

Ellerston Equity Income KIS Fund

Monthly Newsletter, June 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.

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	4 Years (p.a.)	Since Inception (p.a.)^^
Net^	1.29%	1.48%	4.53%	10.24%	11.53%	8.52%	8.73%
Benchmark*	1.76%	1.01%	4.51%	14.78%	11.12%	6.09%	7.20%
Alpha	-0.47%	0.46%	0.02%	-4.54%	0.41%	2.44%	1.53%

^ 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.

Key Information

Strategy Inception^^	1-May-19
Portfolio Manager	Chris Kourtis
Application Price	\$1.0409
Net Asset Value	\$1.0383
Redemption Price	\$1.0357
Liquidity	Daily
No Stocks	30
Strategy FUM	\$33.68m
Management Fee	0.70% p.a.
Performance Fee**	10.00%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	\$10,000
Minimum Additional Investment	\$5,000
Distribution Frequency	Quarterly

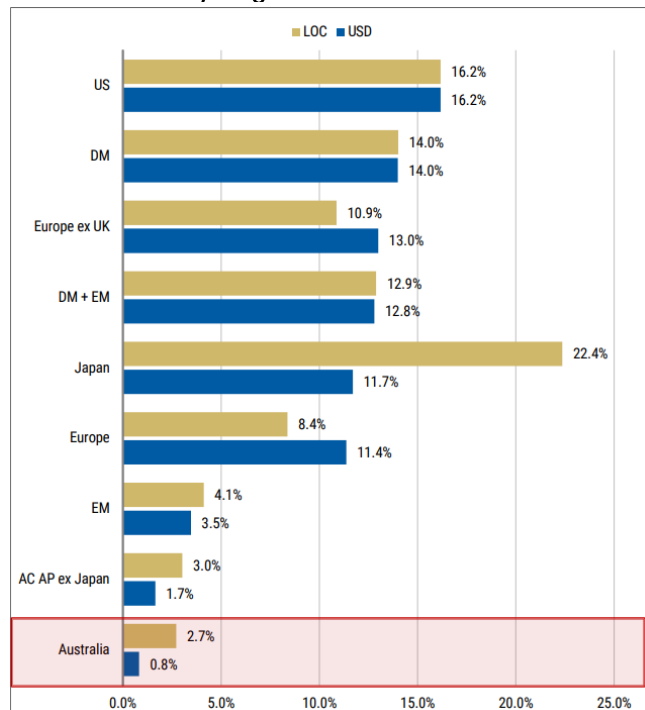
** Of the investment return above the benchmark, after recovering any underperformance in past periods

FY23(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.9	5.6
Price/Earnings (X)	11.3	14.9
Dividend Yield, Pre-Franking (%)	6.2	4.2
Beta	0.87	1.00

MARKET OVERVIEW

The MSCI Developed Markets were on fire, up 5.7% in June and the S&P 500 gained 6.6% in local currency terms. The prevailing market themes around AI continued, with global tech delivering a stellar performance of 37.2% for CYTD in US\$. Emerging markets (+3.2%), marginally underperformed their Developed Market counterparts, with Information Technology, Industrials and Consumer Discretionary being the best performing sectors globally. The domestic market finished at 7,091pts, up 1.76% for June, with both Materials (+4.8%) and Financials (+3.1%) doing the heavy lifting.

MSCI Global Country/Regional Indices Performance for 1H 2023

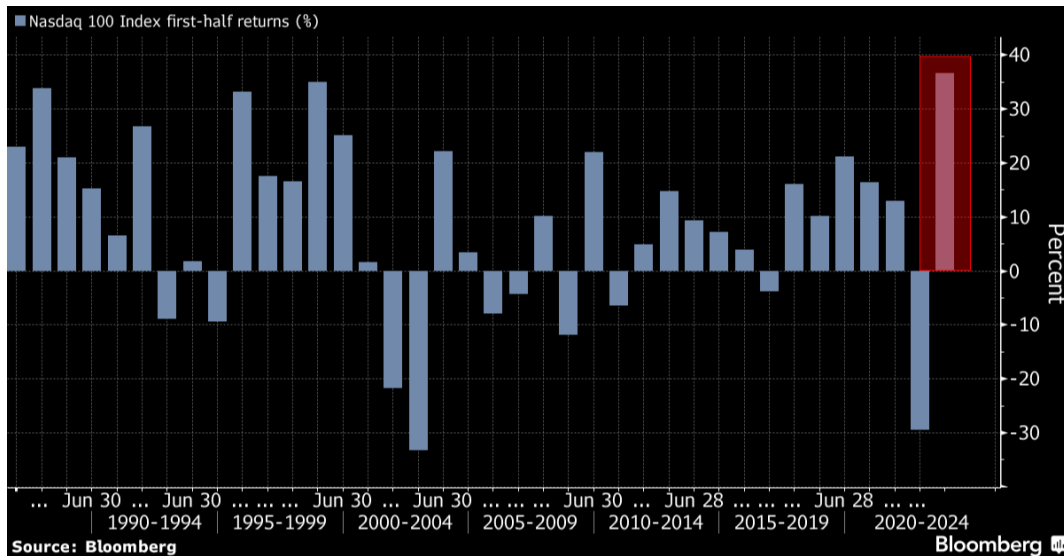


Source: Morgan Stanley.

USA

The US Federal Reserve (Fed) confirmed expectations of a hawkish pause, keeping interest rates unchanged for the first time in 15 months, with a unanimous decision to hold official rates at 5-5.25% after 10 straight hikes. However, the Fed retained their hawkish bias to keep a data-dependent July rate hike on the table, as it sees more tightening is needed to cool inflation and return it to 2%. The main justification being that the economy has proven to be more resilient and less affected by the cumulative effect of ~500bps of rate hikes.

