



Ellerston Capital

Monthly Newsletter February 2024

Founded on Discovery

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Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception* (p.a.)
Ellerston Asia Growth Fund (Hedge Fund)	7.4%	-	-	-	2.3%
Ellerston Australian Emerging Leaders Fund	6.4%	24.3%	-	-	-2.5%
Ellerston Global Mid Small Cap Fund – Class B	6.3%	14.1%	4.6%	-	9.1%

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

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

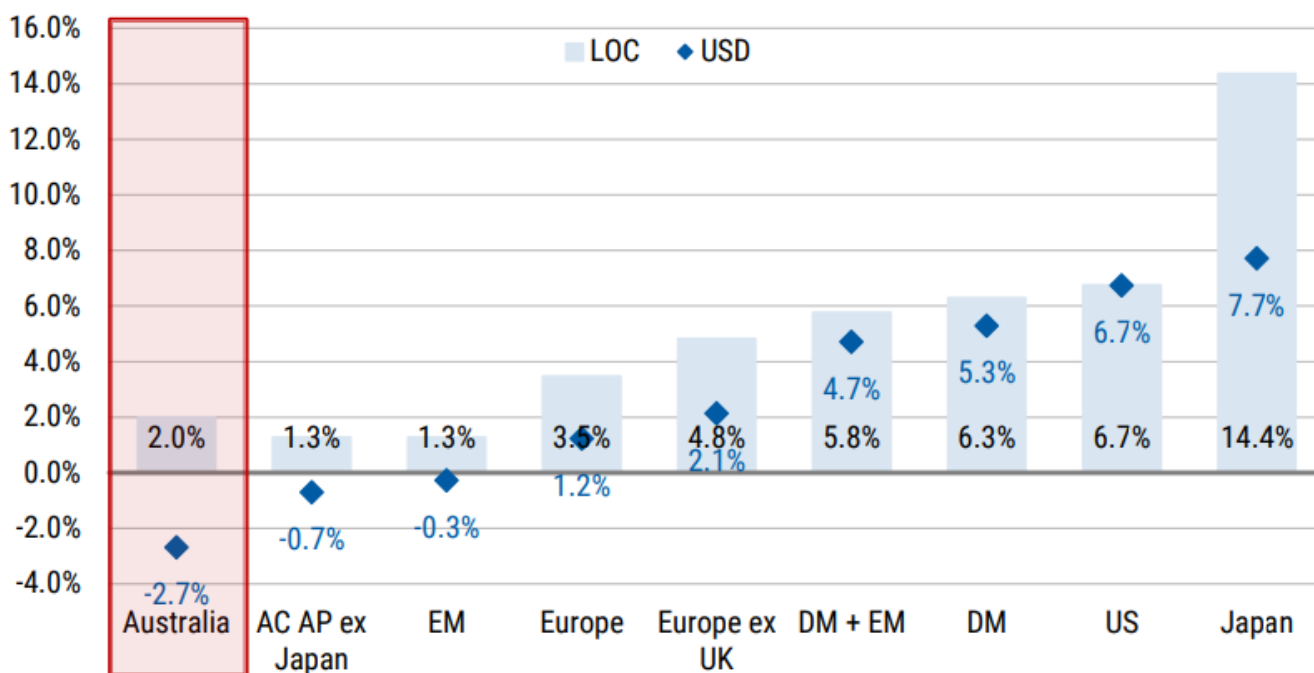
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Monthly Market Update

Market Overview

Global equity markets kept rising unabated in February, with the MSCI World Index up 4.6% in local currency terms. Emerging Markets marginally outperformed, up 4.9%, with a standout performance from China's SSE, which rallied 8.7%. The S&P500 rose 5.3%, with the largest tech companies continuing to have an outsized influence on market returns - NVDA, MSFT, META and AMZN were among the most positive contributors. Domestically, February was profit season, which showed that the consumer is slowing, but is not collapsing, fuelling the discretionary sector. The S&P/ASX 200 index climbed 0.8% and closed at a new all-time high of 7699pts. Globally, Consumer Discretionary and Info Tech were the two best performing sectors in February and locally, the order was reversed, with Info Tech (+19.5%) and Consumer Discretionary (+9.1%) driving returns.

