Ellerston Equity Income KIS Fund

Monthly Newsletter, August 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	$1.0039
Net Asset Value	$1.0014
Redemption Price	$0.9989
Liquidity	Daily
No Stocks	31
Strategy FUM	$39.87m
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*

FY24(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.1	5.4
Price/Earnings (X)	13.2	15.9
Dividend Yield (%)	5.4	4.0
Beta	0.87	1.00

PERFORMANCE SUMMARY

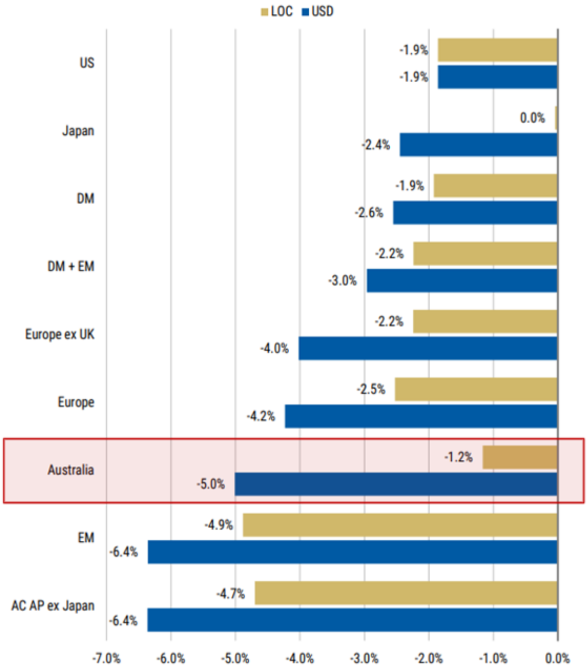
Performance	1 Month	FYTD 2024	12 Months Rolling	3 Years (p.a.)	4 Years (p.a.)	Since Inception (p.a.)^^
Net^	-5.08%	-1.79%	2.37%	9.20%	7.02%	7.92%
Benchmark*	-0.73%	2.13%	9.56%	10.68%	6.51%	7.43%
Alpha	-4.35%	-3.92%	-7.19%	-1.48%	0.51%	0.49%

^ 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 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.

USA

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.

Australia

The AU$ 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%).

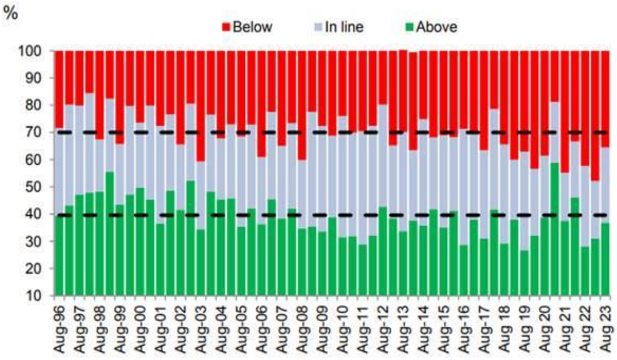
For the month, the top stocks that made a positive contribution to the Index's return were Wesfarmers (+28bps), Goodman Group (+24bps), CSL (+11bps), Cochlear (+10bps) and NAB (+8bps). Conversely, the bottom five stocks detracting from the Index's performance were BHP (-27bps), Transurban (-16bps), Resmed (-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%.

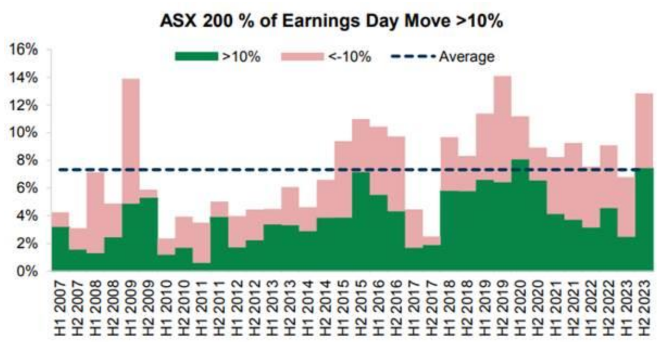
The August reporting period saw 37% of ASX 200 firms Beat consensus, whilst 36% Missed - both only slightly worse than long-run averages. However, **we saw double the EPS downgrades versus upgrades for FY24 (32% downgrades vs 16% upgrades).**

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.

