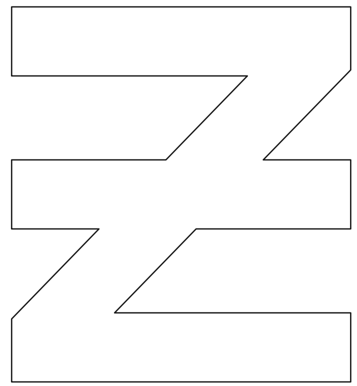
APIR Code ECL7259AU



Ellerston Equity Income KIS Fund

Monthly Newsletter, March 2023

Investment Objective

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

Investment Strategy

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

Key Information

Strategy Inception^^	1 May 2019
Portfolio Manager	Chris Kourtis
Application Price	$1.0595
Net Asset Value	$1.0569
Redemption Price	$1.0543
Liquidity	Daily
No Stocks	31
Strategy FUM	$32.5m
Management Fee	0.70% p.a.
Performance Fee	10%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	$10,000
Minimum Additional Investment	$5,000
Distribution Frequency	Quarterly

FY23(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.7	5.8
Price/Earnings (X)	11.1	14.5
Dividend Yield (%)	6.1	4.4
Dividend Growth Rate (%)	-2.5	-1.3
Beta	0.87	1.00

PERFORMANCE SUMMARY

Performance (%)	1 Month	3 Months	FYTD	Rolling 12 Months	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)^^
Net^	-0.70	3.01	8.63	-1.01	8.09	16.53	8.90
Benchmark*	-0.16	3.46	13.63	0.10	7.28	16.52	7.40
Alpha	-0.55	-0.45	-4.99	-1.11	0.82	0.01	1.50

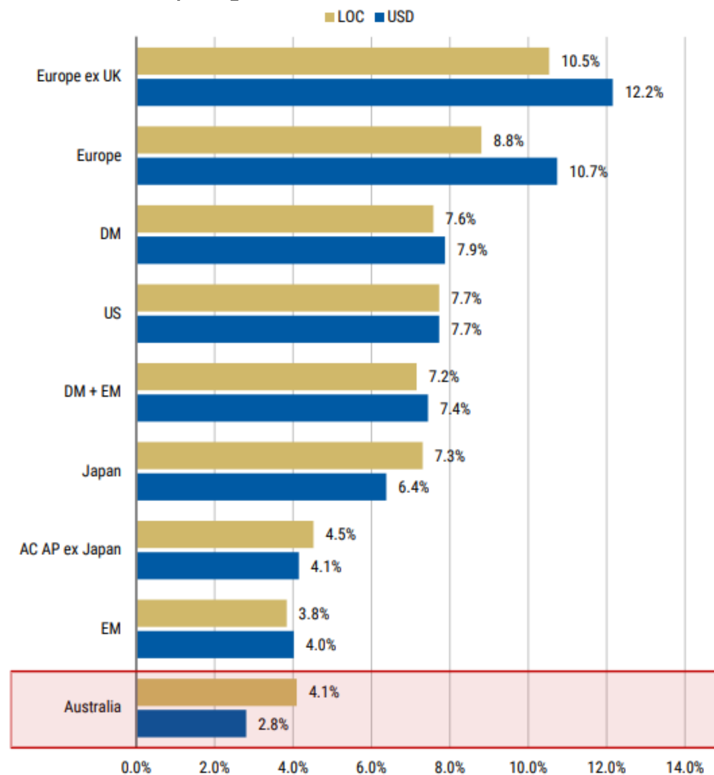
^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

*S&P/ASX 200 Accumulation Index.

MARKET OVERVIEW

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.

MSCI Global Country/Regional Indices Performance for March 2023 CYTD



Source: Morgan Stanley.

USA

Economic indicators continued to soften in March, employment data remained elevated and contrary to expectations, inflationary pressure eased somewhat. US January Non-Farm Payrolls rose 311k versus +504k previously (consensus was +220k) and the unemployment rate rose to 3.4%, given an increase in the participation rate. The February Core Personal Consumption Expenditure (PCE) price index, the US Federal Reserve's (Fed) preferred inflation measure, was better than expected, moderating to 4.6% YoY (from 4.7%) amid a slowing in both goods and services inflation. The Fed, as expected, raised its benchmark interest rate by another 25bps to a range of 4.75% to 5.0%, despite the financial turmoil.