MSCI Global Country/Regional Indices Performance for the February CYTD



Source: Morgan Stanley

Australia

On the domestic economic front, the figures released showed employment increased marginally by 0.5K in January compared to expectations of a 27.5k rise - this followed the weak December print of a 65K fall. The unemployment rate rose to 4.2%, in line with the RBA's desired trajectory and forecasts. Headline January inflation was marginally better at 3.4% YoY, with the trimmed mean more elevated at 3.8% YoY. Gradual disinflation looks to be ongoing, but is unlikely to meaningfully change the RBA's outlook ahead of its March meeting. The A\$ closed the month down 1% to US\$0.65, impacted by lower iron ore prices and the marginally stronger greenback, which was up 1% on a trade weighted basis.

The February reporting season which started with gusto, ended with a whimper. In aggregate, earnings revisions across February have been the weakest since February 2009 (see chart below) due to three main factors at play: (1) softening margins, (2) climbing interest cost forecasts, and (3) rising capex projections. On the margin front, while there were pockets of resilience in the likes of Consumer Discretionary, 7 out of the 10 GICS sectors (ex-Financials) saw margin compression through the reporting season. Additionally, interest cost projections were still on the rise for all sectors bar one (Info Tech).

USA

The Federal Reserve kicked off the year in neutral, with the FOMC minutes of the late January meeting released in February reinforcing the patient approach to cutting rates that Powell voiced at his post-meeting press conference. The stronger employment data print whereby nonfarm payrolls rose 353K last month, easily beat expectations of 180K and core inflation data which was slightly higher at +3.9% YoY, pushed out market expectations of a pending rate cut by the Fed to June at the earliest.

With 98% of the S&P 500's market cap having reported, the tally in the US was for revenue to grow at +3.6% and EPS by +10.3%. This outcome fared better than estimates of 6.8% EPS growth, with 70% of companies topping projections. Tech was the largest contributor to EPS growth and Energy and Materials were the largest detractors.

Europe

The ECB is expected to leave rates on hold at their March meeting, but the focus continues to be on the timing of rate cuts, given that the bond market has already started to price in cuts from June/July this year.

The Euro STOXX50 Index finished the month up 5.0%. Among the major exchanges, Germany's DAX was up 4.6%, followed by France's CAC 40, which was 3.5% higher and the laggard was UK's FTSE 100, rising at a more pedestrian pace of 0.5%.

Asia

The biggest investor concern in China remains the housing market, with little impact from all the stimulus measures so far. The PBC announced on February 20 that it would lower the 5-year Loan Prime Rate (LPR) by 25bp to 3.95%, while keeping the 1-year LPR unchanged at 3.45%.

Eyes were on the National People's Congress, which met in early in March, where Premier Li Qiang was expected to deliver a "work report," outlining the country's targets for economic growth and military spending, as well as the Politburo's key policy priorities. China set their annual growth target at "around 5%" ... but failed to provide any detail as to how they would achieve this, with Premier Li acknowledging the challenges of meeting the target.

Asian markets outperformed, with the exception being India's SENSEX, which was only up 1.2%. Korea's KOSPI closed 5.8% higher, the Hang Seng was up 6.6%, the tech driven Nikkei kept powering as the best CYTD performer, rising 8.0% and the standout performer in the region this time was China's SSE, up a solid 8.7%.

Commodities

Iron ore prices fell 11% to US\$117/tonne as inventories continued to build post the China Lunar New Year holiday period and coking coal prices edged 3% lower to US\$314 per tonne. The base metals complex was generally weaker, with aluminium down 2%, copper down 1%, but nickel bounced by 10% after a 29% fall in the previous 6 months. Crude prices squeezed higher with Brent up 2% to US\$84/barrel as OPEC+ agreed to continue on with their reduced production quotas to June. Gold was flat at US\$204/oz.

