Ellerston Equity Income KIS Fund

Monthly Newsletter, July 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-19
Portfolio Manager	Chris Kourtis
Application Price	$1.0576
Net Asset Value	$1.0550
Redemption Price	$1.0524
Liquidity	Daily
No Stocks	30
Strategy FUM	$38.15m
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,*

FY23(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.1	5.3
Price/Earnings (X)	11.8	15.7
Dividend Yield (%)	5.6	4.0
Beta	0.86	1.00

PERFORMANCE SUMMARY

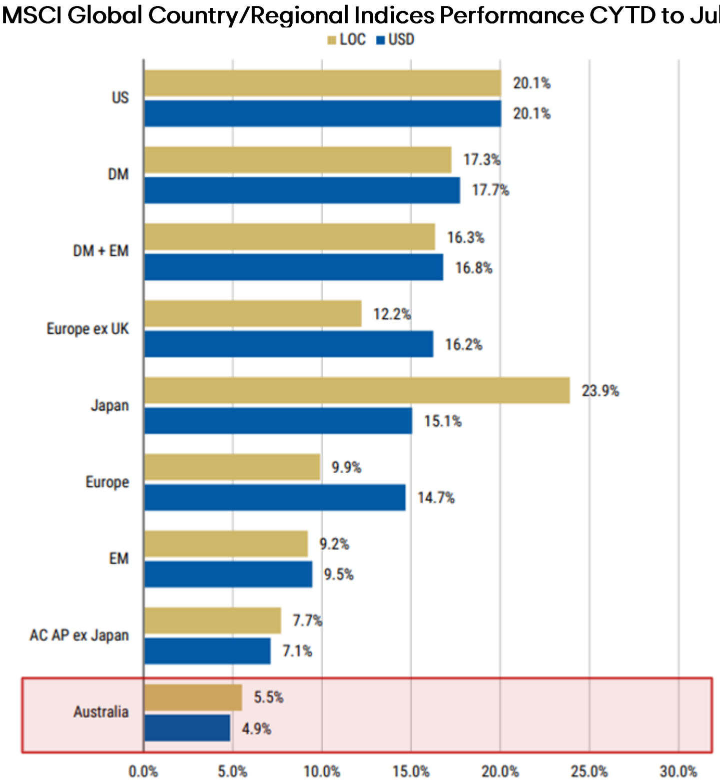
Performance	1 Month	3 Months	CYTD	3 Years (p.a.)	4 Years (p.a.)	Since Inception (p.a.)^^
Net^	3.46%	2.47%	8.15%	12.07%	8.59%	9.42%
Benchmark*	2.88%	2.04%	7.53%	11.99%	6.07%	7.77%
Alpha	0.58%	0.43%	0.62%	0.08%	2.52%	1.65%

^ 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 continued to rise, up 2.9% in July and the S&P 500 gained 3.2% in local currency terms. Emerging markets (+4.9%), outperformed their Developed Market counterparts, with Energy, Communication Services and Information Technology being the best performing sectors globally. The domestic market finished at 7,401pts, up 2.88% for July, with both Energy (+8.8%) and Financials (+4.9%) doing the heavy lifting.

MSCI Global Country/Regional Indices Performance CYTD to July



Source: Morgan Stanley.

USA

The US Federal Reserve (Fed) raised rates by another 25bps to 5.25-5.50% as expected, after June's pause, to their highest level in 22 years. The rhetoric has not changed i.e. the Fed's actions will be data dependent on "the totality of the incoming data", as well as the implications for economic activity and inflation. The next FOMC meeting is on the 19-20 September, so focus by markets on the key macro data will continue to be front of mind.

The NASDAQ Composite Index led the charge again, rising 4.1% for the month and chalking up a whopping +37.7% return for the CYTD. The S&P 500 and Dow Jones Industrial Average lagged, but were not far behind during the month, both finishing up 3.2%.

Europe

The European Central Bank (ECB) raised rates by 25bps to 3.75%, as promised by President Lagarde. This time, the ECB did not share any guidance about its next move but raised the possibility of a potential pause at its September meeting. However, "it will follow a data-dependent approach to determining the appropriate level and duration of restriction".

The Euro STOXX50 Index finished the month up 1.7%. Among the major exchanges, UK's FTSE 100 was 2.3% higher, Germany's DAX was up 1.9% and France's CAC 40 was the laggard, rising 1.4%.

Asia

For some time now, China has been struggling to kick-start its economic momentum, so the Politburo announced a number of stimulatory initiatives after their July meeting, especially with respect to the property sector. Perhaps these measures will be more successful, rather than another false dawn for equity investors who bid up Chinese stocks in July. Hopefully they won't feel like they bought a short-term relief rally, only to discover it's another value trap.

Asian equity markets were mixed. The Hang Seng was the standout at +7.1%, China's SSE rose 5.4% and India's SENSEX was up 2.9%. Korea's KOSPI finished up 2.7% and The Nikkei 225 was flat for the month after a stellar run of 28.3% for the CYTD, spurred by a weak yen driving the export sector.

Commodities

Commodities were generally stronger in July, as expectations of additional stimulus in China kept bulk commodities elevated and drove base metal prices higher. The iron ore market proved resilient and coking coal prices ticked up 2% to US$110 and US$237 per tonne respectively. The base metals complex was strong, with the major metals; Nickel rose 8%, with copper and aluminium both up 6%. The Brent oil price rallied 14% to US$86/barrel, as Saudi Arabia further tightened supply by extending its 1m bpd unilateral production cut to August. Gold edged up 2.4% to US$1,965 per ounce on a weaker US Dollar. Lithium carbonate prices were weaker, down 8% and spodumene prices were 11% lower after major battery producers asked for lower pricing in China.