The staggering regional Silicon Valley Bank (SVB) collapse on 10 March was the second largest in US history and the largest since the GFC - it was one of three US regional bank failures in March. The fear of contagion and run on smaller banks forced the authorities to intervene to protect depositors. This resulted in the introduction of the Bank Term Funding Program (BTFP), where banks can obtain a loan from the Fed for up to a year in case they need urgent liquidity, and be able to pledge their securities as collateral at par. This allows banks to create liquidity on the day from their term bond portfolios without recognising unrealised losses - an extraordinarily powerful move to curb systemic risk. So if a $10 par value bond was worth $8 today, the Fed will lend on the $10 par. The risk is not transferred to the Fed and the participating banks will still be responsible for the unrealized losses on pledged collateral.

SVB was the 16th largest bank in the US and clearly better regulatory oversight will be required for regional banks. The turmoil from SVB, together with the bail out of Credit Suisse by UBS (orchestrated by the Swiss National Bank), created massive volatility, particularly in the bond markets and as expected, global financial stocks. By month end, markets stabilised and bond yields tracked lower, setting up a strong equity rally towards the back end of March.

The NASDAQ Composite Index was the standout relative outperformer, rising 6.8%, the S&P 500 finished 3.6% higher - pushed up by big Tech (Microsoft +16% and Apple +11% accounted for about half of the gain) and the Dow Jones Industrial Average was the laggard, posting a +2.1%.

Europe

Eurozone economic indicators were better, with the composite PMI increasing from 52.0 to 54.1. While underlying weakness was still apparent, growth was driven solely by the services sector, expanding the most in 10 months (55.6 vs 53.7 in February). This offset the contraction for the manufacturers (47.1 vs 48.5). Not surprisingly, the European Central Bank remained vigilant and put through a 50bps rate rise at their 16 March meeting, despite the Credit Suisse collapse and broader financial turmoil.

The Euro STOXX50 Index finished the month up 2.0%. Among the major exchanges, Germany's DAX finished 1.7% higher, France's CAC 40 rose 0.8% higher and UK's FTSE 100 fell 2.5% (dragged down by its large Financials and Energy exposures).

Asia

China's recovery continues, however manufacturing activity grew at a slower pace in March than the prior month (manufacturing PMI 51.9 versus 52.6) as growth for new orders and new exports orders eased. However, the non-manufacturing PMI, which measures business sentiment in the services and construction sectors, rose to 58.2 in March from 56.3 in February, reaching its highest level since May 2011.

Asian equity markets were generally stronger. The Hang Seng was the standout, up 3.5%, the Nikkei 225 rose 2.9%, Korea's KOSPI was 2.7% higher, India's SENSEX was flat and China's SSE was the laggard, down 0.8%.

Commodities

Commodities were generally weaker amid hard landing concerns brought about by the US and European (Credit Suisse) financial turmoil. Gold was the best performer, given its safe haven credentials, rising 8% to US$1969 per ounce. The Brent oil price fell 5% to US$80/barrel on lower demand expectations (at the time of writing, in a surprise move, OPEC announced that it will cut 1.2m barrel per day from May to help rebalance the market), putting a rocket on the oil price. Liquefied natural gas and thermal coal prices were broadly flat. Iron ore prices edged up 3% to US$127 per tonne, but coking coal fell back 13% to US$301 per tonne. The base metals complex was mixed, with the major metals; aluminium up 2%, copper flat and nickel down 2%. Lithium carbonate and spodumene prices fell sharply by 41% and 8% respectively, caused by high inventory levels across the battery supply chain.

Bonds

It was one of the most volatile short periods for bonds in decades, especially in the US at the front end of the curve. The US 2-year bond fell 80bps to 4.02% during the month, however, it hit an intra-month high of 5.06%, just before the SVB collapse, only to hit a low of 3.77% - that's an astonishing 129bps move in the space of 2 weeks! The US 10-year treasury yield fell 38bps to 3.47%, retracing February's move, as increased recession odds and hence peak rates took hold. The Australian 10-year bond yield also fell in-line, down up 55bps to 3.85%, also pricing in a halt in rate rises given the softer key CPI print.

