Ellerston Equity Income KIS Fund

Ellerston Capital

Monthly Report as at 31 January 2024

APIR Code: ECL7259AU | ARSN 662 683 123

Concentrated portfolio of 30-40 Australian listed securities that display stable and growing dividend streams.

Looks beyond traditional "income sectors" (e.g., banks and telecoms), recognising "cyclical sectors" are now experiencing structural shifts towards the provision of more reliable income.

Aims to provide investors with returns and income growth greater than the Benchmark over rolling five-year periods.

Performance Summary

Performance	1 Month	3 Months	12 Months Rolling	3 Years (p.a.)	4 Years (p.a.)	Since Inception (p.a.) ^^
Fund Net Return^	0.65%	16.52%	6.63%	10.58%	6.82%	9.27%
Benchmark*	1.19%	13.99%	7.09%	9.56%	6.24%	8.20%
Alpha	-0.54%	2.53%	-0.46%	1.02%	0.58%	1.07%

^The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.
** S&P/ASX 200 Accumulation Index. ^^Inception date is 1 May 2019.*

Key Information

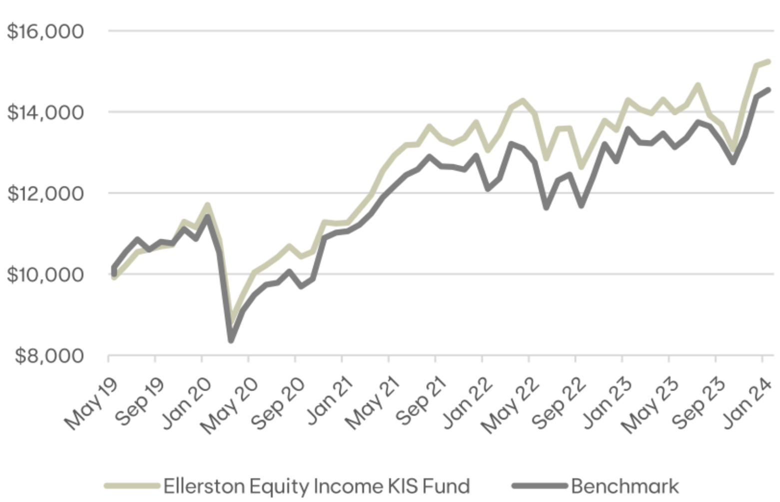
Portfolio Manager	Chris Kourtis
Investment Objective	To provide investors with returns and income growth greater than the Benchmark over rolling five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-40
Number of Holdings at Month End	30
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
Distribution Frequency	Quarterly (where available)
Management Fee	0.70% p.a.
Performance Fee[1]	10.00%
Buy/Sell Spread	0.25% / 0.25%
Strategy FUM[2]	$74.77m
Platform Availability	HUB24, Netwealth
SQM Rating[3]	Superior / 4.25 Stars

[1]Of the investment return above the benchmark, after recovering any underperformance in past periods.
[2]Funds invested across all Equity Income KIS strategies.
[3]Rating assigned 6 October 2023.

FY24(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	**7.3**	**4.9**
Price/Earnings (x)	13.2	16.6
Dividend Yield (%)	5.6	3.7

Source: Ellerston Capital.

Growth of $10,000 Investment



Fund Performance shown is net of fees, assuming all distributions are reinvested.
Past performance is not a reliable indication of future performance.
Source: Ellerston Capital.

The Team

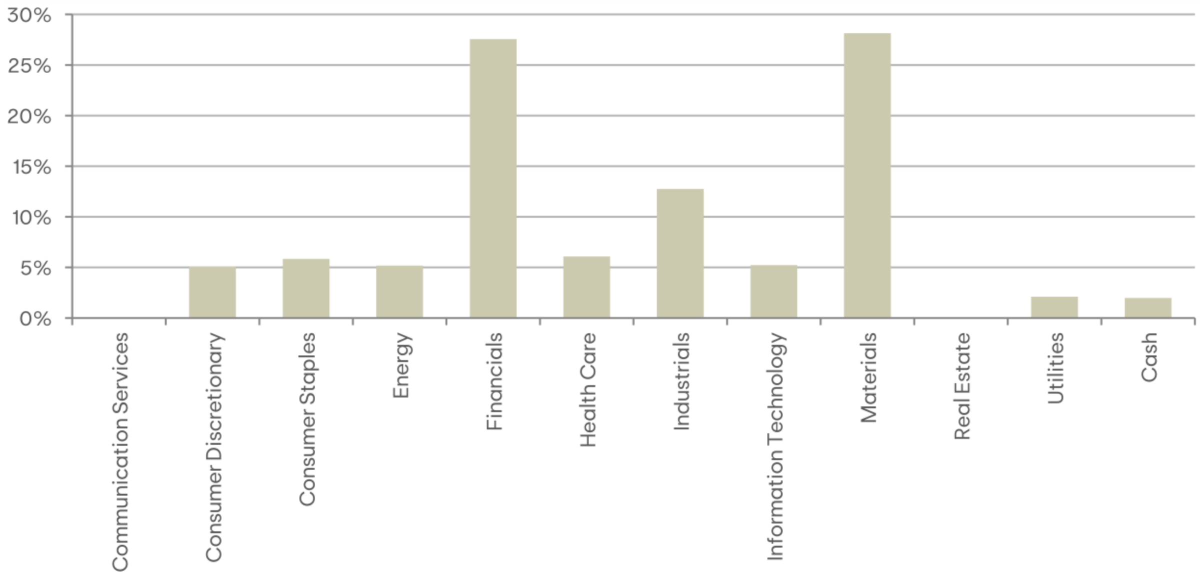
Chris Kourtis
Director & Portfolio Manager

39 years of industry experience.

Stephen Giubin
Senior Investment Analyst

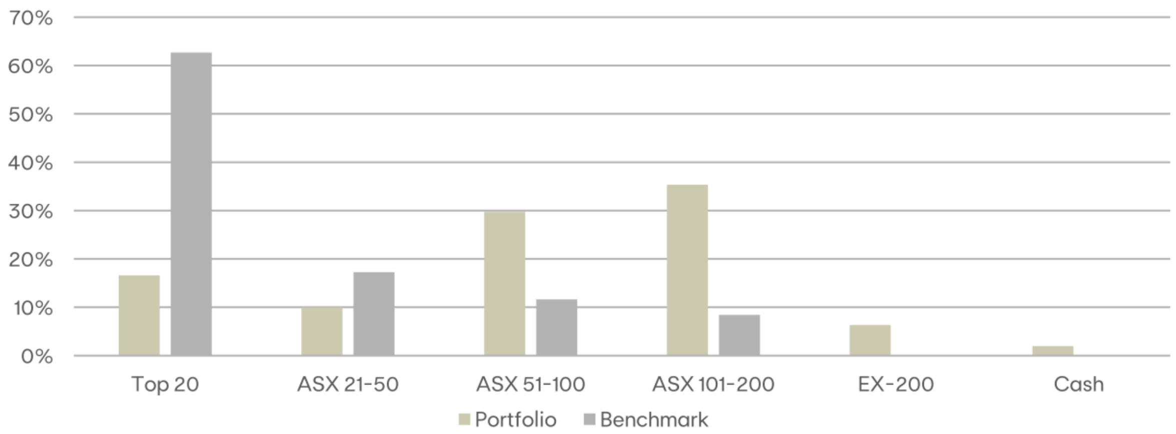
36 years of industry experience.

