0	-1.0	16.5	-	-	8.9	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index (KIS)	-0.2	3.5	0.1	16.5	8.7	8.2	7.4	
	Excess Return	-0.5	-0.5	-1.1	0.0	-	-	1.5	
	Ellerston Australian Micro Cap Fund	-0.3	2.7	-20.4	18.2	8.5	-	12.5	ECL0984AU 1/5/17
	S&P/ASX Small Ordinaries Accumulation Index (MCF)	-0.7	1.9	-13.2	13.1	3.9	5.2	5.8	
	Excess Return	0.4	0.8	-7.2	5.1	4.6	-	6.8	
	Ellerston 2050 Fund	0.2	-0.4	-	-	-	-	-7.4	ECL5651AU 31/5/22
	S&P/ASX Small Ordinaries Industrial Accumulation Index (2050)	-3.0	1.3	-	-	-	-	-4.5	
	Excess Return	3.2	-1.8	-	-	-	-	-2.9	



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	10Y (% p.a.)	S.I.* (% p.a.)	APIR Code / Inception Date
International Equity	Ellerston Global Mid Small Cap Fund - Class A	2.0	11.6	-0.2	12.4	9.6	-	10.9	ECL8388AU 1/3/17
	MSCI World Mid Cap Index (EGMSCF - Class A)	-0.3	5.8	1.7	12.5	7.9	12.4	9.1	
	Excess Return	2.3	5.8	-1.9	-0.2	1.7	-	1.7	
	Ellerston Asia Growth Fund	3.2	3.9	-4.7	-1.0	0.0	-	3.6	ECL1411AU 4/1/17
	MSCI Asia ex Japan (non- accumulation) (AGF)	4.0	5.4	-0.2	1.7	0.6	6.2	4.8	
	Excess Return	-0.8	-1.4	-4.5	-2.7	-0.6	-	-1.2	
	Ellerston India Fund	0.8	-2.4	0.3	13.4	7.1	-	6.4	ECL0339AU 4/5/17
	MSCI India Net Return Index (EIF)	1.9	-5.2	-1.5	18.6	9.1	-	8.2	
	Excess Return	-1.0	2.7	1.8	-5.2	-2.0	-	-1.8	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	0.7	-	-	-	-	-	-	ECL2707AU 5/7/19
	Ellerston Pre - IPO Fund	-5.9	-	-	-	-	-	-	ECL0405AU 31/3/20
Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as of 31 December 2022									

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