Australia

As expected in early March, the Reserve Bank of Australia (RBA) delivered another 25bps interest rate increase (the 10th in a row) to 3.60%, with its next meeting scheduled on 4th April having a high probability of a pause, as moderating inflation strengthened the case for rate hikes to be placed on hold. At the time of writing, that is exactly what transpired, with the RBA citing the provision of additional time to assess the lagged impact of recent rate rises to date and more carefully gauge the economic outlook.

The A$ closed the month flat at US$0.67, in line with the major commodity prices, even though the US dollar was weaker.

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%).

For the month, the top stocks that made a positive contribution to the Index's return were BHP Group (+81bps), Newcrest Mining (+19bps), Northern Star (+12bps), Rio Tinto (+12bps) and Liontown Resources (+11bps). Conversely, the bottom five stocks detracting from the Index's performance were National Australia Bank (-35bps), ANZ Group (-25bps), Macquarie Group (-25bps), Commonwealth Bank (-18bps) and Westpac (-14bps). The ASX Small Ordinaries fell 0.7%, underperforming the broader benchmark by 0.5%. Within the ASX Small Ordinaries, the Small Resources outperformed at +5.6%, with the best performer being Lithium developer Liontown Resources, up a whopping 89.7% - see the write-up below.

The Gold sector was the best group rising +18.9%. Gold is often a strong performer when the Fed's balance sheet expands and has also benefited from weaker growth expectations, as this has led to a fall in real bond yields. Australia saw a wave of takeover offers in March. Liontown, Estia Health, Invocare and United Malt all received all-cash takeover offers. Healius received a script-based offer, while Newcrest received a script-based offer in February. These takeover offers serve to highlight that even with the rising cost of capital to fund deals, there are groups (e.g. private equity firms, industry peers looking over the fence) that continue to seek to take advantage of mis-pricing by the market and share-price weakness.

COMPANY SPECIFIC NEWS

The Market Hits

Liontown Resources (LTR +89.7%)
LTR shares rallied hard after it announced that it rejected an unsolicited, conditional and non-binding proposal from New York listed Albemarle Corporation (ALB) to acquire all the shares in LTR at a price of $2.50 per share. This followed earlier proposals by ALB at A$2.35 and $2.20 in March 23 and October 22, respectively. The bid values LTR at $5.6bn. While the offer represented a 64% premium to last close, LTR has outright rejected the proposal, citing it does not accurately reflect; (1) the recent de-risking of its Kathleen Valley (KV) lithium project, (2) the growth optionality of KV, (3) the scarcity value of KV, (4) the positive near-term outlook for existing/new producers, and (5) the significant synergies that would be available to ALB should they acquire KV. It certainly put a rocket under the listed lithium stocks, not just in Australia but globally, going against the large fall in lithium prices.

United Malt Group (UMG +33.1%)
UMG shares shot up after receiving a conditional, non-binding and indicative all cash takeover proposal for $5.00 per share from French registered Malteries Soufflet, the largest commercial maltster in Europe and 2nd largest globally. The proposal followed prior offers of $4.15 on 16 December, $4.50 on 6 February and $$4.90 on 8 March. The approach represented a 45% premium to UMG's last closing price, 11.5x EV/EBITDA and a 24.8x PE. UMG's Board announced that it intends to unanimously recommend the offer once formalised and made binding.

Capricorn Metals (CMM +25.6%) / Perseus Mining (PRU +21.7%) / Northern Star Resources (NST +19.9%) / Regis Resources (RRL +19.5%) / Newcrest Mining (NCM +19.1%) / Chalice Mining (CHN +17.8%)
Gold and precious metal stocks were broadly up 19% for the month, after falling 9% in February. The spike was driven by the +8% move in the bullion price caused by much lower bond rates responding to US and European banks liquidity pressures.

InvoCare (IVC +25.9%)
IVC shares shot up after the company received a $12.65 cash per share indicative acquisition proposal from TPG Global to acquire 100% of the issued shares by way of scheme of arrangement. TPG had acquired a 17.8% interest in IVC via a combination of physical ownership and derivatives. The IVC Board initially commenced an assessment of the indicative proposal, but later rejected the bid. TPG noted the offer was subject to; (1) IVC not having any engagement with third parties on an alternative change of control during the DD period and negotiation of binding transaction documents and (2) the IVC board supporting the proposal. TPG noted the proposal would be subject to necessary regulatory approvals, and is likely to require Foreign Investment Review Board approval. The Indicative offer was a 41% premium to last close and implies a $1.8b equity value but still 13% below where IVC traded just before COVID hit.

