Ellerston Australian Share Fund

Ellerston Capital

Monthly Report as at 29 February 2024

APIR Code: ECL0005AU | ARSN 135 591 534

Concentrated portfolio of 10-25 Australian securities with a minimum market capitalisation of $300 million and a bias away from the ASX Top 20.

Seeks companies which can sustain high returns or improve their return on capital, and that trade at a market value below the Portfolio Manager's perceived valuation.

Aims to outperform the Benchmark over rolling five-year periods.

Performance Summary

Net (%)	1 Month	3 Months	12 Months Rolling	3 Years (p.a.)	4 Years	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.) ^^
ASF	-0.90%	4.31%	4.96%	11.02%	9.58%	8.17%	7.03%	8.63 %
Benchmark*	0.79%	9.39%	10.64%	9.32%	8.60%	8.61%	7.95%	9.66 %
Alpha	-1.69%	-5.08%	-5.68%	1.70%	0.98%	-0.44%	-0.92%	-1.03%

^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 31 March 2009.*

Key Information

Portfolio Manager	Chris Kourtis
Investment Objective	To outperform the Benchmark over rolling five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Liquidity	Daily
Target Number of Holdings	10-25
Number of Holdings at Month End	21
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.90% p.a.
Performance Fee[1]	20.00%
Buy/Sell Spread	0.25% / 0.25%

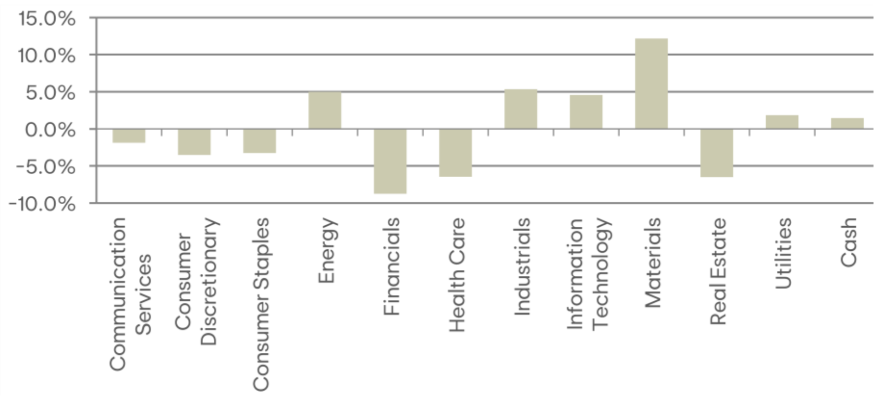
[1]*Of the investment return above the benchmark, after recovering any underperformance in past periods.*

Top 10 Holdings**

Ampol	Atlas Arteria	Bapcor	BHP Group	Challenger
Iluka Resources	Insignia Financial	IRESS	Lynas Rare Earths	South32

***In alphabetical order.*
Source: 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.*

The Team

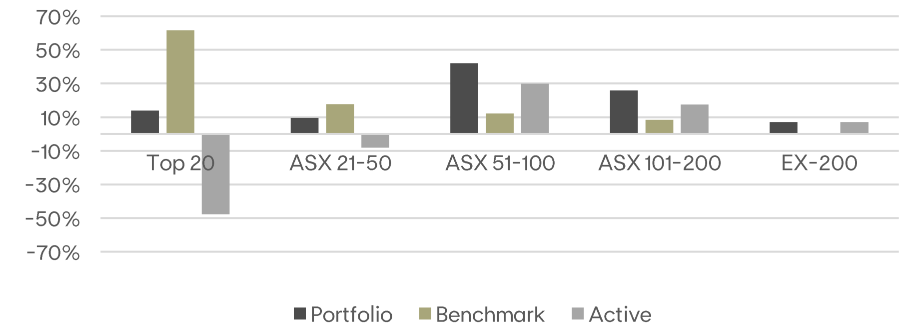
Chris Kourtis
Director & Portfolio Manager

39 years of industry experience.

Stephen Giubin
Senior Investment Analyst

36 years of industry experience.