Bonds

The US 10-year treasury yield rose 11bps to 3.95% in July, with the Fed raising rates as expected and better economic data implying high rates for longer. On the domestic front, the Australian 10-year bond yield was 4bps higher at 4.06%, as the RBA paused at 4.1% on the official cash rate.

Australia

The A$ closed the month flat at US$0.67. The expected pause by the RBA, while the US raised rates another 25bps, offset the benefit of stronger commodity prices.

A friendlier and softer than expected June quarter CPI (with the trimmed mean at +5.9% YoY), lower than the RBA's estimate of 6.0% and a weaker June retail sales print (-0.8% v 0.0% expected), cemented expectations for a pause by the RBA at 4.1%. This was announced at 2.30pm on 1st August at the time of writing.

The S&P/ASX 200 Accumulation Index delivered a 2.9% return in July, understating a +5.8% bounce off its intra-month lows, as a pause in Central Bank reaction is having a positive effect on sentiment. Energy, Financials and Information Technology led the performance. The Energy sector (up 8.8%), was the best performer (the biggest contributors were Woodside Energy +10.3%, and Santos +5.9%), followed by Financials (+4.9%) and then Information Technology (+4.5%). The bottom three sectors were Healthcare (-1.5%, pulled down by expensive defensives CSL -3.2% and Sonic Healthcare -1.2%), Consumer Staples (-1.0%) and Materials (+1.4%).

For the month, the top stocks that made a positive contribution to the Index's return were CBA (+43bps), Woodside (+32bps), NAB (+30bps), ANZ (+29bps) and BHP (+24bps). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-22bps), Woolworths (-7bps), IGO (-4bps), Macquarie Group (-4bps) and Allkem (-3bps). The ASX Small Ordinaries was up 3.5%, outperforming the broader benchmark. Within the ASX Small Ordinaries, it was the Small Industrials that ripped, +4.8% versus the Small Resources, which were only up 0.1%.

COMPANY SPECIFIC NEWS

The Market Hits

Megaport (MP1 +41.3%)
Early in the month, MP1 upgraded their FY23 EBITDA guidance by 17% and gave initial FY24 guidance of $41 to $46m EBITDA, which was 10% higher than consensus. This was followed by its 4Q cash flow update, showing that MP1 had turned free cash flow positive for the first time since listing over seven years ago. Against the backdrop of AI exuberance that has fuelled the technology sector, MP1 has risen 156% from its April 2023 lows, but still remains below its November 2021 high by 53%. MP1 now trades at an EV/EBITDA prospective multiple of 33 times (vs 82x for FY23E).

Flight Centre travel Group (FLT + 22.7%)
FLT shares rallied after a guidance upgrade. FLT's strong recovery across both the leisure and corporate business segment continued into the back end of FY23. Market concerns around a potential softening of consumer spend in the travel space had not to date, flowed through to FLT's top line. Global airline capacity continued to improve, albeit with a slower reopening from the Chinese carriers vs market expectations. This is as an important driver for more competition, leading to discounted fares, which should help further unlock consumer demand. The biggest upside potential for the FLT story remains around medium-term forecasts, if management can achieve its FY25 target of 2% PBT margins. Guidance was updated to $295m-$305m underlying EBITDA (vs. previous at $270m-$290m), implying +7% at midpoint, or +22% compared to previous consensus NPAT. This was enough to ignite the share price.

Costa Group Holdings (CGC +21.7%)
CGC shares rallied after the company confirmed a $3.50 cash bid from Paine Schwartz Partners (PSP). The proposed bid represented a 34% premium to the three-month VWAP of A$2.62 (as at 30 June 2023) and follows PSP building a ~14% stake at $2.60 in Oct-22, at which point, it stated it had no intention to launch a full takeover. PSP has a history with CGC, having previously owned a stake at the IPO back in 2015 and with ties to Driscoll's, which has JV agreements with CGC in Australia and China. Costa stated that prior to the latest $3.50 bid, that Paine made verbal engagement with Costa in April 2023 in relation to a potential bid at a range between $3.20 and $3.30 per share. The proposed transaction will be through a scheme of arrangement on a 100% cash basis and as usual, is subject to a number of conditions, including satisfactory completion of due diligence and final approval from the acquirer.

Block Inc. (SQ2 +21.4%)
Formerly known as Afterpay, SQ2 rebounded in line with its BNPL fintech peer group in the US, with no specific news to speak of.

Virgin Money UK PLC (VUK +20.7%)
VUK shares shot up in London trading on the night after UK's eight largest banks passed their latest BoE annual stress tests, immediately sparking new buyback chatter. VUK jumped as much as 11.5% in the UK, making it the top performer on STOXX the day of the BoE announcement. VUK subsequently commented that it anticipated a resumption of its buyback programme in FY23 (subject to the necessary board and regulatory approvals). The market had already generally factored in a ~£100m buyback into its numbers for 2H23, but the news was enough to see the shares bounce strongly in the back half of the month.

Beach Energy (BPT +19.6%)
BPT, along with the rest of the energy sector, performed strongly - driven by the 14% rise in the Brent oil price during the month. BPT's share price jumped another 7% towards month end on reporting its 4Q23 production update, with a positive investor response on the back of a lack of negatives, highlighting the market's low expectations, given a history of perennial disappointments.

Credit Corp Group (CCP +19.2%)
CCP provides debt ledger purchase (PDL) and collection in Australia/NZ and the US, as well as some consumer lending. Its US business performance has been improving, as productivity levels lifted. What was getting investors excited was the opportunity to resume purchasing ledgers in the US in a more favourable environment, setting CCP up for what shareholder's hoped will be a much-improved FY24. The jury is out here, as collections in the US are notoriously difficult to analyse, let alone predict.

