

Ellerston Equity Income KIS Fund

Monthly Newsletter, April 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	\$1.0509
Net Asset Value	\$1.0483
Redemption Price	\$1.0457
Liquidity	Daily
No Stocks	31
Strategy FUM	\$32.2m
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	5.6
Price/Earnings (X)	10.9	14.9
Dividend Yield (%)	6.1	4.2
Beta	0.87	1.00

PERFORMANCE SUMMARY

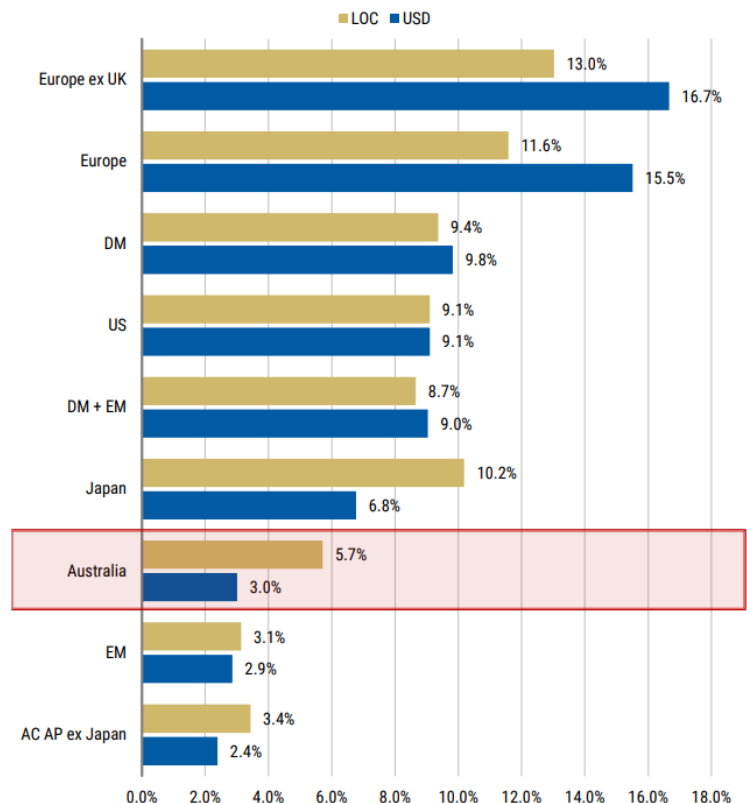
Performance	1 Month	3 Months	CYTD	FYTD	Rolling 12 Months	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)^^
Net^	2.45	0.11	5.54	11.30	0.22	6.78	14.73	9.37
Benchmark*	1.85	-0.80	5.38	15.73	2.83	6.43	13.99	7.73
Alpha	0.60	0.91	0.16	-4.43	-2.61	0.35	0.74	1.64

^ 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

The MSCI Developed Markets closed up 1.7% 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.

MSCI Global Country/Regional Indices Performance for April 2023 CYTD



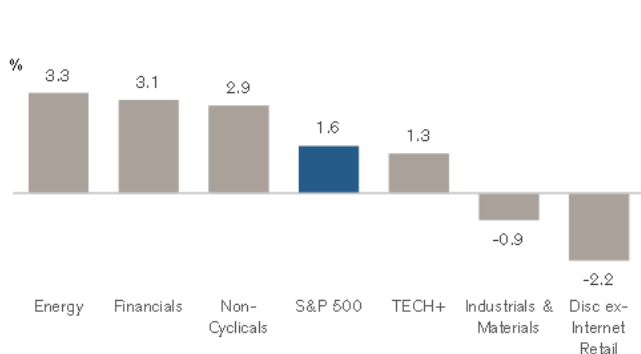
Source: Morgan Stanley.

USA

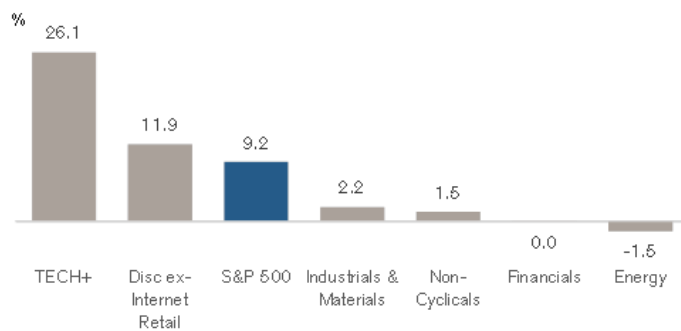
Economic indicators continued to soften, employment data remained elevated and inflationary pressure improved marginally. US March Non-Farm Payrolls rose 236k versus +326k previously (consensus was +230k) and the unemployment rate ticked down to 3.5%. The Core Personal Consumption Expenditure (PCE) price index, the US Federal Reserve's (Fed) preferred inflation measure, was in line with expectations, easing to 4.6% YoY from 4.7% YoY. As expected, the Fed raised official rates in early April by 25bps to a range of 4.75-5.00%. Market pricing is implying an ~85% probability of a 25bp rate hike to 5.00%-5.25% at the next Federal Open Market Committee (FOMC) meeting in early May.