Size comparison Chart vs ASX 200

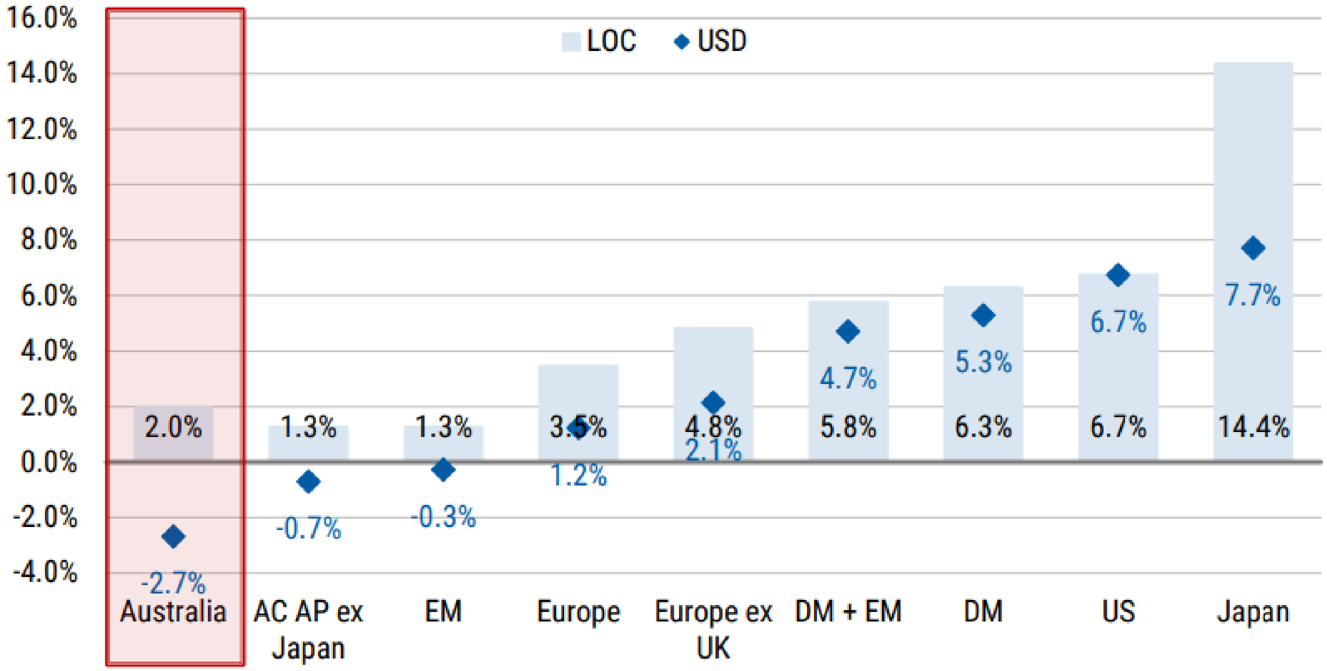


Source: Factset, Ellerston Capital

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

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.

Group	EPS Growth (%)
TECH+	42.2
Financials	11.1
Non-Cyclical ex Health Care	7.5
Industrials & Disc ex Internet Retail	6.1
Health Care	-9.8
Energy & Materials	-21.4

Source: UBS

In the wash up to the December Quarter results season, the S&P 500 and the Dow Jones Industrial Average finished up 5.3% and 2.5% respectively, with the NASDAQ Composite outperforming (+6.2%) for the month. The small cap Russell 2000 Index came in second place at 5.7%, delivering an impressive return of +14.0% for the last three months and even outperforming the Nasdaq.

