



Ellerston Capital

Monthly Newsletter August 2023

Founded on Discovery

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Ellerston Capital

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Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) *
Ellerston JAADE Australian Private Assets Fund (Retail)	5.3%^	7.2%	14.5%	-	17.9%
Ellerston Australian Emerging Leaders Fund	1.9%	-4.0%	-	-	-10.9%
Ellerston Global Mid Small Cap Fund – Class A	0.6%	18.3%	9.9%	9.7%	11.7%

Performance figures shown are net of fees and expenses. Past performance is not a reliable indication of future performance.

*Please refer to a summary of fund performance page for Fund inception dates and APIR codes.

^Performance reported Quarterly and therefore updated as at 30 June 2023

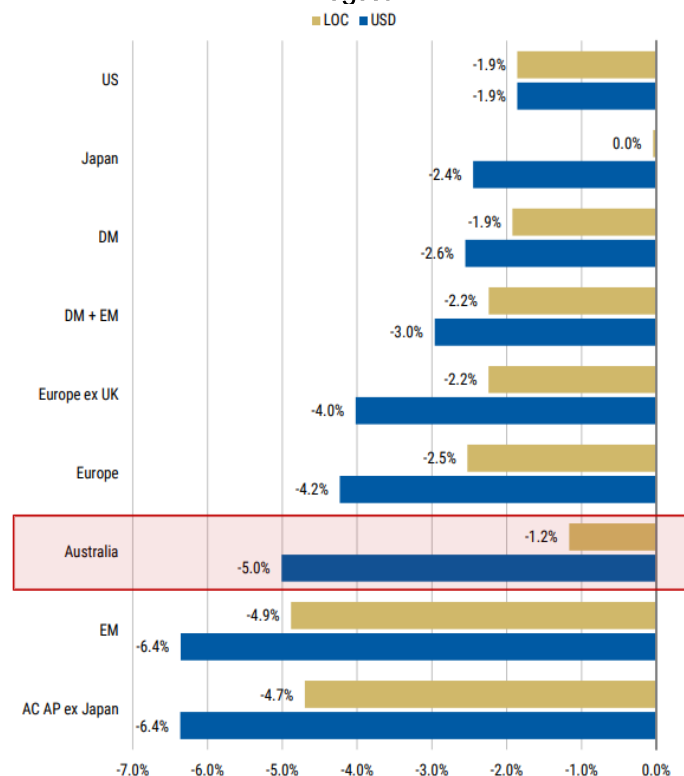
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Monthly Market Update

Market Overview

The MSCI Developed Markets took a breather, falling 1.9% in August and the S&P 500 lost 1.6% in local currency terms. Developed markets outperformed their Emerging Market counterparts (-4.9%), with Energy, Health Care and Information Technology being the best performing sectors globally. The domestic market finished down 0.7% for August, as generally dull outlook statements from companies and cost pressures through the reporting season weighed on investor's minds. Consumer Discretionary (+5.7%), which tended to beat low-balled expectations and Real Estate (+1.6%) did most of the heavy lifting.

MSCI Global Country/Regional Indices Performance CYTD to August



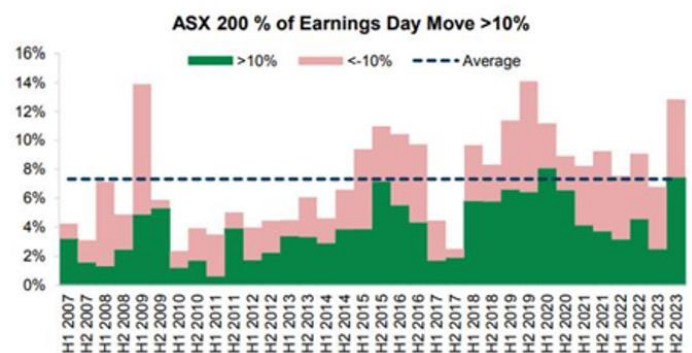
Source: Morgan Stanley.

