



Ellerston Capital Monthly Newsletter April 2023

Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)*
Ellerston Absolute Return Fund	3.8%	-13.9%	6.2%	2.1%	5.5%
Ellerston Australian Micro Cap Fund	3.7%	-14.9%	11.1%	9.2%	13.0%
Ellerston India Fund	3.2%	0.4%	11.8%	6.6%	6.9%

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.

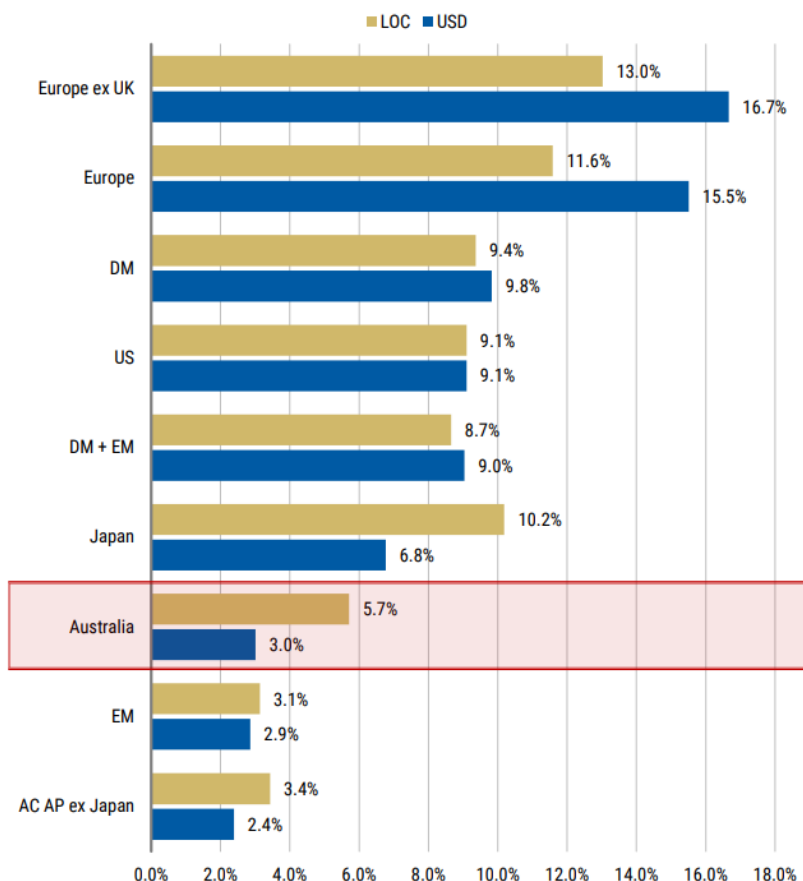
Monthly Update

Australian Update

The MSCI Developed Markets closed up 1.6% in April and the S&P 500 gained momentum (+1.6%) in local currency terms. Emerging markets (-0.7%), underperformed their Developed market counterparts, with Energy, Staples and Healthcare being the best performing sectors globally. The domestic market finished at 7,309pts, up 1.8% for April, with Materials (-2.6%) the only negative sector, dragged down by the big miners which were hit by the sharp 16% fall in the benchmark iron ore price.

In the month of April, the S&P/ASX 200 Accumulation Index finished up 1.8% after a pause in monetary tightening triggered a relief rally. The Real Estate sector (up 5.1%), was the best performer (the biggest contributors were Mirvac +15.9%, and Stockland +11.8%), followed by information Technology (+4.8%) and then Industrials (+4.4%). The bottom three sectors were Materials (-2.6%, as 16% lower iron ore pricing impacted the heavyweight miners BHP -6.0%, Rio Tinto -6.6% and Fortescue -6.9%), Utilities (+1.4%) and Energy (+1.7%).

MSCI Global Country/Regional Indices Performance for April 2023



Source: Morgan Stanley.

Global Update

At the time of writing, approximately 90% of the S&P has reported (by market cap) with earnings coming in generally better than expected with a beat rate of around 78%. Earnings that have been reported in both the US and Europe are tracking down about 3% on last year which is actually a positive surprise of 6% and 9% respectively. There had been a swath of earnings downgrades heading into the reporting period and clearly they got ahead of themselves.