June was all about the "Big Seven" (Apple, Microsoft, Alphabet, Amazon, Meta, NVIDIA and Tesla) which rallied a mind snapping 74% CYTD. This helped propel the NASDAQ Composite Index by 6.7% for the month, clocking up an impressive +32.3% return for 1H23. This benchmark was only to be outdone by its more concentrated sub-index, the Nasdaq 100 (the chart below) which had its best half since 1983, with a return of 38.8%! The S&P 500 caught some of the AI tailwind, finishing up 6.6%, however, the Dow Jones Industrial Average lagged, posting a respectable 4.7% rise.



Europe

Eurozone economic indicators continued to weaken, however, it didn't stop a flurry of interest-rate hikes from European central banks. The European Central Bank (ECB) raised rates by 25bps to 3.5%, with ECB President Lagarde, emphasising that another rate rise in July was "very likely." The BoE also hiked by 50bps to 5.0% in response to surprisingly strong inflation data and wage-price spiral dynamics, as did the Norges Bank, which hiked by 50bps and revised up its terminal rate projection 60bps above previous expectations. Switzerland and Turkey all followed suit.

The Euro STOXX50 Index finished the month up 4.3%. Among the major exchanges, France's CAC 40 was 4.5% higher, Germany's DAX was up 3.1% and UK's FTSE 100 was the laggard, rising 1.4%.

Asia

After disappointing growth momentum in China, Premier Li at "Summer Davos" re-enforced that China's economy "shows a clear momentum of rebound and improvement", counter to what the key data was indicating in April & May. Investors will be watching the July Politburo closely for more expected stimulus.

Asian equity markets were mixed. The Nikkei 225 was again the standout at +7.6% (as BOJ's Ueda emphasized that Japan's rates are on hold because inflation remains below 2%), the Hang Seng rose 4.5% and India's SENSEX was up 3.6%. China's SSE finished up 0.7% and Korea's KOSPI bucked the trend and actually fell 0.5%

Commodities

Commodities were generally stronger in June as expectations of additional stimulus in China drove bulk commodities and LNG pricing higher. Iron ore prices rose 8% and coking coal prices ticked up 4% to US\$112 and US\$233 per tonne respectively. The base metals complex was mixed, with the major metals; copper up 3%, nickel flat and aluminium down 8%. In energy markets, thermal coal fared well, up 11%, after falling for the past 10 months and global gas prices rebounded sharply (LNG JKM price was up 32%). The Brent oil price rose 9% to US\$75/barrel on China restocking. Lithium carbonate prices were marginally weaker after May's strong 60% move up and spodumene prices were squeezed 3% higher. Gold weakened by 2.2% to US\$1919 per ounce, impacted by higher global bond yields.

Bonds

The US 10-year treasury yield rose 19bps to 3.84% in June. Despite the Fed pausing in June, it retained its hawkish bias to keep rates higher for longer. This saw 2-year bond yields close 49bps higher at 4.89%, causing the yield curve to invert by 1.05%, implying recession going forward - this end of month inversion is the largest since August 1981. In On the domestic front, the Australian 10-year bond yield was 42bps higher at 4.02%, as the RBA hiked official rates by 25bps in early June to 4.1%, singing from the same hymn book as the Fed. Governor Lowe pointed to more rate increases in his rhetoric and to keeping rates higher for longer, with the April pause experience arguably raising the bar for another "skip". We would expect the RBA to pause in early July, against broader expectations for another rate hike.

Australia

Against the backdrop of stronger commodity prices, a weaker US dollar and higher domestic interest rates, the A\$ closed the month up 2.5% to US\$0.67.

The economic outlook seemingly shifted in June, starting with the surprise hike from the RBA and a hawkish pivot by Governor Lowe and the board. Lowe clearly articulated that the Bank's previously stated patience for inflation to moderate slowly over the next two years in order to protect the gains in the labour market had waned considerably.

In the month of June, the S&P/ASX 200 Accumulation Index finished up 1.8%, led by materials, Information Technology and Financials.

The Materials sector (up 4.8%), was the best performer (the biggest contributors were BHP Group +7.1%, and Fortescue Metals Group +15.4%), followed by Information Technology (+3.5%) and then Financials (+3.1%). The bottom three sectors were Healthcare (-6.6%, pulled down by expensive defensives CSL -9.5% and Cochlear -5.9%), Communication Services (-1.0%) and Real Estate (0%).

For the month, the top stocks that made a positive contribution to the Index's return were BHP (+73bps), CBA (+27bps), Fortescue Metals Group (+24bps), Rio Tinto (+14bps) and Woolworths (+12bps). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-67bps), Cochlear (-4bps), Northern Star Resources (-4bps), ASX (-4bps) and Transurban (-4bps). The ASX Small Ordinaries was flat, underperforming the broader benchmark. Within the ASX Small Ordinaries, the Small Industrials outperformed at +0.5% versus the Small Resources which were down 1.2%.

The rise in the broader market in June leaves FY23 performance for the Australian equity market at 14.8%. By sector, Technology was the clear standout, up a whopping 38.1%, whilst Healthcare delivered the lowest relative return for the financial year (+5.7%).