Corporate Travel (CTD +16.9%)
During the month, CTD tightened their FY23 guidance to the lower end of the range, with FY23 EBITDA to be $165-170m, 1.5% below the midpoint of prior guidance, with 2H23 sitting 2% below. Despite this, CTD ended FY23 on a strong footing, with $3b of client wins through the year. The update was taken net positively, with the UK operations being the key standout, as momentum accelerated in 4Q23, particularly in their Asian business. The strength of their new business wins in FY23 ($1.45bn core / $1.5bn UK government contract), combined with solid customer retention (97%) further supported the FY24E earnings outlook, which pleased investors. It appears that the earnings impact of a potentially softer macro environment in FY24 is misplaced, given: 45% of earnings are from government/essential services (lumpy but less volatile); the majority of CTD revenue is transaction based, hence a reduction in airfares means corporates can do the same number of trips and still reduce travel budgets; and new client wins have been solid, especially the recent UK contract win. Investors have gravitated back into the stock as CTD currently trades at an attractive 19x FY24e PE vs. its peers - Webjet at 26.5x and FLT at 23.4x.

Monadelphous Group (MND +16.2%)
MND announced a number of new engineering and construction contracts (E & C) during the month, in particular a $200m construction contract with Albemarle for the expansion of the Kemerton lithium hydroxide plant in WA. MND generates 75% of revenue from recurring maintenance work, but its E & C work that can really move the needle in a mining capex upcycle. Management has been saying for a while that the breadth and depth of potential work is the best it has seen for 20 years. Top of the list for them is lithium and rare earths, followed by iron ore expansions. Hence, investors took the lithium win very well.

Evolution Mining (EVN +14.9%)
A mixed finish to the year for EVN, driven entirely by Ernest Henry in Queensland, which for the most part, was processing lower grade material, as operations ramped back up from the extreme weather event. Importantly, there was no change to FY24 gold and copper guidance. After a difficult year that saw continuous disappointments (Red Lake in Canada, as well as the unprecedented rainfall at Ernest Henry), EVN looks to have turned the corner. Having completed its major capital program at Lake Cowal in NSW, this has allowed debt levels to be reduced before spending ramps up again at Mungari/Ernest Henry. Investors agreed and bid the stock up during the month.

The Market Misses

Core Lithium (CXO -28.9%) / Lake Resources (LKE -25.0%) / Sayona Mining (SYA -17.1%)
Lithium stocks came under pressure as spodumene prices continued to ratchet down 13% in July, at odds with Lithium carbonate/hydroxide prices, which fared much better. CXO also kicked an own goal, providing an insight into FY24 and FY25 volumes, laying bare some of the challenges it faces at its Finniss project in the Northern Territory. Management continues to grapple with materially lower recoveries than outlined in its Feasibility Study (which looks set to persist), challenges in accessing ore (pit wall competency) and significant cost inflation on both capital items and operating costs. This also rubbed off on LKE and SYA, who are both developing projects in Argentina and Canada respectively, highlighting commissioning, operational and sovereign risks, which have been usurped by investors' thematic convictions.

Syrah Resources (SYR -22.7%)
SYR paused production at its Balama graphite project in Mozambique, with only one month of production in the June quarter, due to weak Chinese anode conditions, resulting in inventory destocking. From here, SYR's sales strategy is to sell from inventory until customer demand and price levels warrant a re-start and sustainable Balama production. SYR's net cash from operations was a loss of US$29.5m for the quarter and the operation will continue to lose money until commodity prices recover. Given the chequered history, investors' patience has been severely tested over the last four and a half years since production started and July's share price decent now makes the collapse from last year's November high, a very painful -74% for long suffering true believers.

Healius (HLS -9.7%)
During the month, the ACCC raised concerns that the merger of pathology companies Australian Clinical Labs (ACL) and HLS would adversely affect market pricing for services, increasing the chance that it will eventually knock back a proposed deal to combine the country's second and third-largest collection centre businesses. This added to existing uncertainty of the merger proposal going through, as the HLS Board continues to recommend that its shareholders reject the ACL offer.

Ansell (ANN -9.7%)
Mid-way through the month, ANN provided a FY23 trading update and first-time FY24 guidance, which completely underwhelmed, as destocking challenges persisted. For FY23, statutory EPS was expected to come in at the US$1.17-1.18 range, broadly in line with consensus expectations, but the composition was poor. The top line missed consensus by 4%, with both healthcare sales and industrial sales missing targets. While the destocking impact for Exam/SU improved over 2H, the impact to Surgical and Life Sciences became more pronounced. The real blow came from FY24 guidance. ANN guided to adjusted EPS of US$0.92-112, or 17% below consensus at the mid-point. This was driven by a confluence of factors: price reductions of Exam/SU taken in FY23 to offset volume growth benefit; destocking to continue; FX headwinds to reduce EBIT by US$9mn; normalisation of incentive costs to reduce EBIT by US$39mn vs FY23; higher tax rate range of 22.5-24.5% from 21% in FY23; and higher debt levels with interest expense of US$29m. In a nutshell, there was nothing good in the result and the stock plunged 15%, from $27.84 to $23.75 on the day of the downgrade.

IGO (IGO -9.2%)
IGO blind sighted investors after the company announced that it expects to take a non-cash pre-tax impairment for the Western Areas nickel assets acquired in June 2022 of $880m-$980m, which was much higher than sell-side analysts had anticipated and equated to a staggering ~70% of IGO's original purchase price. IGO also disappointed with its 4Q23 production report, guiding to higher than anticipated capex for its Greenbushes lithium operations and a slower ramp up of the Kwinana lithium hydroxide refinery. The combination was enough to shake investor confidence. As a consolation prize, IGO released a new capital management plan that will see 20-40% of free cash returned to shareholders when liquidity is under $1.0bn and over 40% when liquidity is higher than $1bn, which took some of the sting out of the tail.