While earnings have been stronger than anticipated, the average stock movement has been relatively subdued as the market had been quite solid leading into the reporting season. That said, misses or results which are showing a material slowdown, margin contraction or structural issues have been dealt with harshly.

The US Federal Reserve (Fed) raised rates by 25bps in early May (as expected) representing the 10th increase in a little over a year, taking the Fed Funds rate target to 5.0-5.25%. The questions going forward are whether this was the last rate increase we will see this cycle, do they pause and hold at this higher level or will rates need to be cut over the coming months. The market is pricing in the latter as one the fastest rate rise events coupled with regional bank liquidity concerns will likely weigh on economic growth over the coming quarters.

Typically, the Fed is cutting rates in times of earnings contraction however this period has been overshadowed by its fight with inflation and therefore quite an unusual period for equities to deal with. Fed Chairman Jerome Powell does seem steadfast that he is in the "higher for longer" camp despite regional bank stress.

Economic data over the first quarter of 2023 has demonstrated a fairly resilient consumer, tight labour markets driving sustained wage growth with core inflation still well above target. It will be interesting to see if the forward market, which is pricing in cuts this year, has gotten ahead of itself considering that policy tightening has yet to deliver a material easing in wage growth and therefore inflation down to targeted levels.

On the back of recession concerns, regional bank liquidity issues and now the debate around the debt ceiling in the US, there has been a flight to the large end of town with returns concentrated in a select number of stocks. As Jefferies highlights below, approximately 61% of S&P 500 returns YTD can be explained by 5 stocks with only 32% of the stocks outperforming the index, a level not seen since 1999. While our investing universe does not include these mega caps, it does show how narrow the market breadth is at the moment.

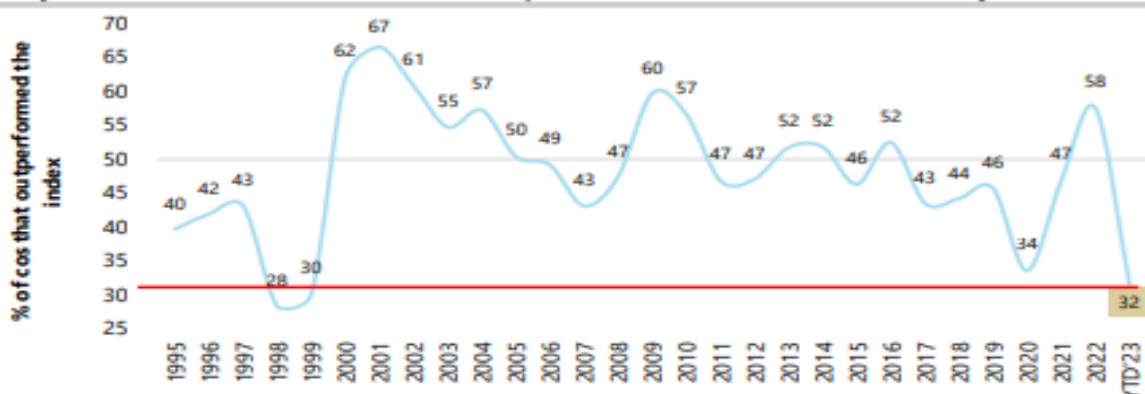
Developed Markets vs. Asia Divergence

Volatility eased in April particularly in developed markets as expectations that global central banks are at the tail end of their respective hiking cycles and a better than feared reporting season in the US eased market concerns. Despite the recent respite, global market sentiment remains fragile given ongoing concerns around the regional banking system and debt ceiling deadline in the US and lingering recession fears in both the US and Europe.

Asian markets underperformed developed markets during the month dragged down by Chinese equities. This was despite the release of better-than-expected 1Q23 GDP growth (+4.5% YoY) and retail sales (+10.6% YoY) data along with improving property activity (sales +4.1% YoY in 1Q). The underperformance of Chinese equities since January despite growing evidence of economic cycle divergence between China (accelerating) and the US and Europe (slowing) has been surprising.