COMPANY SPECIFIC NEWS

The Market Hits

Paladin Energy (PDN +33.9%)

Uranium producer PDN shares tumbled 20% on the last day of May following a report quoting the Namibian Mines and Energy Minister, that Namibia was considering taking minority stakes in mining and petroleum production companies amid increasing concerns over local ownership of valuable resources. A few days later, the Government backtracked on the minister's comments saying, "the Government has no intention to seize any stake from existing mineral or petroleum licence holders and remains committed to uphold the sanctity of existing contracts. However, the reality remains that Namibians remain disadvantaged because they may not have the financial and other means to exercise their rights in relation to natural resources. As such, the State as supreme owner of these natural resources may demand a certain minimum stake through public enterprises such as EPANGELO Mining or NAMCOR "in any mineral or petroleum licences that may be issued in future". Given that PDN already has an existing licence for its Langer Heinrich operation in Namibia, the market sighed with relief, sending the price higher, even surpassing levels before the collapse.

Magellan Financial Group (MFG +20.3%)

Nicholas Bolton's Keybridge Capital emerged as an option holder in the Magellan Global Fund, as the listed international equities strategy trades at a wide discount to its underlying NTA, attracting the interest of activists. The Magellan Global Fund is the flagship strategy of MFG and currently represents the bulk of its funds under management. Mr Bolton rose to prominence in 2009 when he held the \$4.9 billion BrisConnections float to ransom. He has since been involved in unsuccessful legal disputes with Wilson Asset Management and Bell Potter. Keybridge's interest in the Magellan Global Fund is via options, meaning they can be converted into actual units before they expire on March 1 next year, or allow them to lapse yielding no return. The options can be converted at 92.5 per cent of the net asset value of the actual strategy. Despite the buyback in place with the fund, it still trades at a deep discount, so for the arb to work, the discount needs to narrow. What has this to do with MFG's stock price? Well, nothing other than Bolton's emergence has drawn attention to the fund, which after a prolonged period of poor performance, has captured the upside in the S&P rally via its large exposure to big tech. Whilst MFG is still experiencing fund outflows, the rise in NTA of its largest fund is good for profitability, which long suffering investors welcomed, pushing up MFG's share price from totally bombed out levels.

Whitehaven Coal (WHC +18.6%) / Coronado Coal (CRN +16.3%)

Coal producers WHC and CRN benefitted from the rebound in thermal coal and coking coal prices respectively, which had been falling since last year's heady heights. The coal price improvement and the expectation of further growth stimulus in China carried the day and the stock prices.

Collins Food (CKF +17.0%)

CKF delivered a strong top-line result, driven by ticket and market-share gains in KFC. CKF's revenues were up 14.2% on the pcp to \$1.4b. Australia demonstrated surprising strength in the first seven weeks of trading in FY24, at +8.8% SSSg (same store sales growth), implying that consumers are absorbing price increases without affecting demand. KFC Europe's (+30.6% vs the pcp) sales were driven by a mix of ticket and volume growth. The first seven weeks sales (+9.0% in Netherlands and +12.4% in Germany) were particularly strong, given the softer economies. Management noted that it has also been gaining market share in recent months. The margins outlook has improved following pricing increases, however, higher energy and labour costs should weigh on costs and act as a headwind to margins in FY24. Although commodity prices have come off in recent months, the benefits will not flow through the P&L in the near term, as most of its contracts are on a fixed price basis. In FY25, management expects margins to improve and return closer to historical levels. This credible result after a string of previous downgrades resulted in multi-year upgrades by sell-side analysts.

AUB Group (AUB +16.3%) / Credit Corp Group (CCP +16.2%)

Post the US Federal Reserve's Chairman Powell re-in forcing higher rates for longer, investors looked for yield sensitive winners. Insurance companies were strong, with QBE up 7.2% and IAG up 7.2%. After the disasters of the past La Nina period, resulting in higher premiums, the outlook for lower CAT events and higher investment returns due to higher rates got the sector moving. AUB is an insurance broker, underwriter and service provider in Australia and New Zealand, primarily to SMEs. What's good for insurers is good for the insurance brokers and the AUB stock price reacted accordingly. CCP is a ledger purchaser and collection provider, as well as having some consumer lending activities. The company has nothing to do with insurance, but higher interest rates for longer means more stress for the SME segment and more factoring as well as debt collection, which benefits CCP.

Fortescue Metals (FMG +15.4%)

FMG as the pure iron ore play, at least until it materially grows its Fortescue Future Industries, was the major beneficiary of the uptick in the benchmark iron ore price during the month which was driven by the increasing stimulus talk in China.

AGL Energy (AGL +15.1%)

AGL's Investor Day exceeded market expectations, supported by upgrades to FY23 earnings guidance, an improved gas supply portfolio and setting FY24 EBITDA & NPAT guidance above consensus estimates. The key takeaway was AGL confirming that sustained electricity price increases over the last 18 months will wash through to its portfolio over 2-3 years, confirming the path for multi-year earnings growth. AGL unexpectedly provided FY24 guidance of underlying NPAT between \$580m and \$780m, which was 21% above consensus. This strong guidance was driven by the recovery in retail electricity tariffs reflecting higher wholesale prices and the non-occurrence of unplanned outages, which weighed on 1H23 earnings. While consumers are shocked at their new power bills and the federal government is giving more handouts to soften the hardship, investors are rubbing their hands with glee.

HMC Capital (HMC +15.0%)

HMC raised \$400m of equity for its last mile logistics (LML) fund (comprising \$350m from an Australian institutional investor and \$50m from its HomeCo Daily Needs REIT) which launched in Feb-23. The group also indicated it was on track to reach the first close on its ~\$1bn unlisted healthcare fund this September. HMC had \$7.5b of FUM at the end of May and deploying capacity from the first raise for the LML fund could see this increase to \$8.3bn. This compares to the group's target of \$10b by Dec-23. The raising was taken well, considering the challenging environment for commercial real estate, with the \$10b target now in sight.