Star Entertainment Group (SGR -9.1%)
A newspaper story suggesting that "sharp nosed debt investors had smelled blood and were circling the troubled casino operator, preparing financing packages to lob at the under-siege business, amid concerns the equity raising wasn't enough to fix the balance sheet" saw the shares fall 8.7% on the day. Later in July, the Federal Court approved Crown's $450m fine from AUSTRAC over breaches of anti-money laundering laws, which will be paid in instalments over two years. This news stabilised the SGR share price, with investors hoping that the same treatment would apply to Star and relieve some pressure on the company's balance sheet.

Regis Resources (RRL -8.5%)
RRL issued FY24 guidance of 415-455koz of gold production at an AISC of $1995-2315/oz, which was 8% and 30% worse than consensus, respectively. RRL fell 20% in the last three days of the month, post the guidance update, but the shares were travelling well (+14%) immediately prior, flattering the 8.5% fall in July.

Link Administration (LNK -8.4%)
As previously mentioned in June's misses segment, the loss of the HESTA contract announced on 30 June, plunged LNK shares by 14% on that day and the fallout and downgrades continued to reverberate in July. It was a very large contract loss for LNK, representing ~4% of group revenues and whilst the transition is not expected until 2Q FY25, the earnings impact was estimated to be in the order of 12-18%.

FUND PERFORMANCE

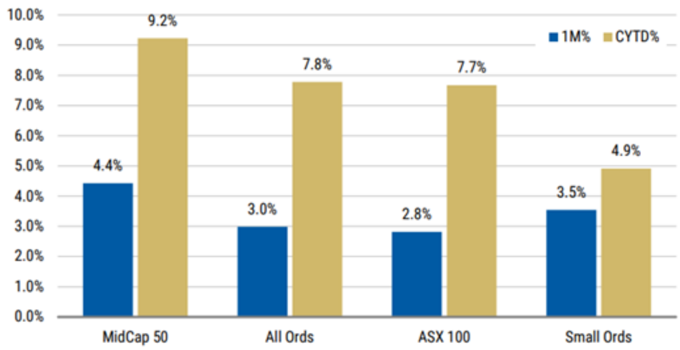
Global macro influences remained elevated during July, with Financials and Energy driving our market 2.9% higher over the month.

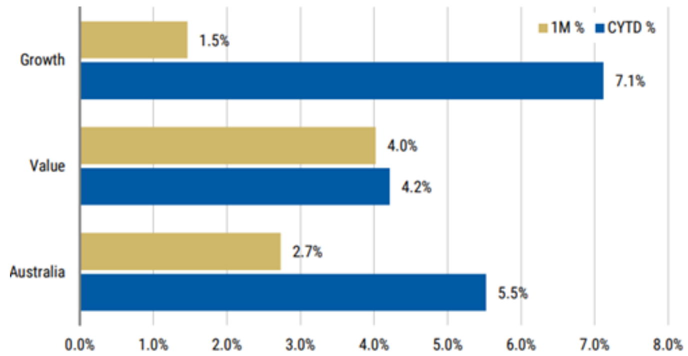
The Fund return of +3.52% for the month of July was pleasing and outperformed the benchmark return of +2.88%, despite having no REITs (+4.1%) and no banks which returned 6.5% which acted as a major headwind. For perspective, the bank's outperformance contributed +1.26%, or 44% of July's market+2.88% return.

This brings the scorecard for the CYTD to a satisfactory 8.59% compared to the benchmark return of 7.53%, which is reasonable given our more defensive positioning throughout the year.

Mid-Cap stocks outperformed in July and have now beaten their Large Cap peers for the CYTD. Small caps were just behind for the month, but are still the worst performers for the CYTD.

MSCI Australia Value outperformed Growth in July, but trails Growth for the CYTD.





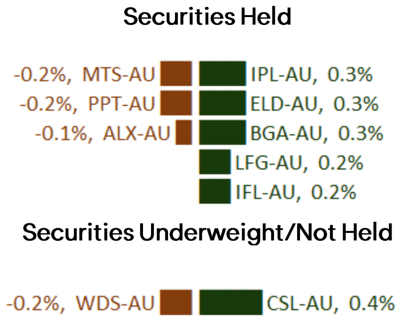
Source: Morgan Stanley

Financials, which rose 4.9%, posted the largest contribution (+136bps) to the market's return in July (led by CBA +5.4% and NAB +7.8%), followed by Energy (Woodside +10.3%) and Real Estate (Scentre Group +6.0%).

Defensive sectors weighed on the market. Healthcare was again the largest negative contributor (-17bps) to the market's return, closing down 1.5% (dragged down by CSL -3.2% and Sonic Healthcare -1.2%), then Consumer Staples (Woolworths -2.8%) and Utilities (Origin Energy +0.7%).

*Returns (%)**	*Gross*	*Benchmark*	*Excess*	*Net*
1 Month	3.52%	2.88%	0.64%	3.46%
3 Months	2.65%	2.04%	0.61%	2.47%
CYTD	8.59%	7.53%	1.06%	8.15%
2 Years (p.a.)	6.52%	4.52%	1.99%	5.41%
3 Years (p.a.)	13.10%	11.99%	1.12%	12.07%
4 Years (p.a.)	9.72%	6.07%	3.65%	8.59%
Since Inception (p.a.)	10.54%	7.77%	2.77%	9.42%

**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.*



Source: Ellerston Capital.