% of Companies Beating/In-Line/Missing



2H23 - one of the most volatile earnings season in 15 years



Source: Goldman Sachs

COMPANY SPECIFIC NEWS

The Market Hits

Altium (ALU +26.7%)
ALU is a leading global provider of printed circuit board design software, playing a key role in the design of PCBs, used in all electronic domestic and industrial gadgets. ALU posted a strong FY23 result, highlighted by solid improvement in subscriber growth in its core Design Software business. ALU also provided FY24 revenue and EBITDA guidance for the first time of $315-325m (+22% YoY), underpinned by 10-15% subscriber growth, with the remainder due to the shift in mix from higher-yielding enterprise customers (a ~25% price differential). Altium reaffirmed its FY26 aspirational targets of $500m revenue and 38-40% underlying EBITDA margin (20% ahead of consensus). Investors backed the aspirational targets, pushing the stock price up 26% on the day.

Inghams Group (ING +24.3%)
ING reported a solid result, better than consensus estimates and more importantly, management delivered good 2H cash generation which improved ING's leverage ratio from 2.5x in December to 1.4x, well within its target range of 1.0-2.0x. Investors were impressed by the strong business recovery from the significant disruptions experienced in FY22, with their poultry operations progressively returning to normal during 2H FY23. Whilst no quantitative guidance was given, the large final dividend reflected the Board's confidence in the company's future and its strong balance sheet. Investors accordingly piled in.

G.U.D. Holdings (GUD +24.0%)
GUD delivered a very credible earnings result that hit targets across the board, removing any remaining balance sheet concerns and raising confidence in the future earnings outlook. GUD expect further revenue and EBITA growth in FY24, with improvement in vehicle volumes expected through to 2Q24. The outlook commentary did not imply material consensus upgrades for FY24, but the shares enjoyed a re-rating as cash conversion hit 113% and gearing met the ~2.0x company target, as inventory levels normalised. With the August announced sale of the Davey water business now complete, gearing now sits at ~1.8x and should improve further over FY24 on solid cash generation. GUD's share price reacted strongly rising 15% on the announcement.

Johns Lyng Group (JLG +21.4%)
JLG delivered a reasonable FY23 result, with EBITDA +3%. The result and outlook ticked most boxes, with divisional CAT and BAU (excl. the problematic Commercial Construction) performance, coupled with gross operating cash flow of $165m (cash conversion: 143%) key features. The market did not expect JLG to repeat its FY23 record CAT revenue of $371m, but guidance pointed to CAT works remaining stronger for longer. The burning question around the near-term BAU growth outlook was answered, with management's optimism (despite weather cycles) underpinned by existing secured work volumes over the course of FY24 and abundant work volumes across its entire geographical footprint. Further, there is potential 2 years of visible runway, which is supportive of resilience in CAT contributions going forward. The only constraining factor and risk to this growth momentum will of course, be the tight labour market. Further M&A optionality across Australia and accelerating US growth prospects (despite achieving lower margins at ~11%), were well received by the market.

Life360, Inc. (360 +20.7%)
360 offers location tracking and monitoring services, which include Tile Bluetooth and Jiobit GPS tracker brands. 360 announced an above consensus interim result and delivered on its prediction to increase EBITDA over the half, moving into positive free cash flow generation in 2Q'23. Full year revenue guidance was re-affirmed, with EBITDA upgraded to $9-14m versus $7m consensus forecasts. Investors liked the update, hoping that after a series of set-backs that saw the shares plunge from December 2021 highs of $13.64 to $2.41 in last June, 360 is finally moving in the right direction to reduce its EV/EBITDA valuation metrics from the current nose-bleeding 150x, to a more respectable 59x in FY24e.

Megaport **(MP1 +18.0%)**
MP1 delivered an underlying FY23 EBITDA of $20.2m as expected, given the result was pre-reported, but surprisingly provided FY24 EBITDA guidance of $51-57m, a material increase from the July update of $41 to $46m (10% above consensus). Investors embraced the guidance, pushing the stock price up in line with the guidance beat.

Bellevue Gold (BGL +16.6%)
BGL announced progress towards its goal of producing its first gold from the Bellevue processing plant in the coming quarter, with stoping now underway. BGL also advised of the successful start of toll treating, which will generate early cash flow, resulting in the first gold bar being poured, with additional campaigns scheduled for September and October. BGL obtained an additional $25 million debt facility limit, separate to the existing project loan facility, providing a source of contingent funds and further balance sheet flexibility. Bellevue now has total liquidity of $133m, plus any cash flow from the toll treatment campaign, which should see the company through the commissioning phase. The share price reacted positively to BGL not needing to tap investors for equity.