Lithium products finally showed some signs of life and hit an inflection point during the month, with lithium carbonate and spodumene both rising by 4%. Prices across the lithium space have been down a staggering ~80% on where they were this time last year, so prices look like they have bottomed and the excess inventory overhang may be in the process of normalising.

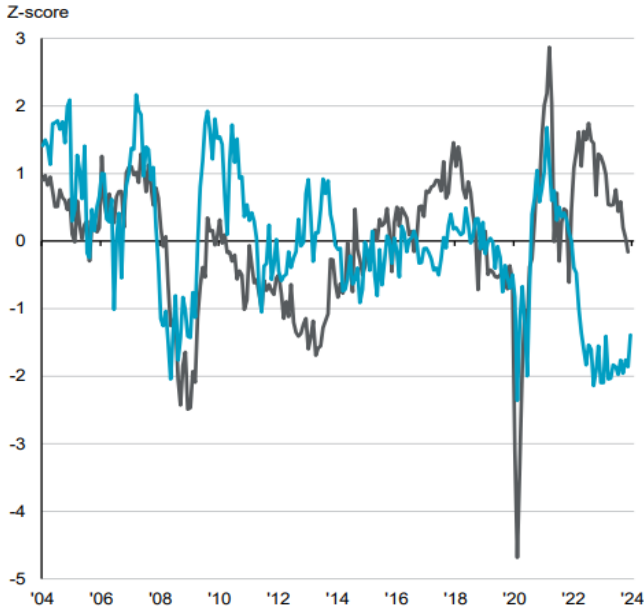
Bonds

The US 10-year bond yield edged up by 33bps last month to 4.25%, as stronger employment and inflation data reinforced that the Fed's rate cut would come later than previously expected, with the push back at the FOMC meeting held on 31 January reiterated by the FOMC minutes. The Australian 10-year bond yield was also up in sympathy, rising 13bps to close at 4.14%.

