APIR Code: ECL0005AU

Ellerston Australian Share Fund

Monthly Newsletter, October 2023

Investment Objective
The Investment objective for the Ellerston Australian Share Fund ("ASF" or "the Fund") is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

Investment Strategy
The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 stocks in order to capture the neglected opportunities created by under-researched stocks in the broader Australian market.

Key Information

Strategy Inception^^	31-Mar-09
Portfolio Manager	Chris Kourtis
Application Price	$0.8244
Net Asset Value	$0.8223
Redemption Price	$0.8202
Liquidity	Daily
No Stocks	22
Management Fee	0.90% p.a
Performance Fee**	15.00%
Buy/Sell Spread	0.25% on application 0.25% on redemption

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

The Team

Chris Kourtis
Director & Portfolio Manager

38 years of industry experience.

Stephen Giubin
Senior Investment Analyst

35 years of industry experience.

PERFROMANCE SUMMARY

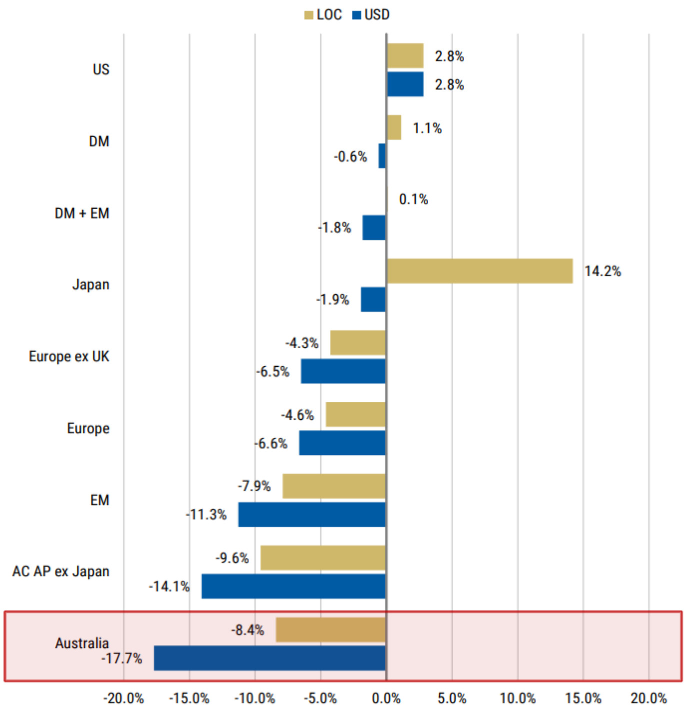
Performance	1 Month	FYTD 2024	12 Months Rolling	3 Years (p.a.)	4Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	-5.65%	-8.92%	1.94%	12.19 %	5.60%	5.74%	7.94%
Benchmark*	-3.78%	-4.52%	2.95%	8.88%	4.35%	7.18%	8.85%

^ The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indicator of future performance.
* S&P/ASX 200 Accumulation Index

MARKET OVERVIEW

World equity markets struggled in October with the onset of the Middle East crisis and a growing realisation that official interest rates are set to remain higher for longer, prompting risk-off trading. The MSCI Developed Markets suffered over the month, falling 2.6% in local currency terms, while the S&P 500 fell 2.1%. The domestic market underperformed Developed Markets, finishing down 3.8%. Utilities and Info Tech were the best performing sectors globally, whilst locally, Utilities and Materials were the best performers.

MSCI Global Country/Regional Indices Performance CYTD to October



Source: Morgan Stanley.

USA

The Federal Reserve, at its October FOMC meeting, left the fed funds target rate unchanged at 5.25 to 5.5%, with forward guidance left open to the possibility of further hikes. Chair Powell again stressed that further tightening would be data dependent. He emphasized that the FOMC was not even thinking about, nor talking about rate cuts. He also watered down suggestions that the policy bias was now "neutral", indicating that the question the Fed should be asking itself is "should we hike more?" Recent key data points have been stronger than expected, with the 3Q GDP increasing at an annual rate of 4.9%, compared to the 2Q increase of 2.1%. In addition, retail sales were surprisingly stronger at +0.7% MoM and the headline CPI came in higher than expected at 3.7% YoY. At the other end of the spectrum, more subprime borrowers were falling way behind on their car loans, as repayments surged. Those with 60 plus days in arrears hit 6.1%, the highest level since 1994.

The Dow Jones Industrial Average and S&P 500 were down 1.3% and 2.1% respectively, with the NASDAQ Composite Index, the laggard, falling 2.8% for the month. However, the NASDAQ is still way out in front with a +23.6% return for the CYTD.

Review of US 3Q23 earnings now that 72% of S&P 500 companies having reported.

Beats/Misses: 81% beat EPS estimates, surprising positively by 6% with EPS growth at +2% YoY. Eight out of the eleven sectors printed healthy EPS growth, while commodity sectors and Healthcare were down on a YoY basis. Excluding these sectors, all the other sectors posted robust growth, leading to higher revisions in S&P 500 3Q blended EPS.

On the top line, 49% of companies beat sales estimates. Overall revenue growth was +2% y/y. At a sector level, Energy, Materials, Tech and Utilities saw negative growth.

Overall, earnings beats were rewarded (avg. excess performance: +0.4%), though misses were punished far more (-3.2%). So far, Industrials (+0.7%) and Utilities (+0.6%) exhibited the best 1D average excess performance for beats + misses. The biggest spread in 1D average excess performance (vs. market) have been within the Discretionary (Beat: -1.0%, Miss: -10.0%), Healthcare (Beat: -0.1%, Miss: -8.4%) and Financials sectors (Beat: 1.4%, Miss: -3.0%).

Europe

Euro-area inflation eased to its lowest level in more than two years, falling to 2.9% from 4.3% in the prior month, as the bloc's economy shrank following an unprecedented ramp-up in interest rates. The European Central Bank (ECB) kept interest rates unchanged at 4.5 per cent, ending a streak of 10 consecutive rate hikes. ECB President Christine Lagarde commented; "The economy is likely to remain weak for the rest of this year, but as inflation falls, further household real incomes recover and the demand for euro-area exports picks up, so the economy should strengthen over the coming years."