Premier Investments (PMV +16.1%)
PMV announced a resilient FY23 trading update, with Premier Retail sales of $1.64b and expected EBIT to be in the range of $355-357m, despite the materially more challenging macro environment in 4Q23. The strong beat came largely in 2H23 sales, where an additional $23m of sales, assuming GPM of ~65%, accounted for half of the 2H23 EBIT beat. The balance was better than expected CODB management, with potential lagged effect of wage and rental increase into FY24. At the same time, the company announced the resignation of CEO Richard Murray effective 15 September 2023, as well as a strategic corporate and capital structure review to better understand the opportunities to split the company up in order to accelerate growth and returns for shareholders for each of Premier Retail's 3 key businesses. This review is expected to take at least 6 months to yield results and in the interim, PMV's current CFO John Bryce, will become interim CEO (Retail) effective immediately.

Carsales.Com (CAR +15.6%)
Carsales reported an adjusted FY23 EBITDA of $425m, up 57% YoY and broadly in line with consensus expectations, driven largely by recent acquisitions (mainly Trader Interactive and partly Webmotors), with EBITDA and NPAT guidance also in-line. Key positives included; Brazil revenue growth accelerated into 2H23 with a continuation expected through FY24, Media, CAR's highest margin segment, was exceeding expectations (despite soft ad macro), CAR's Domestic business remained resilient - delivering strong yield growth and the exit from Mexico is to provide a ~$4mn EBITDA delta in FY24. Key negatives were; Tyres was challenged, with a $22mn impairment, margins in Korea & TI disappointed, higher Interest/D&A offset the stronger EBITDA outlook and CAR also guided to significantly higher Capex for FY24+. The group now expects capex/sales of ~11% in FY23 to be repeated in FY24. This is a ~45% increase on consensus' prior estimates of 7.6% capex/sales. With end-markets starting to recover (RVs in the US, finance in Brazil and Dealer Direct in Korea), the market is factoring in the delivery of solid growth in FY24. While there is downside risk to Private volumes in Australia and much higher CAPEX, investors took the view that this should be more than offset by upside earnings risk potential in Brazil and in the US and the shares squeezed higher.

Paladin Energy (PDN +15.0%)
PDN presented at the Diggers and Dealers Mining Forum, with the key takeaway being that the Langer Heinrich uranium mine restart project remains on time (first production in 1QCY24) and on budget. The 17-year life of mine production, totalling 76 million pounds of yellowcake, is expected to achieve a cash cost of US$27.00/lb and PDN has secured six offtake agreements which account for ~18mlbs, or 48% of production out to CY30. Importantly, PDN is fully funded for the restart and had US$126m in cash at 30 June, with no need to do another capital raising like the $215m in April last year which caught investors by surprise at the time. PDN also benefitted from the positive news on nuclear power plant restarts in Japan and commercial operation of Georgia Power's Plant Vogtle Unit 3, the first newly constructed nuclear unit in the U.S. in over 30 years. Once Unit 4 is online (projected Q4 23-Q1 24), the site will be the largest generator of clean energy in the U.S.

The Market Misses

Chalice Mining (CHN -39.6%)
CHN released the maiden Scoping Study for its 100% owned Gonneville Nickel-Copper-Platinum Group Element (Ni-Cu-PGE) Project in Western Australia, which materially disappointed investors. Capital expenditure figures at $1.67bn for the initial 7.5mtpa project development, plus $1.1bn for the expansion to 15mtpa and $1.9bn for expansion to 30mtpa were eye-watering. Grades were lower than expected, with CHN opting for a lower strip ratio and metal recoveries also proved lower, especially for copper. The timing of the project was also pushed out a couple of years, with the pre-feasibility now timed for mid-2025 and final investment decision in 2026, leading to first production in 2029. For investors, it looked like a bridge too far in terms of duration and capital allocation, with the share price collapsing 24% on the day of the announcement.

Core Lithium (CXO -38.3%) / Sayona Mining (SYA -24.1%)
Lithium stocks came under serious pressure as spodumene prices continued to ratchet down 11% in August, with lithium carbonate prices down 25%. CXO undertook a $100m capital raise at 40c per share, which was surprising given the company had $153m on its balance sheet at 30 June and was expected to deliver positive cash flow from operations, based on guided costs and spot commodity pricing.