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

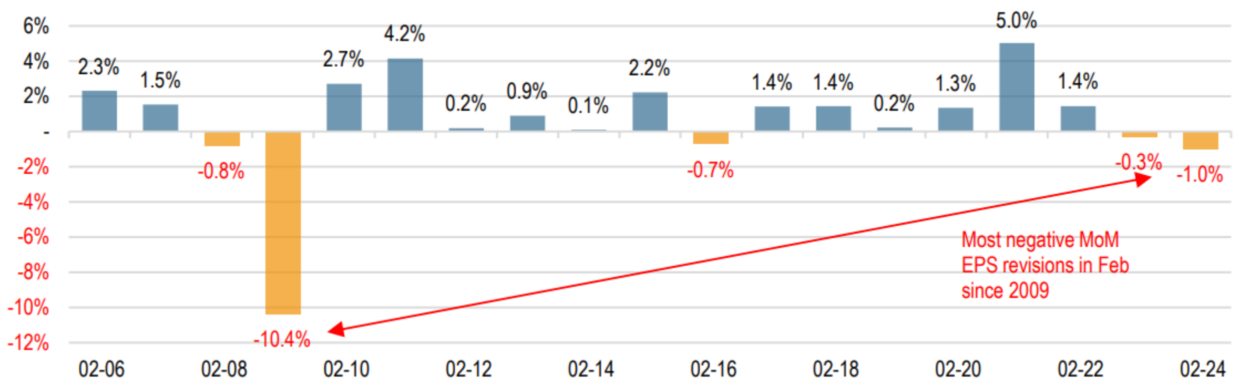
The US 10-year bond yield edged up by 33bps last month to 4.25%, as stronger employment and inflation data reinforced that the Fed's rate cut would come later than previously expected, with the push back at the FOMC meeting held on 31 January reiterated by the FOMC minutes. The Australian 10-year bond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

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).

EPS Revisions | Feb Reporting Season | Weakest since 2009



Source: JP Morgan

The S&P/ASX 200 Accumulation Index edged higher in February, rising 0.8% with Wesfarmers and 3 of the big 4 retail banks doing most of the heavy lifting. Info Tech, Consumer Discretionary and Real Estate led the performance charts. The Info Tech sector (up 19.5%) was the best performer, spurred on by Wisetech Global which was up 29.4% on an earnings beat and the left field takeover of Altium, followed closely by Consumer Discretionary (+9.1%) driven by Wesfarmers up 16.2% (which posted a solid result). Real Estate (+4.0%) also outperformed, led by Goodman Group, which rose 16.8%. The bottom three sectors were Energy (-5.9%), dragged down by Woodside and Santos after merger discussions ceased, Materials (-5.0%) as the 3 major iron ore producers (BHP, RIO and Fortescue) were all impacted by the 11% fall in benchmark prices and finally Health Care (-2.7%, weighed down by CSL after it missed buoyant market expectations).

For the month, the top stocks that made a positive contribution to the Index's return were Wesfarmers (+48bps), Westpac (+34bps), Goodman Group (+33bps), Wisetech Global (+17bps) and NAB (+17bps). Conversely, the bottom five stocks detracting from the Index's performance were BHP Group (-76bps), CSL (-33bps), Fortescue (-22bps), Woodside Energy (-17bps) and Woolworths (-16bps). The ASX Small Ordinaries closed up 1.7%, ahead of the broader benchmark at 0.8%. Within the ASX Small Ordinaries, the Small Industrials fared relatively well, up 3.9% versus the Small Resources, which struggled and closed down 4.6%.

COMPANY SPECIFIC NEWS

The Market Hits

Lovisa (LOV +40.9%)

LOV is Australia's leading specialist fast fashion jewellery retailer and globally, has over 800 stores across over 30 countries. The company has developed a vertically integrated business model through which it develops, designs, sources and merchandises 100% of its LOV branded products. LOV delivered a revenue beat accompanied with an in line EBIT result, but pleasingly for investors, gross margin increased 40bps to 80.7% due to its pricing structure management. LOV also added 53 net stores in the 1H (total of 854), strengthening the Americas and new markets of China, Vietnam and Ecuador. The market liked the rollout numbers and the first seven weeks of 2H24 trading, whereby LFL sales of +0.3% (cycling +12.3%) with total sales up 19.6% bettered expectations, as did the 50c dividend. LOV's share price jumped 10% on the day and given the high short interest, with 13 days to cover, it squeezed higher over the rest of the month.