The Market Misses

Lake Resources (LKE -43.4%) / Core Lithium (CXO -14.3%)

LKE was hammered after the company indicated that its Argentina Lithium project would be delayed by six years and would cost significantly more than originally anticipated. The fledgling company had planned to produce 50,000 tons of lithium a year by 2024 but now expects to reach that target by 2030, according to an ASX statement. Lithium developer CXO was tarred with the same brush over capital concerns and a sell recommendation by a major sell-side firm, arguing CXO was trading at a premium to its spodumene peers (that are actually in production) on an EV/Resources basis.

Bega Cheese (BGA -20.8%)

Bega shares sold off after the company provided a messy and underwhelming trading update, which included: (1) FY23 EBITDA to be at the low-end of \$160-\$190mn guidance range (consensus \$161m); (2) Sale and leaseback of the Port Melbourne Vegemite site to Charter Hall for A\$115m, with proceeds to be used to reduce FY23 net debt to \$236mn (vs. 1H23 A\$320m) and leverage c.1.8x (vs. 1H23 2.7x); (3) \$180-280m non-cash impairment of the Bulk segments carrying value, given the substantial disconnect between falling dairy export prices that Bega receives for its commodity bi-products and relatively higher domestic farmgate milk procurement prices; and (4) Restructure and business simplification program that it says will deliver A\$21mn of cost-outs by FY25. Bega's consumer staple based Branded portfolio holds the No.1 or 2 commanding market share positions in all product categories, has demonstrated solid volume resilience and growth amidst broader consumer trade down pressures. Despite this, the market focused on the structural decline in Australia's milk supply pool and the associated challenges that this presents for the commodity Bulk segment. This business segment makes up ~20-25% of total revenue and is now expected to deliver a break-even EBITDA outcome in FY24 vs. +\$42m in FY23. Slightly offsetting this drag next year is the continued improvement from Branded earnings (FY24 EBITDA +20% to ~\$185m), as additional price increases alongside the ~\$12mn in Lion Dairy synergy benefits should be delivered.

BrainChip Holdings (BRN -19.8%)

AI chipmaker BRN is down again this month (following a 15% drop in May) on no news and continues to drift lower after its negative 1Q23 result announced back in April. At the current spend rate, it appears BRN may run out of cash in the next 5 quarters unless BRN can turn its fortunes around to generate some material revenue uplift. BRN is now down 81% since its January 19, 2022, high of \$1.97 and is a Market Misses perennial offender - a potential hall of fame candidate!

Johns Lyng Group (JLG -16.2%)

JLG shares sold off after the trading update disappointed, with investors expecting more. JLG announced an upgrade to FY23 earnings guidance, with revenue and EBITDA targets increased to \$1.19bn (+10.2%) and \$133.2m (+10%) respectively. These were largely in line with consensus at the headline level, but the mix disappointed. Guidance for JLG's largest contributor, BaU (ex. construction), remained unchanged, casting investor doubts over the medium-term growth trajectory of their core operation. It is estimated that 2H23 BaU (IB&RS Aus) growth slowed to +10.5% (vs. 1H23 +14.5%), which is the slowest rate of half-yearly growth since 2H18. CAT again outperformed, as the backlog of both government and insurer based work continued to deliver. JLG has been a huge La Nina beneficiary, with CAT revenue growing 43% CAGR over the last 3 years. That said, there is still a large pipeline of work to perform on events that occurred over the last 12-18 months. Construction extended its expected FY23 loss, downgrading from \$10m to \$17.3m (which included an unexpected write-off of \$2.3m from the now collapsed Porter Davis housing development company).

Gold Road Resources (GOR -15.6%)

GOR gave a production update and cut the 2023 gold production target at Gruyere to 320-350koz from 340-370koz due to poor mining productivity. Operational stability at the Gruyere site has proved elusive, with several production downgrades in the operation's short 4-year history, mostly due to mill reliability. The update resulted in a number of target price reductions by sell-side analysts, tempering both their short and longer-term production expectations.

Corporate Travel (CYD -13.7%)

CTD announced the renewal of the Travel Management Services contract for the Whole of Australian Government (WoAG) for an initial 4-year term, with a future 3 years of extension options. The WoAG contract was critical for CTD given it was a material component of HLO's corporate business when it announced the acquisition in Dec-21. Whilst providing a temporary sigh of relief, the whole travel sector was under pressure during the month as recession concerns took hold, driving Flight Centre (-10.1%), Qantas (-6.8%) and Webjet (-6.5%) all in the red.

Link Administration (LNK, -12.8%)

On the last day of the month, LNK shares plunged 13.9% after it announced that HESTA (~1.0mn members) had given notice that it will not renew its contract with LNK for the provision of superannuation administration services. This is a very large contract loss for LNK and refutes arguments by the bulls that LNK's cornerstone clients have limited choice, as GROW Inc. (the new provider for HESTA) is seen as a credible alternative provider. HESTA represents ~4% of Group revenues and ~7% of RSS revenues. Whilst the transition is not expected until 2Q FY25, the market took a stick to the shares. RSS's current EBITDA margins are ~30%, but it is estimated the marginal EBITDA margin on new contract losses (or wins) is ~40-60%, given a relatively high fixed cost base. On this assumption, this represents a hit to NPAT in the order of -12 to -18%.