It's clear management are only now starting to come to terms with the true capital requirement necessary to deliver the BP33 underground deposit, let alone bringing recoveries sustainably back above 50% from its Grant's mine. Management continues to grapple with materially lower

recoveries than outlined in its Feasibility Study, challenges in accessing ore (pit wall competency) and significant cost inflation on both capital items and operating costs. The raising rubbed salt into the wounds after July's share price fall of 28.9%. This also rubbed off on Sayona Mining (SYA), which is developing its project in Canada - the resignation of its CEO Brett Lynch for "personal reasons" did not help either.

IRESS (IRE -38.3%)
IRE shares got slammed following a 17% 2H23e EBITDA miss, whereby investors threw in the towel and capitulated, driving the stock down to a 10-year low. IRE's latest downgrade was driven by elevated 1H23 direct costs, which rose sharply in APAC, despite flat group overheads on pcp. Revenue has historically been skewed to their 2H, partly on clients' signings and full periods of price rises, but the company noted that this year, it expected to see a similar 1H:2H revenue split. Part of this was due to lower ASX trading volumes (-38%), but also a focus on cost trimming among clients.

Back in April, IRE outlined a refreshed transformational strategy to deliver a more focused company aimed at resetting the cost and asset base, while refocusing on core businesses and customers and managing non-strategic businesses for value. Four months on, key results included $47 million of annualised gross cost savings (15% of the workforce) and the realisation of $52 million from non-strategic assets through the sale of its Managed Funds Administration (MFA) business. Many of the transformational benefits, including the cost reduction program and a review of pricing will be recognised in FY24. Despite this, revenue increased by 2% in a challenging macro environment, while EBITDA was impacted by cost pressures (opex up 8%), including a significant uplift in tech infrastructure, market data and inflationary salary costs. In the second half of 2023, IRE guided to softening revenue growth and cost pressures mitigated by the full-year effect of cost measures and transformation initiatives yet to be realised. Underlying EBITDA expectations were lowered to be broadly flat in 2H23 vs 1H23. Over the medium term, IRE expects FY24 Underlying EBITDA growth of 5-10%, with an exit Underlying EBITDA run-rate for 2024 to be 20-30% higher than FY23, as transformation initiatives are implemented. IRE's objective by the end of FY25 is for all core IRE businesses to be operating at Rule of 40, with capital releases from the Managed Portfolio, a fully reset cost base and significant debt reduction.

Imugene (IMU -32.0%)
IMU raised $60m via an institution placement and share purchase plan priced at a bargain basement 8.4 cents, a 10.6% discount, to acquire the licence to an allogeneic CAR T cell therapy, known as azer-cel, from Precision Biosciences. IMU shares have been under pressure over the past 18 months and are now down 74% in the last 12 months, closing 19% below the capital raising placement price at the end of August.

Alumina (AWC -24.5%)
AWC reported an underlying loss of US$39mn for 1H23, against the expectation of a small profit and as expected, paid no dividend. AWC issued 2023 guidance to reflect Alcoa's 2Q23 update for lower alumina production from WA and Brazil, but also confirmed a decent ~US$100mn increase in capex for AWAC in 2H23. Unfortunately, no clarity was provided on the bauxite mining permit situation in WA whereby AWC is struggling to access higher grade ore leases, which is hampering production, escalating costs and putting long-term volumes at serious risk. AWC will struggle to pay a final dividend given debt will continue to increase in the second half, testing investor's patience.

Resmed (RMD -24.0%)
Expectations for RMD going into their result were high, however, the stock got hammered after it reported its 4Q23 update, with its share price falling over 20% in consecutive days. Constant news flow on the high-efficacy of new anti-obesity drugs and the longer-term risk to RMD's growth trajectory continued to weigh heavily on sentiment. Consequently, this supposed "quality defensive" has underperformed the ASX200 by 30% over the past 12 months. RMD's result showed strong sales (up ~23%) across all product lines, helped by a reduction in competitive supply, however this failed to translate into operating leverage, especially in the RoW, which shook confidence and totally underwhelmed investors.

Gross profit margins (GPM) fell 0.3% sequentially to 55.8% - the bone of contention and sat 0.6% below consensus forecasts. It was the absence of margin improvement (which the company had previously guided to), which upset the market and did the damage. Management poorly communicated the GPM impact of chasing device growth when its major competitor, Philips has been absent from the market for over 18 months (due to the FDA worldwide product recall). It would appear the bulk of the 0.3% drop in GPM was due to the impact of FX movements and product mix. Taking a longer-term view, RMD management made what they saw as a value accretive decision to deploy more devices through their distribution network, whilst Philips was out of the market. In the upshot, the stock continued to drift lower after the initial sticker shock result.