Altium (ALU +30.4%)

ALU shares shot up after Renesas Electronics of Japan, swooped and announced they had entered into a Scheme Implementation agreement to acquire ALU at A$68.50/share in cash (a 34% premium to the 14th Feb closing price), representing an equity value of A$9.1bn and an EV of A$8.8bn. The bid price implies ~51x FY24e VA Consensus EBITDA, or 44x NTM EBITDA, representing a ~70% premium to EDA peers trading at ~25x. For perspective, it also represents a ~50% premium to the multiple recently paid by Synopsis to acquire Ansys. The rationale was that the acquisition would enable the two industry leaders to establish an integrated and open electronics system design and lifecycle management platform allowing for collaboration across component, subsystem and system-level design. The bid from Renesas, an existing customer who had signed a large Enterprise deal with ALU, came as a complete surprise to the market and given the eye watering valuation metrics, a competing bid seems unlikely. The transaction has been unanimously approved by the boards of both companies and is expected to close in 2H24, with completion subject to approval by ALU shareholders, an Australian court and relevant regulators.

Wisetech Global (WTC +29.4%)

WTC delivered a strong 1H24 result with EBITDA and NPAT 13% and 20% higher respectively. However, full year guidance numbers were not upgraded, which optimists took as typical WTC conservatism. High short interest of 20 days to cover saw the shares squeeze hard, up 11% on the announcement.

Reliance Worldwide (RWC +29.2%)

RWC delivered a better-than-expected 1H24 result (amid recently lowered expectations). Whilst top line revenue was broadly in line (+1% above consensus), adjusted EBIT was +3% better. A lower effective tax rate further boosted the NPAT result. In the Americas, strong results were driven by the resilient repair and maintenance sector and new products initiatives, alongside good cost control. EMEA was broadly consistent, noting a deterioration in external sales (-12%), while APAC missed due to the migration of some SharkBite manufacturing capabilities to the US. The market was impressed with the operating cash conversion print that was very strong (121%), mainly the result of more prudent inventory management and reduced working capital. Lower debt levels better positioned RWC to debt-fund the recently proposed Holman Industries Australia M&A ($160m acquisition price, 7x EV/LTM EBITDA), with pro forma leverage at the midpoint of RWC's acceptable target range (1.5-2.5x). The shift towards combined dividends/on-market buybacks (from unfranked dividends paid previously) was also be well received by investors. Whilst the outlook guidance was virtually unchanged, the risk seem to have shifted from (European influenced) downside to US upside, on the back of by better-than-expected cost-outs, fewer SharkBite start-up costs and the successful transfer of the company's manufacturing footprint to the US from Australia.

CSR (CSR +27.2%)

CSR received a conditional, non-binding, indicative proposal from French materials company Saint-Gobain to acquire 100% of the shares by way of scheme of arrangement for a price of $9.00 cash per share / less the 25c dividend, which was a 33% premium to CSL's previous closing price. The $4.5bn price tag represents a nose bleeding EV/EBITDA multiple of 10.7x for an old economy building materials company, which over the last 10 years has traded between 4 and 8 times (at an average of 6.2x). The CSR board didn't waste much time entering into a scheme deed with Saint-Gobain and recommended voting in favour in absence of a superior proposal and of course, assuming a supportive fair and reasonable assessment. It was definitely a case of vive la difference!

Nextdc (NXT +25.9%)

NXT reported EBITDA of $102m that beat the street by ~10%, with contracted capacity inline. Revenue was a small beat, with costs also a little better, aiding the EBITDA beat and powering its NPAT, which was 14% ahead of consensus. The company now expects record contract wins in CY24, more Edge DC's, AI and expansions. Hyperscale demand remains a significant tailwind with NXT's strong pipeline of capacity coming through. Investors embraced the results, lifting NXT's price 13% on the day, with a bumper NVIDIA result in the US lifting sentiment and setting the scene for a rally in Tech names locally.

ARB Corporation (ARB +22.2%)

ARB delivered a strong 1H result with gross margin the key driver at 57.5% up vs 53.2% at 1H23 and above historical levels (55-56%). The company expects margins to remain around current levels through FY24 and a medium term PBT margin of 20%. ARB is noted for its bull bars and the 1H result certainly spurred the bulls.