TPG Telecom (TPG -11.0%)

On the 21st of June, the Australian Competition Tribunal turned down the Telstra/TPG proposed network sharing agreement appeal, which the ACCC rejected in December 2022. The Tribunal echoed previous concerns held by the ACCC, which noted despite short-term benefits from improving TPG regional coverage and cost savings/efficiencies for TPG/TLS, it would likely weaken infrastructure-based competition over the longer term, extending TLS's leading regional position. Investors didn't like this unexpected outcome, with the TPG share price falling 5% on the announcement and drifting lower thereafter.

Chalice Mining (CHN -10.6%)

CHN owns 100% of the Julimar project in Western Australia. Julimar is one of the largest nickel-copper-PGE discoveries globally in recent times and is only 70km north-east of Perth, providing access to nearby quality infrastructure and workforce. The status of the Project is at the scoping study stage, which will then move into feasibility. A sell-side initiation report by a major broker during the month, highlighted the project remains complex, with key variables being the potential scale, flow sheet and permitting all with various de-risking events ahead. Furthermore, with palladium providing ~40% of the total revenue from the polymetallic project, the risk to its pricing remains high given that >80% of palladium demand is from autocatalysts used in conventional ICE vehicles. The broker's sell recommendation with a target price 16% below the share price was enough to prompt investors to take some profits ahead of the upcoming de-risking events.

CSL (CSL -9.5%)

CSL issued maiden FY24 guidance for constant currency NPATA growth of 13%-18%, implying an NPATA range of \$2.9-3.0b. This guidance range was significantly below Consensus expectations of \$3.5b. Management said its guidance reflected a modest improvement in CSL Behring gross margins and generic competition from Ferinject (acquired with its acquisition of Vifor). Management now expects CSL Behring's gross margins to experience a modest improvement in FY24 and FY25, and then take up to another 3 years before recovering to pre-COVID levels, which is much longer than investors expected. Early in 2022, CSL completed its \$US12 billion purchase of the Swiss based Vifor Pharmaceuticals. The accompanying \$US6.3bn institutional placement and \$US750m share purchase plan was the biggest secondary raising in history for an ASX-listed company. Given the pending threat of generic completion, it appears that the jury is out on the Vifor acquisition... Together with the longer recovery in margins to pre-COVID levels for its core business, CSL Behring, it was no surprise that the stock price of the third largest company on the ASX slumped 6.9% (\$10.3bn) on the day of the announcement. CSL was also the largest negative contributor to the ASX/200 performance for June.

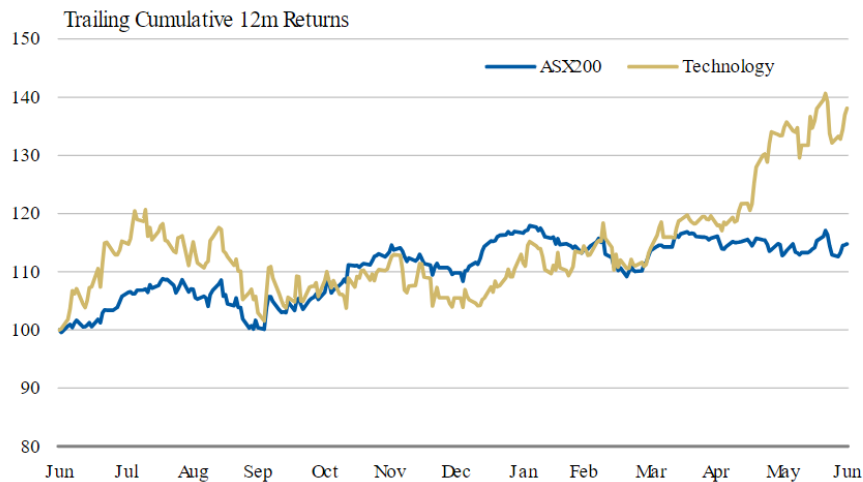
FUND PERFORMANCE

Global macro influences and volatility stayed elevated during June, while the barbell of Materials and Financials, mainly BHP, drove the market 1.8% higher over the month, however, technology stocks have been on fire, especially in the last 3 months.

For the 3 Year period from June 30, 2020, to June 30, 2023, the compound annual returns for the S&P/ASX200 Accumulation Index was +11.12%. Over the same period, your Fund has returned + 11.53% p.a. (after fees), which is pleasing as it has kept pace with the market and at the same time, has delivered strong income distributions which is what it is designed to do.

In the month of June, the Fund return of +1.35% modestly underperformed the benchmark return of +1.76%, as we struggled to keep up with no banks or tech names.

This brings the return for FY23 to 11.05% compared to the benchmark return of 14.78%. Staying true to our income focused label, it was a tricky year. We continued to swim between the dividend flags, given that high-profile tech stocks like Wisetech etc. and fledgling lithium stocks are not renowned for their yield or don't pay any dividends.