In the month of July, the main positive contributors to the Fund's performance were active overweight positions in Incitec Pivot (IPL +10.2%), Elders (ELD +10.8%), Bega Cheese (BGA +14.0%), Liberty Financial (LFG +7.7%), Insignia Financial (IFL +5.7%) and zero holdings in CSL (CSL -3.2%).

The main detractors for the month were active overweight positions in Metcash (MTS -1.3%), Perpetual (PPT -4.7%), **Atlas Arteria** (+1.1%) and not holding any Woodside Energy (WDS +10.3%), nor any of the four major banks whose combined contribution was -0.6%.

Atlas Arteria is a high conviction position in the portfolio - its 2Q23 update in July was encouraging, showing a return to strong momentum in its key asset in France (APRR reporting **record** Q2 Traffic and Revenue performance), with toll revenues supported by toll escalation and strong light vehicle traffic growth.

Overall ALX's portfolio beat expectations in 2Q23. APRR (incl. A79) toll revenue was up an impressive 8.2% on pcp. Traffic numbers were up 5.9% on pcp (up 4.2% excl. A79) and up 7.7% vs 2Q19 (up 5.9% excl. A79). ADELAC toll revenue was up 9.7% on pcp. Traffic was up 4.0% on pcp and up 6.0% vs 2Q19 (up 5.9% excl. A79). Chicago Skyway toll revenue was up 2.4% on pcp, but traffic was down 7.6% on pcp (up 5.5% vs 2Q19), currently impacted by construction works but more than offset by strong toll escalation. The problem child Dulles Greenway toll revenue was up 7.2% on pcp but weak vs market expectations, so it needs to pick up. Traffic grew 5.6% on pcp but was still down 28% vs 2Q19.

Despite French politics muddying the water, we remain attracted to this long duration, inflation linked infrastructure investment (with IFM sitting on the register at 21.8%) yielding 6.3% at current prices.

FUND ACTIVITY

The Fund was highly active during July and used share price weakness to selectively strengthen existing positions in Amcor, Atlas Alteria, Elders, GrainCorp, Incitec Pivot, Santos and Treasury Wine Estates. At the same time, the Fund divested remnant positions in Ampol and also took profits in IGO, as well as significantly de-risking its position in Perpetual ahead of its results to lock in profits. During the month, one new stock was introduced to the portfolio, Challenger - see write-up below.

NEW STOCKS ADDED	STOCKS EXITED
• Challenger	• Ampol

INCREASED	DECREASED
• Amcor	• IGO
• Atlas Alteria	• Perpetual
• Elders	
• GrainCorp	
• Incitec Pivot	
• Santos	
• Treasury Wine Estates	

Challenger (CGF)

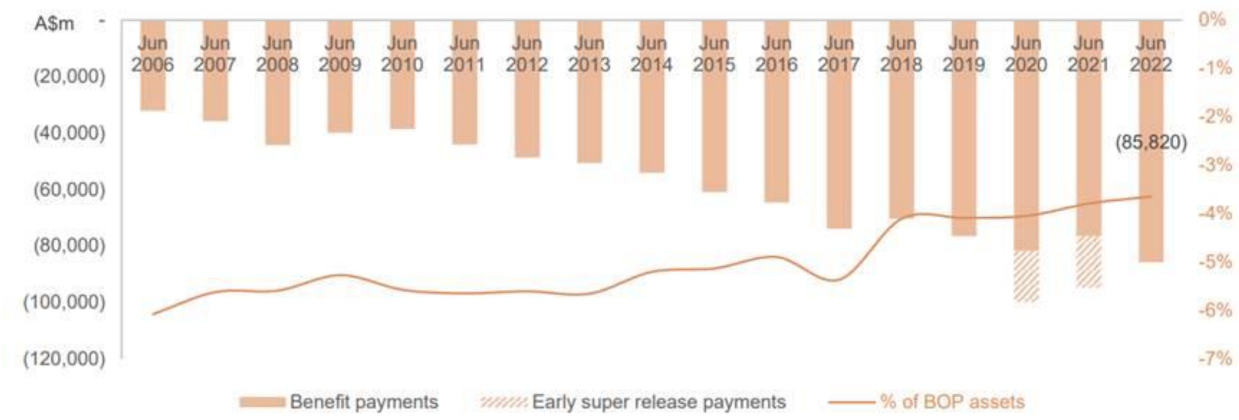
This former market darling from 5 years ago is a rather complex diversified financial services company with two core businesses: 1) Challenger Life, a retirement income business selling term and lifetime annuity products to retail and institutional clients - the dominant annuity provider in the Australian market with ~85% share; and 2) in house Funds Management (Challenger Investment Partners), coupled with providing distribution and taking minority equity investments in a number of external boutiques (Fidante Partners).

Challenger Life represents 90% of CGF's earnings and given the rapid rise in yields, we now see its annuity products as being highly attractive in the current interest rate environment. Even with official rates arguably peaking near term, this backdrop should provide relatively more certainty of retirement income, generous returns and importantly, CPI protection. CGF's historical sales and annuity book growth experience demonstrates that there is a strong appetite for annuities amongst consumers and with financial advisers, however, the ease of transacting has historically been the bigger driver of sales. CGF's success over a decade was getting onto retail platforms and making its annuities more easily accessible to advisers.