Sector Allocation



Source: Ellerston Capital.

Exposure by Mark Capitalisation



Source: Ellerston Capital.

Top 10 Holdings*

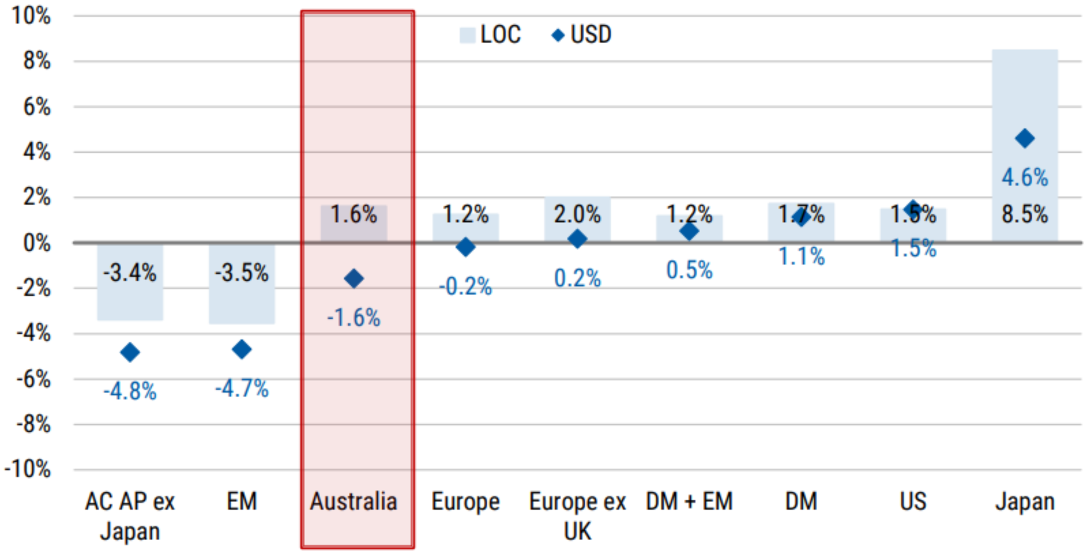
Ampol Limited
Atlas Arteria
BHP Group Ltd
Challenger Limited
IGO Limited
Insignia Financial Ltd
IRESS Limited
Perpetual Limited
Ramsay Health Care Limited
South32 Ltd.

** In alphabetical order.*
Source: Ellerston Capital

MARKET OVERVIEW

Global developed equity markets kept rising in January, with the MSCI World Index up 1.2%. The best performing market was Japan, which rose 8.5%, with the JGB market remaining surprisingly strong and fully recovering from the sharp sell-off post the BoJ meeting in early January. However, Emerging Markets bucked the trend and underperformed, down 3.5% in local in currency terms. Dovish signalling on US interest rates by the Federal Reserve (Fed) sparked a particularly strong run up in stocks, bonds and the Australian dollar. Expectations of US and European rate cuts in the coming months, despite central banks pushing back on the exact timing, kept bond yields in check and supported a number of equity markets, which traded near all-time highs. The S&P500 rose 1.7%, with the largest companies continuing to have an outsized influence on market returns - NVDA, MSFT, META and AMZN were among the most positive contributors. Domestically, the S&P/ASX 200 index climbed 1.2% and closed at an all-time high of 7681pts. Globally, Info Tech, Communications and Health Care were the best preforming sectors and locally, Financials (+5.0%) and Healthcare (+4.3%) were the standout performers.

MSCI Global Country/Regional Indices Performance for January



Source: Morgan Stanley

USA

The Federal Reserve kicked off the year in neutral, whereby as expected, it opted to keep rates on hold at their meeting on 31 January. Chair Powell said quite flatly that the FOMC's base case was not for a March cut, but ultimately the outcome would be data dependent. He also commented that the Committee's inflation forecasts would likely be lowered vs. expectations at their December FOMC meeting. It was clear in the Fed's hawkish tone, that Powell and the committee, need to see further evidence to gain more confidence that inflation is tamed, before deciding on a rate cut, as early as March.

The S&P 500 and the Dow Jones Industrial Average finished up 1.7% and 1.3% respectively, with the NASDAQ Composite Index rising 1.0% for the month. The small cap Russell 2000 Index, after an impressive return of +12.2% in the month of December, gave back 3.9% in January.

Europe

ECB Governing Council members opened discussions on rate cuts more prominently, with some pushback against easing in the first half of this year. The BoE also left rates on hold and signalled it was also ready to consider lowering rates, for the first time since inflation surged following the pandemic. It's all about when, not if, the cuts will start, with bond and equity markets erring on the bullish side, betting on April in Europe and March in the US.

The Euro STOXX50 Index finished the month up 2.9%. Among the major exchanges, France's CAC 40 was up 1.6%, followed by Germany's DAX, which was 0.9% higher and the laggard was UK's FTSE 100, falling 1.3%.

Asia

The January PMIs and other key activity data suggest that the Chinese economy has stabilised, but still weak into 2024. Meanwhile, both the equity and bond markets show that investor sentiment has deteriorated significantly. The biggest investor concern in China remains the housing market. Recent new home sales from 30 major cities are tracking ~40% lower than the comparable period one year ago. Policy support to date has been reactive, piecemeal and localised.

Asian markets continued to underperform, with the exception being the Nikkei as the standout performer in the region, up a solid 8.4%. India's SENSEX was down 0.6%, China's SSE fell 5.7%, Korea's KOSPI closed 6.0% lower and the clear laggard was the Hang Seng, down 9.2%.

Commodities

Iron ore prices edged lower, falling 6% to US$132/tonne and coking coal prices marked time at US$324 per tonne. The base metals complex was weaker, with aluminium down 4%, nickel 2% lower and copper flat. Crude prices bounced, with Brent up 6% to US$82/barrel, due to a step up in hostilities, particularly attacks on shipping in the Red Sea, which has also caused logistical problems and freight rates to spike. Gold ticked down 2% to US$2035/oz, in line with the stronger US dollar.

A feature in commodity markets was the continued strength in uranium, which hit a 16-year high, and a further sell off in lithium products, with spodumene falling 13%, whilst lithium carbonate prices were flat in January. Prices across the lithium space are down a whopping ~85% on where they were this time last year. The excess inventory in the EV battery supply chain requires closures of mine capacity and deferments, which now looks like it's finally started.