Source: Morgan Stanley

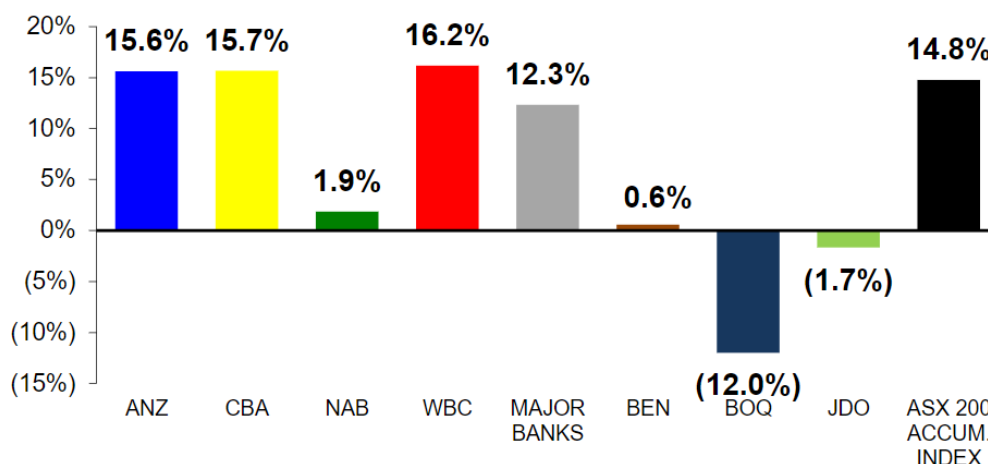
We have not held any banks in FY23, which did better than the Australian market in June:

Major banks outperformed in the month of June, with the average bank total shareholder return (TSR) of +2.9%. Based on consensus, they are now priced on a trailing P/BV of 1.5x, a 1-year fwd P/E of 13.0x, representing a 35% discount to the All Industrials ex Banks. The average major bank 1-yr forward dividend yield of 6.0% is consistent with a post-2010 average yield of ~6.0%. The smaller banks all underperformed the broader market in June (BEN: flat; BOQ: +0.4%; JDO: +1.7%).

All of the major banks have underperformed the ASX200 so far in 1H23, with ANZ the best performer and NAB the worst (ASX200 Accumulation +4.5%; ANZ: +3.7%; CBA: -0.2%; NAB: -9.5%; WBC: -5.6%). The performance of the smaller/regional banks has been far worse (BEN: -9.7%; BOQ: -17.6%; JDO: -10.6%).

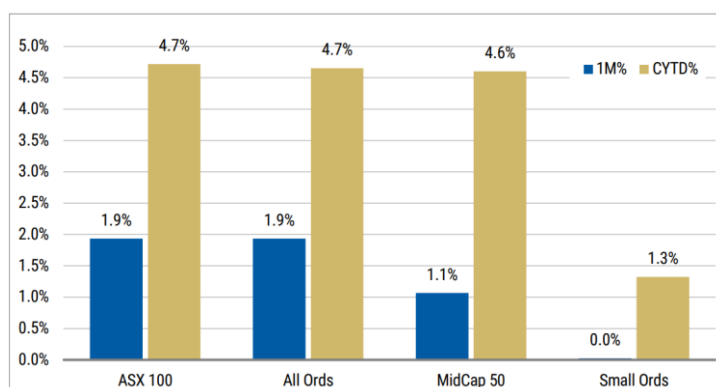
For the Financial Year to June 2023, ANZ, CBA and WBC performed modestly better than the Australian market, but NAB, BEN, BOQ and JDO have all underperformed by >10%.

ONE YEAR BANK PERFORMANCE

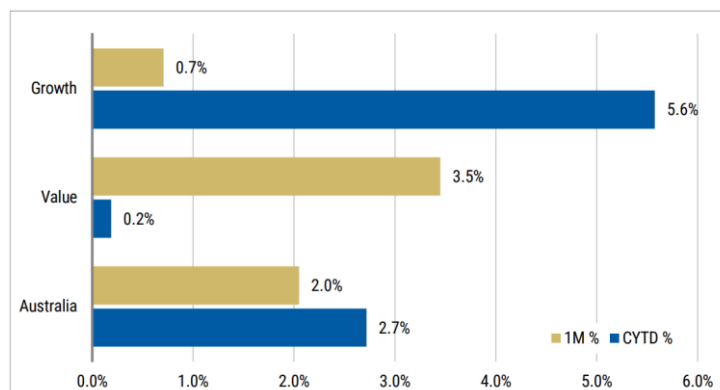


Source: Morgan Stanley

Mid-Cap stocks continued to close the gap with their Large Cap peers in 1H23, although small caps were the worst performers for the month of June and are struggling to keep up. MSCI Australia Value outperformed Growth in June but trails Growth for the CYTD.



Source: Morgan Stanley.



Materials, which rose 4.8%, posted the largest contribution to the market's return in June (led by BHP +7.1% and Fortescue Metals +15.4%), followed by Financials (CBA +3.6%) and Consumer Staples (Woolworths +5.8%).

Healthcare was the largest negative contributor to the market's return, closing down 6.6% (dragged down by bellwethers CSL -9.5% and Cochlear -5.9%), then Communication Services (Telstra -1.4%) and Real Estate (Scentre Group -2.2%).

Returns*	Gross	Benchmark	Excess	Net
1 Month	1.35%	1.76%	-0.41%	1.29%
3 Months	1.65%	1.01%	0.64%	1.48%
6 Months	4.90%	4.51%	0.38%	4.53%
1 Year	11.05%	14.78%	-3.73%	10.24%
2 Years (p.a.)	4.79%	3.61%	1.18%	3.69%
3 Years (p.a.)	12.62%	11.12%	1.50%	11.53%
4 Years (p.a.)	9.66%	6.09%	3.57%	8.52%
Since Inception (p.a.)	9.85%	7.20%	2.65%	8.73%

*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. Returns are pre-franking. Past performance is not a reliable indicator of future performance.

Month of June Attribution

Securities Held

-0.6%, BGA-AU		FMG-AU, 0.4%
-0.4%, ALX-AU		PPT-AU, 0.2%
-0.2%, IPL-AU		MTS-AU, 0.2%
-0.2%, IFL-AU		AZJ-AU, 0.2%

Securities Underweight/Not Held

CSL-AU, 0.8%

Source: Ellerston Capital.