It is apparent that the wall of worry for investing in China remains high. We however believe that the vectors of uncertainty with regards to Chinese equities have gradually been removed. Indeed over the past 6 months, the Chinese Government has abandoned zero-COVID, eased regulatory restrictions, provided stimulus for the property sector and maintained a supportive monetary policy environment. Importantly, these catalysts have started to translate into positive economic data and corporate earnings growth. Yet despite these positive developments, MSCI China continues to trade at the same multiple as it did back in December last year of 10.3x forward PE and 1.2x PB. These depressed valuations compare favourably to forecast earnings growth for the market of ~15% over the next 12 months and low teens ROE.

Only 32% of the S&P stocks have outperformed the index so far this year



Source: Jefferies, FactSet. Note: Based on yearly rebalanced S&P Dec end universe.



		1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P ASX 50	1.5	-0.7	5.6	4.1	14.0	8.7	7.6
	S&P ASX 200	1.8	-0.8	5.4	2.8	14.0	8.3	7.9
	<i>S&P ASX 200 Industrial</i>	3.5	0.3	6.0	0.3	11.7	6.8	7.4
	<i>S&P ASX 200 Resources</i>	-2.3	-3.5	3.8	10.1	21.5	13.3	9.3
	S&P ASX Small Ordinaries	2.8	-1.7	4.7	-9.4	9.2	3.9	6.0
	<i>S&P ASX Small Industrials</i>	3.6	-1.2	5.0	-7.6	6.3	3.0	6.0
	<i>S&P ASX Small Resources</i>	0.7	-3.3	3.7	-15.4	20.2	6.9	5.2
	MSCI Australia Value	-0.1	-2.9	3.5	5.9	20.4	8.7	6.6
	MSCI Australia Growth	3.3	1.5	8.1	2.0	8.0	7.6	8.6

ASX 200 Sectors	Energy	1.7	-0.6	0.7	13.9	18.8	3.5	1.8
	Utilities	1.4	6.4	3.2	7.5	9.5	7.3	9.4
	Financials	3.3	-4.8	0.6	-2.3	17.4	5.4	5.9
	Materials	-2.6	-3.7	4.9	7.3	21.4	14.7	11.8
	Industrials	4.4	6.3	11.4	7.7	9.8	6.5	9.5
	Real Estate	5.3	-2.1	5.8	-9.9	10.7	4.9	7.4
	Consumer Discretionary	2.8	4.2	14.5	4.0	15.4	9.3	10.1
	Health Care	3.6	3.4	7.4	8.4	2.1	11.1	15.0
	Information Technology	4.8	7.3	13.3	-2.9	7.8	9.7	10.8
	Consumer Staples	1.8	3.4	9.5	1.2	7.2	7.8	6.0
	Communication Services	3.6	7.6	13.3	7.7	16.9	10.1	3.7

Local CCY

World	MSCI World Index	1.6	2.5	9.2	3.2	13.5	8.8	9.7
	MSCI EM (Emerging Markets)	-0.7	-3.3	3.1	-3.9	5.5	1.5	5.0
	MSCI AC World ex AU	1.3	1.9	8.5	2.3	12.5	7.9	9.2
	MSCI World Mid Cap	0.4	-2.8	4.7	-0.9	12.5	6.0	8.4
Americas	S&P 500	1.6	2.7	9.2	2.7	14.5	11.4	12.2
	DJ Industrial Average	2.6	0.6	3.5	5.6	14.2	9.5	11.2
	NASDAQ Composite Index	0.1	5.8	17.1	0.0	12.1	12.6	15.1
	Russell 2000	-1.8	-8.1	0.9	-3.6	11.9	4.2	7.9
Asia Pac	Hang Seng Index	-2.4	-8.5	1.0	-2.4	-3.9	-5.4	2.2
	Japan Nikkei 225	2.9	6.6	11.7	10.0	14.8	7.3	9.7
	MSCI AC Asia ex JP	-1.6	-3.8	2.9	-2.9	4.9	1.3	5.2
	MSCI India	3.7	0.5	-3.4	0.1	21.8	10.8	11.7