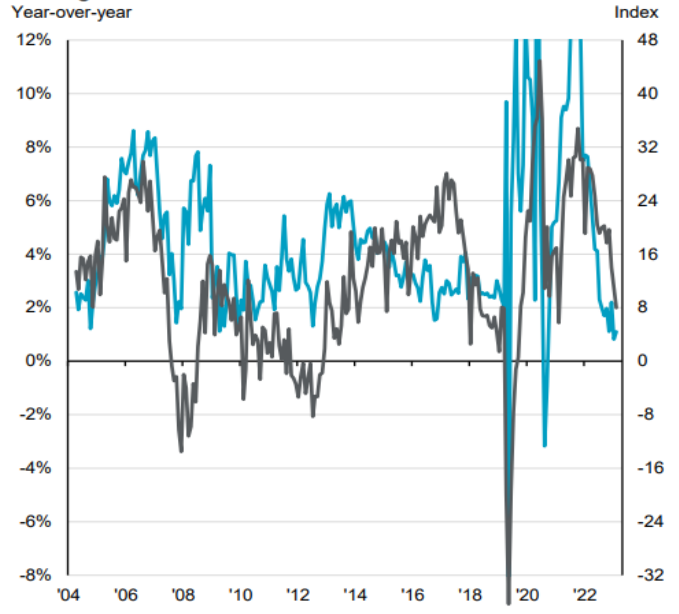
Charts of the Month

Consumer and business confidence

Consumer sentiment and business conditions



Trading conditions and retail sales

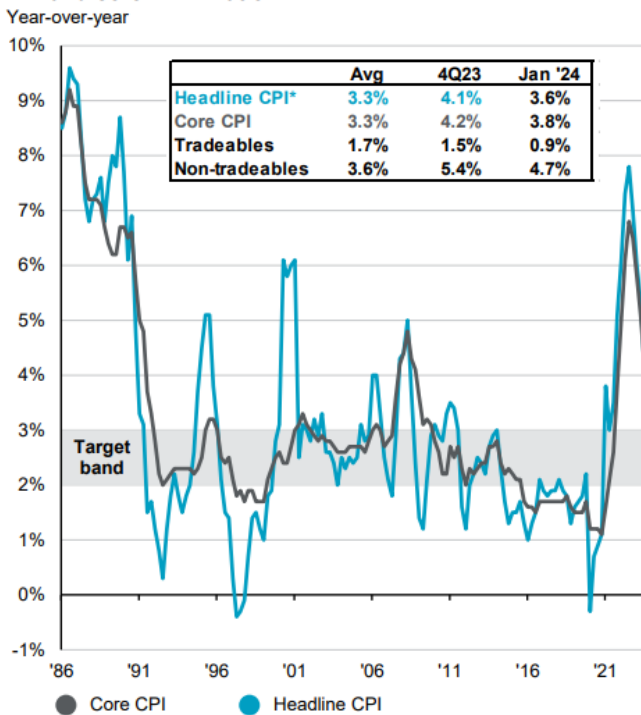


Source: ABS, FactSet, National Australia Bank, Westpac, J.P. Morgan Asset Management. Retail sales growth figures have been truncated, April 2021 retail sales growth was 25%.

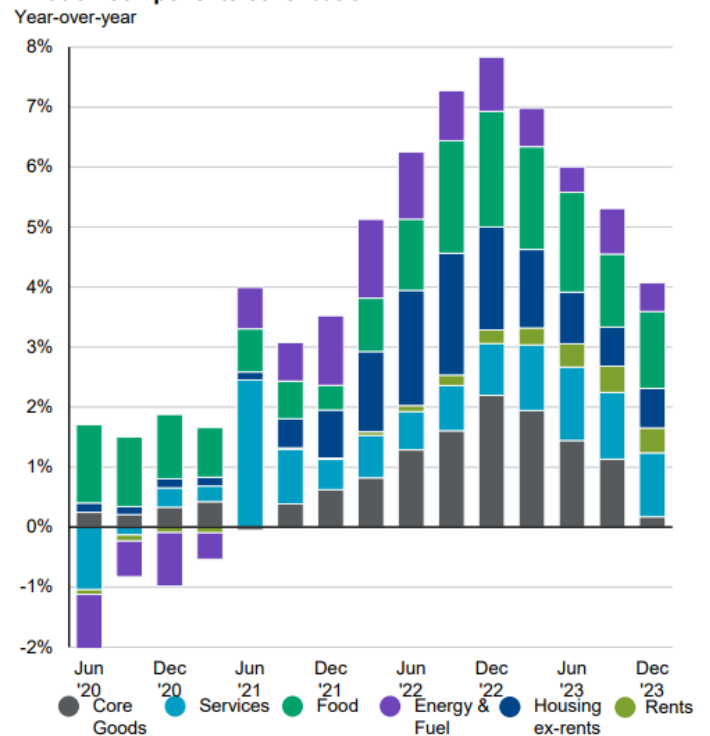
Guide to the Markets – Australia. Data as of 01/03/24.

Inflation

CPI and core CPI inflation



Inflation components contribution



Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management. *CPI is the Consumer Price Index, core CPI is the trimmed mean measure of inflation. Tradeables represent approximately 35% of the CPI basket and non-tradeables 65%. Core goods CPI is goods CPI excluding volatile items. Monthly CPI series not shown on chart.

Guide to the Markets – Australia. Data as of 01/03/24.



		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total	0.2	9.3	1.9	11.3	10.3	8.9	7.7
	S&P/ASX 200	Total	0.8	9.4	2.0	10.6	9.3	8.6	8.0
	S&P/ASX 200 Industrial	Total	3.2	13.8	6.3	14.1	9.5	8.2	7.9
	S&P/ASX 200 Resources	Total	-6.0	-2.3	-9.4	1.0	8.6	9.9	7.8
	S&P/ASX Small Ordinaries	Total	1.7	10.1	2.6	7.8	1.4	4.4	6.1
	S&P/ASX Small Industrials	Total	3.9	14.9	5.9	12.9	1.1	4.3	6.4
	S&P/ASX Small Resources	Total	-4.6	-3.0	-6.5	-5.4	3.6	5.7	5.0
	MSCI Australia Value	Net	-1.0	8.0	0.3	11.2	11.2	9.4	6.9
	MSCI Australia Growth	Net	2.8	12.2	4.7	13.7	9.5	7.8	8.5