Following several downbeat corporate updates and escalating tensions in Gaza, the Euro STOXX50 Index finished the month down 2.6%. Among the major exchanges, France's CAC 40 was down 3.5%, UK's FTSE 100 was 3.7% lower, and Germany's DAX was again the laggard, falling 3.7%.

Asia

Recent "new" China stimulus measures included a budged "revision" that allows issuance of slightly over RMB1trn of additional central government bonds, worth 0.8% of GDP. Fiscal policy has also aimed to stimulate growth in China over the last few quarters. It is rare for the central government's fiscal plans to be revised outside the usual budget cycle, so this recent move signals a clear concern about near-term growth prospects. The last budget revision was in 2008 to raise funds for reconstruction after the Sichuan earthquake. The proceeds are therefore likely to be spent rapidly and local governments have been given the go-ahead.

Korea's KOSPI was again the standout underperformer at -7.6%, followed by the Hang Seng which was down 3.9%, China's SSE finished 3.1% lower, the Nikkei 225 fell 3.1% and India's SENSEX was the outperformer, down 2.9%. Other key Asian equity markets also retreated.

Commodities

Commodities were volatile with the Middle East crisis affecting oil and precious metals, with further China stimulus attempts keeping bulk commodity prices elevated. Iron ore prices finished 4% higher at US$123/tonne and coking coal prices rallied a further 5% to US$350 per tonne. The base metals complex continued to weaken on soft demand and destocking concerns, with aluminium falling 4%, nickel down 3% and copper closing 2% down. The Brent oil price initially fell 12% on US-Saudi Arabia diplomatic deal headlines, whereby Saudi would increase production. However, crude prices then rebounded when Hamas struck in Israel, but still finished down 8% to US$87/barrel for the month. Gold took off post the geo-political crisis unfolding, rising 7% to US$1,985 per ounce, as short-covering and safe haven demand from investors continued, with idiosyncratic factors affecting other traditional safe havens such as the JPY, US$ and US Treasuries. Lithium carbonate prices stabilised after falling 40% in the last three months, however, the destocking in the EV battery supply chain caught up with Spodumene prices, which fell another 24% in October.

Bonds

The US 10-year treasury yield rose 32bps in October to 4.89%, its highest monthly level since 2007. Stronger than expected economic data and the continuation of the Fed's hawkish tone at the October FOMC meeting (re-iterating that rates must remain higher for longer) did not help bond market sentiment. On the domestic front, Australian 10-year bond yields also rose in step with the global trend. A surprisingly hot domestic inflation print, keeping inflation well above the global trend and above the RBA target of 2-2% y/y for a record 10 quarters, drove yields up 44bps to 4.93%.

Australia

The RBA kept rates on hold for the fourth consecutive time at its October meeting, maintaining a "wait and see" policy stance. An unexpected bounce back in the September CPI to 1.2% from 0.8% the previous quarter (5.4% YoY), coupled with a strong September retail sales print of 0.9% (up from 0.3% the previous month and well above expectations), has increased the probability of a rate hike at the RBA's meeting on Cup Day in November. In an uneventful period of trading, the A$ closed the month 1% down to US$0.63.

The S&P/ASX 200 Accumulation Index was down 3.8% in October. Utilities, Materials and Communication Services led the performance charts. The Utility sector (up 1.7%), was the best performer, spurred on by Origin Energy (+4.0%), followed by Materials (-0.8%) and Communication Services (-2.9%). The bottom three sectors were Information Technology (-7.6%) dragged down by Wisetech Global (-10.6%), Health Care (-7.2%) and Industrials (-6.4%).

For the month, the top stocks that made a positive contribution to the Index's return were Fortescue Metals (+11bps), Rio Tinto (+7bps), Northern Star Resources (+7bps), Newcrest Mining (+6bps) and BHP Group (+5bps). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-41bps), CBA (-28bps), Woodside Energy (-21bps), NAB (-16bps) and ANZ (-14bps).

The ASX Small Ordinaries closed down 5.5%, underperforming the broader benchmark. Within the ASX Small Ordinaries, the Small Resources did much better at -1.0%, versus the Small Industrials, which dropped 7.0%, dragged down by Credit Corp Group and City Chic.

COMPANY SPECIFIC NEWS

The Market Hits

Silver Lake Resources (SLR +24.3%) / Gold Road Resources (GOR +17.0%) / Regis Resources (RRL +16.1%) / Ramelius Resources (RMS +15.3%) / Capricorn Metals (CMM +14.8%) / Northern Star Resources (NST +11.8%)
The gold sector bounced 8.7% in October, fuelled by the Israel/Hamas crisis in the Middle East that pushed the precious metal price up 7% to US$1985/oz, given its safe haven status. Australian gold producers saw the price up 9% to A$3132/oz (not far off its recent record A$ high), thanks to the slightly lower local dollar.

Champion Iron (CIA +13.0%)
Iron ore producer CIA reported a better than expected Sep Qtr, delivering iron ore production from its Bloom Lake mine in Canada of 3.45Mt (92% of nameplate capacity) and with full nameplate being achieved during the month of October. Shipments improved 12% QoQ to 2.88Mt, but remained constrained due to the ongoing recovery on the rail system post recent extensive forest fires. CIA expects their iron ore inventory to take another few quarters to draw down to normal levels, with improved rail performance. EBITDA of C$155mn was up strongly QoQ and well ahead of market consensus estimates.

Inghams Group (ING 10.8%)
ING gave a surprise trading update, flagging that it has continued to see improvement in operational performance metrics across farming and processing, with birds growing to more desirable weights and an improved mortality rate. Demand has also been strong over the half, with ING noting that some customers are allocating greater shelf space to the category. Improvements in wholesale pricing and an accelerated recovery in NZ also contributed to the performance this half. Management guided to 1H24 EBITDA of $247m and NPAT of $65m, 8% above consensus estimates. Investors were counting their chickens!