An even bigger asset cohort remains, industry/corporate funds, where CGF has had limited traction to date. Book growth should accelerate, with new product's growth driven by regulatory intervention and previous retirement income reforms. This is evidenced by its recent strategic partnership with TelstraSuper, where a retirement product has been launched and also in the area of defined benefit opportunities, e.g. Aware Super has just selected CGF to assist in de-risking its defined benefit (DB) pension fund through the provision of a $619m group lifetime annuity. Collectively, superannuation benefit payments, which totalled $86b in FY22, have been around 4% of system net assets in recent years, adjusting for the impact of early release superannuation assets. Whilst the large industry funds are busily working on their own retirement income products, CGF should catch some of the tailwinds flowing from the introduction of the Government's Retirement Income Covenant to help the needs of members from 1st July 2022 onwards.

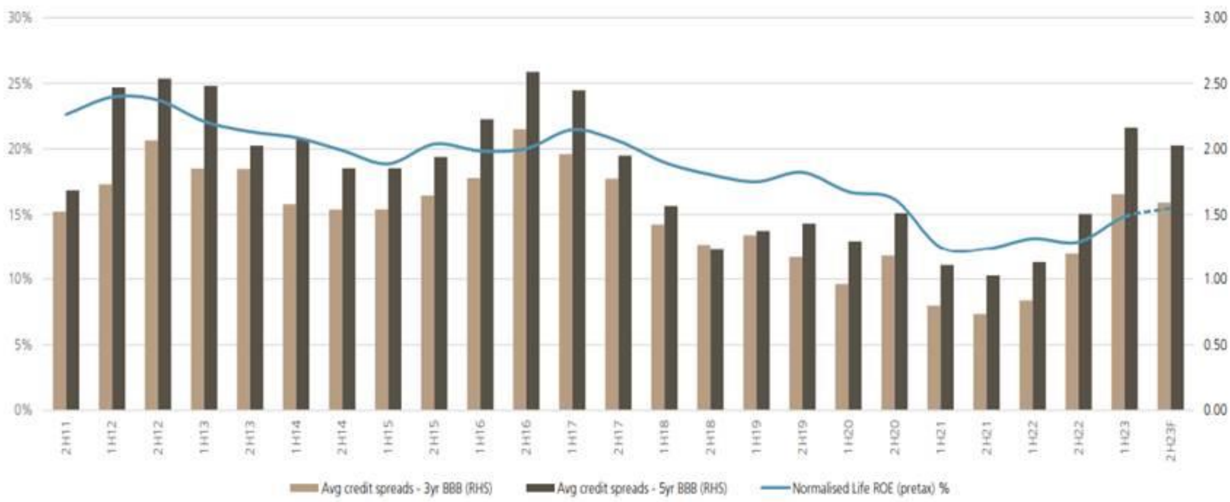
Within Funds Management, CGF is also seeking to deepen connections in Japan and build out its Simcorp offering.

Total superannuation benefit payments



Source: Barrenjoey Research

In the short term, increasing credit spreads should lead to a higher ROE and be the driver of strong FY24 earnings growth. The positive impact from rising cash rates comes at a time when retail annuity sales are clearly accelerating (see below chart), in turn helping to lift margins.



Source: UBS

Post CGF's investor day on 30th May, the company confirmed that its FY23 earnings were tracking above the mid-point of its EBITDA guidance range, which provides us with some comfort versus other financials which have limited visibility. At 1H23, CGF achieved a 12.3% ROE, which is trending higher and heading towards management's target of 12%+ Cash. The stock price in the CYTD has fallen ~10%, lagging against the market's return of +7.5%, mainly due to the uncertain environment following the SVB impact on credit markets/spreads.

The company now trades on a FY23 PE of 12.5x, a fully franked forward yield of 4.2% and a P/BV of 1.1x, which we believe is an attractive entry point to a market leader in annuities, at a time when the demand for retirement income is increasing due to the changing and ageing demographics. FY24 is when we would anticipate the impact from rising bond yields to flow through to earnings and we see strong earnings growth vs the rest of the industrials market.

FUND STRATEGY AND OUTLOOK

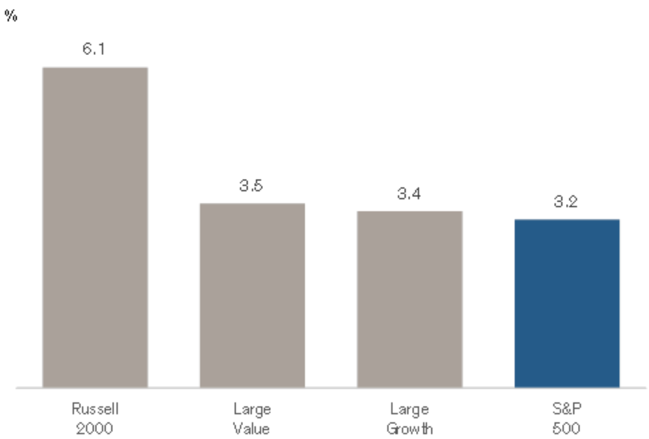
Apart from the broad changes outlined in the Activity Section, the Fund strategy remains as per last month and we are holding the course.

Big TECH+ (+52.9%) has been the juggernaut that has propelled the S&P500 by 20.6% this year. Interestingly, only 2% of the S&P500's total return was generated by earnings growth, the overwhelming balance has come from PE expansion. The PE for the US market currently stands at 19.5x, which is over one standard deviation above historical levels. Investors have driven stocks higher based on expectations that inflation continues to trend down (post some friendlier data prints), interest rates at the long end have peaked and that a Goldilocks' "soft landing" is now becoming the norm. The jury is out here.... Inflation is not tamed until the genie is back in the bottle. The Fed has stated numerous times that further tightening will be "data dependent" and that interest rates need to stay high until inflation is tamed. The longer rates are on hold, the higher the risk that the lagged effect of the rate rises compound and hit economic growth.