ASX 200 Sectors	Energy	Total	-5.9	2.3	-1.0	2.3	14.1	2.6	1.2
	Utilities	Total	0.1	1.1	-1.4	1.4	16.5	5.0	8.8
	Financials	Total	3.5	15.4	8.7	18.1	12.6	8.5	7.2
	Materials	Total	-5.0	-1.5	-9.5	3.4	8.4	12.3	10.2
	Industrials	Total	2.7	8.9	2.7	9.8	10.6	5.6	9.3
	Real Estate	Total	4.2	17.4	5.5	14.4	8.4	4.8	8.6
	Consumer Discretionary	Total	9.1	18.9	11.9	24.9	10.0	12.4	10.4
	Health Care	Total	-2.7	10.7	1.5	1.7	3.9	8.8	13.1
	Information Technology	Total	19.5	29.8	20.9	46.4	4.0	13.0	13.0
	Consumer Staples	Total	-0.6	4.5	-0.6	-5.9	2.8	6.1	5.4
	Communication Services	Total	0.0	8.9	1.7	12.1	11.2	10.8	3.4

Local Currency

World	MSCI World Index	Net	4.6	10.9	6.5	25.1	10.3	12.2	10.1
	MSCI EM (Emerging Markets)	Net	5.1	4.6	1.4	9.7	-3.6	4.0	5.6
	MSCI AC World Index ex Australia	Net	4.7	10.2	6.0	23.6	8.5	11.3	9.7
	MSCI World Mid Cap	Net	4.3	10.2	3.9	12.9	5.3	8.9	8.2

Americas	S&P 500	Net	5.3	11.9	7.0	29.8	11.4	14.2	12.1
	Dow Jones Industrial Average	Net	2.4	8.8	3.7	21.2	9.6	10.2	10.9
	NASDAQ Composite	Net	6.2	13.2	7.3	41.3	7.4	17.1	-
	Russell 2000	Total	5.7	14.0	1.5	10.0	-0.9	6.9	7.1

Asia Pac	Hang Seng Index	Net	6.6	-3.0	-3.1	-13.4	-14.5	-7.6	0.1
	Nikkei 225 Stock Average	Net	8.0	17.2	17.1	45.1	12.4	14.7	11.9
	MSCI AC Asia ex Japan	Net	5.8	4.2	1.2	6.1	-5.9	3.0	5.2
	MSCI India	Net	2.6	13.1	4.8	37.7	17.5	16.9	13.8

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6512	-1.5	-1.8	-4.6	-3.4	-5.6	-1.8	-3.1
	Euro per Australian Dollar	0.6017	-1.1	-1.0	-2.6	-5.4	-1.9	-0.7	-0.7
	British Pounds per Australian Dollar	0.5148	-0.8	-1.7	-3.8	-7.6	-2.4	-0.8	-0.4
	Japanese Yen per Australian Dollar	97.4576	0.9	-0.6	1.3	6.1	5.7	4.2	0.7