AGL Energy (AGL +16.7%)
The Australian Energy Regulator (AER) released its draft Direct Market Offer, approximately 20% higher for FY24, which should result in higher retail margins for both AGL and Origin Energy. Stronger forward electricity prices have enabled power producers like AGL to significantly hedge FY24 and FY25, resulting in higher wholesale margins. The combination of the two led to earnings upgrades and buy recommendations being placed on AGL intra-month from three major stockbroking houses. This pushed the stock price back to where it was at the end of 2022.

The Market Misses

Lake Resources (LKE -28.8%)
LKE sold off and bucked the trend for stock specific reasons, as lithium carbonate and spodumene prices fell 40% and 8% respectively during the month. Excess lithium inventory sitting in car batteries (at dealers and OEMs) and at battery cell makers put pressure on lithium prices. Post the Liontown Resources announcement, lithium stocks generally had a massive bounce, the exemption being LKE which announced that its chairman, Stu Crow had sold 8m shares (44% of his holding) to meet personal financial obligations. The stock price fell 14% on the announcement.

Polynovo (PNV -27.2%)

PNV develops medical devices utilising its patented bioabsorbable polymer technology Novosorb, designed to support tissue repair, before they biodegrade in situ into biocompatible by-products via established pathways. Investors must have felt as if someone had ripped off the bandage when PNV chairman David Williams sold 4.75m shares (18% of his holding) at $2.04/share. The sale raised $9.7m, which in part would help settle a U.S property purchase. The stock price fell 12% on the day of the release alone and continued to sell off.

Megaport (MP1 -27.2%)
Enterprise networks business MP1 was back in the news in the month of March as chief executive Vincent English abruptly followed company secretary Emily McCaffery out the door. This left chairman and founder Bevan Slattery to step in as acting CEO while the search for English's replacement was conducted. The stock sold off sharply since the management shake-up, as investors were left scratching their heads. MP1's share price is down 70% in past 12 months, caught up in the wider tech sell-off. It remains one of the most shorted stocks on the ASX, with ~12% of its shares in the hands of short sellers.

Lynas Rare Earths (LYC -22.7%)
LYC shares have come under pressure in the recent past after announcing that Malaysian authorities would not allow LYC to continue cracking and leaching material through its Pahang separation plant (LAMP) from July 2023. Investors are concerned that its Kalgoorlie cracking and leaching plant (KCL) currently under construction and further delayed, may still not be ready in time to fill the breach. Further, at the beginning of March, Tesla's vision to remove rare earths from its EVs raised question marks over the medium to longer-term prospects of NdPr demand, sending NdPr pricing down 22% for the month.

Charter Hall Group (CHC -17.4%) / HMC Capital (HMC -16.5%) / Cromwell Property Group (CMW -14.5%)
Real Estate was the worst performing sector in March (-6.5%), as the US banking solvency concerns hit leveraged exposures, including REITS. Investors scrutinised commercial real estate (CRE) as a major source vulnerability to system stress, especially given that US regional banks are responsible for ~40% of CRE lending. Regional bank liquidity has tightened credit availability, making mark-to-market adjustments in property more severe in a less liquid environment. Australian REITS got caught up in the melee, despite the much stronger financial position of Australian banks relative to their US peers. CHC delivered a good HY23 result but 2H guidance was well below consensus expectations and combined with weaker balance sheet, resulted in a staggering negative share price reaction. HMC and CPW also delivered weaker than expected HY23 results, which carried into March.

Challenger Limited (CGF -16.7%)
Following recent market ructions, there have been growing concerns in the equity market around valuations / defaults in the commercial real estate market ("CRE"). CGF has 15% of its assets in property, 55% of which are in the office segment (~$1.8bn). Australia office exposure is deemed the most "at risk". Whilst the prospects for very large, near term write-downs are limited now, the market has become very nervous. A 10% fall in property values according to CGF's sensitivities is worth ~8.3% to their Prescribed Capital Amount (PCA) - starting PCA of 1.59x with flex down to 1.3x being possible plus 4pts addition to come from its bank sale. These risks might appear manageable in current conditions (with only a modest widening in credit spreads), however CGF's share price has fallen 18% CYTD compared to the ASX200, which is up 3.5% over the same period.