Bonds

The US 10-year bond yield edged up by 4bps last month to 3.92%, as softer inflation data reinforced that the Fed's rate cut could still come to fruition in March, despite the push back at the FOMC meeting held on 31 January. The Australian 10-year bond yield was also up marginally, in step with the US, rising 5bps to close at 4.01%.

Australia

On the domestic front, employment in December retraced very sharply, falling 65k compared to expectations of a 15k rise, which follows a similarly large upside surprise of 61k the previous month. That said, the yoy rise of 2.8% remains solid, albeit a step down from 3.2% in November. The unemployment rate held at 3.9% due to a fall back in the participation rate. Flowing on from this, the Q4 CPI was weaker than expectations, across both headline and core. Headline inflation came in slightly weaker than expected for 4Q23 at 0.6% (4.1% yoy) and the Core measures were also lower, with the trimmed mean increasing by 0.8% (4.2% yoy). Domestic and services inflation continue to show some persistence, versus declines in other categories. A miss on the higher RBA forecasts should see a more balanced tone at the next RBA meeting to be convened on 6 February. For the time being, it appears that the RBA will stay on the sidelines, with talk of rate cuts in the second half of 2024 being the main focus.

The A$ closed the month down 4% to US$0.66, impacted by lower iron ore prices and the stronger greenback, which was up 2% on a trade weighted basis.

The S&P/ASX 200 Accumulation Index edged higher in January, rising 1.2% with the big 4 retail banks doing most of the heavy lifting. Energy, Financials and Healthcare led the performance charts. The Energy sector (up 5.2%), was the best performer, spurred on by uranium market darling Boss Energy which was up 38.2%, followed closely by Financials (+5.0%) driven by the Banks. NAB was the best of them, up +6.2% and Healthcare (+4.3%) also outperformed, led by CSL and ResMed. The bottom three sectors were Materials (-4.8%), dragged down by Gold and Lithium names, Utilities (-1.5%) and Consumer Staples (Flat).

For the month, the top stocks that made a positive contribution to the Index's return were CBA (+44bps), CSL (+33bps), NAB (+27bps), Westpac (+20bps) and ANZ (+18bps). Conversely, the bottom five stocks detracting from the Index's performance were BHP Group (-74bps), Newmont Corporation (-13bps), Arcadium Lithium (-9bps), Mineral Resources (-8bps) and Evolution Mining (-7bps).

The ASX Small Ordinaries closed up 0.9%, just behind the broader benchmark at 1.2%. Within the ASX Small Ordinaries, the Small Industrials fared relatively well, up 1.9% versus the Small Resources, which struggled and closed down 2.0%.

COMPANY SPECIFIC NEWS

The Market Hits

Boss Energy (BOE +38.2%) / Paladin Energy (PDN +31.5%)

Following a stellar run in 2H23, uranium has again been the talk of the town to begin the year, with spot prices hitting fresh 16-year highs, sitting above US$100/lb. The rally has been boosted by Kazakhstan's national atomic company Kazatomprom, the world's largest producer and seller of natural uranium, forecasting a potential dip in its production numbers this year due to a shortage of sulphuric acid. For context, Kazatomprom accounted for 23% of global uranium production in 2022. The UK also announced that it would build another large-scale nuclear power plant as the nation maps out its biggest expansion in 70 years. Global investment manager Sprott's physical Uranium Trust, currently holding 63m pounds of yellow cake, is enough to power France's nuclear energy needs for 2 years! The supply squeeze is on, as producers scramble to match growing expectations for future demand. This has seen BOE and PDN rise with the tide, despite not yet producing and having already pre-sold a chunk of offtake at considerably lower prices than spot. Energy Resources of Australia (ERA) is an example of FOMO when a thematic can engulf stocks like ERA which closed their operations some time ago, with no intent to re-open, let alone the stumping up for the money required for rehabilitation. Expectations in the market that ERA, which holds the Jabiluka mineral lease, will eventually mine it are unrealistic. This is because ERA (with its major shareholder Rio Tinto) has previously announced that the Jabiluka deposit will not be developed, without the approval of the Mirarr Traditional Owners, under the original signed agreement back in 2005. ERA's Ranger uranium mine operations commenced in 1981 and exported its last shipment of uranium ore concentrate in 2022, with the decommissioning phase continuing. ERA's rehabilitation provision at 31 December 2023 was a massive ~ $2.3bn, up from $1.5bn at 30 June 2023, with expectations of spending $1.2bn on rehabilitation activities up until the end of 2027. Expenditure beyond that date remains highly uncertain and is subject to further study work. At the end of December, ERA held $217m in cash, just enough to fund the next 4 quarters! ERA's share price was up 65% in January alone, now with a market capitalisation of $1.35bn - go figure!

Megaport (MP1 +38.2%)

MP1 is a network-as-a-service (NaaS) company offering carrier-neutral, SDN-based elastic interconnection services. MP1 creates a virtual platform, which comprises of cloud service providers, network service providers and data centre operators, giving customers flexible access based on demand. MP1 announced their 2Q FY24 update which beat its quarterly earnings target and at the same time flagged the addition of a large US based healthcare client worth $4.2m over 3 years. Revenue increased by 5% to $48.6m, while annual recurring revenue lifted 1 per cent in the face of a strengthening Australian dollar. EBITDA at $15.1m was better than expectations of $11m and the North American sales team hiring process was completed, with all roles "in seat". MP1 maintained FY24 guidance for Revenue of $190-195m, EBITDA of $51-57m and Capex of $20-22m. The January run by tech stocks and short covering certainly had a hand in MP1's 28% jump on the day of the day of the announcement.

Alumina (AWC +28.7%)

AWC announced the curtailment of AWAC's (AWC owns 40% and Alcoa 60%) Kwinana alumina refinery in WA that operated at ~1.5mtpa in 2023 at a cost of US$410/ tonne, compared to the spot price at US$370/tonne. The refinery will close by mid-2024 and improve the overall cost base by US$20/tonne to US$270/tonne. Combined with the WA government approval in December of the 2023-27 revised mine plan and conditional exemption to allow mining, even if the EPA undertakes a further assessment, the outlook for AWC has improved for the time being, with the stock bouncing 55% from its November low.

Elders (ELD +19.3%)

ELD benefitted from the rise in cattle prices attributed to decent rain across cattle country down Australia's east coast. The national restocker steer prices strengthened at the end of 2023, up by nearly 30% overall to 370 c/kg lwt. Prices are up across all states this month, by 25% in Queensland and 26 % in New South Wales. In the west, a softer increase of 8% was recorded. Good, unexpected rains lifted sentiment across the Ag sector.

Data#3 (DTL +15.9%)

IT solutions and services provider DTL pleased investors by announcing a strong 1H24 trading update, highlighting that PBT is expected to be between $30-31m, around 9% above prior guidance of $27-29m. This has been attributed to increased activity in the business and substantially higher interest income than FY23, driven by strong working capital management and higher deposit interest rates. Investors especially liked the higher interest income, although you have to question DTL holding its PE of 28x given those investors applying a lofty rating to interest income.