	Net Returns	1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
Alternatives	Ellerston Australian Absolute Return Fund	0.3	4.0	4.1	-3.0	4.4	4.0	5.0	ECL0013AU 3/6/13
	RBA Cash Rate	0.3	1.1	4.1	2.0	1.4	1.6	1.7	
	Excess Return	-0.0	2.9	0.1	-5.0	3.0	2.4	3.3	
Australian Equity	Ellerston Australian Share Fund	-0.9	4.3	5.0	11.0	8.2	7.0	8.6	ECL0005AU 31/03/09
	S&P/ASX 200 Accumulation Index	0.8	9.4	10.6	9.3	8.6	8.0	9.7	
	Excess Return	-1.7	-5.1	-5.7	1.7	-0.4	-0.9	-1.0	
	Ellerston Overlay ASF	-1.0	4.1	2.3	8.1	6.5	6.2	7.1	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	0.8	9.4	10.6	9.3	8.6	8.0	8.9	
	Excess Return	-1.8	-5.3	-8.3	-1.2	-2.1	-1.8	-1.8	
	Ellerston Equity Income KIS Fund	-0.2	6.8	8.1	9.4	-	-	9.1	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	0.8	9.4	10.6	9.3	-	-	8.2	
	Excess Return	-1.0	-2.5	-2.5	0.1	-	-	0.8	
	Ellerston Australian Micro Cap Fund	2.4	12.5	12.5	-1.0	11.7	-	12.8	ECL0984AU 27/4/17
	S&P/ASX Small Ordinaries Accumulation Index	1.7	10.1	7.8	1.4	4.4	-	6.3	
	Excess Return	0.7	2.4	4.7	-2.4	7.3	-	6.5	
	Ellerston Australian Emerging Leaders Fund	6.4	18.8	24.3	-	-	-	-2.5	ECL6748AU 16/8/21
	S&P/ASX Small Ordinaries Accumulation Index	1.7	10.1	7.8	-	-	-	-3.3	
	Excess Return	4.7	8.8	16.4	-	-	-	0.8	



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
International Equity	Ellerston Global Mid Small Cap Fund - Class A	6.3	13.6	14.1	4.2	11.8	-	11.2	ECL8388AU 28/02/17
	MSCI World Mid Cap Index	5.3	11.9	16.2	9.1	9.9	-	10.3	
	Excess Return	0.9	1.7	-2.1	-4.9	1.8	-	0.9	
	Ellerston Global Mid Small Cap Fund - Class B	6.3	13.6	14.1	4.6	-	-	9.1	ECL3306AU 18/8/20
	MSCI World Mid Cap Index	5.3	11.9	16.2	9.1	-	-	11.3	
	Excess Return	0.9	1.7	-2.2	-4.5	-	-	-2.3	
	Ellerston Asia Growth Fund (Hedge Fund)^	7.4	4.1	-	-	-	-	2.3	ECL1411AU 1/6/23
	MSCI Asia ex Japan (non-accumulation)	7.1	4.9	-	-	-	-	3.0	
	Excess Return	0.3	-0.8	-	-	-	-	-0.8	
	Ellerston India Fund	4.0	12.3	28.8	12.9	10.9	-	9.4	ECL0339AU 4/5/17
MSCI India Net Return Index	4.3	15.8	42.2	19.5	15.4	-	12.5		
Excess Return	-0.3	-3.5	-13.4	-6.7	-4.5	-	-3.1		
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	-	2.2	11.6	11.2	-	-	16.4	ECL2707AU 1/9/19
	Ellerston Pre IPO Fund	-	1.7	-1.3	0.1	-	-	4.1	ECL0405AU 1/4/20
	Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 31 December 2023								

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Disclaimer

The net return figure is calculated after fees and expenses. Above figures are those available as at 7 February 2024. Past performance is not a reliable indication of future performance.

*Since Inception

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

^^ Cumulative return since inception

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Ellerston Capital is a specialist investment manager providing a range of innovative Australian and international investment strategies. As a firm majority owned by its principals and employees, our clients' objectives are our objectives.

At Ellerston, we aim to do one thing exceptionally well: grow and protect our clients' wealth through investing. We are passionate about creating value for our clients by identifying outstanding investment ideas and designing portfolios that perform over the long term. Our funds target a diverse range of strategies including, but not limited to, long only Australian, global and Asian equities, Australian and global long-short equity and private equity (as tabled below).

Australian Equities	Global Equities	Alternatives	Private Assets
 Australian Large & Mid Cap Australian Yield Strategy 2050/Sustainable Strategy Emerging Leaders Small Caps Micro Caps	 Global Mid-Small Caps Asian Large & Mid Caps Indian Equities	 Global Long/Short Strategy <u>Bespoke</u> Global Portfolios	 Australian P/E Strategy – Tech & Healthcare Unlisted / Pre-IPO Venture Capital <u>Bespoke</u> Unlisted Strategies

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