Domestic Reporting Season – Key Takeaways

The August reporting period saw 37% of ASX 200 firms Beat consensus, whilst 36% Missed – both only slightly worse than long-run averages. However, we saw double the EPS downgrades versus upgrades for FY24 (32% downgrades vs 16% upgrades).

Share price reactions were abnormally large, with 1 out of every 8 stocks moving more than +/-10% on the day of results, nearly double the long run average. While gross profit trends proved resilient, the increase in financing costs (net interest expense up ~50% YoY) was surprisingly the biggest headwind to EPS, which fell on average 6% YoY.

2H23 – One of the Most Volatile Earnings Season in 15 years



Source: Goldman Sachs

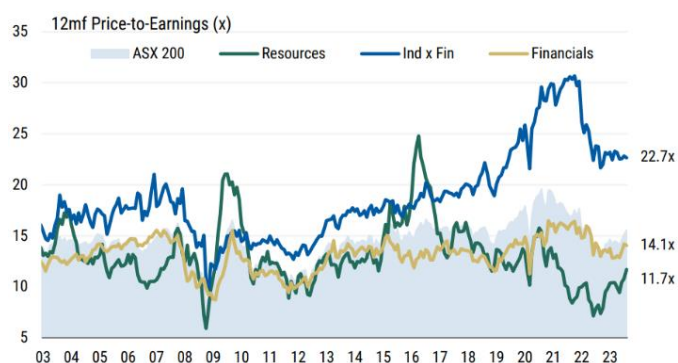
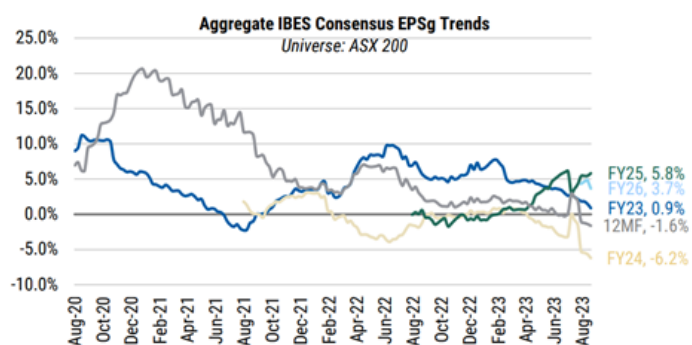
Consistent themes from the reporting season were:

- Cost pressures continuing to compress margins;
- CAPEX over-runs; and
- Underestimation of rising debt servicing and funding costs.

WEBINAR: Global Equity Update

Registration for the next Ellerston Global Equity Webinar, held on Tue, Sept 19, 2023, 10:00 AM–11:00 AM AEST, is open – [Register Now](#).

ASX 200 consensus earnings levels have rolled over, with FY24 earnings growth having fast faded to -6.2%. The domestic market 12MF P/E now stands at 15.6x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.



Source: Morgan Stanley.

Australian Update

The A\$ closed the month 3% down to US\$0.65. A stronger US dollar offset the benefit of stronger commodity prices.

A softer than expected July CPI, slowing from 5.4% to 4.9% versus consensus expectations for 5.2%, is unlikely to move the RBA's "wait and see" policy stance, given the stickiness of core inflation, and it is expected to keep rates on hold at the September meeting.

The S&P/ASX 200 Accumulation Index was down 0.7% in August. Consumer Discretionary, Real Estate and Energy led the performance charts. The Consumer Discretionary sector (up 5.7%), was the best performer, spurred by Wesfarmers (+10.6%, after delivering a solid result), followed by Real Estate (+1.6%) and then Energy (+0.5%). The bottom three sectors were Utilities (-3.8%), dragged down by APA (-10.1%, following their acquisition of Alinta Energy Pilbara and \$750m equity raising), Consumer Staples (-3.2%) and Information Technology (-2.1%).