Polynovo (PNV +15.1%)

PNV is a medical device company, focused on advanced wound care that designs, develops, and manufactures dermal regeneration solutions (NovoSorb BTM, NovoSorb MTX) using its patented NovoSorb biodegradable polymer technology. PNV continued rising this month post its 20% December rally after posting strong sales growth numbers. 1H24 Revenue growth of 66% to $49m was 10% above expectations and profitability was finally achieved, with an EBITDA of $1.9m, up from a $2.5m loss in the prior period.

Resmed (RMD +14.8%)

RMD shares continued to rally post the release of its highly anticipated 2Q24 result, which was strong and ahead of VA consensus forecasts, driven by better-than-expected revenue/operating leverage. Whilst revenue was +2% ahead of forecasts, primarily reflecting better-than-expected device revenue, the crux of the beat was the highly scrutinised key gross margin figure of 56.9% (+10bps YoY, +90bps qoq). This was +70bps ahead of VA forecasts, which sat at 56.2%, appeasing investors. EBIT margins of 31.4% (+190bps YoY, +250bps qoq) were also very solid. Revenue growth of +12% YoY provided non-GAAP EPS growth of +13%, however, EBIT rose an impressive +20% YoY. Analyst forecasts now finally imply incremental gross margin improvement over the balance of FY24, which combined with cost reduction initiatives, supports further EBIT margin expansion/robust earnings growth. With regard to new mask launches, regulatory and reimbursement approval were received. The new mask offering, with market launch "coming soon", should improve mask/accessories sales (solid growth recorded following AirFit Series 20/30 launches) and increase ASPs, both supportive of gross margin improvement.

GLP-1 commentary was reiterated: RMD data highlighted that patients on a GLP-1 RA were more likely to initiate PAP therapy, with higher rates of adherence and re-supply. Further, CEO Mick Farrell's commentary indicated the potential for the SURMOUNT-OSA trial to show the benefits of PAP in combination with GLP-1 RA (as opposed to substitution), but it's still early days here.

To add fuel to the share price recovery, towards month end, key competitor Philips released its 4Q 2023 results and finally agreed to the terms of a Consent Decree with the US DOJ and the FDA post its device recall. In the US, Philips Respironics will continue to service sleep and respiratory care devices already with healthcare providers and patients, and supply accessories, consumables, and replacement parts (including repair kits). However, until the relevant requirements of the consent decree are met, Philips Respironics will **not** be allowed to sell any new CPAP or BiPAP sleep therapy devices or other respiratory care devices in the US. As a consequence of addressing this consent decree, which will be a multi-year plan, Philips recorded a provision of EUR 363 million in Q4 2023 that relates to remediation activities, inventory write-downs and onerous contract provisions. This effectively cements RMD's already dominant estimated market share of 82% in the US.

Nickel Industries (NIC +14.4%)

Indonesian nickel producer NIC rewarded investors with an increased dividend and share buyback, underscoring the returns on offer for miners flooding the market with supply, while Australia's nickel industry crumbles in the face of cheaper competition. NIC is the largest ASX pure-play nickel producer and decided to splash the cash after record production and earnings from its Indonesian mines and nickel processing assets in the December quarter. NIC surprised investors by announcing that the company will pay a final dividend of 2.5c and buy back US$100m (A$150m) of stock, representing 6% of the shares on issue. NIC's shares jumped 20% on the day.

Telix Pharmaceuticals (TLX +14.1%)

TLX is a biopharma company focused on the development and commercialisation of diagnostic and therapeutic radiopharmaceuticals and associated medical devices. TLX provided an update on unaudited revenue for Q4 2023, with the company reporting $148.1m (US$97.1m) of total product revenue, primarily generated from sales of Illuccix in the United States, an increase of 11% on the prior quarter of $133.6m (US$87.2m). US revenue was US$95.1m, a record revenue quarter, with an increase of 12% on the prior quarter and 19% increase in dose volume. The total revenue for FY 2023 of $502.5m was up a massive 214% on 2022 revenue of $160.1m! Talk in the market of a potential US listing didn't hurt sentiment either.

The Market Misses

Liontown Resources (LTR -37.6%)

LTR shocked the market when the company announced that lenders had withdrawn their $760 million debt financing package offer, on the back of slumping lithium prices, which was an integral component of the underwritten $376m equity raising at $1.80/share. The capital raise was undertaken to fully fund the Kathleen Valley Lithium Project (Project) to first production, scheduled for mid-2024 and beyond. LTR stated that its $515 million cash balance should be enough to cover the cost of building the Project, but that the operation would likely burn cash in its first year, as volumes ramped up to full capacity and spodume prices remained below $US1000/tonne. With this in mind, LTR intended to review the scope of the Project and potentially defer some aspects of the underground mine development. The Company subsequently commenced discussions on a revised, smaller debt facility and expects to be able to provide a funding update by the end of March 2024. Shares in LTR crashed by 21% on the day of the announcement, on fears that the bank funding withdrawal may force LTR to conduct yet another rushed dilutive equity raising.

As an aside, Albemarle, which walked away from their $3.00/share takeover offer for LTR in October, sold its 4% interest at $1.26/share during the month and left major shareholders, Hancock Prospecting and LTR Chair Tim Goyder holding the bag. At LTR's closing price of $1.03/share, Hancock is down ~$0.86bn mark to market on its $1.3bn investment and founder Tim Goyder's holding has dropped from a value of over $1.0bn to $0.34bn - ouch!

Sayona Mining (SYA -43.7%) / Arcadium Lithium (LTM -30.6%) / Core Lithium (CXO -22.0%)

A further 13% slump in benchmark spodumene prices during the month, after chalking up an 85% decline for last year, caused another leg down for lithium companies, with increased short-selling. The lithium bloodbath resumed early in 2024 impacting every lithium name. LTR above, received the wooden spoon, seeing the rug pulled on their debt financing package and their takeover offer of $3.00/share, which seemingly "undervalued" the company at 3x the current price!

Chalice Mining (CHN -34.2%)

Chalice Mining's share price has now fallen 78% since the release of its scoping study on 29 August for its Gonneville Nickel-Copper-Platinum Group Element (Ni-Cu-PGE) Project in Western Australia, which was very disappointing compared to high investor expectations. Since the scoping study, CHN has looked at optimisation alternatives, including a smaller sized project. Gonneville is rather complex and is still in the work in progress phase towards the Pre-Feasibility study targeted for mid-CY25. During the month, CHN advised that it was taking decisive action to reduce corporate overheads in order to stem the drawdown of its $112m cash balance as at 31 December. It's no surprise that the stock remains friendless.