Virgin Money UK PLC (VUK -15.8%)
The collapse of Silicon Valley Bank (SVB) and other US regional bank failures coincided with the bailout of Credit Suisse by UBS. This caused wild swings in bond yields, credit default swaps, credit spreads and concerns on deposits and liquidity, let alone weaker credit growth and accelerating the prospects of a deeper US recession. The authorities came to the party with a modicum of stability by month end. Listed regional and smaller banks were hit in the US, Europe and the UK and VUK was no exception.

Credit Corp Group (CCP -15.5%)
The market was disappointed with the 1H23 result where NPAT missed consensus. This was a transition half for the company, where management were swinging the capital base to support the lending business, given resourcing issues in the US & lack of purchased debt ledger books (PDL) supply in Australia. Despite the lending book growth in 1H, disappointingly, CCP incurred upfront loss provisioning which flattened NPAT. The other main negative in the 1H result was the uplift in US hiring costs, and productivity issues, but felt the worst should be behind them. Improving productivity will be the key focus for management in 2H. Full year 2023 NPAT guidance of $90-97m was reaffirmed, implying a much stronger 2H. In theory, this should bode well for FY24, where consensus is lower than the 2H annualised rate, however, investors appear to be waiting to see the delivery,

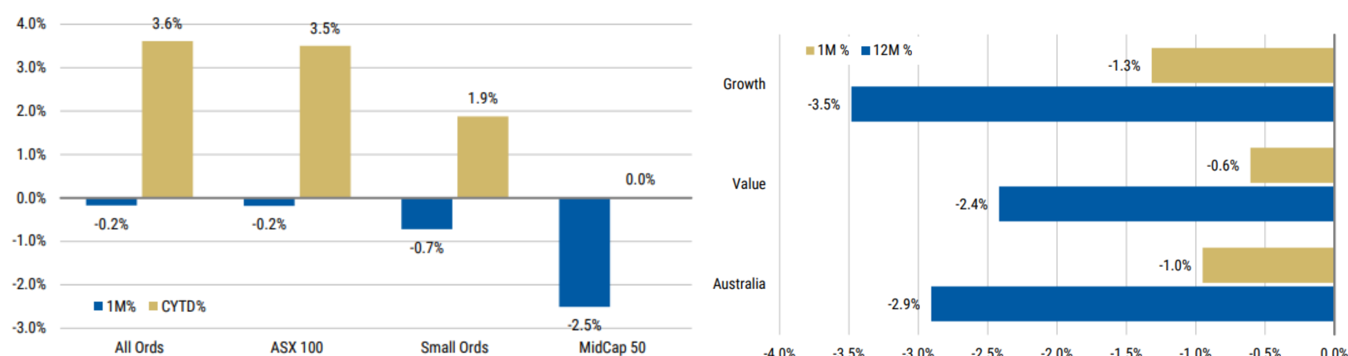
Block Inc. (SQ2 -7.4%)
Afterpay owner Block Inc. shares tumbled but closed way off their lows after Hindenburg Research alleged the payments company (chaired by Jack Dorsey, the former co-founder of Twitter) facilitated fraudsters who took advantage of government stimulus programs during the global pandemic. Block slumped 14.8% to $61.88 in New York trading after earlier sliding as much as 22%, the company's biggest intraday decline in three years. Hindenburg, the firm run by Nathan Anderson, bolstered its profile with a scathing report on billionaire Gautam Adani's business empire earlier this year. The short report took a specific interest in the Afterpay acquisition; saying that the business was created to avoid responsible lending regulation in Australia as opposed to providing 'responsible payment options'. They also reminded investors that APT delinquencies had more than doubled since June 2021 (just prior to the acquisition) and that Afterpay was just another form of debt. In its two year deep dive investigation, Hindenburg alleged it found that Block's wildly popular Cash App was likely facilitating fraudsters taking advantage of government stimulus programs during the pandemic. Former employees interviewed estimated that 40-75% of accounts they reviewed were fake, fraudulent, or additional accounts tied to a single individual. In response to a public-records request by Hindenburg, the state of Massachusetts told the short seller that it sought to claw back over 69,000 unemployment payments from the bank behind Cash App accounts, a staggering amount that exceeded those it sought to reverse from major banks the likes of JPMorgan Chase & Co. and Wells Fargo & Co., which have a significantly higher customer base. In an online post on its website, short seller Hindenburg said: "The 'magic' behind Block's business has not been disruptive innovation, but rather the company's willingness to facilitate fraud against consumers and the government, avoid regulation, dress up predatory loans and fees as revolutionary technology, and mislead investors with inflated metrics".