Bega Cheese (BGA +10.3%)
BGA's fortunes are beginning to slowly turn. BGA's share price fell sharply last month post the release in late August for what the most part, was an in line FY23 EBITDA result of $160.2m. The company also provided flattish FY24e EBITDA guidance of $160-170m, which was also broadly consistent with market expectations. The V-shaped share price recovery in October partly reflects a positive report and major change of view from a mainstream retail broker, upgrading their recommendation to BUY. Since updating the market, the news flow has been progressively more encouraging, with static milk supply YoY, as the collapse in beef prices has meant more cows are kept on farm to be milked. The strengthening AUD dairy ingredient prices (+9%) should also help. However, ingredient pressures, which rose a staggering and unprecedented 30% in 2H23 (dragging down profitability) should persist and no doubt act as a major headwind in the 1H24e. These are only now showing signs of easing.

Super Retail Group (SUL +9.9%)
SUL's AGM update for the first 16 weeks of trading was better than expected with LFL sales growth of 2.0%, indicating strength across Supercheap Auto, BCF and overall gross profit margins. The update restored some investor faith that Supercheap Auto and BCF sales, which have historically shown little to no correlation with discretionary spending, should remain resilient.

The Market Misses

Liontown Resources (LTR -45.2%) / IGO (IGO -24.9%) / Sayona Mining (SYA -19.4%)
Spodumene pricing fell 24% during October, a delayed reaction to the large falls in lithium carbonate and hydroxide prices. The sector was weak overall, but LTR and IGO did worse, for stock specific reasons:

Albemarle (ALB) announced that it was not pursuing the acquisition of LTR after it upped its non-binding offer to $3.00 a share from $2.50 a share, after Australia's richest person, Gina Reinhardt and Hancock Prospecting accumulated 19.9% blocking stake on the register. ALB advised LTR that its decision to withdraw its proposal was due to the growing complexities associated with executing the transaction. As a result, LTR continued to progress its Kathleen Valley lithium project with a $760m debt package and a $376m equity raising. LTR's stock price had previously held up, due to the ALB offer, whilst lithium stocks had fallen by the wayside, given the weakness in spodumene prices. In the upshot, LTR was forced to raise equity at $1.80, a deep 35% discount to the last closing price.

IGO released its 1QFY24 report, which showed a beat on spodumene production of 14% from its interest in the world class Greenbushes mine. However, it released a bombshell with the news that JV partners Tianqi and Albermarle flagged their intention not to take all of their Greenbushes volumes in the Dec-23 and Mar-24 quarters and were contemplating whether they manage the situation with lower production in 2024. The build in processed lithium inventories in China has materially affected spodumene demand, with both JV partners and other processors feeling the pinch. IGO was down 9% after the announcement.

Credit Corp Group (CCP -37.7%)
CCP shocked the market by downgrading its FY24 guidance issued in August due to a sustained deterioration in collection conditions. The downgrade was caused by its US purchased debtor ledgers (PDL) collection performance in FY24 YTD being well below Credit Corp's expectations. At the August update, Credit Corp advised of increased US repayment plan delinquency over the June quarter, however these conditions persisted throughout the September quarter. FY24 Underlying NPAT (ex-impairment) was downgraded 11% (to $80-$90m) and FY24 Statutory NPAT was downgraded 58% (to $35-$45m). Investors panicked and jumped ship, with CCP's share price falling 31% on the day.

Magellan Financial Group (MFG -29.6%)
Magellan delivered yet another disappointing 1Q24 update, featuring soft performance from its Global flagship fund and more outflows. FUM fell further to $35.0bn (-11.8% Q/Q) driven by $2.7bn net outflows (-6.8% of opening FUM) and $2.0bn negative investment performance (-5.0% of opening FUM). As a reminder, MFG's FUM has fallen from ~$110bn in mid-2021 to $35bn at Sep-23 due to a myriad of factors. Net outflows in 1QFY24 comprised of $1.7bn Institutional business and $1.0bn of higher-margin Retail, with FUM now skewed 46.3% towards Retail as at 1QFY24. Net outflows from Retail channels remains the key downside risk and burning concern for investors. The market expects net outflows to persist in the medium-term and given the sticky and very high nature of the cost base, downgrades followed across the Street. Management continued to highlight their focus on sustained performance as a priority, however, talk is cheap and its key Global and Infrastructure funds continued to underperform their respective benchmarks during 1QFY24. Persistent outflows have seen MFG fall further behind CEO David George's 5-year >$100bn FUM target announced 1H23, with inorganic growth needed to be increasingly relied upon to generate the ~$65bn of additional FUM (+1.9x current FUM). This target seemed a massive Herculean stretch. New chairman Andrew Formica may obviously have thought so too, taking over as executive chairman, with David George leaving the building.

Chalice Mining (CHN -22.8%)
Chalice Mining's share price has now fallen 64% since the release of its scoping study only two months ago for its Gonneville Nickel-Copper-Platinum Group Element (Ni-Cu-PGE) Project in Western Australia, which was very disappointing compared to high investor expectations. Capital expenditure was much higher, grades were lower and project timing was pushed out a couple of years. CHN remains so friendless currently, you'd think it was a poison chalice.

Telix Pharmaceuticals (TLX -22.5%)
TLX is a biopharmaceutical company focused on the development and commercialisation of diagnostic and therapeutic radiopharmaceuticals and associated medical devices. The company released early data for pipeline asset TLX591 (a prostate cancer therapeutic), which was expected in 4Q but has triggered a negative reaction. TLX591 is taking on Novartis' incumbent position in the space with Pluvicto but will prove commercially unassailable unless TLX591 proves to have a substantial leg up in efficacy. TLX591 data showed that 64% of patients saw a PSA reduction overall, with 27% achieving a 30% reduction and 18% demonstrating 50% reduction. Hence, not the same efficacy as Novartis' VISION trial with Pluvicto, which detailed 73% of patients with PSA decline, and 28% achieved +90% reduction. The TLX share price fell 10% on the day.

Bapcor (BAP -21.5%)
BAP provided an AGM update, showing activity slowing in the September quarter, with revenue growth down to low-single digits. BAP noted that shorter-term macroeconomic headwinds had moderated growth in Trade & Specialist Wholesale, while Retail business trading conditions had deteriorated further. In terms of the bottom line, the lower sales were further challenged by increased short-term margin pressures from cost inflation and other external factors such as increasing payroll taxes, as well as investments in capability, depreciation and amortisation costs and higher net interest. Not the start for FY24 that BAP were targeting, so BAP management have initiated improvement plans to help mitigate these impacts. The stock price sank as investors were more inclined to take a wait and see approach.