Domino's Pizza Enterprises (DMP -32.7%)

DMP shares slumped following its 1H24 update, where the company once again, substantially downgraded earnings, while stepping away from FY24 guidance. 1H24 PBT of $87m-90m was ~15% below market expectations and down 15.5% YoY. This reflected further underlying operational deterioration, given that DMP was expected to retain $33m-40m of FY24 savings from previous restructuring/streamlining of its operations. The 1H24 benefit should have been ~$15m YoY, yet earnings still fell by ~$15m-18m YoY. Surprisingly, management also conceded that their competitors had "caught up" re innovation. Poor performance in Europe and Asia was clearly indicative of structural headwinds, with DMP implying that its offer was not resonating with customers in these markets, resulting in declining patronage at its stores. DMP's Asia business is heavily reliant on Japan (~90% of Asia FY23 EBIT) and Japan's performance depends on Christmas trading, which was weak. Disappointingly, Asia same stores sales growth (SSSg) softened from -7% in the first 16 weeks of 1H24 to -12% for the remaining 10 weeks. Management had previously been confident that performance would improve, as Japan lapped easier comparative periods through Nov/Dec. Weak sales performance was also magnified at the earnings level due to higher corporate store ownership. In Europe, DMP's French business continued to struggle, which took the gloss off solid performance in Germany. 1H24 Europe EBIT was significantly higher vs the pcp, but largely driven by the already announced Denmark closure. It will take time to see if Japan can rebuild sales momentum and time to see if the company walks away from some of its LT store targets (particularly in France). Management was eager to put the underperformance largely down to sub-optimal execution, as opposed to broader market dynamics (i.e. that the problems can be fixed). However, stepping away from all guidance reflects the lack of management visibility in France and Japan. With 7 earnings downgrades in the past 2 years, investor patience wore thin and with yet another log on the fire, they torched the stock price, which plunged 31% on the day.

Nanosonics (NAN -32.3%)

NAN manufactures and distributes the Trophon ultrasound probe disinfector and related consumables and accessories. Late in January, NAN provided a very disappointing trading update, with 1H24 revenue of $80m (-2% yoy) and EBIT of $3m (-72% yoy), 15% and 51% below consensus respectively. NAN's unaudited PBT for 1H24 now sits at $4.9 million, down 43% on 1H23 ($11.4m). The key driver was hospital capital budgetary pressures, which was flagged at its AGM back on the 3 November 2023. The macro headwinds called out at the AGM unfortunately persisted, resulting in lengthened sales cycles, lower capital sales and softer Trophon upgrades. This has an outsized contribution on 1H revenue and earnings due to the calendar year end nature of many hospital budgets. The miss was primarily driven by Trophon upgrades (620 vs prior 1,140) and new installed units (1,100 vs 1,400 expected). With the benefit of hindsight, it would appear that NAN, which severed its agreement with GE Health as sole distributor in the US back in February '22, was a strategic error, as FY23 was the first year for NAN without this commercial/distribution partner. The rationale at the time was that NAN intended to avoid GE's distributor margin, but this has significantly constrained device sales going forward. The other negative out of the update was the commentary that its CORIS endoscopy disinfectant release had been delayed once again.

Given NAN was trading on 87x FY24 PE before the update, there was no margin for disappointment and the stock got slammed 33% on the day and never recovered.

Gold Road Resources (GOR -22.6%) / Bellevue Gold (BGL -20.6%) / Evolution Mining (EVN -18.9%)

The gold price was only down 2% in January, however gold stocks were down 9% as the momentum in rising prices stalled and December quarter gold production was generally disappointing for most companies reporting. GOR had pre-released its disappointing Dec-Q production of 74.7koz (100% share) at $1,973/oz AISC earlier in the month. When it released its report on 29 January, it highlighted that the labour issues experienced in the Dec-Q left it with decent ground to make up for in CY2024 and as a result, reduced access to high grade ore sees mill feed diluted with low grade stockpiles through 2024. Production guidance of 300-335koz for 2024 was 15% below expectations, resulting in material earnings downgrades.

BGL is currently at the pointy end of commissioning, with the mill expected to produce first gold this quarter. It is still too early and very difficult to get a clear read on how well the operation is performing on an underlying basis. BGL share price was weak going into the release of its activities report and whilst it was only marginally below expectations, concerns over lower grades lingered.

EVN reported a disappointing Dec-Q of 161koz at $1,618/oz AISC (-13% on production and +20% on costs). EVN had guided to a 2H production weighting, while maintaining guidance of 789koz at $1,340/oz, with all assets expected at the midpoint. The only exception was its Red Lake in Canada operation, which was downgraded after ore pass and seismicity issues continued to hamper access to higher grade ore. The timing of the poor production announcement could have been better, given EVN raised $525m of equity at $3.80/share on 5 December, to fund the acquisition of an 80% interest in the Northparkes copper-gold mine for ~$720m. The stock price finished the month at $3.21, 16% below the placement price.

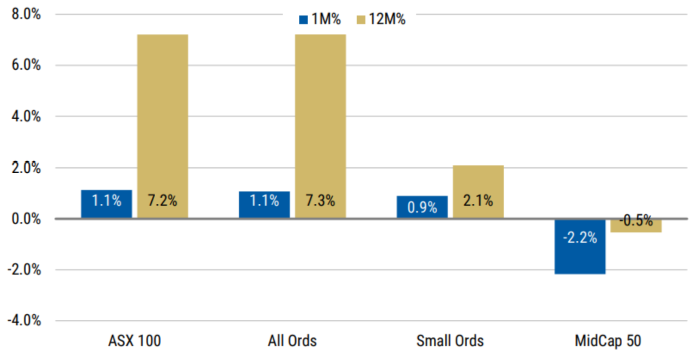
FUND PERFORMANCE

To kick off the new year, the Fund's return of +0.71% lagged the S&P/ASX 200 Accumulation benchmark which rose 1.19% in January. Australian equity market returns were predominantly driven by the strong performance of the big four major banks, which we don't own. Despite being zero banks, this takes the 3-month Fund return to a satisfactory 16.71%.

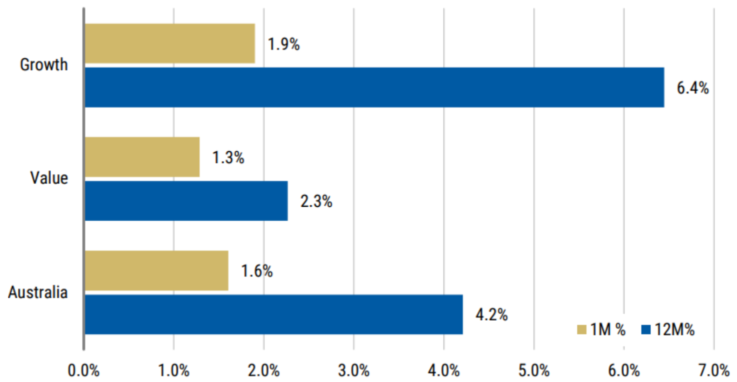
The 3-year return of +11.66% p.a. for a yield fund with no tech remains credible.