Despite stress in the regional banking sector, the S&P 500 rose 1.6% in April, 9.1% YTD, and 17.6% since the market's October lows. These moves were fuelled by a decline in the VIX from 33.6 in October and 21.7 at year end to 15.8 now. Financials outperformed the benchmark by 1.5% in April, after underperforming by 13.2% in March.

Total Return – Month of April 2023



Total Return – CYTD: 6 Tech names have accounted for 79% of the uplift in the S&P500, namely AAPL, MSFT, NVDA, META, AMZN and GOOGL.



Source: Credit Suisse

With 64% of the S&P 500's market cap having just reported, 1Q EPS is expected to decline by -3.2%, despite a 2.7% increase in revenues, the result of ongoing margin pressure. EPS surprises have been particularly strong (6.8%) and broad-based (all 11 sectors). Current 2Q-4Q estimates are -4.9%, 1.7% and 8.8% YoY, however, actual results are likely to be 5-10% lower given recent earnings trends.

In the washup, the Dow Jones Industrial Average was the standout relative outperformer, rising 2.6%, the S&P 500 finished 1.6% and the NASDAQ Composite Index was the laggard, posting a modest 0.1% gain.

Europe

Eurozone economic indicators were better, with the composite PMI increasing from 53.7 to 54.4. While underlying weakness was still apparent, growth was driven solely by the services sector, expanding the most in 12 months (56.6 vs 55.0 in March). This offset the contraction for the manufacturers (45.5 vs 47.3).

The Euro STOXX50 Index finished the month up 1.6%. Among the major exchanges, UK's FTSE 100 ended 3.4% higher, France's CAC 40 rose 2.9% and Germany's DAX rose 1.9%.

Asia

China's manufacturing PMI showed a surprise contraction in April, falling to 49.2 after three straight months of growth since the start of 2023, amid weaker global demand. However, business sentiment remained buoyant. The high base effect from the swift manufacturing recovery in the March quarter played a major factor. Clearly, the Politburo, the top decision-making body of the ruling Communist Party, stressed that restoring and expanding demand is the key to a sustainable recovery. The sluggish PMI data point keeps the pressure on the government to continue its supportive fiscal and monetary policies.

Asian equity markets were generally stronger. India's SENSEX was the standout, up 3.6%, the Nikkei 225 rose 2.9%, Korea's KOSPI was 1.0% higher, China's SSE was up 0.8% and The Hang Seng was the laggard, down 2.4%.

Commodities

Commodities were weaker in April amid renewed harder landing concerns. Investors were starting to fear that the wind had been taken out of the sails with respect to China's post COVID recovery. Gold was again the best performer, more akin to a Stephen Bradbury, rising 1% to US\$1990 per ounce, the only major commodity holding up. The Brent oil price held US\$80/barrel on lower demand expectations, despite OPEC announcing that it would cut 1.2m barrel per day from May to help rebalance the market. Liquefied natural gas spot prices were down ~18% and thermal coal prices fell 4%. Iron ore prices pulled back sharply -16% to US\$106 per tonne and coking coal plunged 23% to US\$232 per tonne. The base metals complex was also weaker, with the major metals; aluminium down 1% and copper down 5%. Lithium carbonate and spodumene prices fell further by 18% and 16% respectively, caused by inventory destocking across the battery supply chain. However, prices started to base out late in the month, with many producers calling the bottom.

Bonds

After the March hyper volatility, global bond markets settled, with the US 10-year treasury yield trading range ~75% lower. The US 10-year treasury yield fell 5bps to 3.42% in April. Lingering concerns over First Republic Banks collapse (second largest in US history) on the last day of the month saw the yield fall 10 bps and then bounce back after JP Morgan took control of the bank. The Australian 10-year bond yield was also up 4bps to 3.34%, largely tracking sideways, as a slowing inflation blueprint prompted the RBA to keep official rates on hold at 3.60% in order to assess data flow.

Australia

As expected in early April, the Reserve Bank of Australia (RBA) paused at 3.60% after the 10th rate increase in a row. The RBA move helped to support valuations in the local equity market, which was welcomed in the absence of earnings upgrades. The March quarter CPI, published late in the month, showed a deceleration in inflation to 7.0% from 7.8% in the December quarter, which was the highest since 1990.

Just when the market expected the better CPI data to put the kybosh on any rate rise, at time of writing, the RBA delivered a surprise 25bps hike to 3.85% at its 2 May meeting, as well as a hawkish accompanying statement. The nature of the short pause last month and response in May confounded bond and equity investors alike. It appears the RBA has flipped back to focus on concerns about persistent inflation, rather than the lagged effects of monetary policy.