Light & Wonder, Inc. (LNW +20.0%)

LNW delivered another strong result that beat consensus estimates across most KPIs. LNW, a fairly recent addition to the ASX200, operates as a cross-platform games company in the US and internationally through three key segments: Gaming, SciPlay and iGaming. The company reported revenue 3% ahead of expectations, EBITDA was 6% better due to higher margins and EPS beat by 2%. Gaming revenue (+5.5%) outperformed consensus, led by strong international unit sales that were approximately double analyst forecasts. This was primarily driven by 3.7k replacement sales in the UK, which is unlikely to be recurring. Other gaming positives were a 14th consecutive quarter of positive premium North American net adds which continued to drive FPD and stellar performance by Dragon Train in Australia. SciPlay was the standout segment at the EBITDA line (+12.5% vs expectations) and outpaced the market. Growth continues to be driven by stronger monetization, despite a flat user base for multiple consecutive periods. iGaming was the only segment to miss consensus at both the revenue and EBITDA lines (-1.7%/-10.3%), potentially due to the entrance of Aristocrat in the quarter. LNW has now delivered five consecutive quarters of double-digit yoy growth across all three businesses and this has led to earnings upgrades, closing the gap on its now achievable management aspirational target for FY25 EBITDA of US$1.4bn.

Liontown Resources (LTR +19.9%)

LTR recovered from its shock announcement in January of the withdrawal of its lender's $760 million debt financing package offer on the back of slumping lithium prices. The 20% rise this month in the longer dated Guangzhou lithium carbonate futures fired up the prospect that better spodumene prices are just around the corner. The market turned optimistic that a new debt package could follow.

The A2 Milk Company (A2M +19.9%)

A2M's 1H24 NPAT of $85.3m was 15% ahead of consensus driven by higher sales and higher margin, which was partially offset by higher net interest costs. The combination of a better-than-expected result, a FY24 guidance upgrade and new product developments was the trigger for investors who had previously given up on the stock, to pile in, propelling the share price up 12% on the day.

The Market Misses

Strike Energy (STX -50.0%)

STX disappointed with news that its South Erregulla-3 (SE-3) well in WA's Perth Basin failed to flow gas. The possible gas water contact (GWC) encountered suggested that the depth extent of the field has been reached, meaning further upside to volume estimates were limited and incremental phased developments were at risk. STX was planning a multi-phased development at SE, with a 40 TJ/d Phase 1 project largely underpinned by the existing 128 PJ of 2P Reserves, followed by a further +40TJ/d Phase 2, contingent on further reserves growth, which now looks unlikely. STX's share price collapsed by 25% on the announcement.

Corporate Travel Management (CTD -21.7%)

CTD reported a rather messy 1H result and downgraded its FY24 EBITDA guidance, which had been reaffirmed at the October AGM, from $240-280m to $210-230m, 17% below consensus estimates. CTD outlined that 2Q was very weak compared to Q1, particularly in the Americas. This was due to clients running out of travel budget by September and the plateauing in the corporate market at 75% of pre-COVID, with expectations of only 3% going forward. CTD is confident that the market had normalised for 2H24, due to the worst of the Middle East conflict being over, international ticket prices down 20-30%, and a stabilised interest rate environment promoting investment. Unfortunately investors didn't agree with management's confidence and torpedoed the stock (-20%) on the announcement.

Healius (HLS -19.9%)

Given HLS provided a trading update and downgraded guidance on 21st Feb, the 1H24 result was broadly in line. Underlying EBIT of $15.7m (-61% YoY) was within the recently lowered guidance range of A$14-17m and the Underlying NPAT loss of A$14.2m was consistent with consensus at $13.5m loss. The result included $603mn non-cash impairment assigned to the pathology division. The cash result was also weak with gross cash conversion of 83%.The subdued growth in community pathology volumes continued to have a negative impact on HLS, which is heavily exposed to this market segment. The sharp erosion of EBIT margins in pathology to just 1.0% vs 4.9% pcp (and vs double digits pre-COVID) was a function of lower share (HLS BAU revenue +3.6% vs Sonic +9%), weaker mix (greater volumes from GP referrals which were impacted by coning), high cost inflation and a sticky cost base post COVID.

Unfortunately, the balance sheet was again in the spotlight. To fix their balance sheet, Healius announced a $187 million 1 for 3.65 pro-rata accelerated non-renounceable entitlement offer back in November 2023, issuing ~156.1m shares at $1.20, a 34.6% discount to the prevailing price. The proceeds were to be used to reduce net debt and reset its balance sheet. Despite this heavily dilutive capital raising, the balance sheet remained stretched, with Net Debt/EBITDA at 3.2x in 1H24 (banking covenants were temporarily raised to 4.0x). This pressure has restricted HLS's ability to invest and turn the business around, concerning investors. HLS stated that it is undergoing an "asset review" process, but no details around size or timing were disclosed, so investors voted with their feet and the share price plunged.