Block, Inc. (SQ2 -23.7%)
Formerly known as Afterpay, SQ2's 2Q adjusted earnings and sales beat analysts' estimates, however SQ's expectations for the full year implied a flat second half, which underwhelmed and saw the share price down 13%. The US Payments space has continued to de-rate, as both Visa and MasterCard reported relatively subdued US volumes and PayPal reported a step down in transaction margins. SQ2 wasn't immune.

Wisetech Global (WTC -19.0%)
WTC disappointed with its guidance for FY24, which was below expectations. Revenue growth of 27-34% was below consensus for 34%+ and EBITDA was a miss at the mid-point of plus ~13% ($472m vs $542m). The biggest shock to the market was margins guided down to 44% versus consensus at 49.5%. WTC blamed the margin dilution from a string of recent acquisitions (which were close to loss making to begin with). That said, WTC's share price was up 70% for the YTD leading into the result, with investors not prepared for excuses on a stock priced to perfection on ~50 times EV/EBITDA.

Syrah Resources (SYR -17.1%)
The SYR share price continued to fall in August post July's -22.7% rout following the release of its shocker June quarter production report for its Balama graphite project in Mozambique. The update showed that production had been suspended, with only one month of production in the June quarter, due to weak Chinese anode conditions, resulting in inventory destocking. SYR's sales strategy is to sell from existing inventory, until customer demand and price levels warrant a re-start and sustainable Balama production. Investors' patience has once again been severely tested over the last four and a half years since production commenced, with the shares hitting dizzy heights of over $5.50 back in mid-2016 approaching start up, to the current levels of 57 cents.

FUND PERFORMANCE

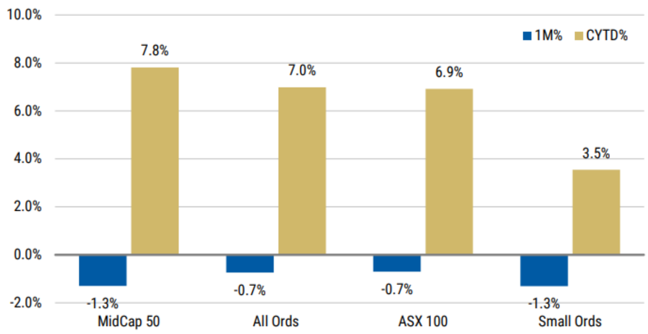
Global macro influences remained elevated during August, with the Consumer Discretionary and Real Estate sectors limiting our market's fall to just 0.7% for the month.

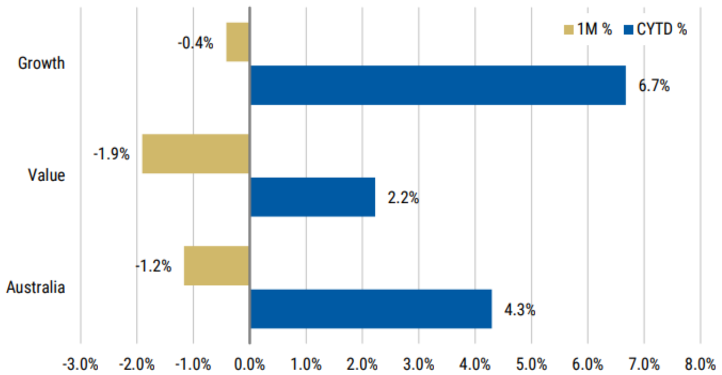
Where all was not well at the close of the Aug-23 results season was dividends, which saw the lowest rate of upgrades on record.

The Fund return of -5.02% for the month of August fell way short of the benchmark return of -0.73%, as a small number of stocks we held had a major negative impact on performance after reporting disappointing results. In particular, IRESS had an -198bps impact on the month's performance. Please see our comments on IRESS in both the month's misses and with the August attribution below.

Large-Cap stocks outperformed during the month but trail their Mid-Cap peers for the CYTD. Small caps were significant underperformers in August and are still the worst performers for the CYTD.

MSCI Australia Value underperformed Growth in August, but trails Growth for the CYTD.