The A\$ closed the month only marginally lower at US\$0.66, despite the sharp fall in major commodity prices.

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%).

For the month, the top stocks that made a positive contribution to the Index's return were CSL (+28bps), ANZ (+20bps), NAB (+16bps), Westpac (+13bps) and Macquarie Group (+12bps). Conversely, the bottom five stocks detracting from the Index's performance were BHP (-67bps), Rio Tinto (-14bps), Fortescue Metals (-12bps), Mineral Resources (-5bps) and South32 (-3bps). The ASX Small Ordinaries rose 2.8%, outperforming the broader benchmark by 0.9%. Within the ASX Small Ordinaries, the Small Industrials outperformed at +3.6%, with the best performer being biotech Telix, up a whopping 47.1% - see the write-up below.

Household and Products was the highest returning sub-industry group, rallying +35% (driven by its largest component Blackmores, receiving a takeover proposal at a 23.7% premium to its last closing price). This adds to recent takeover offers in the previous month for Liontown, Estia Health, Invocare, United Malt and Healius. 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 are willing to take advantage of mispricing by equity market participants and selectively in business experiencing share-price weakness.

COMPANY SPECIFIC NEWS

The Market Hits

Telix Pharmaceutical (TLX +47.1%)

TLX posted a strong 1Q23 update and the shares rallied. Illuccix sales rose 28% QoQ to A\$100m, with TLX management commenting that momentum had continued to build through the quarter. Positive operating cashflow in 1Q23 of \$2.4m pleased investors, as did a healthy cash balance of \$121.4m. Gross margins were stable at 63%, with an uplift to 65% seen as its near-term target. Operating costs as a percentage of sales also fell 1% QoQ to 28% (ex-one-offs in 4Q22). Investors liked the fact that sales momentum was finally providing a pathway to profitability metrics, resulting in a powerful short covering squeeze in the name.

Megaport (MP1 +36.7%)

MP1 shares rocketed 41.5% on the day after reporting 3Q23 Sales/Monthly Recurring Revenue (MRR) of \$38.1m/\$14.1m respectively, +37%/+48% vs. pcp and well ahead of the market's 2H23 revenue growth estimates. Following the elevated risk around both the CEO/CFO recent departures, the introduction of FY23/24 EBITDA guidance (with both years well ahead of consensus), better than expected MRR growth (supported by pricing initiatives) and the resumption of MVE/MCR services growth were all well received by investors, driving an immediate re-rating in the name. MP1 guided to FY23 EBITDA of \$16-18m (~ double FactSet at \$9m) and FY24 guidance of \$41-46m (FactSet \$29.5m). This was supported by: (1) the robust revenue outlook; (2) slightly lower cost-out benefit reductions (\$7m annualised benefit vs. prior expectations \$8-10m, with \$3m realized to date); and (3) an additional \$10m in cost savings post the organisational review (a 16% headcount reduction, involving ~50 roles).

Blackmores (BKL +35.0%)

After being widely rumoured as a takeover target in the press on numerous occasions recently, an offer for BKL finally emerged from Kirin Holdings and the shares popped like a weasel, closing up 22.8% on the day of the announcement. The takeover proposal represented a 23.7% premium to BKL's last closing price of \$76.79 and based on forecasts, the offer price implied an acquisition multiple of 23.1x LTM Dec 22 EBITDA. For perspective, Nestle's acquisition of The Bountiful Co was struck at 16.8x LTM EBITDA and Biostime (now the H&H Group), paid 15.2x EBITDA for Swisse. Key points. BKL entered into a Scheme Implementation Deed with Kirin, a leading Food and Beverage, Pharmaceuticals and Health Science company headquartered in Tokyo, with a market capitalization of ~\$23.0bn. The BKL acquisition is intended to enhance Kirin's health science business across the world. Kirin has proposed to acquire 100% of the shares in BKL for a cash consideration of \$95.00 per share, representing an equity value of \$1,880m. The price will be adjusted by any dividends BKL declares. If its scheme is effective, BKL intends to declare a fully franked special dividend of \$3.34 per share (with \$1.43 of franking credits attached). The BKL Board confirmed its intention to unanimously recommend shareholders vote in favor, in the absence of a superior proposal and subject to an independent expert concluding that the offer is in the best interests of stakeholders. BKL's largest shareholder, Marcus Blackmore, who owns ~18% of the company, said he favours the bid and has agreed to the takeover offer.

Boral (BLD +17.0%)

During the month, there were no material announcements from BLD, but the company seemed to benefit from the current thematic of increased migration and an ageing housing stock, as well as increased government spending on defence infrastructure. Its peers were also caught up in the same thematic: CSR closed up 10.5% and Adbri rose 6.3% – ABC increased the capital spend on its Kwinana Upgrade Project by a further \$120m, from the December 2022 estimate of \$264m – 294m and its original 2020 budget estimate of \$200m.