FUND PERFORMANCE

In what can only be described as an extraordinary period of financial system stress (SVB and US regional bank failures, Credit Suisse collapse and subsequent bailout), global equities and both short and longer term bond yields endured heightened volatility. The Fund's performance of -0.6% was marginally below the benchmark return of -0.2%. This brings the return for the 3 years p.a. to March to a satisfactory 17.6% and 10.04% p.a. since inception.

As was the trend in the US, where the Russell 2000 Index fell 5.0%, domestic Small and Mid-Cap stocks (where the Fund remains significantly overweight as a sector), dramatically underperformed this month relative to their Large Cap peers. However, Value outperformed Growth as a style, which on this occasion, helped to compensate.

Financials and Real Estate were two of the three weakest performing sectors, with Materials faring the worst, closing down 6.6% (pulled down by BHP Group -8.5% and RIO -8.4%).



Materials, which rose 5.9%, posted the largest contribution to the market's return in March and was also the best performing sector (led by BHP Group +7.5%), followed by Communication Services (Telstra +3.6%, given its defensive attributes) and Consumer Discretionary (Wesfarmers +4.2%).

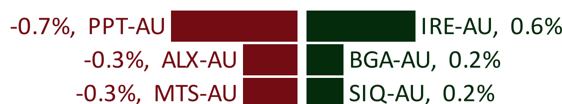
Financials and Energy were two of the three weakest performing sectors, with Real Estate faring the worst, closing down 6.6% (dragged down by Goodman Group -5.4%, Scentre Group -7.7% and Charter Hall Group -17.4%).

Returns[1] (%)	*Gross*	*Benchmark*	*Excess*	*Net Return*
1 Month	-0.65	-0.16	-0.49	-0.70
3 Months	3.19	3.46	-0.27	3.01
FYTD 2023	9.25	13.63	-4.38	8.63
Rolling 12 Months	0.07	0.10	-0.04	-1.01
2 Years (p.a.)	9.30	7.28	2.02	8.09
3 Years (p.a.)	17.65	16.52	1.12	16.53
Since Inception (p.a.)	10.04	7.40	2.65	8.90

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

Month of March Attribution

Securities Held



Securities Underweight/Not Held

Source: Ellerston Capital.

In March, the main positive contributors were active overweight positions in IRESS (IRE +6.6%), Bega Cheese (BGA +3.7%) and Smartgroup (SIQ +4.9%) and zero holdings in banks (NAB -7.6%, ANZ -7.0%, Macquarie -7.3% and CBA -2.4%).

The main detractors for the month were our overweight positions in Perpetual (PPT -8.0%, given its market beta in a highly volatile month), Atlas Arteria (ALX -5.1%), Metcash (MTS -5.4%) and not holding Newcrest Mining (NCM +19.1%) which is under take-over offer.

FUND ACTIVITY

Given the heightened volatility and wild intra-month dispersion, the Fund was again quite active during the month of March. We took advantage of the market volatility to strengthen select existing positions in Bega Cheese, Iluka, Incitec Pivot, IRESS, and Perpetual. We also re-introduced toll road infrastructure operator Atlas Arteria into the portfolio. We funded these purchases by reducing positions in Ampol, Eagers Automotive, CSR and G.U.D, as well as profitably exiting our residual holdings in Blackmores, QBE and Reliance Worldwide.

NEW STOCKS ADDED	STOCKS EXITED
• Atlas Arteria	• Blackmores
	• QBE Insurance Group
	• Reliance Worldwide

INCREASED	DECREASED
• Bega Chese	• Ampol
• Iluka	• Eagers Automotive
• Incitec Pivot	• CSR
• IRESS	• G.U.D.
• Perpetual	

FUND STRATEGY AND OUTLOOK

US financial officials outlined what will probably be the biggest banking regulatory overhaul in a decade in the wake of the sudden SVB collapse, including more focus on lenders with assets larger than $100 billion that aren't deemed systemically important. The Fed will enhance stress tests and the Federal Deposit Insurance Corporation (FDIC) will propose options for changes to the deposit insurance scheme to backstop demands by bank customers to withdraw money.