Source: Morgan Stanley

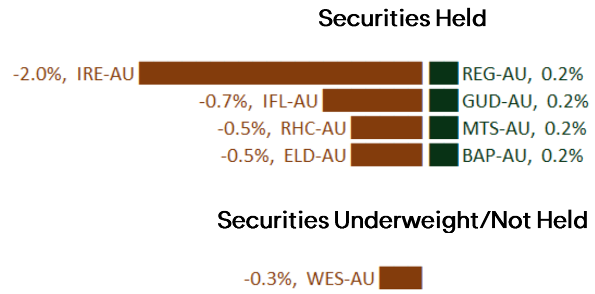
Consumer Discretionary, which rose 5.7%, posted the largest contribution (+39bps) to the market's return in August (led by Wesfarmers +10.6% and Premier Investments +16.1%), followed by Real Estate (Goodman Group +13.7%) and Energy (Ampol +7.5%).

The barbell of Materials and Financial sectors weighed on the market. Materials was the largest negative contributor (-47bps) to the market's return, closing down 2.0% (dragged down by BHP -2.5% and South32 -12.4%), then Financials (CBA -1.0%) and Consumer Staples (Coles Group -10.6%).

*Returns (%)**	*Gross*	*Benchmark*	*Excess*	*Net*
1 Month	-5.02%	-0.73%	-4.29%	-5.08%
FYTD 2024	-1.68%	2.13%	-3.81%	-1.79%
12 Months Rolling	3.09%	9.56%	-6.48%	2.37%
3 Years (p.a.)	10.22%	10.68%	-0.46%	9.20%
4 Years (p.a.)	8.11%	6.51%	1.60%	7.02%
Since Inception (p.a.)	9.02%	7.43%	1.59%	7.92%

**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.*

Month of August Attribution



Source: Ellerston Capital.

In the month of August, the main positive contributors to the Fund's performance were active overweight positions in Regis Healthcare (REG +12.4%), G.U.D Holdings (GUD +24.0%), Metcash (MTS +3.6%) and Bapcor (BAP +8.3%),

The main detractors for the month, which materially impacted performance, were active overweight positions in **IRESS** (IRE -38.3% as explained in the "misses" section), Insignia Financial (IFL -12.8%), Ramsay Health Care (RHC -12.7%), Elders (ELD -11.7% and not holding any Wesfarmers (WES +10.6%).

IRESS (IRE) is early in their significant business turnaround strategy, which has come with heightened risk, especially on short-term earnings outcomes, as has just been demonstrated. We continue to see material deep value in the core group's several near-monopoly assets in their Australian businesses. This is underpinned by Aust Wealth, Aust Trading and Super, in addition to the aggregate value in their "managed portfolio" to be divested (UK Mortgage, Canada and South Africa), with relatively new management (CFO appointed in July) working towards an unlock. Asset divestments already planned and underway will de-lever the balance sheet, eg the $52m announced sale of MFA will see funds received on 30th Sep 2023 and a new capital management plan is underway. The cost out initiatives have far from run their course (over and above the 15% headcount already removed, equating to a $47m annualised gross reduction) and the company can certainly pull more cost out levers. Their technology uplift program to improve customer experience in core trading and advice software is on track for completion by Q1 2024. Comparable platform and Software peer comps are on FY25e EV/EBITDA multiples of ~ 18x vs IRE on 8x. The 1H result represents an early point in their transformational strategy and is nowhere near reflective of IRE's full earnings and cash flow potential. Whist the latest result was clearly disappointing, we were gobsmacked by the market's over-reaction.

FUND ACTIVITY

Given the dispersion of returns and heightened intra-month stock volatility, the Fund was very active during August, using share price weaknesses to selectively strengthen positions in ALS, APM Human Services, Challenger, IRESS and Ramsay Health Care. At the same time, the Fund reduced its holdings in Amcor, Graincorp and Treasury Wine Estates to fund the above purchases. During the month, two new stock were re-introduced to the portfolio, Deterra and Telstra for dividend capture.

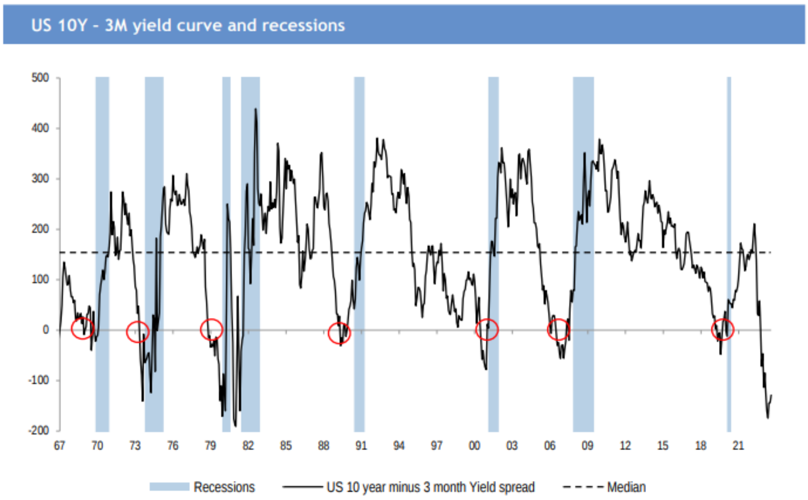
NEW STOCKS ADDED	STOCKS EXITED
• Deterra Royalties • Telstra	• None