Mirvac (MGR +15.9%) / Centuria Capital (CNI +13.6%)

REITS were the best performing sector for the month, rising 5.1%. In particular, REITS with residential development exposure such as MGR and Stockland (+11.8%) outperformed, helped by the federal government streamlining of Australia's migration system. Bringing in a three-tiered assessment is designed to cut red tape and reduce delays to permanent residency. The three tiers of regulation for migrants encompassed: a "light-touch" approach for very skilled migrants on high salaries; a mid-level cohort for migrants who earned above the amount of the temporary skilled migration income threshold; and a lower-wage cohort in sectors with skills shortages such as the caring sector. Australia's net migration over a 12-month period, is now expected to be 400,000 in 2022-23 and 315,000 in 2023-24, which compares favourably with pre-pandemic migrant intake gain of around 235,000 per year. The boom in net migration should add to new housing demand in an already tight rental market in major cities. On the other hand, CNI is a real estate asset manager, which trades significantly below its peers. A positive initiation research report by a major stockbroker was the catalyst for its strong performance during the month.

Corporate Travel (CTD +15.8%)

CTD announced the win of a material government contract in the UK, with buy-side estimates of potential increases in group EBITDA upgraded by 10%. Whilst this is a 2-3 year contract, it is worth noting that it is not an entirely new opportunity, given that CTD has handled multiple other government contracts in the UK - this had been a core focus area for CTD when they acquired Helloworld's corporate division. The announcement enhanced CTD's position in the government contract space, with management continuing to demonstrate a strong track record. Investors reacted positively to the potential earnings uplift.

Evolution Mining (EVN +14.1%)

EVN had pre-released its March quarterly numbers and upheld its previous gold production guidance. Its Red Lake mine in Canada has been a notoriously troubled asset. Management's priority remains restoring its mining rate to 1.1Mtpain order to fill the mill and generate cashflow, a production level estimated at ~200kozpa. Once (and if) that can be achieved, management have indicated that it is only then, further investment may be considered. Investors took this as a positive message of capital discipline i.e., the mine needs to be optimised to justify further investment. Also, positive new exploration results at its flagship Ernest Henry copper-gold mine in Queensland would infer a larger scale project or longer life, could both be value accretive.

Core Lithium (CXO +14.0%)

Lithium producer CXO announced a significant increase in the Mineral Resource Estimate for its 100% owned Finniss Lithium Operation near Darwin - a 62% increase in the total resource estimate and +46% to the measured and indicated resource. CXO will continue its drilling programme, targeting further increases to resources, which excited the punters.

Ingenia Group (INA +13.3%)

Australian leading affordable manufactured housing (land lease) and holiday parks provider, INA rallied after catching a tail wind of investor interest in land lease, an alternative real estate sector gaining momentum in a rising interest rate scenario. Land lease is a well-established property sector in the US, with favourable global investment demand, gaining support as an asset class in Australia. Land lease provides a secure rental income stream with CPI-linked growth on the land lease rentals and in unit development, the potential to expand further given favourable industry dynamics (ageing population and an attractive product vs other retirement alternatives). An initiation report by a major global stockbroker with land lease coverage in the US provided the catalyst for INA's strong performance.

The Market Misses

Syrah Resources (SYR -37.1%)

SYR had another shocking quarter, while production and sales were higher QoQ at its Balama graphite mine in Mozambique, volumes were well below consensus forecasts, driving unit costs to US\$668/t, which is a major problem when the average selling price received was lower at US\$636/t! SYR has stated that it will look to moderate Balama production to better match demand, effectively constraining the level of cash burn, as it waits for better graphite prices. Good luck....

BrainChip Holdings (BRN -14.7%)

AI chip maker BRN is down 58% relative to the ASX200 and down an absolute 81% from its 19th of January 2022 high. BRN's 1Q23 revenue was a meagre US\$0.4m, with the company reporting an operating cashflow loss of US\$6.1m. The US\$29.9m held in cash post a capital call of US\$12.2m from LDA Capital also troubled the market. At the current spend, it appears the company may run out of cash in the next 5 quarters, unless BRN can turn its fortunes around to generate some material revenue uplift. The stock price continues to drift lower, which is why it has been a "regular repeat offender" in our monthly misses!

Star Entertainment Group (SGR -11.2%)

SGR provided a trading update and lowered its guidance expectation for FY23 EBITDA to fall within a \$280 - \$310m range, which was a \$50m (or 14% downgrade at the midpoint) to the \$330 - \$360m guidance that was re-iterated only two months ago at the 1H FY23 result released on 23 February 2023. SGR announced a rapid deterioration in operating conditions for its Sydney and Gold Coast properties, driven by restrictive operating conditions and weakness in spending behaviour. Alongside this, Sydney continues to be in a non-competitive trading environment due to regulatory restrictions vs. its key competitor. Management emphasised a deterioration in recent weeks in the trading environment, particularly in Gold Coast, from increased exclusions as well as an emerging weakness in the consumer space. Post a heavily dilutive capital raising and with further risks ahead of the company, investors seem to be leaving the craps table en masse.