A number of commentators are pondering whether SVB Financial Group was the canary in the coal mine. The hastily created Bank Term Funding Program (BTFP), where banks can obtain a loan from the Federal Reserve (Fed) for up to a year in case they need urgent liquidity in exchange for pledging their securities as collateral at par, seems to have restored confidence in the system. What it means for US regional banks is tighter regulations, resulting in credit rationing and as we have seen, more outflows into the bigger money centre banks.

At present, the US bond curve is pricing in 2.5 rate cuts by the end of calendar 2023, which looks like a Mexican stand-off given the Fed's stance and we anxiously await the next Federal Open Market Committee (FOMC) meeting on the 2-3 May. The narrative is quickly changing from "what will the Fed do" to "what has it done".

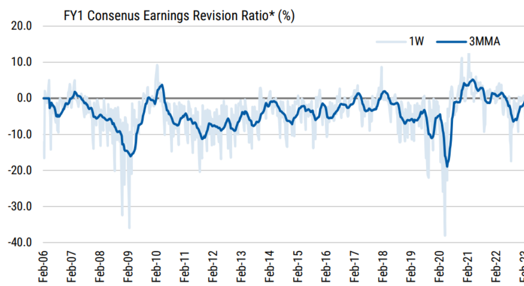
The European Central Bank (ECB) followed through on guidance provided at its February meeting that it would hike rates by 50bp, taking its deposit facility rate to 3%. Due to recent market turmoil, following the collapse of three US regional banks, the market had revised down its expectations just prior to the meeting to only a 25bps hike (with only a small chance of 50bp). President Lagarde noted that the very large majority of Governing Council members supported the 50bps hike, with three of four not supportive as they wanted to see how the financial market situation unfolded. After their March policy meeting, the market is now firmly of the view that the ECB will carry out one more 25bps hike this cycle, to a peak of 3.25% in June. This represents a dramatic shift where a peak rate of 4.25% was expected. Although the ECB acknowledged the "recent emergence of financial market tensions", its decision to proceed with a large rate hike of 50bps was driven by its projection that inflation will "remain too high for too long".

The RBA bank paused its almost yearlong tightening cycle (following 10 official interest rate hikes), highlighting policy lags and a "substantial" slowdown in household spending, while keeping the door open to further interest-rate increases. Lowe said in his statement that "some further tightening of monetary policy may well be needed". The introduction of the word "some" and the governor replacing last month's "will" with "may", suggests a toning down of the RBA's tightening bias. This is in stark contrast to the RBNZ across the Tasman, which at time of writing just raised the OCR by 50bps to 5.25%, above consensus for a 25bps hike.

Focusing on the pending US Q1 earnings season that kicks off in mid-April, this will set the tone for equity markets until the next FOMC meeting. Global earnings revisions are still poor, with risks to further downgrades.

Source; Credit Suisse

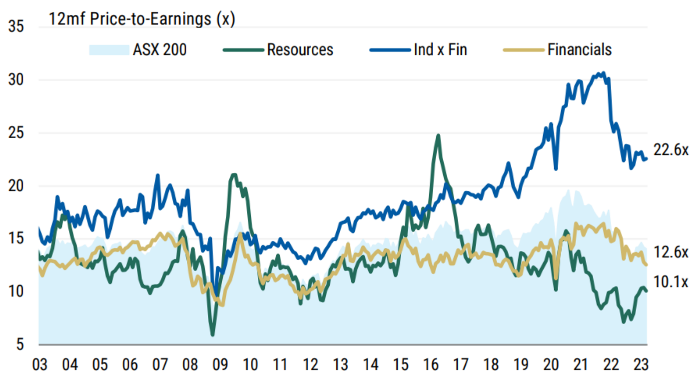
Here in Australia, earnings changes in March were rather muted, as investor focus is currently more macro, than micro driven. The twelve-month forward consensus earnings growth was held at 1.8%. Earnings revisions breadth moved slightly more negative on a rolling three-month average window.