INCREASED	DECREASED
• ALS • APM Human Services • Challenger • IRESS • Regis Healthcare • Ramsay Health Care	• Amcor • Graincorp • Treasury Wine Estates

FUND STRATEGY AND OUTLOOK

Key economic data immediately post month end was the US August non-farm payrolls, which came in slightly stronger than expectations at 187,000 (estimate 170,000), whilst the prior two months were revised down by a total of 110,000. Unemployment jumped from 3.5% to 3.8% on a greater participation rate. The market is coming to the view that the Fed rate rise cycle is over, with short-term inflation data decelerating and showing weakness, despite rolling 12 month prints remaining higher than targeted levels. The Fed's view is that interest rates need to stay higher for longer until inflation is tamed. However, the longer rates are on hold and flat line, the higher the risk that the lagged effect of previous rate rises compound and result in recession, just when most observers are baking in a soft landing.

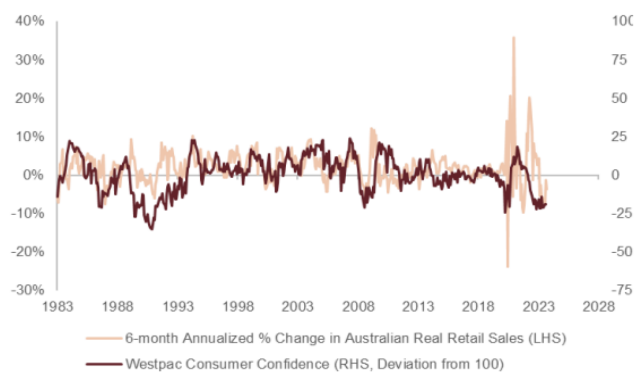
The following longer dated chart highlights the historical relationship between yield curve inversion and the lag of around 12 months for previous recessions experienced in the US.....it inverted in October last year!



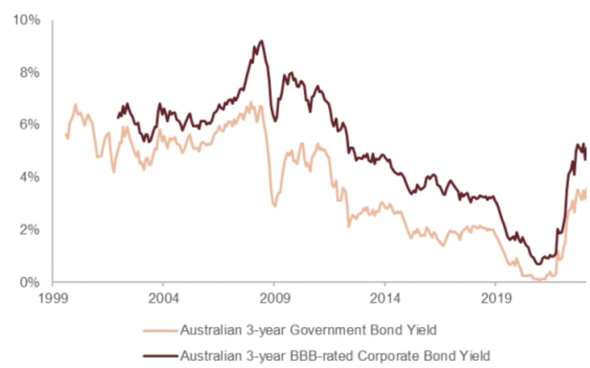
Source: JP Morgan

On the domestic front, the recent reporting season, replete with wild outsized swings in both directions, threw up a few consistent themes: cost pressures/margin compression, capex over-runs and the underestimation of rising debt servicing and funding costs. It also suggests that the Australian consumer is not as weak as initially feared, but this may be cold comfort given how uncertain the private sector feels about the macro environment and policy. Looking forward, cost and funding cost pressures are likely to persist because of capacity tightness and higher-for-longer interest rates. We think that consumer resilience might prove transitory and weakness could broaden out to other sectors in the economy as the delayed impact of previous tightening starts to bite.

Reporting season suggests Consumer better than feared



Rising debt servicing costs



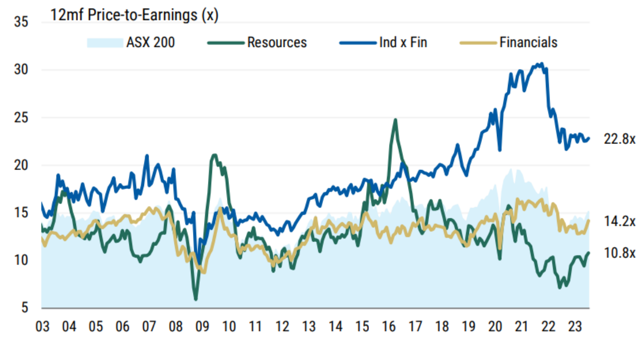
Source: Barrenjoey Research

The Banking sector also completed a "mini-reporting" season in August, with full year 2023 results from CBA and BEN, followed by a trading update from NAB. Key themes and summary: NIMs fell ~3bp in the June quarter, attributed to persistent mortgage competition and deposit mix. Costs are accelerating across the sector, driven by wages pressure and inflation. Pre-Provision Profits are beginning to fall and asset quality is showing very early signs of deterioration. Dividend payout ratios have expanded.