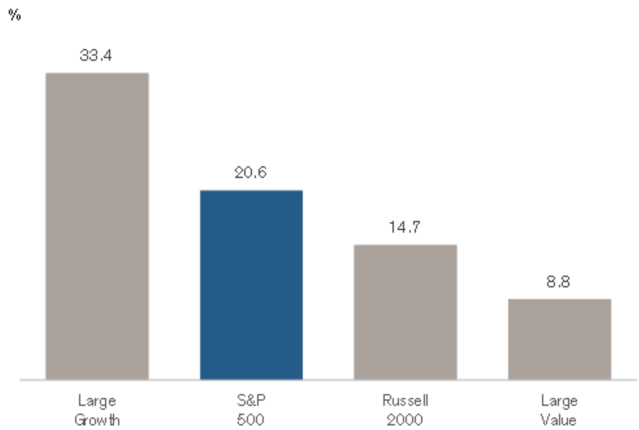
The ECB and the BoE will no doubt continue on with their monetary tightening campaign.

TECH+ and Large Cap Growth have significantly outperformed Smalls and Value stocks CYTD. For the month of July however, Small Caps shone with the Russell 2000 rallying 6.1% - maybe we've had enough "AI" for the time being.

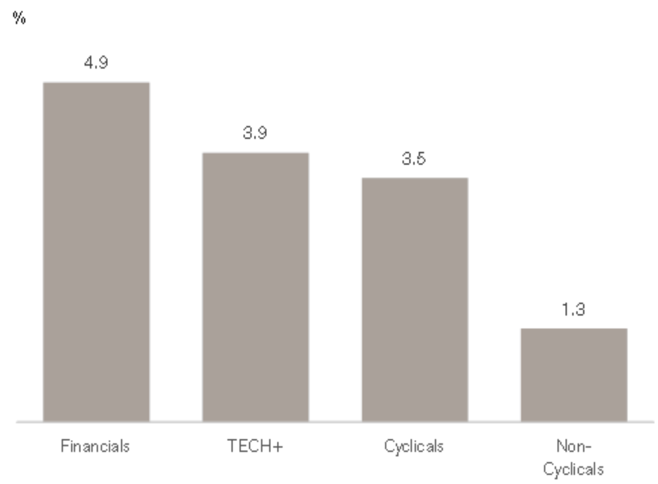
Total Return - July 2023



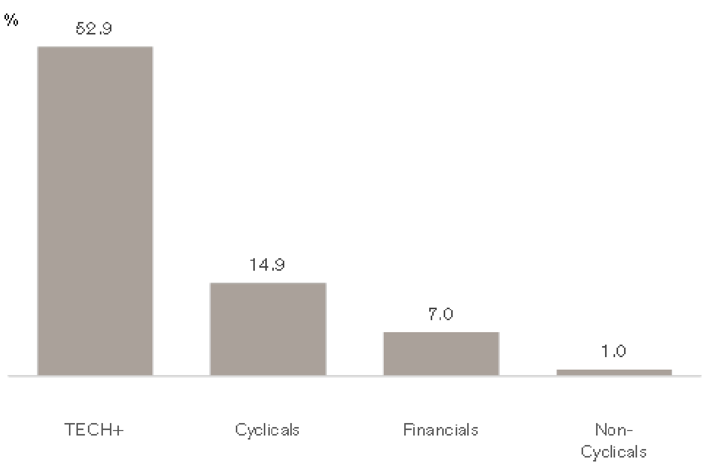
Total Return - CYTD



Total Return - July 2023



Total Return - CYTD



Source: Credit Suisse

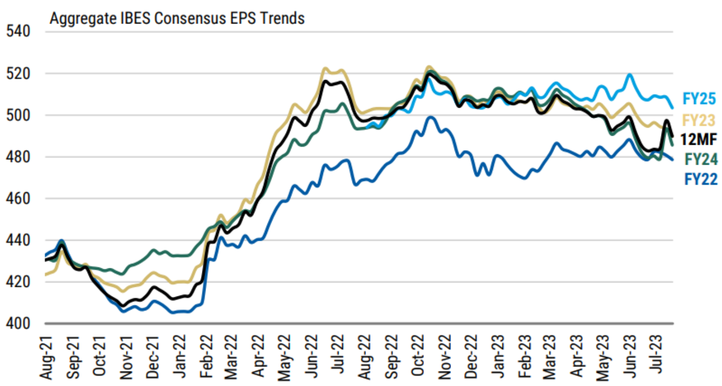
On the domestic front, Australian consumer spending continues to soften. According to CBA CEO Matt Comyn, only ~60 per cent of the impact of 12 cash rate increases has flowed through to Australia's economy so far. He told the House of Representatives Economics Committee in July, that stress will continue to rise in the next six months, even if interest rates remain unchanged. As more low-cost fixed rate mortgages matured by the end of the year, about 85 per cent of the impact of the 400 basis point increase would have made its way through the economy.

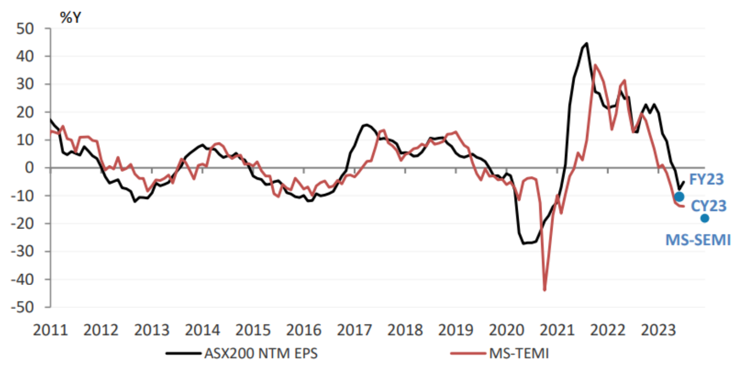
Reporting season beckons, with attention focussed on a decelerating economy, a strained consumer and the lagged effect from the RBA's hiking cycle which began a year ago. We would flag downside margin and earnings risk for discretionary retail and labour-intensive businesses and still hold that market expectations for margin recovery in 2024 look overly optimistic (given wages pressure etc).