For the month, the top stocks that made a positive contribution to the Index's return were Wesfarmers (+28bps), Goodman Group (+24bps), CSL (+11bps), Cochlear (+10bps) and NAB (+8bps). Conversely, the bottom five stocks detracting from the Index's performance were BHP (-27bps), Transurban (-16bps), Resmed (-15bps), Wisetech Global (-14bps) and Coles (-13bps, following big earnings miss on cost headwinds, elevated stock losses from theft at automated checkouts and delays to their Simplify and Save benefits).

The ASX Small Ordinaries was down 1.3%, underperforming the broader benchmark. Within the ASX Small Ordinaries, the Small Resources did slightly better at -0.9% versus the Small Industrials, which were down 1.47%.

Fed Chair Jay Powell, speaking at Jackson Hole Wyoming late in the month, summarised what most of the FOMC members were saying. "Although inflation has moved down from its peak, a welcome development, it remains too high. We are prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective." Commenting further, "Additional evidence of persistently above-trend growth could put further progress on inflation at risk and could warrant further tightening of monetary policy." The next FOMC meeting is on the 19-20 September, so the focus by markets on the key macro data will continue to be front of mind.

S&P 500 and Dow Jones Industrial Average were down 1.6% and 2.0%, respectively, with The NASDAQ Composite Index, the laggard, falling 2.1% for the month, but still leads with a whopping +34.9% return for the CYTD.

Europe

European Central Bank President, Christine Lagarde stayed out of the debate over whether the ECB should lift interest rates for a 10th straight time in September, even as some of her more hawkish colleagues were trying to avoid pausing. Her comments capped a week of dismal data from the 20-nation euro zone. The bloc's largest economy, Germany, is struggling to bounce back from a recession, while business surveys are pointing to the services sector following manufacturing into the doldrums.

The Euro STOXX50 Index finished the month down 3.8%. Among the major exchanges, France's CAC 40 was 2.4% lower, UK's FTSE 100 was down 2.5% and Germany's DAX was the laggard, falling 3.0%.

Asia

China's PMI data showed its manufacturing contraction eased slightly in August, but services were the weakest since December. The PBOC lowered down-payment requirements for first and second-time house buyers in an effort to boost China's depressed property market, and approved a rate cut for existing first-home mortgages. Housing sales by value, fell for a third straight month in August, by 34% year on year. China's economic stimulus measures have been a series of false dawns thus far.

Asian equity markets were also weaker. The Hang Seng was the standout at -8.2%, China's SSE fell 5.6% and Korea's KOSPI was down 2.9%. India's SENSEX finished down 2.3% and The Nikkei 225 was the outperformer, down only 1.6%.

Commodities

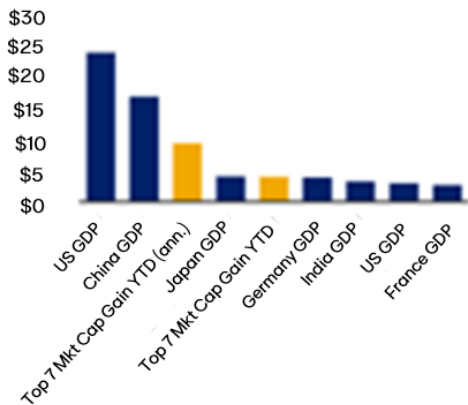
Commodities were generally stronger in August, as expectations of additional stimulus in China kept bulk commodities elevated. Iron ore prices finished 7% higher and coking coal prices ticked up 13% to US\$118 and US\$268 per tonne, respectively. The base metals complex continued to weaken, with nickel falling 9% and both copper and aluminium down 4%. The Brent oil price squeezed higher to US\$87/barrel, as Saudi Arabia further tightened supply by extending its 1m bpd unilateral production cut to September. Gold ticked down 1% to US\$1,940 per ounce on a stronger US Dollar. Lithium carbonate prices were weaker, down 25% and spodumene prices were 11% lower as major battery producers destocked in China.

Bonds

The US 10-year treasury yield rose 15bps to 4.10% in August, with continuation of the Fed's hawkish tone from Jackson Hole and reinforced by better economic data implying higher rates for longer. On the domestic front, the Australian 10-year bond yield was 3bps lower at 4.03%, as the RBA pauses at 4.1% on the official cash rate.