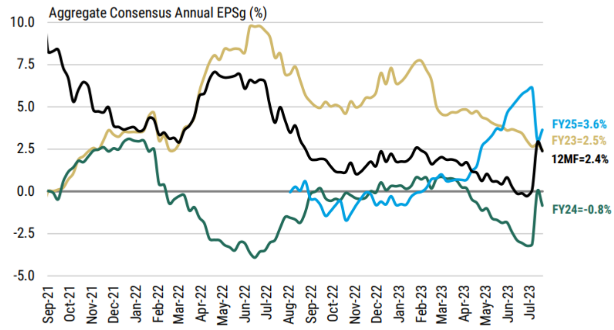
NIM's fell consistently across the banks. CBA's June quarter NIM fell 2bp to 2.04%, but this was less than expected, with CBA's Q4 underlying NIMs trending down ~3-4bp. NAB's NIM fell 3bp to 1.72%, while BEN's NIM was down 5bp to 1.96%. The key drivers were consistent: pressure on mortgage margins from retention discounts and front-book/back-book spreads (although this is beginning to ease), deposit mix and competition to lift term deposit rates to customers. Going forward, bank Management expect NIMs to trend lower, driven by ongoing competition and mix. CBA also called out Basis Risk (Cash to bills spread) and New Zealand mortgages as additional headwinds. Cost pressures remain elevated - wages are rising and the banks are now agreeing to Bargaining Agreements embedding 3.5% to 5.0% salary increases in coming years. Investment spend (tech, cyber and compliance) will stay elevated. The banks all saw asset quality begin to slip from recent cycle lows, with 30+ and 90+ days Past Due beginning just to rise, while new impaired assets (flow) is also accelerating.

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.

Valuation: the 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 22.7x



Annual Consensus EPS Growth Trends FY23-26



Source: Morgan Stanley Research.

We continue to hold the view that headline inflation rates have likely peaked across Australia and most developed economies, and that official interest rates are also peaking.

Domestically, we expect interest rates to remain on pause at 4.10% for the third straight month, with Philip Lowe delivering his final decision as RBA governor, as inflation continues to decelerate.

In the US, apart from the Fed's next move, the widening budget deficit prompting a recent US credit downgrade by Fitch also needs to be closely watched.

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 and many other traditional income payers.

MARKET CAPITALISATION

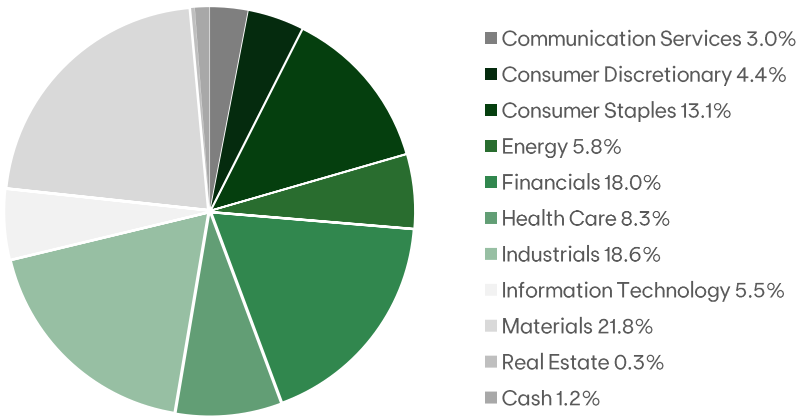
Source: Ellerston Capital

Top 10 Holdings

Company	Portfolio Weight
ATLAS ARTERIA	8.38%
BHP GROUP LTD	7.44%
INCITEC PIVOT LIMITED	6.74%
INSIGNIA FINANCIAL LTD	5.99%
METCASH LIMITED	5.97%
SANTOS LIMITED	5.80%
IRESS LIMITED	5.47%
RAMSAY HEALTH CARE LIMITED	5.24%
CHALLENGER LIMITED	4.94%
LIBERTY FINANCIAL GROUP LTD	4.66%

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