Banks: Reporting Season: Key Issues:

Re the bank pending reporting season, more optimism in recent months has certainly raised the stakes. In a nutshell, credit quality should still be sound at this juncture, but the outlook for margins and expense growth remain sources of downside risk. The banks have re-rated in the past few months because investors are more optimistic about the potential for a "soft landing" in Australia and "index huggers" closed their underweights. The margin outcome going forward will prove critical. Whilst mortgage competition has eased since March/April, deposit competition is still fierce and we should witness a low to mid-single-digit net interest margin decline for the June quarter. Exit margins could disappoint and the forward commentary will probably remain cautious. Deposit competition and mix will be the bigger 2023-24 swing factors rather than mortgage discounting and future margins will be the main game. Credit quality should be ok for the June Quarter, with loss rates averaging 10-15 bps of loans, however the pain hasn't been felt yet (more likely to be a driver in Q4). We still maintain that loss rates will continue to rise over the next 12 months from a low base.

ASX 200 consensus earnings levels have rolled over, with FY23 earnings growth having fast faded to +2.5%. Top-down earnings are pointing to further downside to consensus estimates. In the first instance, this pulse was heavily influenced by Materials and Healthcare. Confession season has to date, been littered with broadening pressure across consumer facing sectors.

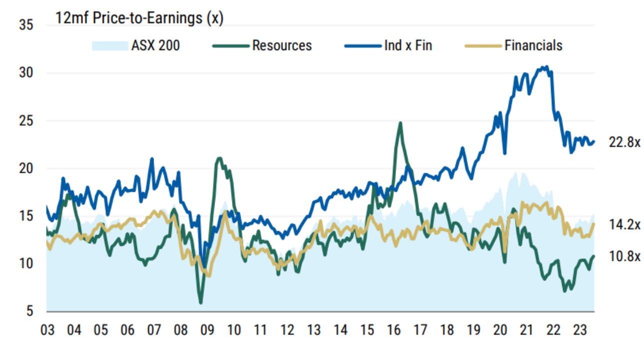




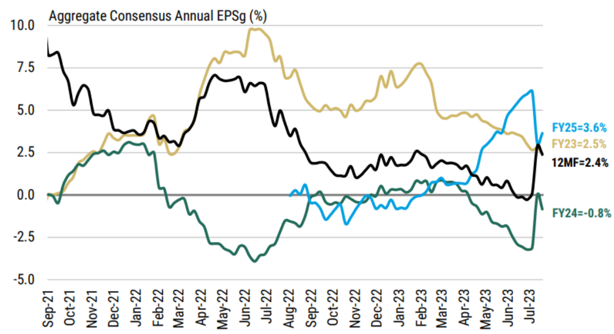
Source: Morgan Stanley

The domestic market 12MF P/E now stands at 15.2x. 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 22.8x



Annual Consensus EPS Growth Trends FY23-25



Source: Morgan Stanley Research.

The slide in the world's biggest bond markets have deepened amid signs of unexpected economic strength and concern over a widening budget deficit prompting a US credit downgrade by Fitch.

After strong equity market returns experienced so far this year and with equities in "over bought territory" vs. bonds, we expect equity markets to take a breather and consolidate the gains. At the same time, we would not rule out a pull-back in the TECH+ sector and some rotation into quality cyclicals which are screening dirt cheap and have significantly lagged.

The grossed up dividend yield on the portfolio now rests at 7.1%, which remains superior to the market dividend yield, despite owning no Banks, Telstra, and other traditional income payers.

MARKET CAPITALISATION

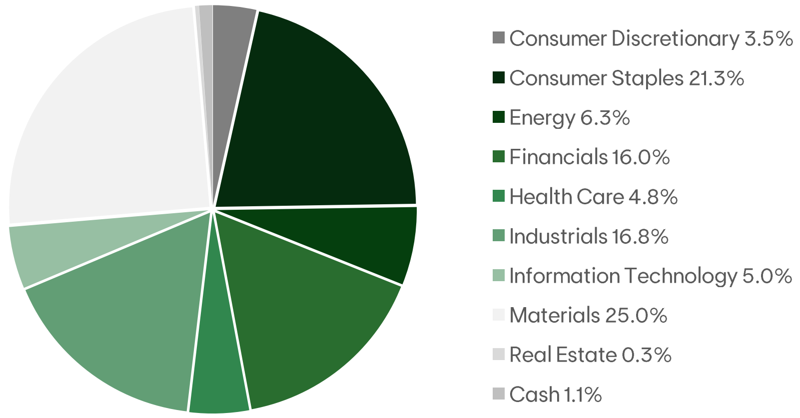
Source: Ellerston Capital

Top 10 Holdings

Company	Portfolio Weight
ATLAS ARTERIA	8.96%
BHP GROUP LTD	7.97%
INCITEC PIVOT LIMITED	6.62%
SANTOS LIMITED	6.29%
INSIGNIA FINANCIAL LTD	6.17%
METCASH LIMITED	5.69%
IRESS LIMITED	5.00%
ELDERS LIMITED	4.99%
GRAINCORP LIMITED CLASS A	4.87%
LIBERTY FINANCIAL GROUP LTD	4.81%

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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