In the month of June, the main positive contributors were active overweight positions in Fortescue Metals (FMG +15.4%), Perpetual (PPT +4.6%), Metcash (MTS +5.5%), Aurizon (AZJ +10.1%) and zero holdings in CSL (CSL -9.5%).

The main detractors for the month were active overweight positions in Bega Cheese (BGA -20.7%), Atlas Arteria (ALX -3.3%), Incitec Pivot (IPL -4.2%) and Insignia Financial (IFL -1.8%).

FUND ACTIVITY

The Fund used the recent weakness in share prices to strengthen existing positions in names like Incitec Pivot and Ramsay Health Care and took profits in Ampol and Perpetual. We also introduced analytical and testing services business ALS Ltd, a company that we have held previously and know well.

NEW STOCKS ADDED	STOCKS EXITED
<ul style="list-style-type: none">ALS	<ul style="list-style-type: none">None
INCREASED	DECREASED
<ul style="list-style-type: none">Atlas ArteriaInsignia FinancialIncitec PivotIRESSMetcashRamsay Health Care	<ul style="list-style-type: none">AmpolPerpetual

FUND STRATEGY AND OUTLOOK

Confounding widespread pessimism, global economic growth actually accelerated in the 1H23, with GDP expanding at an above-potential 2.8%, a case of monetary tightening drags being offset by fading negative supply shocks. Growth has been incredibly resilient, but at the same time highly divergent. Service spending surged in 1H23, offsetting the contraction in global factory output, with Asia benefiting most from the service sector lift. The US and Western European economies posted more sluggish GDP but with strong employment and job gains. After an unexpectedly strong start to 2023, global growth is now annualising at sub 2% (vs. long-term avg. of 3.5%). Against this macro setting, during 1H23, equity markets witnessed a major divergence in performance across size, sectors and investment styles.

The Nasdaq has rallied hard (+32.3%) CYTD, the S&P 500 is up 16.6% (driven by a handful of Tech bellwethers), however, the equal-weighted S&P500 index is up a mere +6.0%. Quality significantly outperformed Value by over 6.0% and ~50% of Russell 3000 stocks are still trading in negative territory for the year. Most market observers, including us, have held the contention that higher rates, a pending recession and weaker earnings will have compromised equities by now in 2023.

The recent round of European central bank rate announcements have seen surprisingly large hikes, hawkish rhetoric and even upward revisions to terminal rate estimates. The Bank of England (BoE) recently hiked by 50bps in response to surprisingly strong inflation data and wage-price spiral dynamics, while guiding to a further 100bps of hikes to come. The Swiss National Bank (SNB) hiked by 25bps (with accompanying hawkish commentary), guiding to inflation remaining above 2% until 2026 and Norges Bank has hiked rates by 50bps and revised up its terminal rate projection 60bps above previous expectations. The ECB also jacked up rates by 25bps to 3.5%, with ECB President Lagarde, emphasising that another rate rise in July was "very likely".

There has been a mixed response and end-of-cycle pricing experienced across select bond markets. Overtightening risks by central banks are real (as evidenced by very recent UK gilt pricing action). Against this backdrop, long-duration growth stocks, banks, property and rate-sensitive sectors are likely to struggle.

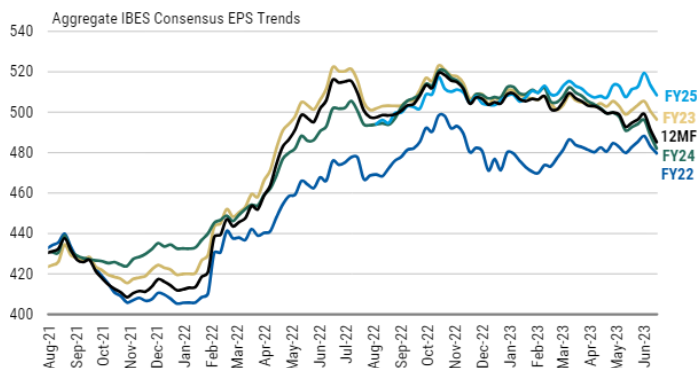
Absent any surprise pre-emptive Fed easing, this presents a more challenging macro backdrop for global equities in 2H23. Softening consumer trends are manifest when equities have re-rated sharply (forward P/E: S&P 500 20x, S&P 500 ex AI 18x, Nasdaq Composite 36x). Given that multiple expansion has been the main driver of performance CYTD (with P/E's expanding by ~14%) just at a time when pricing power is starting to erode, heightened investor complacency coincides with the consensus expectation that the business and consumer cycle will further decelerate in 2H23. Central bank aspirations for a soft landing have tempered the pace of monetary tightening. However, hopes for a painless slide in inflation back to target levels may prove more difficult. Broad-based Developed Markets tightening points to a more synchronized global downturn sometime in 2024, with an onset of a technical US recession likely towards year end/1Q24.

In addition, there is the high risk that liquidity and credit conditions tighten sharply in the coming months (with the Big 5 central bank balance sheets again starting to contract).

On the domestic front, Australian consumer spending appears to be at a tipping point. A series of negative trading updates in June from an array of Australian consumer stocks (Australian Vintage, Universal Store Holdings, Best & Less, Treasury Wine Estates, Baby Bunting, Michael Hill, Dusk Group, Maggie Beer, Premier Investments and Retail Food Group), point to a significant shift in behaviour over the past two months, where the impact of fixed rate mortgage resets, rental increases and staples inflation is finally starting to bite. The obvious tailwind of excessive savings in calendar 2022 unwinding has supported spending growth until now but is normalising. We would flag downside earnings risk for discretionary retail and believe market expectations of margin recovery in 2024 look overly optimistic.