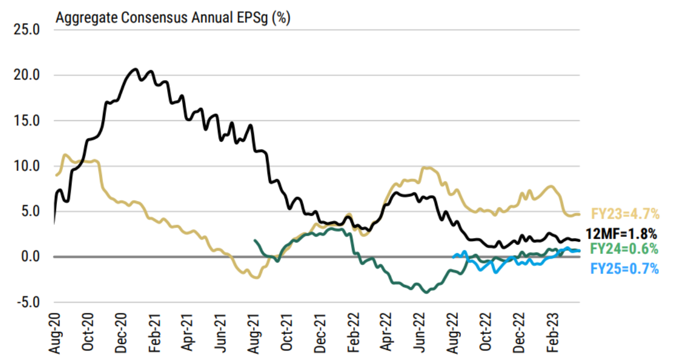
Source; Morgan Stanley Research

The domestic market multiples which had de-rated meaningfully over the past year, have reversed somewhat in the past few months (as the market bounced sharply off its lows), with the 12MF P/E now standing at 14.1x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

Valuation: the 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 22.6x



Annual Consensus EPS Growth Trends FY23-25



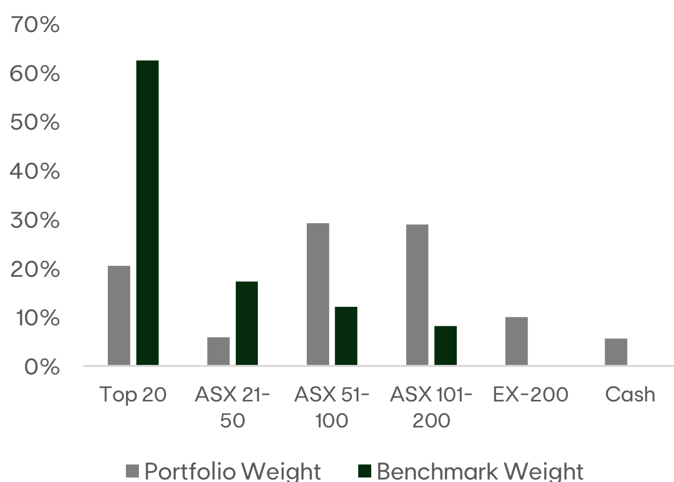
Source: Morgan Stanley Research.

Apart from the broad changes outlined in the Activity Section, the Fund strategy remains as per last month and we are holding the course.

We remain true to label.

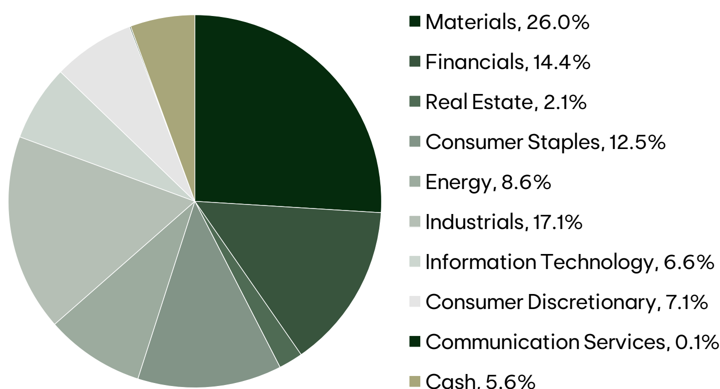
The grossed up dividend yield on the portfolio now rests at 7.7%, which remains superior to the market dividend yield, despite owning no Banks, Telstra, and other traditional income payers.

MARKET CAPITALISATION



TOP 10 HOLDINGS	
BHP GROUP LTD	9.7%
PERPETUAL LIMITED	9.1%
ATLAS ARTERIA	8.0%
IRESS LIMITED	6.6%
IGO LIMITED	6.4%
WESFARMERS LIMITED	5.4%
METCASH LIMITED	5.2%
ILUKA RESOURCES LIMITED	4.7%
LIBERTY FINANCIAL GROUP LTD	4.7%
BEGA CHEESE LIMITED	4.6%

SECTOR ALLOCATION



Source: Ellerston Capital.

Contact Us
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.

The Fund is also available for application through the NetWealth and HUB24 Platforms.

All holding enquiries should be directed to our register, Automic Group on **1300 101 595** or Ellerstonfunds@automicgroup.com.au

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on **02 9021 7701** or info@ellerstoncapital.com or visit us at ellerstoncapital.com

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as Responsible Entity of the Ellerston Equity Income KIS Fund (ARSN 662 683 123) without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement which can be obtained by contacting info@ellerstoncapital.com and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.

Ellerston Capital