Healius (HLS -21.3%)
Medicare statistics for September highlighted weaker pathology volumes, which continued to remain below the pre-Covid trend. HLS stock fell further, down 43% FYTD, requiring an improvement in pathology volumes to move the needle in the right direction.

Megaport (MP1 -19.2%)
MP1 released their 1Q FY24 result, with KPI's on the softer side. Services net additions growth was slower than in Q4 FY23. It was well flagged that services growth will likely only step up from 3Q/4QFY24 once new sales staff kick in. Whilst guidance was unchanged, the rebuild and recovery of momentum is expected to take time. The update tested investors' patience, with the stock price falling 16% on the day.

Alumina (AWC -18.3%)
Alumina Limited shares fell away as one major positive was offset by a number of large headwinds post the release of its 3QFY23 update for its AWAC operations and from net receipts post Alcoa's 3QFY23 earnings report. The highlight was much better EBITDA margins based on a US$26/t drop in costs and marginally better achieved pricing. The improvement in alumina cash costs from the recent peak in Q2 at US$329/t to US$303/t this quarter, was driven primarily by lower caustic soda prices, reduced energy costs in Spain and better operational stability. However, disappointingly, AWAC stunned the market by disclosing that it will not be able to access high-grade bauxite in WA until 2027 at the earliest, so sell side analysts were quick to downgrade medium-term production targets. Consequently, the expected cost improvement story from FY24 onwards evaporated, as lower grade bauxite leads to higher costs (more caustic soda required) and continued curtailment at its Kwinana facility (operating at 70%). The prospect of increased production from Australia or Brazil is now not expected until FY25 and when coupled with elevated sustaining capex, rising debt levels and no dividends, investors had a gut full and rushed for the exit gate.

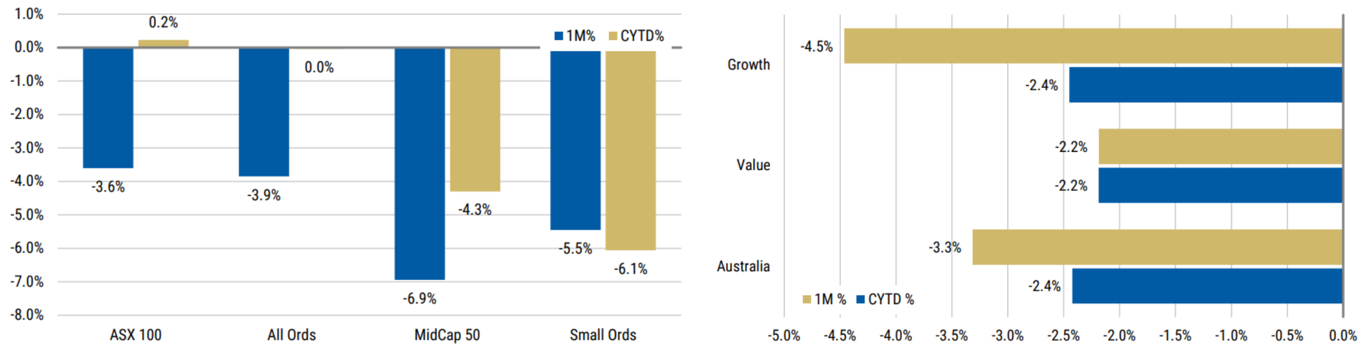
FUND PERFORMANCE

Global macro and geopolitical influences remained highly elevated during October, namely the Middle East crisis, a strong USD and rising bond yields, with only the Utilities sector in the black for the month.

The Fund's gross return of -5.55% for the month of October underperformed the benchmark return of -3.78% and capped off a difficult quarter.

Large-Cap stocks (where the Fund retains a material underweight) continued to outperform during the month, significantly leading their Mid-Cap and Small-Cap peers for the CYTD. Mid-Caps underperformed their Large-Cap peers by 3.3% in October, but Small-Caps are still the worst performers for the CYTD.

MSCI Australia Value outperformed Growth in October.



Source: Morgan Stanley

Utilities, which rose 1.7%, posted the largest contribution (+3bps) to the market's return in October (led by Origin Energy which bucked the trend and rallied +4.0% on expectations of a higher bid), followed by Communication Services (Telstra -1.0%) and Consumer Staples (Inghams Group +10.8%) sectors.

Financials, Health Care (CSL, -7.4%) and Industrial sectors (Fletcher Building -7.6%) weighed on the market.

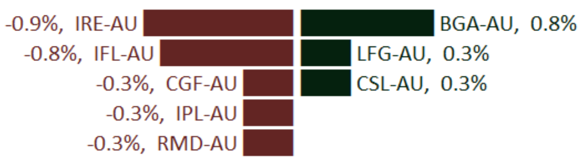
Returns"(%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	-5.55%	-3.78%	-1.78%	-5.65%
3 Months	-10.97%	-7.19%	-3.78%	-11.23%
FYTD 2024	-8.57%	-4.52%	-4.06%	-8.92%
12 Months Rolling	3.06%	2.95%	0.11%	1.94%
3 Years (p.a.)	13.43%	8.88%	4.55%	12.19%
4 Years (p.a.)	6.76%	4.35%	2.41%	5.60%
5 Years (p.a.)	6.90%	7.18%	-0.28%	5.74%
10 Years (p.a.)	6.66%	6.60 %	0.07%	5.52%
Since Inception (p.a.)	9.11%	8.85%	0.27%	7.94%

Past performance is not a reliable indicator of future performance.

"The return figures are calculated using the redemption price for Class A Units 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 for the Class A Units. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.
* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

Month of October Attribution

Securities Held



Securities Not Held

Source: Ellerston Capital

In the month of October, the main positive contributors to the Fund's performance were active overweight positions in Bega Cheese (BGA+10.3%), Liberty Financial Group (LFG +8.9%), Lynas Rare Earths (LYC +3.8%), and underweight CSL (CSL -7.4%).

Disappointingly, the main detractors for the month, insufficient to offset the above, were active overweight positions in IRESS (IRE -14.3%), Insignia Financial (IFL -14.9%), Challenger (CGF -8.9%), Incitec Pivot (IPL -12.7%) and our recent entry into Resmed (RMD -7.7%) shares which continued to sell off.