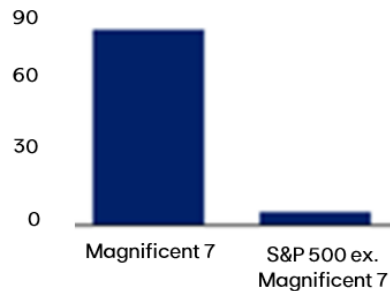
Charts of the Month

Magnificent 7 Market Cap Gains YTD = 3rd Largest Economy (USD \$tn) – 1H 2023



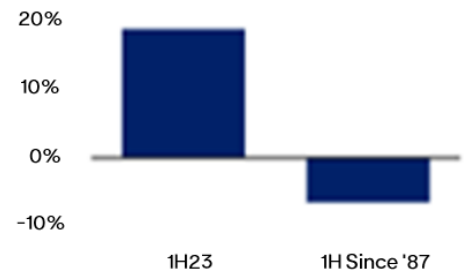
Source: Bloomberg, BofA US Equity & Quant Strategy

Magnificent 7 Up +90% On Average in 1H 2023



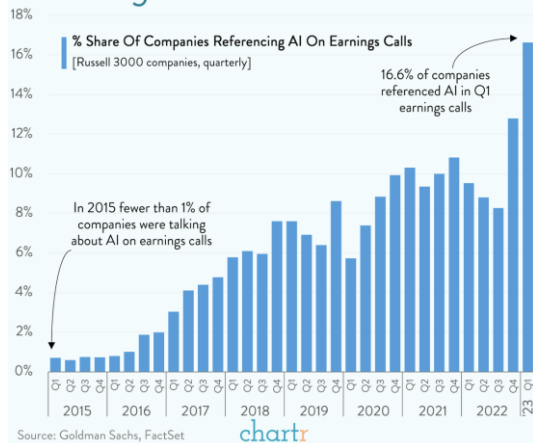
Source: FactSet, BofA US Equity & US Quant Strategy

Record Gap Between Market-Weighted and Equal-Weighted S&P 500 Performance YTD vs Prior Year (Historical Average)

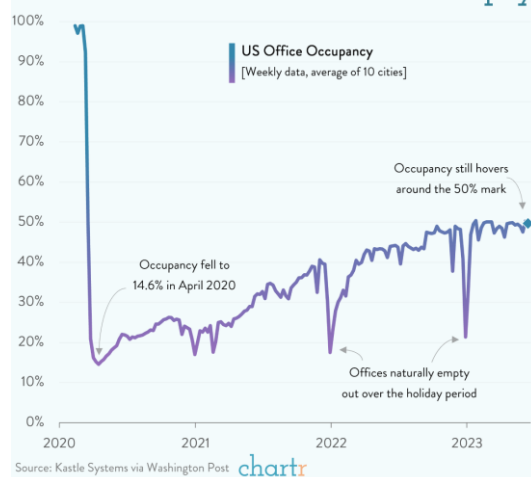


Source: FactSet, BofA US Equity & Quant Strategy

Company Executives Can't Stop Talking About AI To Investors



Offices Half Full... Or Half Empty





		1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P ASX 50	-0.6	4.1	6.8	10.8	11.5	7.4	7.6
	S&P ASX 200	-0.7	3.9	6.7	9.6	10.7	7.0	8.0
	<i>S&P ASX 200 Industrial</i>	-0.3	3.5	7.5	6.7	8.9	5.3	7.6
	<i>S&P ASX 200 Resources</i>	-1.8	5.0	4.8	17.6	16.2	13.2	8.7
	S&P ASX Small Ordinaries	-1.3	2.2	3.5	-1.1	3.0	2.4	5.7
	<i>S&P ASX Small Industrials</i>	-1.5	3.8	7.1	2.2	1.5	1.6	6.1
	<i>S&P ASX Small Resources</i>	-0.9	-1.9	-5.6	-9.9	9.3	5.7	4.2
	MSCI Australia Value	-1.4	6.3	5.9	15.7	17.1	8.4	7.0
	MSCI Australia Growth	0.5	2.8	9.3	7.1	5.8	5.5	8.4