Neuren Pharmaceuticals (NEU -18.0%)

NEU develops new drug therapies to treat multiple serious neurological disorders that emerge in early childhood and have no, or limited approved treatment options. DAYBUE™ (trofinetide) had previously been approved by the US Food and Drug Administration (FDA) for the treatment of Rett syndrome in adult and paediatric patients, two years of age and older. NEU granted an exclusive worldwide licence to Acadia Pharmaceuticals, Inc. (ACAD) for the development and commercialisation of DAYBUE. ACAD reported sales of DAYBUE of US$87.1m for the 4Q23, towards the top end of the US$80-87m guidance range, however the FY24 guidance of US$370-420m was disappointingly only 13% higher than the annualised 4Q23 result, a significant slowdown from the 30% growth on the 3Q23's US$67m. The NEU share price nosedived 11% after the announcement.

Whitehaven Coal (WHC -17.1%)

WHC reported a slight miss from an earnings perspective (higher costs), compounded by a lower-than-expected payout ratio and its announcement of a pause in the buyback for 2 years. While this seems prudent given the recent acquisition of the Blackwater and Daunia coal mines from BHP, the market was expecting more.

Coronado Global Resources (CRN -17.1%)

Coking coal producer CRN reported its FY23 results, which were broadly in line with expectations, however FY24 guidance for saleable production was lower than expected at 16.4-17.2mt vs. consensus at 17.5mt. CRN's share price had been weak ahead of the result due to a softening benchmark coking coal price that had fallen 3% during the month. Given CRN is a lower operating margin producer, receiving an average of 73% of the average Australian coking coal index price in 2023, the margin impact of falling prices was amplified.

Emerald Resources (EMR -17.1%)

EMR is a gold producer from its ~110koz p.a. Okvao mine in Cambodia that has significantly outperformed the gold sector by ~80% over the past year. A couple of downgrades based on relative valuation metrics and the continued de-rating of the sector saw EMR give back more than its peers in February.

Kelsian Group (KLS -15.8%)

The market wasn't too enthused with the KLS 1H24 result, with the stock falling 12% on the day. Operationally the result was in line, but disappointingly, the company missed on pretty much every item below EBITDA line, notably depreciation (some one-off impacts) and higher interest expense, as well as higher capex, driving meaningful earnings downgrades. The Australian bus business disappointed materially on margin and the recently acquired AAAHI US motorcoach business's monthly revenue run-rate for the half had not accelerated compared to higher expectations at the time of the 2H23 result.

Sims (SGM -15.7%)

SGM had a clearly disappointing result with HY24 EBIT of $13m down 86% on 1H23, the lowest since 2020 and the company got what it deserved, falling 10% after the announcement. In response to challenging scrap markets (where the company was surprisingly loss making in North America), SGM announced a modest $25mn cost reduction program (the last major cost out program was FY13-16). Earnings guidance wasn't provided, but SGM expect underlying EBIT to improve in the 2H after accounting for the modest cost reduction program and some initiatives to increase US domestic sales volumes. Management highlighted ongoing strong competition for scrap supply and compressed margins.

Data#3 (DTL -14.0%)

IT solutions and services provider DTL had previously pleased investors in January, by announcing a strong 1H24 trading update, highlighting that PBT was expected to be between $30-31m, around 9% above its prior guidance of $27-29m. However, the devil was in the details, with DTL providing their pre-released 1H24 results this month. There was major disappointment with a fall in gross margins and also at the EBIT line, even though the company hit its PBT target due to higher than expected interest income. The EBIT miss was 6% below consensus estimates and meant that YoY growth was only 6% versus expectations of 12%. The share price closed down 13%. DTL's share price had run 60% from its August lows and was trading at ~35x FY24 PE prior to reporting, way too high for its "pedestrian" growth