FUND ACTIVITY

The Fund used the weakness in share prices to strengthen existing positions in Amcor, Challenger, Insignia, Iluka and IRESS. **We also moved to our maximum weight in ResMed, given its attractive valuation metrics and where we believe, the market has become far too short sighted. Furthermore, we added two new positions in CSL and Insurance Australia Group (see write ups below), where we now have better line of sight and higher conviction.**

These were funded by taking profits in ALS, Incitec Pivot, Johns Lyng, Metcash, Regis Healthcare and Santos and exiting remnant positions in IGO and Treasury Wines.

The bulk of our TWE holding was exited the previous month post what we thought was a disappointing operating result. We believed that continued weakness in the more commercial non-luxury wine business (now called Premium wines) in ANZ, would act as a risk to 2024 earnings and outweigh any positive sentiment towards the inevitable removal of wine tariffs and China re-opening, which would take some time.

Our large holding in Santos was culled substantially after the shares rallied on the back of the recent oil price strength and hopes of a push for a strategic review of STO's portfolio by a few activist investors. Our main fear was that the Barossa offshore gas project, critical to STO's growth prospects (which has already been delayed), would be pushed out again as a result of cultural heritage issues raised by Tiwi Islanders and the prospect of further Environmental Plan delays. We felt it was prudent to de-risk the position.

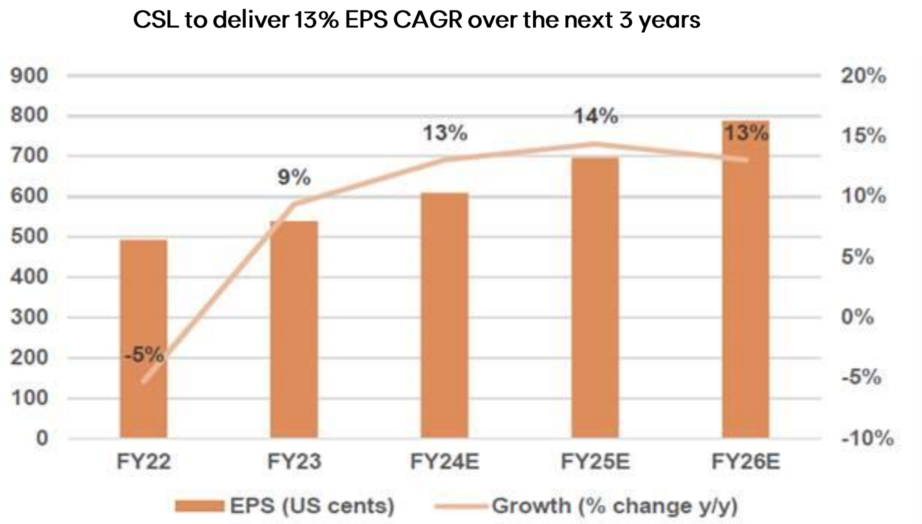
NEW STOCKS ADDED	STOCKS EXITED
• CSL	• IGO
• Insurance Australia Group	• Monash IVF Group
	• Treasury Wine Estates

INCREASED	DECREASED
• Amcor	• ALS
• Challenger	• Incitec Pivot
• Insignia Financial	• Johns Lyng Group
• Iluka Resources	• Metcash
• IRESS	• Regis Healthcare
• RMD	• Santos

CSL

CSL, a stock we know well, requires little by way of introduction. This global, industry leading, high quality industrial healthcare name made new multi-years lows during the month and has underperformed the ASX200 by ~20% over the past 12 months, mainly due to question marks over its US$11.7bn Vifor acquisition and more recently, the potential negative impact of GLP-1 "weight loss" drugs. Whilst CSL faces competitive threats in the form of FcRNi in autoimmune disease (IG risk), mRNA flu vaccines and generic entry for iron franchise products, to view these risks in isolation ignores a range of pipeline opportunities. These include; CSL112 (awaiting Phase 3 data in 1HCY24), Garadacimab and Hemgenix (the latter already launched) and other potentially high margin revenue opportunities.

CSL is guiding to a return for Behring gross margins to pre-COVID levels in the medium term, costs per litre are around 17% off their peak and there will be a material decrease of ~30% in capex in FY24. Capex is expected to remain below recent historic highs over the medium term. All of these factors should improve ROIC to a target of 20%. At its AGM, pleasingly, management re-affirmed FY24 NPATA growth of 13-17% (+15% in constant currency) and the company should deliver superior medium term profit growth, with consensus earnings forecasts of 13% CAGR over the next three years. We were comforted by these trends and management maintaining guidance.

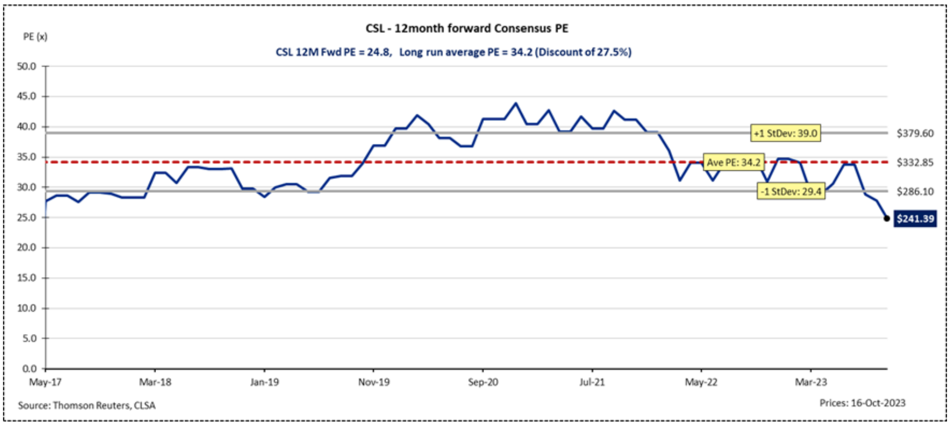


Source: Barrenjoey

The market has effectively written down Vifor to less than zero (as a reminder Vifor is only 14% of FY24f group revenues), it's very early days for FcRni and that too looks to have been factored in, as well as the GLP-1 risk which may marginally impact Vifor.