Block Inc. (SQ2 -11.1%)

Back in March, Afterpay owner Block Inc. shares tumbled, but closed 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 responded in late March to the "inaccurate" short seller report, which pumped up the stock price for a short while, but in April, it turned out to be a dead cat bounce.

Bank of Queensland (BOQ -10.6%)

BOQ's 1H23 result was broadly in line with its recent pre-guidance across Cash NPAT, dividend and its CET1 ratio. Net Interest Margin was also in-line after adjusting for yet another accounting reclassification. However, this belied a very difficult margin outlook painted by management for 2H23, driven by ongoing home loan retention pressures, the reversal of some deposit benefits, and the full-period impacts of liquidity build. These were only partly offset by diminishing replicating portfolio benefits. While some of these factors are industry-wide issues, the market is finally waking up to the reality that BOQ: (1) has lagged its peers, given its weak deposit franchise; and (2) is more heavily exposed to mortgage industry pressures (especially post its dilutive ME Bank acquisition). While much of the focus in BOQ's 1H23 update was on the collapsing 2H NIM outlook and cost pressures, the market thinks there are bigger issues at hand.

Since BOQ was recapitalised back in FY12, it has generated on average a woeful ROE of just 6.6% once the \$785m after-tax in 'below-the-line' charges (some 101 items) are taken into account. BOQ currently faces a number of challenges, with the Chairman suddenly forced to step into the CEO role, material management turnover, substantial investment needed in risk culture and compliance, the integration of ME Bank and a multi-year digital transformation, just to mention a few. This is against the backdrop of a deteriorating economy where credit growth is slowing and intense deposit and mortgage competition. The market is increasingly concerned with BOQ's overuse of 'below-the-line' recurring items. Since FY12, it has excluded 101 items from 'Cash Earnings', 93 being losses/negative times. These 'below-the-line' items have totalled \$785m after-tax (\$252m in 1H23 alone), representing 20% of the entire profit generated by BOQ since FY12. So why is the market nervous? If these charges are added back, BOQ's ROE will have averaged 6.6%, never reaching double-digit levels, despite the benign low rates and conducive banking environment over the past decade. This makes reaching its 9.25% stated ROE target appear a big stretch to say the least. Good luck!

Inghams Group (ING -9.9%)

ING was impacted by a scathing article that appeared in the "Weekly Times". It alleged that Chicken Growers had reported mortality rates of 15 - 25% among batches of chickens supplied by Ingham's relating to Enterococcus cecorum infections in Ingham's breeding flock and hatchery. ING's response, after the ASX issued a price query when the stock price dropped 8.5%, was that the issue was not expected to have a material effect on ING's forecast financial results. ING currently has approximately 17 farms in its Victorian field, which are affected by higher than usual mortality rates, out of 45 farms in Victoria - this is less than 20% of Ingham's Australian National flock. Further, the mortality rate on the relevant farms had increased by approximately only 4% on the normal mortality rate. The resulting impact on Ingham's Australian volumes is estimated to be less than 1% and this issue does not affect Ingham's New Zealand operations. ING's stock price bounced, but ended the month near its low and the damage was done.

Champion Iron (CIA -9.4%)

CIA released its March quarter report with a lower-than-expected Phase II ramp-up, impacted by delays in delivery and commissioning of mining equipment and locos and as a result, unit costs were higher than expected. It wasn't a good month for any high cost leveraged iron ore producer to disappoint on costs, given the sharp drop in prices late in the month.

Polynovo (PNV -8.9%)

PNV develops medical devices utilising its patented bioabsorbable polymer technology Novosorb, designed to support tissue repair. Last month, PNV chair David Williams surprised the market by selling 4.75m shares (18% of his holding) at \$2.04/share. The sale raised \$9.7m, which according to the company release, would in part help settle a U.S property purchase. The stock price fell 12% on the day of the announcement alone and continued to sell off further in April, with investors left scratching their heads.