Large-Cap stocks (where the Fund is significantly underweight), outperformed in January, not helping our performance, with Small-Caps slightly behind. However, Mid-Caps -2.2% (where the fund retains a material bias towards), were the worst performers and underperformed the market by 3.3%.

MSCI Australia Growth edged out Value in January by +0.6%, Mid-caps lagged



Source: Morgan Stanley



Financials, which rallied 5.0%, posted the largest contribution (+145bps) to the market's return during the month, driven by the Banks subsector which rose 5.3% (with NAB leading the charge, +6.2%) and the Insurers (QBE +7% and IAG +7%), followed by the Health Care (Resmed +14.8%, CSL +5.3%) and Energy (Woodside +4.3%) sectors.

Conversely, Materials (BHP Group -6.2%), Utilities (AGL Energy -8.5%) and Industrials (Transurban Group -1.5%) weighed heavily on the broader market.

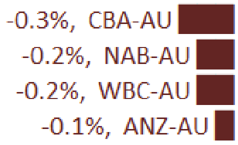
Returns (%)*	Gross	Benchmark	Excess	Net
1 Month	0.71%	1.19%	-0.48%	0.65%
3 Months	16.71%	13.99%	2.72%	16.52%
12 Months Rolling	7.38%	7.09%	0.29%	6.63%
3 Years (p.a.)	11.66%	9.56%	2.10%	10.58%
4 Years (p.a.)	7.88%	6.24%	1.64%	6.82%
Since Inception (p.a.)^^	10.35%	8.20%	2.15%	9.27%

**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 January Attribution

Securities Held

Securities Underweight/Not Held



Source: Ellerston Capital.

In the month of January, the main positive contributors to the Fund's performance were its overweight positions in Ag stocks which benefitted from the recent heavy rains, namely Elders (ELD +19.3%) and Graincorp (GNC +10.8%), coupled with large holdings in IAG (IAG +6.7%) and Iluka (ILU +9.8%).

The detractors during the month, that offset the above positives, were overweight positions in Insignia Financial (IFL -8.1%), Atlas Arteria (ALX -6.2%), and not holding the four major banks which collectively detracted 0.8% (NAB +6.2%, WBC +5.6%, CBA +5.1% and ANZ +4.9%).

FUND ACTIVITY

The Fund banked profits in Aurizon Holdings, Elders, IAG and ResMed following their strong gains. We also strengthened existing positions in Atlas Arteria, Bapcor (see write up below), Insignia Financial, IGO, Perpetual and South32. Additionally, we went long two new names - Ampol, a stock we have invested in and sold over many years and IPH (see write up below). We also exited the Fund's remnant positions in GUD, Metcash and Telstra.

NEW STOCKS ADDED	STOCKS EXITED
• Ampol	• GUD
• IPH	• Metcash
	• Telstra

INCREASED	DECREASED
• Atlas Arteria	• Aurizon Holdings
• Bapcor	• Elders
• Insignia Financial	• Insurance Aust. Group
• IGO	• ResMed
• Perpetual	
• South32	

Bapcor (BAP) is an aftermarket parts distributor, with a predominantly Trade focused business, which also operates three other key segments - Specialist Wholesale, Retail and New Zealand.

In January, the CFO resigned to take up another CFO role at building materials supplier, Boral. CFO resignations are seldom well received, especially in the midst of a major transformation project like "Better than Before", however the CFO, who only joined 18 months ago, will remain on board to support an effective transition until mid-year. On 1st Feb, BAP announced that its Chair would not seek re-election and at the same time CEO, Noel Meehan, advised his intention to step down, to be replaced by Paul Dumbrell, previously CEO of Automotive Brands (when it was purchased back in 2015 by BAP). Paul is very familiar with the aftermarket auto parts sector and we view these changes positively.

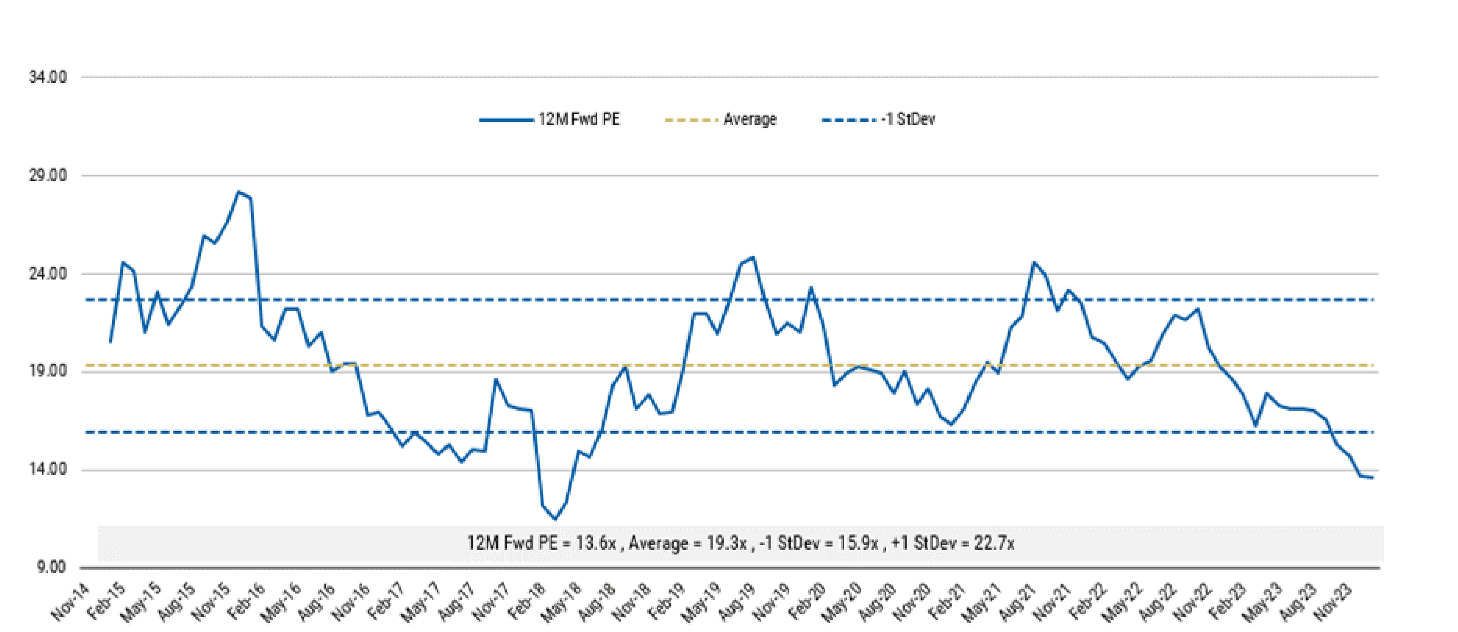
BAP trades at an attractive 7.2x FY25 EV/EBITDA, a 35% historical discount and near all-time low rating. Following recent downgrades, it is trading on an FY24 PE of 15.5x, a 3.9% full franked yield and has a strong balance sheet (1.1 times Net Debt/EBITDA).