By way of channel checks, Grifols, one of CSL's key competitors, recently reported very strong 3Q earnings, highlighting rising demand for plasma-derived products and more favourable pricing. Haemonetics, one of CSL's plasma providers, also reported that it is seeing the US collections environment continuing to be favourable, notching up an eighth consecutive quarter of growth and exceeding historical seasonality, giving us further confidence.

We haven't owned CSL for years, as we saw it as a very expensive defensive in a virtual zero interest rate environment driving PE expansion. However, post its massive de-rating, we believe most of the potential risks are factored in and it has become a cheap defensive - CSL now trades on a PE of 24.8x, two standard deviations from its long run average and only a modest premium to the non-bank industrial market. For such a quality business, it's time to fill your boots.



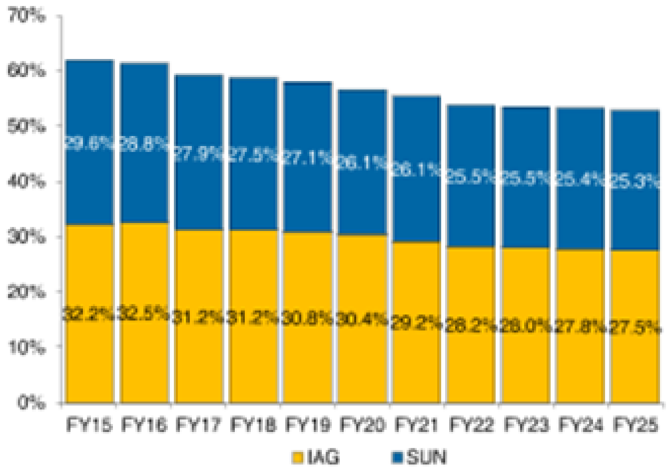
Insurance Australia Group (IAG)

We have also introduced IAG to your portfolio. Given we are now officially in an El Nino weather pattern, IAG is very well placed to over-earn in a dry El Niño year through this summer. Australian CAT losses are typically 30-40% lower vs. La Niña years and motor claims should also benefit in dryer conditions. Both SUN and IAG (as general insurers) are trading on undemanding multiples and should have positive EPS revisions. However, we prefer IAG, as we don't have a regional sub-scale bank (with ANZ appealing the decision to block the sale) to worry about. Pleasingly, IAG's market share in highly profitable Home and Personal Motor products held steady in the last 12 months, halting a six year slide (with IAG's Motor portfolio being the exception to the declining trend). As a reminder, the Australian Home and Motor portfolios represented ~44.1% of IAG's GWP in FY23.

Analysis indicates El Niño years historically have resulted in CAT costs ~30% below average for both IAG and SUN, with the most benign El Niño years being ~50% lower. Comparing this to FY24E CAT budgets, it is estimated that in a median El Niño year, this could drive upside to underlying ITR profits of ~22% for IAG. For perspective, the median El Niño CAT cost outcome for IAG was 31% below the average outcome over the periods 1992-2023. When compared to IAG's $1.15bn FY24E CAT budget, this scenario could deliver a ~$350m lower CAT, implying a significant 3.3% ITR margin uplift. When adjusting for IMA minority interests, this would equate to ~25-30% upside risk to consensus FY24E Cash NPAT. Similarly, a particularly benign El Niño could potentially support over ~40% upside risk.

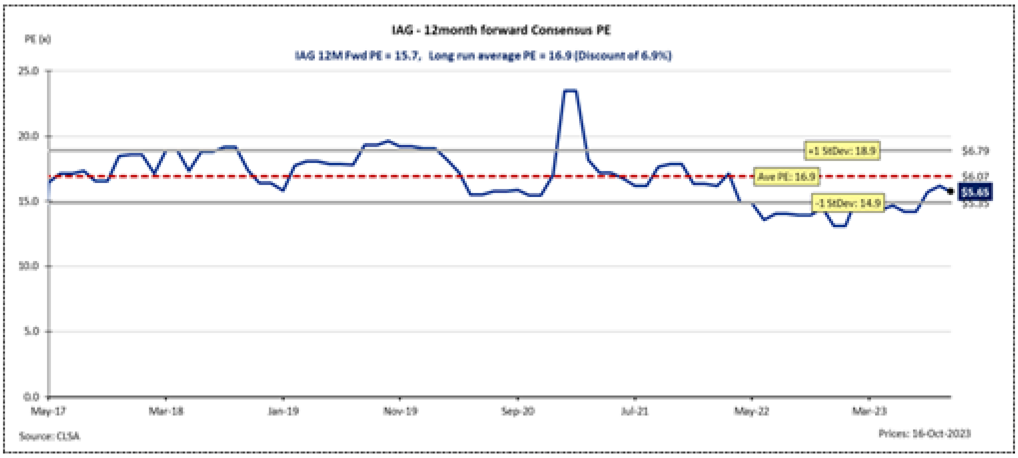
A dividend yield of 4.7%, based on conservative earnings with upside risk is also supportive.

Market share: Home + Personal Motor



Source: APRA, Company data, Macquarie Research, October 2023

IAG's PE has de-rated over the last three summers of La Niña and we would expect it to reverse.



FUND STRATEGY AND OUTLOOK

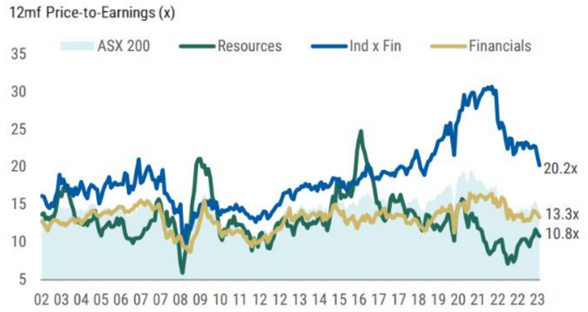
Rate Hike Risks Melting Away

We continue to hold our view that headline inflation rates have peaked across Australia and in most developed economies and that official interest rates have also peaked. Central bank meetings by the Fed (which kept rates on hold), ECB and the BOE in October, are supportive of this contention. The focus going forward, is on how long the Fed's "hawkish hold" will last. The recent re-bound in oil prices, fuelled by the Middle East crisis and geo-political tensions, together with the prospect of a further escalation in hostilities, may challenge the US soft landing scenario.