Mineral Resources (MIN -8.6%)

MIN delivered a very disappointing March quarterly report starting with a 9% downgrade to Mining Services volumes for FY 23 due to contracts rolling off. Thereafter, almost everything that could go wrong in the lithium business seemed to go wrong in 3Q23. There was a 6-month slippage to the Wodgina (lithium) Train 3 start-up (now expected in late CY23, with 6-8 month ramp up), all because the joint venture (with Albemarle) did not secure the requisite mining approvals to enable a rapid restart of operations in the first place. Due to marketing arrangements with Albemarle, Wodgina hydroxide sales will be 5 to 6kt (45%) lower than production in FY23. In addition, the Mt Marion (lithium) expansion to 900ktpa was again delayed for completion now in mid-May, resulting in guidance being at the low end of the 160-180kt range. At current Lithium hydroxide prices, it is uneconomic to convert spodume into lithium hydroxide, but MIN is locked in to a tolling arrangement with its Wodgina JV partner, which expires on 31 December 2023, costing MIN \$250m+ if prices don't move higher. Overall, the take-aways from the disappointing update were lower volumes, higher operating costs and more capital expenditure. Not surprisingly, this drove the MIN stock price down 9.7%, on the day it reported.

United Malt Group (UMG -7.4%)

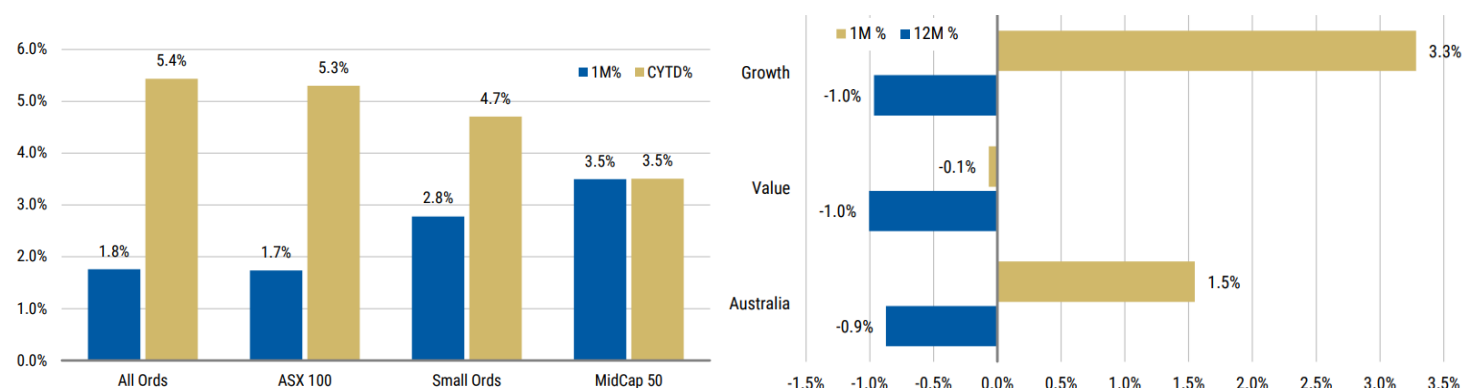
United Malt shares fell after the dog ate their homework yet again. The company released an update that 1H23 underlying EBITDA (pre-SaaS costs and one-off items) is now expected to be \$51m, 18% below the midpoint of their prior \$58-66m guidance. However, FY23 underlying EBITDA guidance (pre-SaaS costs and one-off items) of \$140-160m was maintained on the assumption of no further material deterioration in market conditions and assumed continued gross margin improvements in 2H23 will offset any unanticipated reductions in volumes. The 1H23 result has been negatively affected by: 1) lower volumes in 1Q (6-8% lower than management expected reflecting lower beer demand), offset partially by an increase in gross margin as a result of improved commercial terms (-\$4m net impact); and 2) delayed start of the Inverness facility due to a two-month delay in commissioning (-\$3m impact). Other items affecting 1H23, but not included in underlying EBITDA were related to: 1) closing out ineffective currency hedges and from movements in FX during the period (-\$5.6m impact); 2) one-off restructuring costs (-\$2m impact) related to the amalgamation of its North American Processing and Warehouse & Distribution sales teams as part of UMG's ongoing business transformation programme 3) management now expecting SaaS costs to be -\$6.8m for 1H23 and -\$10m for FY23 vs the prior -\$7.5m expectation for FY23; and 4) transactions costs of -\$3m as a SI related to expenses associated with the response to the indicative proposal received from Malteries Soufflet.

Due diligence investigations are still underway in relation to UMG having entered into an Exclusivity Deed with Malteries Soufflet of France regarding an indicative non-binding proposal to acquire UMG for A\$5.00 per share, but the downgrade prompted the market to ponder that bid terms may need to be revised - time will tell.

FUND PERFORMANCE

The Fund return of +2.51% for the month of April outpaced the benchmark return of +1.85%. This was despite the short term relief rally in the Banks (where the Fund is zero weight) and brings the return for the 3 years p.a. to April to a satisfactory 15.9% and 10.5% p.a. since inception. For the CYTD, the Fund has returned 5.78%, comparable to the benchmark return of 5.38%.

Small and Mid-Cap stocks (where the Fund remains biased towards), outperformed this month and closed the gap with their Large Cap peers CYTD. However, this was offset by the significant outperformance (+3.4%) by Growth versus Value as an investment style.