Expectations going into February's reporting season for the company have been extremely low, so we believe it's an opportune time to acquire a more material position in a good quality defensive business, where management have executed poorly for years in our opinion, at a relatively low valuation. Global peers, the likes of AutoZone and General Parts trade at much higher EV/EBITDA multiples of 14.3x and 10.2x respectively, both of which operate comparable businesses in Australia.

IPH (IPH) is an intellectual property (IP) advisory business, offering IP and Trademark services spanning the patent/trademark life cycle. It has a leading market share in ANZ, Singapore and the Pacific Islands and is seeking to expand further in new markets, particularly Canada. IPH has consolidated its market share after acquiring ROBIC (~6% of total Canadian patent filings), driving IPH's market share to ~mid-20%. This is consistent with the company's articulated strategy to grow share towards 30% in Canada and expand further into secondary markets outside of ANZ. The stock has been de-rated significantly, down 27% in the past year, with market focus on domestic filings, which have historically grown by 2%, but have recently seen IPH's domestic market share stagnate. The good news is that Asia continues to grow and the Canadian acquisitions should gain traction, which should see domestic revenues drop to ~45% of total group revenue, compared to 60% in FY23.

This former small cap market darling is now trading at a 12M Forward PE of 13.6x, compared to its long-term average of 19.3x. Earnings are expected to rise 9% in FY25, supported by an above market 5.4% dividend yield, rising to 5.8% in FY25. IPH has historically delivered consistent and defensive earnings, with modest overall organic growth. At the current price of $6.42, we believe this is an attractive entry point.

IPH Ltd. - 12-Month Forward Price to Earnings (13.6x)



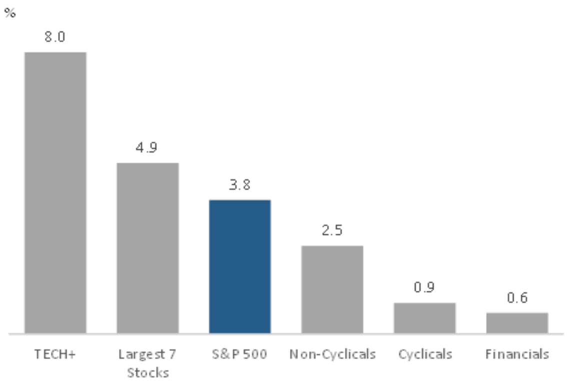
Source: Morgan Stanley

FUND STRATEGY AND OUTLOOK

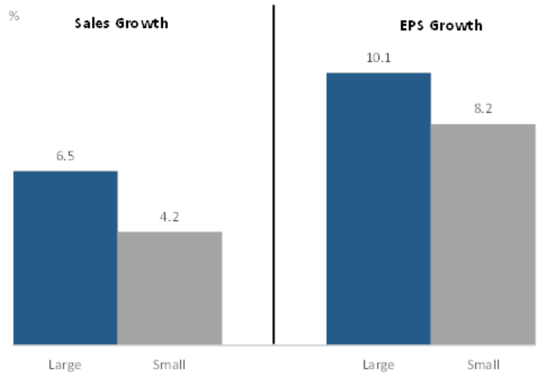
As a starting point, over half of the world's population are heading for the polls this year, with elections in India, Mexico, US, UK and EU. Historically, Developed Market elections have not dramatically altered the path of equities. However, global markets have generally favoured the status quo, rather than radical shifts. The prospect of Trump returning to the Whitehouse (with his stern protectionist policies and speculated 60% tariff on Chinese goods) will keep market observers polarised. The chance of him returning to the Oval Office heightens the already elevated geo-political risks. As stock pickers, it's hard to formulate strategy on what may, or may not happen, but we need to be mindful and monitor the geo-politics.

In terms of style and factor analysis, the outperformance in large caps that dominated US and global markets last calendar year has continued into 2024, yet their relative EPS growth is minor, at 10.1% vs 8.2%.

YTD Outperformance of Large Cap Stocks by Group



Sales & EPS Growth – Large vs. Small Size



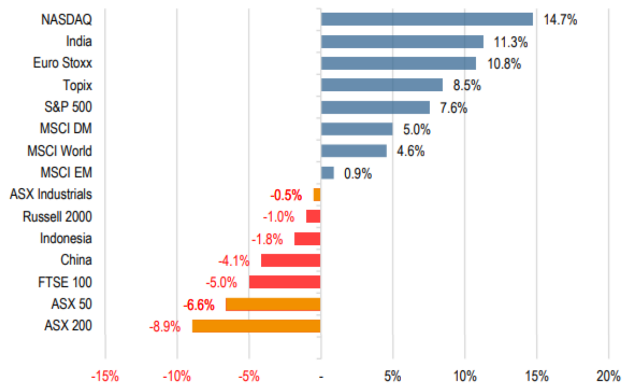
Source: UBS

The US reporting season has generally kicked off strongly for the tech sector. Amazon +7.9%, on the day following the company reporting 4Q results that beat estimates (revenue 2% ahead, EBITDA ~11% ahead, EBIT ~25% ahead!) and guiding to better than anticipated full year operating income. Margin expansion, record delivery speeds, reduction in unit costs (first time since 2018) and AWS reacceleration, all combined to deliver stronger outcomes. Meta was up 20.3% on the day after the tech giant saw 4Q figures that also beat estimates, with management providing a positive full year outlook. Revenue was 3% above, operating income 7% ahead and Q1 revenue guidance was ~ 5.5% better. A combination of AI traction, momentum behind new initiatives, cost control and capital management (maiden dividend plus a $50b increase in buyback) pleased investors. But it wasn't all smooth sailing for the Magnificent 7, with Alphabet and Apple disappointing, falling 7.3% and 0.5% post reporting, respectively and Tesla down a whopping 24.6% for the month.

With 60% of S&P 500 market cap stocks having reported to date, forecasts are for 4Q EPS growth of 7.5%. However, stock/sector growth rates have been rather uneven (TECH+ 40%, Health Care -13%, Energy/Materials -25%).

Domestically, with the February reporting season ahead of us, it's interesting to see how we fared locally on earnings revisions against other markets. Earnings momentum across the ASX 200 has been negative through the past year (-8.9%), in contrast to the lift in the MSCI DM (5.0%). Utilities, Communication Services and Industrials have seen the largest positive revisions, while Tech, Energy and Materials were revised sharply lower. Earnings revisions across the small-cap landscape have been resilient in comparison to the ASX 200, with both the Small Ords and Small Industrials only marginally down over the past year. However, Mid-caps have endured the largest negative revisions, which partly explains the sub-index's underperformance. Thus far, in 2024, earnings revisions across the ASX 200 are ahead of the MSCI World.