Back home, momentum in the Australian economy has been steadily fading since early 2022, with this trend likely to continue over the remainder of the year on the back of stalling private domestic demand growth and cost-of-living headwinds. Households face ongoing budget pressures from inflation and repricing of fixed-rate mortgages. Given the weaker economic outlook, the RBA is close to finishing its tightening cycle, but there may be one further rate hike to go. We wouldn't be surprised at all if the RBA raised for the 13th time since May 2022 at its meeting on Cup Day, November 7th, given the unexpected bounce in the September CPI to 1.2%, coupled with a surprisingly strong retail sales print. These pressures have increased the probability new RBA governor Michelle Bullock will stare down political pressure to pause again. Another 0.25 percentage point cash rate increase would take the total rise in monthly repayments on a typical $750,000 mortgage since May last year to $1,815.

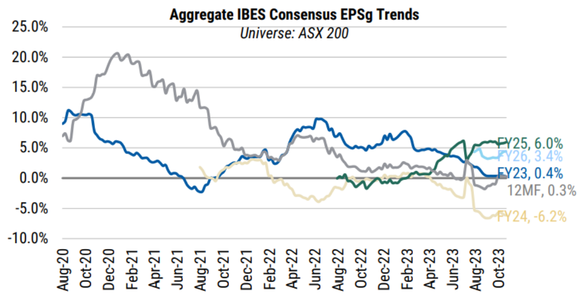
Post the August reporting season, the ASX 200 consensus earnings levels have rolled over, **with FY24 earnings growth having fast faded to -6.2%.** The domestic market 12MF P/E now stands at 14.2x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

Valuation: the 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 20.2x



Source: Morgan Stanley Research.

Annual Consensus EPS Growth Trends FY23-26

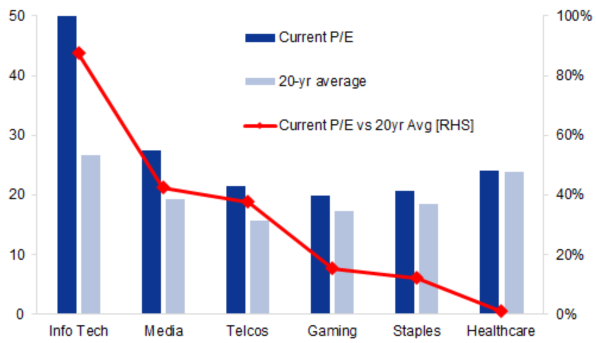


Source: Morgan Stanley Research.

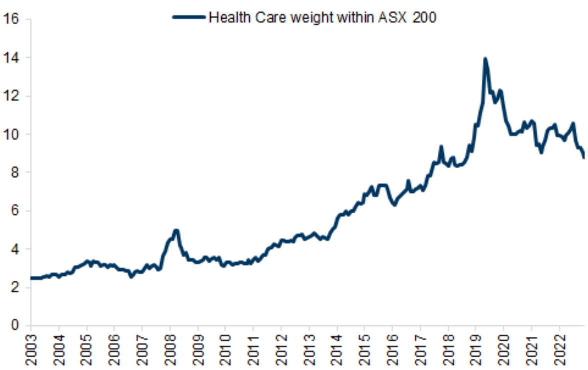
The biggest shift in strategy this month has been to move significantly overweight the ASX Healthcare sector. We think our timing is just right!

This sector has materially underperformed over the past year and by ~17% over the past six months alone, now trading at 23.5x prospective P/E. This is the lowest premium to the broader industrial market in well over a decade. In an equity market where good quality industrial Defensive/Growth stocks are still expensive vs. history, Healthcare is currently the only sub-sector in that category that is trading back towards its long-run average.

Of its 'Defensive/Growth' peers, Healthcare is the only sector now trading close to its historical valuation range. The index weight of Health Care peaked at the onset of Covid at 14% and has since declined to 9%.



Source: Goldman Sachs

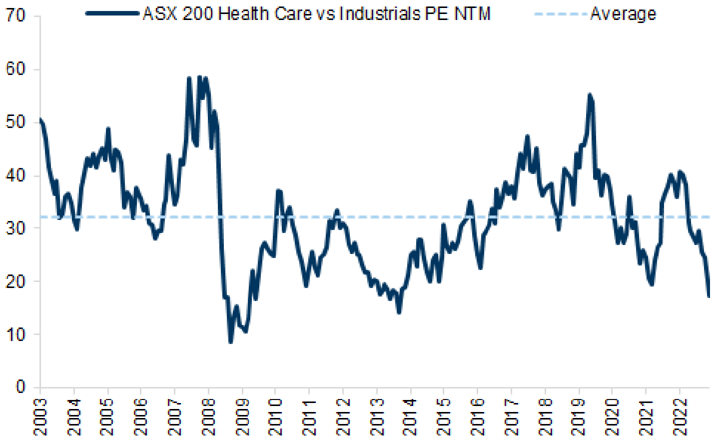


Source: Goldman Sachs

Medium-term earnings growth forecasts (+17% p.a. over the next 3 years) are modestly higher than historical levels, thus the sector screens much more attractive on a traditional 'Price For Growth' basis, especially given the sharp de-rating in the earnings multiple. The major cause of this de-rating has been the obvious headwinds of two-decade high bond yields and the less quantifiable potential negative impact of GLP-1 weight loss drugs on demand. These key factors have both combined to drive one of the quickest de-ratings in the sector over the past 20 years.

Of the stocks that trade at ~30% discount to their historical multiples, we believe RMD & CSL now offer the most favourable risk/return payoff.

The Healthcare sector is trading on the lowest premium (17%) to Industrials since 2014.



Source: Goldman Sachs

Now that most developed world central banks rates are on hold, we would expect bond yields to fall further after the tumultuous rise in the past two months (US 10 year rose 79bps to 4.89%, having flirted with 5%). **As a result, we feel the prospect of a sharp short-term relief rally in equities is in the making.** Any further decline in long-term bond yields should favour rotation back into many of the out of love, longer duration equities, the likes of Healthcare and Infrastructure. We believe we are well positioned here, with a significant overweight to Atlas Arteria (where the fund has a 9.0% position) and which recently reconfirmed that it will pay a 40 cent distribution, yielding 7.5% currently. These sectors have been belted and we would expect strong share price recoveries.

