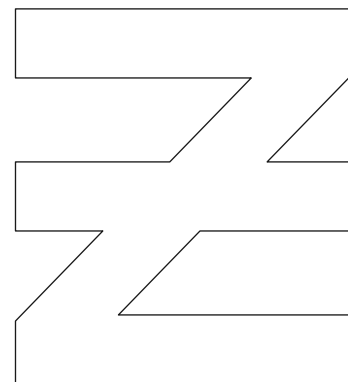


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, August 2023

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand companies. The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Investment Strategy

The Fund employs an active, research-driven investment approach which seeks to identify a portfolio of smaller company Securities with the aim of delivering superior returns to the Benchmark over time. The Fund will invest in companies that are believed to have the potential to deliver significant upside over the medium term and where there is a reasonable margin of safety to mitigate the downside risk. Positions are actively managed within the Fund.

Strategy Inception [^]	16-Aug-21
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$0.7882
Net Asset Value	\$0.7862
Redemption Price	\$0.7842
Liquidity	Daily
No Stocks	42
Management Fee	1.10% p.a.
Performance Fee ^{**}	20.00%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	\$10,000
Minimum Additional Investment	\$5,000
Distribution Frequency	Half Yearly (i.e. June & December)

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

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.) ^{^^}
Net[^]	1.95%	7.17%	4.41%	-3.96%	-10.90%
Benchmark*	-1.31%	2.22%	0.90%	-1.12%	-7.11%
Alpha	3.25%	4.95%	3.51%	-2.84%	-3.80%

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
^{*} S&P/ASX Small Ordinaries Accumulation Index

COMMENTARY

The Ellerston Australian Emerging Leaders fund delivered 1.95%, outperforming the S&P/ASX Small Ordinaries Accumulation Index which finished down -1.31%. We do note that at one point during the month the market was down over 3% before recovering as it waited for Fed Chair Powell to comment at the annual Jackson Hole summit and digested concerns around the Chinese economy.

Closer to home, August is reporting season and to a large extent it played out as we had anticipated, with inflationary costs impacting margins and higher interest and lease costs dragging on EPS. Overall, cyclicals and consumer facing companies outperformed expectations, while large caps and defensives had a more challenging August. As anticipated not many companies provided guidance but those that did were generally rewarded. While reporting season can see volatility in share prices, we find it also creates numerous opportunities and allows us to reset our expectations with new information at hand, setting us up for the 2Q of the financial year.

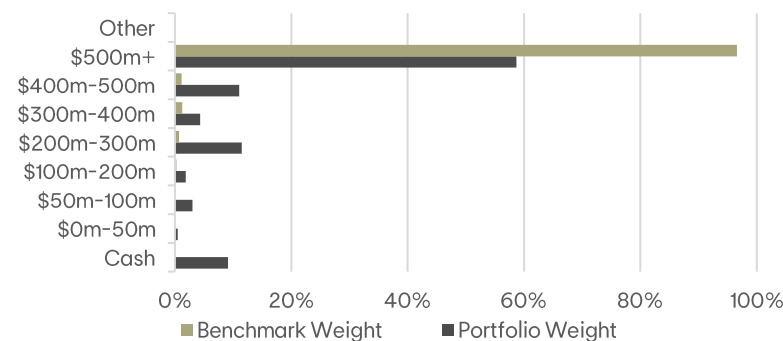
Moving to stocks, Life360 (360 AU) which designs and develops mobile applications for family tracking delivered a very strong quarterly update. It saw monthly active users and paying circles coming in ahead of market expectations. Given better cost management, the group upgraded its CY23 EBITDA guidance. This saw the stock rally and end up 21% for the month. We think guidance is readily achievable as the group heads into its key back to school period. Longer term, we see 360 able to drive both volume and yields in its paying user base which will drive profitability. As such 360 is a core position in the fund.

Inghams (ING AU) which is a vertically integrated poultry producer and operates a stockfeed business has struggled over recent times on the back of inflationary pressures and volume declines. We have had ING on our watchlist for some time waiting for the opportunity to dip our toe in the water in this name. Given the strategic nature of the business we thought the market was pricing in even harsher conditions than what reality would suggest and decided to start building a position. At the result, ING outperformed consensus expectations. A recovery in volumes combined with higher selling prices has resulted in a material earnings uplift over 2H23. In addition, stronger than expected cash flow generation saw the balance sheet deleverage ahead of expectations. After a few tough years, we think ING is set up nicely to continue its earnings recovery assisted by further operational improvements. ING remains a core position for the fund.

Moving forward, we think many of the cost headwinds we have been talking about for the last 24 months may have peaked and should start to stabilise/moderate. We are pleased earnings expectations have come down to more achievable levels with higher interest and depreciation costs now factored into EPS forecasts. We will continue to stress test our positions and sift through these opportunities, particularly where we can see evidence of pricing power, resilient demand, and healthy balance sheets.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



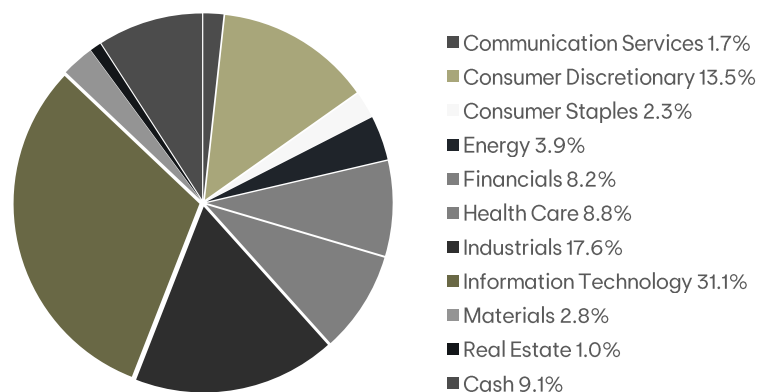
Source: Ellerston Capital.

Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	14.58x	20.80x
Dividend Yield	2.50%	2.97%
Net Debt/EBITDA	-1.59x	1.28x

Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

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Find out more

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
All holding enquiries should be directed to our register, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au

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