ASX 200 Sectors	Energy	0.5	11.5	12.4	16.6	23.7	4.2	2.2
	Utilities	-3.8	2.9	7.3	18.5	11.9	6.8	10.2
	Financials	-0.8	7.3	4.4	8.3	15.2	5.0	6.5
	Materials	-2.0	4.2	4.4	17.5	14.6	14.9	11.2
	Industrials	-2.0	0.4	11.0	7.5	8.7	4.7	9.6
	Real Estate	1.6	5.8	9.6	4.6	6.2	2.5	7.9
	Consumer Discretionary	5.7	11.3	19.7	13.4	8.6	7.5	9.8
	Health Care	-1.0	-9.0	-2.2	-4.8	-0.3	4.7	13.0
	Information Technology	-2.1	5.9	33.9	22.7	0.3	9.3	12.3
	Consumer Staples	-3.2	-1.4	3.0	-0.8	2.4	4.8	5.9
	Communication Services	-0.8	0.9	13.1	10.8	13.8	9.4	3.6

Local CCY

World	MSCI World Index	-1.8	6.9	16.4	14.7	9.8	8.9	10.2
	MSCI EM (Emerging Markets)	-4.7	3.8	5.9	2.3	0.6	2.8	5.6
	MSCI AC World ex AU	-2.1	6.6	15.4	13.3	8.6	8.2	9.7
	MSCI World Mid Cap	-2.6	6.9	9.3	8.1	8.4	5.9	8.7
Americas	S&P 500	-1.6	8.1	18.3	15.3	10.0	10.5	12.2
	DJ Industrial Average	-2.0	6.1	6.4	12.6	9.1	8.3	11.4
	NASDAQ Composite Index	-2.1	8.7	34.9	19.8	6.9	12.6	15.8
	Russell 2000	-5.0	9.0	9.0	4.7	8.1	3.1	8.0
Asia Pac	Hang Seng Index	-8.2	2.6	-4.5	-4.6	-7.2	-5.1	1.7
	Japan Nikkei 225	-1.6	5.8	26.2	18.2	13.9	9.1	11.0
	MSCI AC Asia ex JP	-5.2	2.8	4.2	0.8	-0.9	2.1	5.4
	MSCI India	-1.2	6.0	6.5	6.1	19.6	11.1	13.2

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	AUD/USD	0.65	-3.9	0.1	-4.5	-5.5	-4.3	-2.2	-3.1
	AUD/EUR	0.60	-2.4	-1.7	-6.1	-12.5	-1.2	-0.8	-1.2
	AUD/GBP	0.51	-2.4	-2.1	-9.3	-13.2	-2.6	-1.7	-1.2
	AUD/JPY	94.29	-1.5	4.3	5.4	-0.8	6.3	3.3	0.8



Net Returns	1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
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Alternatives	Ellerston Global Equity Managers Fund - Class C**	-	-	-	-	-	-	ECL0006AU 1/12/09 ^A
	Ellerston Australian Absolute Return Fund	-1.7	-3.3	-14.3	-0.4	1.7	4.6	ECL0013AU 3/6/13 [^]
	RBA Cash Rate	0.3	1.0	3.4	1.3	1.2	17.1	1.6
	Excess Return	-2.1	-4.4	-17.7	-1.7	0.5	3.0	3.2