		SPOT	1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (%)	5Y (%)	10Y (%)
FX	AUD/USD	0.66	-1.3	-6.2	-2.6	-7.0	0.3	-2.6	-4.4
	AUD/EUR	0.60	-2.9	-7.7	-5.8	-11.1	0.0	-0.9	-2.7
	AUD/GBP	0.53	-2.9	-8.1	-6.7	-7.1	0.4	-0.8	-2.4
	AUD/JPY	89.98	1.0	-1.8	0.6	-2.3	8.7	1.7	-1.2



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	0.2	-4.8	-19.7	9.9	5.2	10.6	10.2	ECL0006AU 1/12/09
	Ellerston Australian Absolute Return Fund	3.8	4.9	-13.9	6.2	2.1	-	5.5	ECL0013AU ^3/6/13
	RBA Cash Rate	0.3	0.8	2.3	0.9	1.0	-	1.5	
	Excess Return	3.5	4.1	-16.3	5.3	1.1	-	4.0	
Australian Equity	Ellerston Australian Share Fund	1.0	2.0	4.2	18.3	6.0	7.6	9.1	ECL0005AU 1/4/09
	S&P/ASX 200 Accumulation Index (ASF)	1.8	-0.8	2.8	14.0	8.3	7.9	9.6	
	Excess Return	-0.8	2.8	1.3	4.3	-2.2	-0.3	-0.5	
	Ellerston Australian Emerging Leaders Fund	0.9	-2.2	-19.3	-	-	-	-14.7	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index (ALF)	2.8	-1.7	-9.4	-	-	-	-7.8	
	Excess Return	-1.9	-0.4	-9.9	-	-	-	-6.8	
	Ellerston Income KIS Fund	2.5	0.1	0.2	14.7	-	-	9.4	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index (KIS)	1.8	-0.8	2.8	14.0	8.3	7.9	7.7	
	Excess Return	0.6	0.9	-2.6	0.7	-	-	1.6	
	Ellerston Australian Micro Cap Fund	3.7	3.5	-14.9	11.1	9.2	-	13.0	ECL0984AU 1/5/17
	S&P/ASX Small Ordinaries Accumulation Index (MCF)	2.8	-1.7	-9.4	9.2	3.9	6.0	6.2	
	Excess Return	0.9	5.2	-5.5	1.9	5.3	-	6.9	
	Ellerston 2050 Fund	1.0	-0.6	-6.5	-	-	-	-6.5	ECL5651AU 31/5/22
	S&P/ASX Small Ordinaries Industrial Accumulation Index (2050)	3.6	-1.2	-1.0	-	-	-	-1.0	
Excess Return	-2.6	0.7	-5.4	-	-	-	-5.4		



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	-0.3	3.8	0.5	10.3	9.4	-	10.7	ECL8388AU 1/3/17
	MSCI World Mid Cap Index (EGMSCF - Class A)	1.8	3.2	6.1	11.4	7.8	12.2	9.3	
	Excess Return	-2.2	0.6	-5.6	-1.2	1.6	-	1.3	
	Ellerston Asia Growth Fund	-2.0	-2.6	-6.3	-2.2	-0.8	-	3.2	ECL1411AU 4/1/17
	MSCI Asia ex Japan (non-accumulation) (AGF)	-0.9	0.3	-1.3	0.8	-0.0	6.0	4.6	
	Excess Return	-1.1	-3.0	-5.1	-2.9	-0.8	-	-1.4	
	Ellerston India Fund	3.2	4.8	0.4	11.8	6.6	-	6.9	ECL0339AU 4/5/17
	MSCI India Net Return Index (EIF)	5.6	7.2	0.1	17.5	9.0	-	9.1	
	Excess Return	-2.3	-2.5	0.4	-5.7	-2.4	-	-2.2	
	Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	0.7	0.7	-0.1	12.6	-	-	17.6
Ellerston Pre - IPO Fund		-5.9	-5.9	-8.0	3.6	-	-	3.5	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 March 2023									

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