Financials, which rose 3.3%, posted the largest contribution to the market's return in April (led by ANZ +6.2%), followed by Real Estate (Mirvac +15.9%) and Industrials (Transurban +5.5%).

Utilities and Consumer Staples were two of the three weakest performing sectors, with Materials faring the worst, closing down 2.6% (dragged down by iron ore miners BHP -6.0%, Rio Tinto -6.6% and Fortescue Metals -6.9%).

Returns ¹ (%)	Gross	Benchmark	Excess	Net Return
1 Month	2.51	1.85	0.66	2.45
3 Months	0.29	-0.80	1.09	0.11
CYTD	5.78	5.38	0.41	5.54
FYTD 2023	11.99	15.73	-3.74	11.30
Rolling 12 Months	1.08	2.83	-1.75	0.22
2 Years (p.a.)	7.93	6.43	1.50	6.78
3 Years (p.a.)	15.89	13.99	1.90	14.73
Since Inception (p.a.)	10.51	7.73	2.78	9.37

¹The 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 April Attribution

Securities Held



Securities Underweight/Not Held



Source: Ellerston Capital.

In April, the main positive contributors were active overweight positions in Perpetual (PPT +11.7%), IGO (IGO +7.7%) and Atlas Arteria (ALX +4.0%) and a zero holding in Rio Tinto (RIO -6.6%).

The main detractors for the month was our overweight position in Elders (ELD -6.0%) and not holding CSL (CSL +4.3%) or ANZ (ANZ +6.2%).

FUND ACTIVITY

The Fund was again highly active during the month of April, taking advantage of the market volatility to strengthen positions which were acquired on recent weaknesses, namely, Atlas Arteria, Elders, Incitec Pivot and Santos. We also introduced five new names, Fortescue Metals, GrainCorp, IDP Education, Insignia Financial and Regis Healthcare. These purchases were funded by taking profits and reducing positions in Amcor, Iluka, Smartgroup and Wesfarmers as well as profitably exiting our residual holdings in CSR and G.U.D, Medibank Private and Nine Entertainment.

NEW STOCKS ADDED

- Fortescue Metals
- GrainCorp
- IDP Education
- Insignia Financial
- Regis Healthcare

STOCKS EXITED

- CSR
- G.U.D. Holdings
- Medibank Private
- Nine Entertainment

INCREASED

- Atlas Arteria
- Elders
- Incitec Pivot
- Santos

DECREASED

- Amcor
- Iluka
- IRESS
- Smartgroup Corporation
- Wesfarmers

FUND STRATEGY AND OUTLOOK

The Federal Open Market Committee (FOMC) meeting on the 2-3 May increased the Fed Funds rate by 25bps to a range of 5.0-5.25%, 500bps of rate increases in a little over 12 months. The bond market implied pricing is now assuming that the Fed will pause (longer than the RBA) and focus on monetary easing. The market is currently pricing in US rate cuts to start in the second half this year. Central banks were clearly behind the curve on the way up, but it seems that bond investors are now giving them the benefit of the doubt that they will be on the front foot and quickly cut rates.

The RBA's 25bps rate hike (which delivered the largest surprise in its history), caught everyone off guard after only pausing for a single month. Despite the March quarter underlying inflation undershooting the Bank's prior forecast and signs that consumer spending remained sluggish, labour market conditions remain exceptionally tight and non-tradables and services inflation were still stubbornly high in the quarter. Governor Lowe's statement highlighted, "services price inflation is still very high and broadly based and the experience overseas points to upside risks. Unit labour costs are also rising briskly". Lowe again put developments in the global economy as a key input to policy deliberations going forward. This is not unexpected, given the recent lagging nature of Australia's inflation. The following key comment by Lowe suggests the Board will be in assessment mode for the time being: "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve."

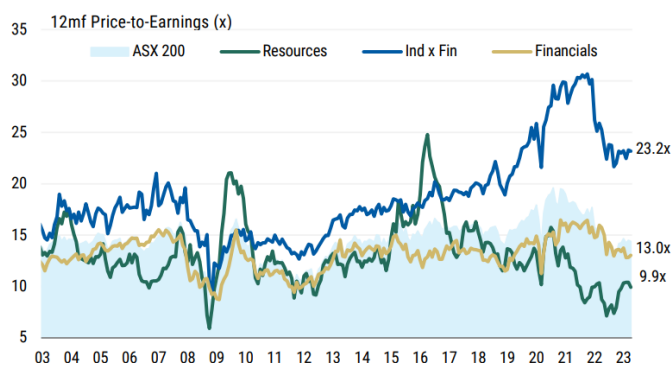
After 11 interest rate hikes domestically, the economic backdrop remains challenged. Company profits going into the critical "confession season" are facing increased pressure, as inflationary forces are having a delayed impact on earnings. During the early phases of the post-COVID recovery, a number of businesses reported rising margins, as supply chain constraints drove prices increases. While certain input costs such as energy and raw materials were easy to pass through, other imposts that are only now seeing the light of day (labour, rents, interest costs), are squeezing margins. This comes at a time, where thanks to softening demand, companies are finding it more difficult to push up prices.