Australian Equity	Ellerston Australian Share Fund	-4.0	-1.7	6.3	14.3	5.8	7.1	8.6	ECL0005AU 1/4/09
	S&P/ASX 200 Accumulation Index	-0.7	3.9	9.6	10.7	7.0	8.0	9.5	
	Excess Return	-3.2	-5.6	-3.3	3.6	-1.2	-0.8	-0.8	
	Ellerston Overlay ASF	-4.3	-3.4	3.3	11.3	4.3	6.3	7.1	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	-0.7	3.9	9.6	10.7	7.0	8.0	8.7	
	Excess Return	-3.5	-7.3	-6.3	0.6	-2.7	-1.7	-1.6	
	Ellerston Income KIS Fund	-5.1	-0.5	2.4	9.2	-	-	7.9	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	-0.7	3.9	9.6	10.7	-	-	7.4	
	Excess Return	-4.3	-4.5	-7.2	-1.5	-	-	0.5	
	Ellerston Australian Micro Cap Fund	0.3	4.2	-0.4	0.9	9.0	-	12.5	ECL0984AU 1/5/17
	S&P/ASX Small Ordinaries Accumulation Index	-1.3	2.2	-1.1	3.0	2.4	-	5.7	
	Excess Return	1.7	2.0	0.7	-2.1	6.6	-	6.8	
	Ellerston Australian Emerging Leaders Fund	1.9	7.2	-4.0	-	-	-	-10.9	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	-1.3	2.2	-1.1	-	-	-	-7.1	
	Excess Return	3.3	5.0	-2.8	-	-	-	-3.8	
	Ellerston 2050 Fund	-0.8	5.1	-2.9	-	-	-	-2.3	ECL5651AU 31/5/22
	S&P/ASX Small Ordinaries Industrial Accumulation Index	-1.5	3.8	2.2	-	-	-	0.7	
	Excess Return	0.7	1.4	-5.1	-	-	-	-3.0	



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
International Equity	Ellerston Global Mid Small Cap Fund - Class A	0.6	8.0	18.3	9.9	9.7	-	11.7	ECL8388AU 1/3/17
	MSCI World Mid Cap Index	0.4	6.7	14.9	11.1	7.3	-	9.7	
	Excess Return	0.2	1.3	3.4	-1.2	2.4	-	2.0	
	Ellerston Global Mid Small Cap Fund - Class B	0.6	8.0	18.3	10.6	-	-	9.8	ECL3306AU 18/8/20
	MSCI World Mid Cap Index	0.4	6.7	14.9	11.1	-	-	10.3	
	Excess Return	0.2	1.3	3.4	-0.5	-	-	-0.5	
	Ellerston Asia Growth Fund (Hedge Fund)	-1.6	2.4	-	-	-	-	2.4^^^	ECL1411AU 1/6/2023"
	MSCI Asia ex Japan (non-accumulation)	-2.8	0.8	-	-	-	-	0.8	
	Excess Return	1.2	1.6	-	-	-	-	1.6	
	Ellerston India Fund	0.5	3.8	6.2	13.1	6.8	-	7.8	ECL0339AU 4/5/17
	MSCI India Net Return Index	2.1	5.7	7.3	19.7	9.8	-	10.4	
	Excess Return	-1.5	-1.9	-1.0	-6.6	-3.0	-	-2.6	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	-	5.3	7.2	14.5	-	-	17.9	ECL2707AU 5/7/19
	Ellerston Pre - IPO Fund	-	0.6	-7.7	3.9	-	-	3.4	ECL0405AU 31/3/20
	Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 30 June 2023.								

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Disclaimer

The net return figure is calculated after fees and expenses. Above figures are those available as at 7 September 2023. Past performance is not a reliable indication of future performance.

*Since Inception

** For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

^This represents the date of demerger of the Ellerston GEMS Fund. On 2 November 2009, Investors holding GEMS Class A units were allocated GEMS Class B units. For the period 1 January 2002 to 30 April 2006, please refer to *** above. For the period 1 May 2006 to 2 November 2009, the net return for GEMS A have been used.

^^ The Ellerston Australian Absolute Return Fund was formerly known as the Ellerston Australian Market Neutral Fund which was launched on 3 June 2013.