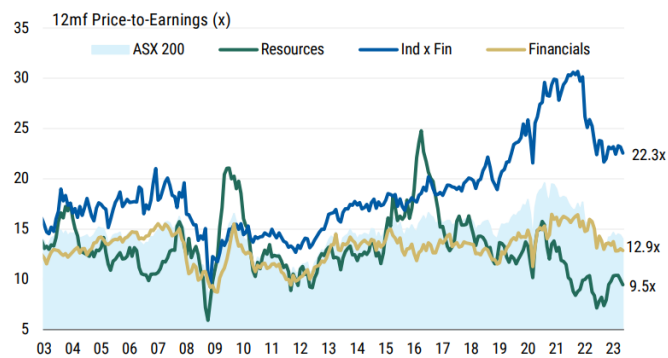
We have seen a clear rolling over in bottom-up profit estimates for the ASX 200, with Materials, Energy and Healthcare driving much of the recent decline. Despite the flurry of earnings-related announcements over the last few weeks, the age of estimates still displays a degree of staleness. Half the constituents within the ASX 300 still have a median earnings age of above 50 days, with circa 45 stocks at 81-90 days (pointing to analysts sitting on their hands and waiting for official updated management guidance). Given the rapid pace of economic adjustment that is occurring, the confession season post financial year-end will no doubt loom as a busy one!

After being largely range bound for much of this year, aggregate consensus ASX 200 earnings levels have now rolled over across the forecast years. MS Top-down earnings model is pointing to further downside to consensus estimates.



Source: Morgan Stanley

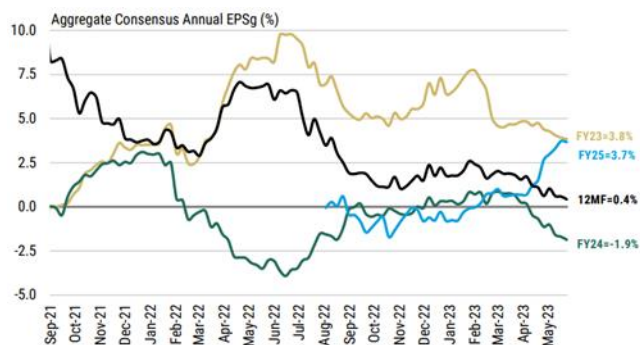
Valuation: the 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 22.3x



Source: Morgan Stanley Research.

Annual

Consensus EPS Growth Trends FY23-25

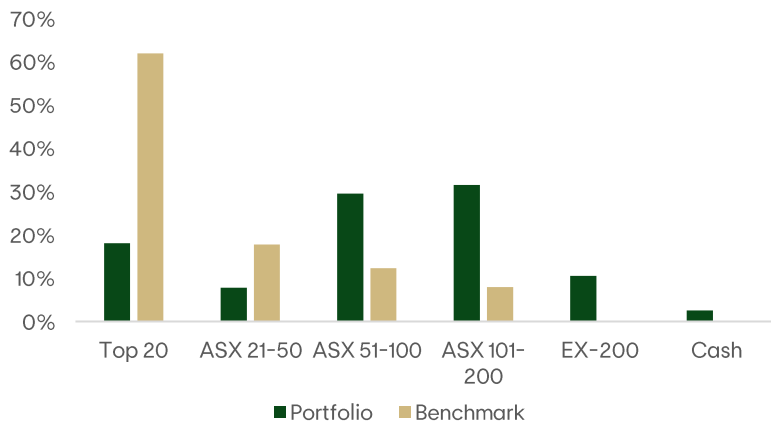


Apart from the broad changes outlined in the Activity Section, the Fund strategy remains as per last month and we are holding the course.

We remain true to label.

The grossed up dividend yield on the portfolio now rests at 7.9%, which remains superior to the market dividend yield, despite owning no Banks, Telstra, and other traditional income payers.

MARKET CAPITALISATION



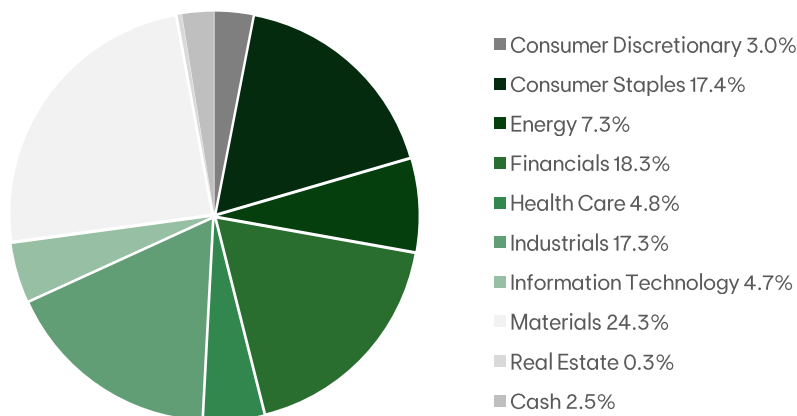
Source: Ellerston Capital

Top 10 Holdings

Company	Portfolio Weight
ATLAS ARTERIA	9.33%
BHP GROUP	8.83%
PERPETUAL	7.18%
METCASH	6.17%
INSIGNIA FINANCIAL	5.93%
INCITEC PIVOT	4.87%
FORTESCUE METALS GROUP	4.74%
LIBERTY FINANCIAL GROUP	4.69%
IRESS	4.68%
SANTOS	4.51%

Source: Ellerston Capital

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.

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

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