If we reflect on the 1H23 results, despite generally positive revenue numbers so far this financial year, EBITDA margin misses were the key driver of consensus downgrades. Strong top-line momentum has coincided with all 10 Industrial sectors exhibiting downgrades to margin forecasts. This trend is expected to continue as we approach the May/June "Confession season" and firms revise their full-year guidance to take into account 3Q trading activity. Case in point, recent disappointing updates from Ooh! Media, Amcor, Nine Entertainment, Ramsay Healthcare, Computershare, Endeavour Group, Super Retail, ARB Corp and Domain Holdings just to name a few. It's no doubt going to be a mixed bag.

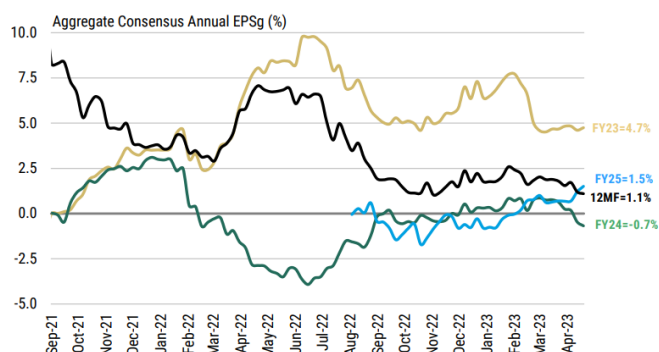
Despite the Big 4 retail banks enjoying a temporary relief rally in April ahead of their reporting season, we reiterate our ZERO BANKS stance. We are confident the market is not pricing in the structural and macro headwinds that we have previously flagged ad nauseam.

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 14.4x. 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 23.2x



Annual Consensus EPS Growth Trends FY23-25

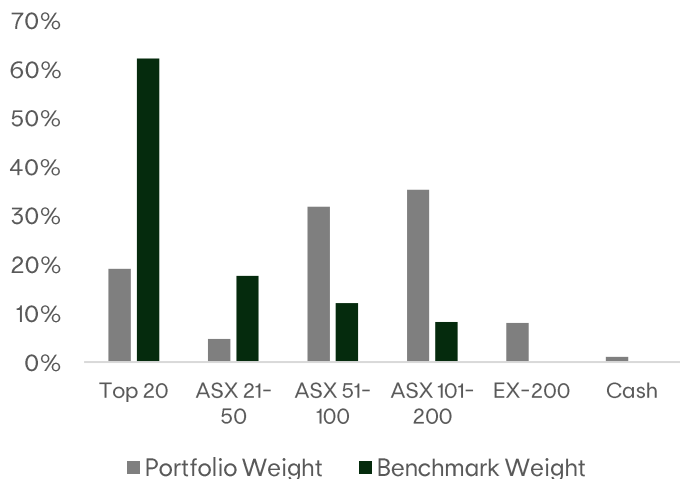


Source: Morgan Stanley Research.

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

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.

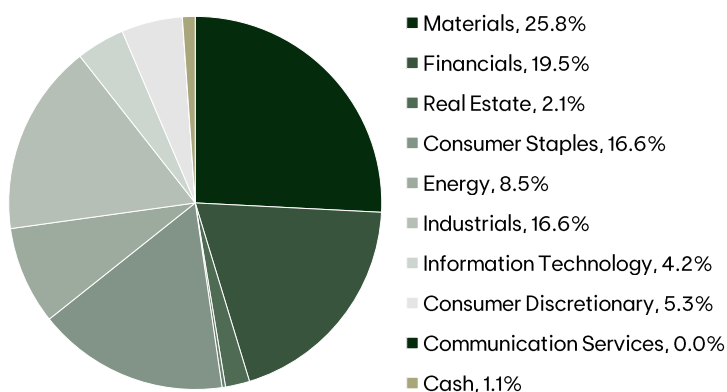
MARKET CAPITALISATION



TOP 10 HOLDINGS

PERPETUAL LIMITED	10.17%
ATLAS ARTERIA	9.77%
BHP GROUP LTD	9.12%
IGO LIMITED	6.92%
METCASH LIMITED	5.27%
BEGA CHEESE LIMITED	4.85%
LIBERTY FINANCIAL GROUP LTD	4.81%
FLETCHER BUILDING LIMITED	4.45%
IRESSLIMITED	4.21%
INSIGNIA FINANCIAL LTD	3.93%

SECTOR ALLOCATION



Source: Ellerston Capital.

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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.

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Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team
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