^^^ Cumulative return since inception

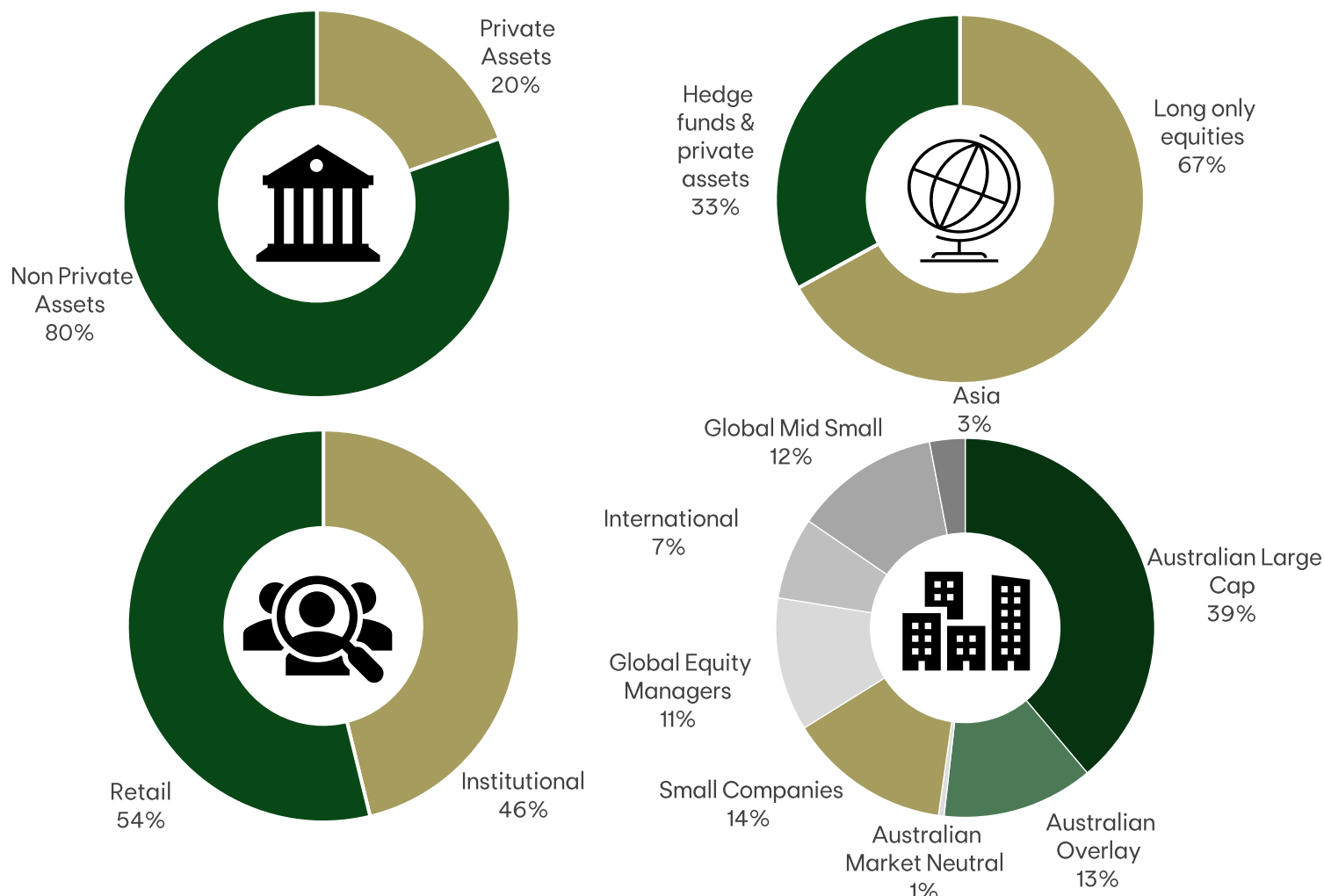
"The Ellerston Asia Growth Fund (Hedge Fund) was formerly known as the Ellerston Asia Growth Fund with a strategy inception date of 4 January 2017. The performance was reset following a restructure of the fund into an exchange traded managed fund which took effect on 1 June 2023.

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About Ellerston Capital

Funds Under Management

\$3.14 Bn



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For further information about any of our funds, please contact National Account Manager Nathan Boroughs at nboroughs@ellerstoncapital.com or 0466 775 961.

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