To summarise your portfolio's positioning:

1. Quality Franchises, Growth at Reasonable, Attractive Valuations Solid companies with strong/leading market positions and credible management with good balance sheets. Amcor, Atlas Arteria, CSL Limited, Liberty Group, Metcash and Resmed	**2. Businesses that are highly cyclical or seasonal in nature, that have faced headwinds** Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather. Bega Cheese, Challenger, Insurance Australia Group and Orica
3. Turnarounds Sound businesses that have historically generated poor returns, have been badly managed, resulting in poor execution of strategy and have under-earned versus their potential. These stocks are in a transition phase and we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions. Insignia Financial, IRESS and Seven West Media	**4. Deep Value Resource Plays** Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self-help deleveraging). Despite the recent correction in commodity prices, the cycle is still positive, paving the way for healthy dividends. BHP Group, Iluka Resources, Lynas Rare Earths and Santos

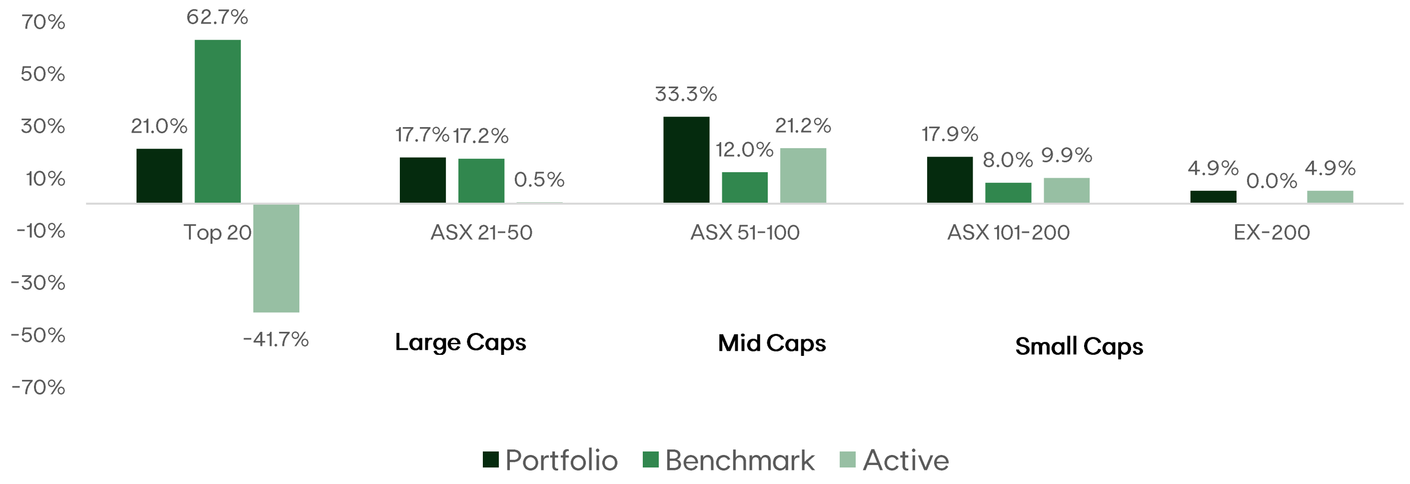
We are truly grateful for, and always appreciate your continued support.

Warmest Regards,

Chris Kourtis
Portfolio Manager

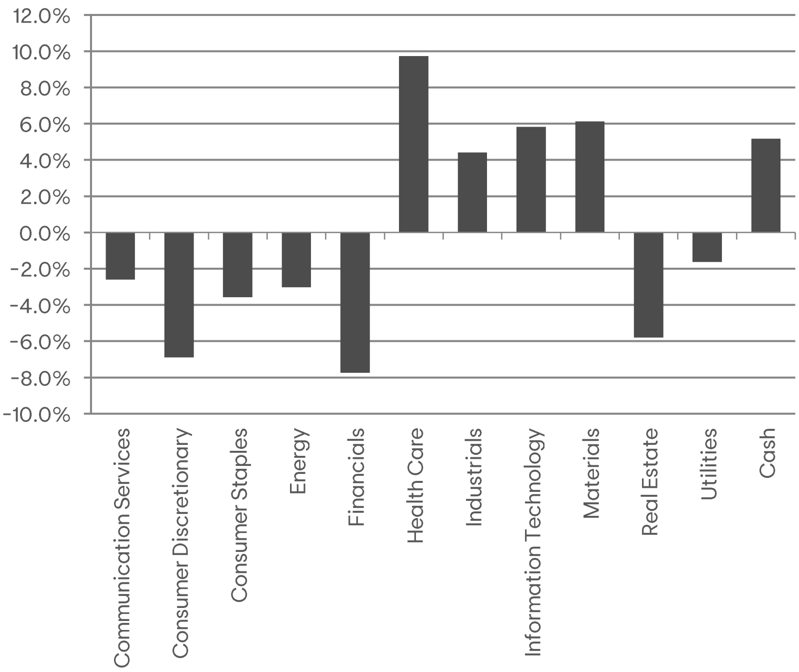
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 31 October 2023
Source: Factset, Ellerston Capital.

Active Sector Exposures*



Source: Ellerston Capital
* Active sector exposures are determined by subtracting Fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.

TOP 10 HOLDINGS**
AMCOR PLC
ATLAS ARTERIA
BHP GROUP LTD
CHALLENGER LIMITED
CSL LIMITED
ILUKA RESOURCES LIMITED
INSIGNIA FINANCIAL LTD
IRESS LIMITED
ORICA LIMITED
RESMED INC

Source: Ellerston Capital.
** Top 10 Holdings are listed in alphabetical order.

About the Ellerston Australian Share Fund

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

FUND FACTS

STRATEGY FUNDS UNDER MANAGEMENT	$592,389,727
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	$17,093,497
APPLICATION PRICE	$0.8244
REDEMPTION PRICE	$0.8202
NUMBER OF STOCKS	22
INCEPTION DATE	31-Mar-09

Source: Ellerston Capital.

Contact Us

Sydney

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Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Find out more

For new or additional applications into the Fund, please click here.

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**

Ellerston Capital