Global equities | EPS revision (1Y)



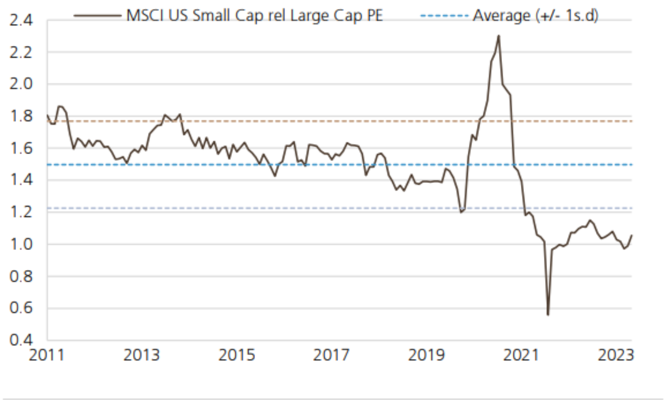
Source: J.P.Morgan.

Just like the US, Mid and Small caps are now representing the best value that we have seen for a long while and an area where we still think we are very well placed. We would expect to see future alpha generation in our sweet spot Mid-Cap segment and apart from the adjustments in the activity section, our strategy remains unchanged.

The value of small cap versus large is abnormally cheap.

The P/B of small versus large caps has moved to extreme levels

Small relative to large cap 12m fwd P/E

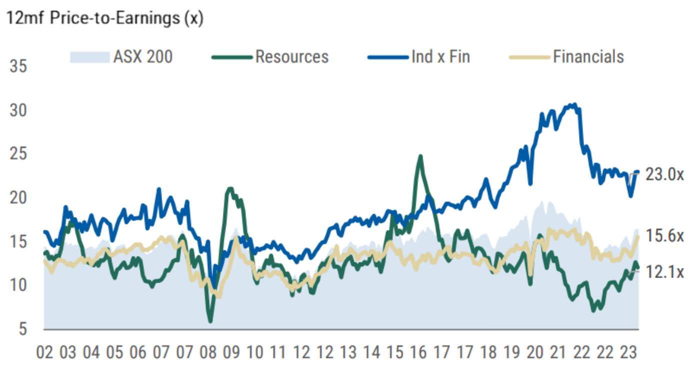


Source: UBS

In terms of overall valuations, ASX 200 consensus earnings, having rolled over in August 23, have stabilised, with FY24 earnings growth now flat lining at -5.4%. The domestic market 12MF P/E currently stands at 16.4x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

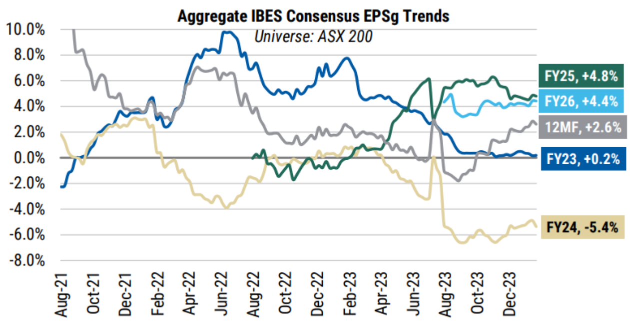
The 12M forward PE of the Industrials ex- Financials

Has Fallen from 30.2x to 23.0x



Annual Consensus

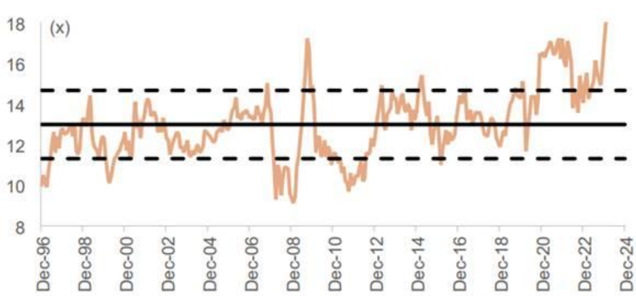
EPS Growth Trends FY23-26



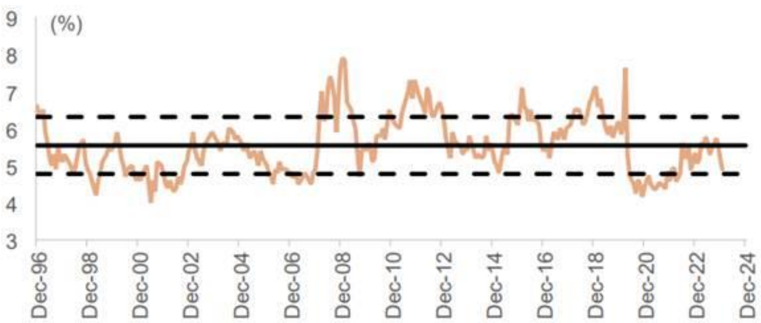
Source: Morgan Stanley

Financials, especially the big 4 banks, which returned 5.3% in January didn't help our performance this month, so we'd like to highlight in the following charts a few valuation points on why we don't own Banks: 1) Highest PE ratios in 30years, 2) Dividend yields near lows and 3) The dividend yield less the return on bank term deposits is the lowest in 17 years.

Banking Sector Price to Earnings (X)

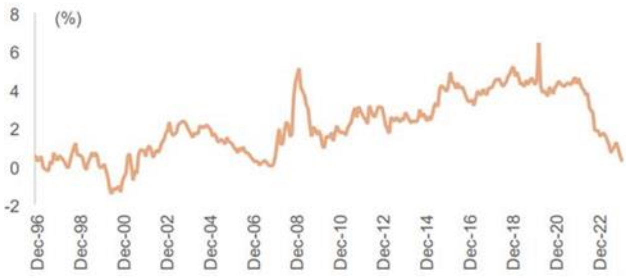


Banking Sector Dividend Yield (%)



Source: Barrenjoey

Banking Sector Dividend Yield less Term Deposit Rate (%)



Source: Barrenjoey

Following the Tech driven up crash in the last two months of 2023 and the new highs reached in January, we would expect equities to consolidate their recent gains and we would not rule out a short-term pull back. The S&P500 has now risen 18.2% in the post-October rally. Short covering and FOMO have been spurred by the prospect of a Goldilocks macro scenario, with near term rate cuts and reasonable economic growth. There could be some push back here, especially given the unexpected stronger employment data in the US and strong consumer confidence and PMI's. January's employment report showed an acceleration, with nonfarm payrolls gaining +353K, but the bigger news was the sharp upward revision to December. Chair Powell emphasised a cut at the March meeting was not the base case and that he was sceptical re the Feds level of confidence that inflation was on a sustainable path to 2% and could be reached by March. But, he indicated the hiking cycle was over and the FOMC broadly agreed that interest rates should move lower this year, the question for market's is when. An escalation of tensions in the Middle East will keep markets on tender hooks. Stay tuned!

The grossed-up dividend yield on the portfolio now rests at 7.3%, which remains superior to the market dividend yield, despite owning no Banks and many other traditional income payers.

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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.

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