FUND PERFORMANCE

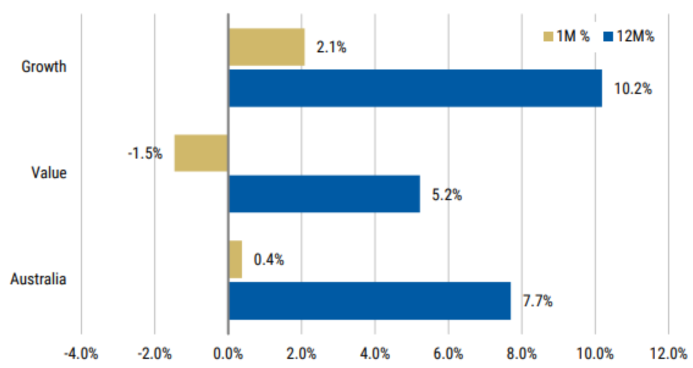
The domestic equity market continued to rally, +0.8% for the month, setting a new all-time high along the way. Technology and Discretionary sectors were exceptionally strong, whilst Resources (led down by BHP, -7.1%) acted as a drag on benchmark performance. The Technology sector locally enjoyed out-sized returns of +19.5%, after taking its lead from the stellar run in the likes of NVIDIA and Meta Platforms, whilst Energy lagged (-6.0%). Positive momentum within Consumer Discretionary continued, with the sector +9.2% for the month, extending gains to +24.6% since the low recorded in October 2023.

In what has proven to be one of the most volatile reporting seasons on record, the Fund struggled to keep pace with the market. This was mainly attributable the stocks we did not own which rallied hard, the likes of Altium (+30.4%, recipient of a takeover), Wisetech+29.4%, Nextdc +25.9%, Weebit Nano +24.7% and other takeover candidate CSR +27.2%, coupled with being zero weight REITS which rallied 5.1%. **As such, for the month of February, the Fund return of -0.81% lagged the benchmark return of +0.79%.**

The 3-year return of 12.24% p.a. remains credible and is 2.9% p.a. above the benchmark, however our rolling 12 month numbers remain unsatisfactory given our Value and Ex-Top 20 size bias, which remain out of favour in a market chasing, Tech, Growth, FOMO and Momentum. We have stayed disciplined and true to label and it cuts against our grain to chase pockets of overvaluation. This tech rally cannot go on forever in Australia, as we don't have the same quality Tech stocks to match the US bellwethers. A lot of Australian IT stocks have gone up in sympathy and are behaving the same way. NVIDIA on a PER of 35x with massive earnings growth ***does not*** look stretched, but Carsales on a PER of 40x with modest earnings growth, despite being a well-managed company with a solid business, well please give me a break!!

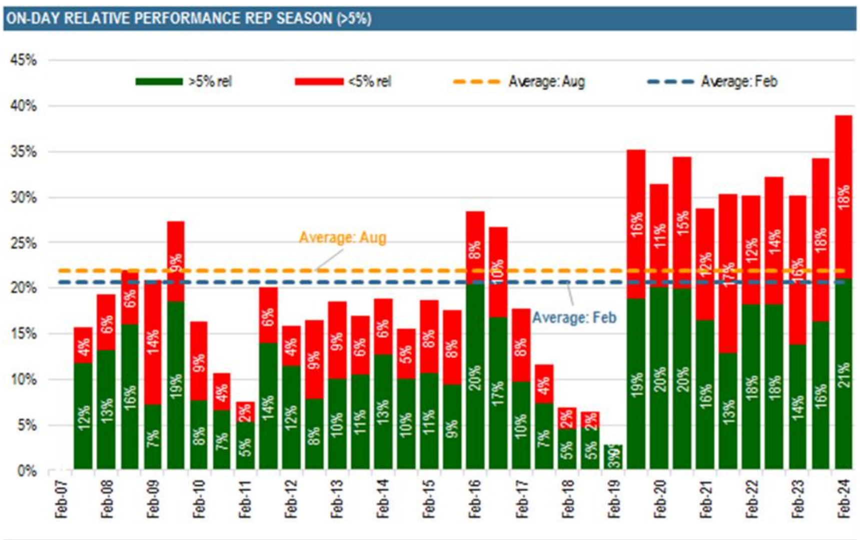
Value underperformed Growth by 3.6% during the month, and has significantly lagged by 5% over the past 12 months.

MSCI Australia Growth vs Value



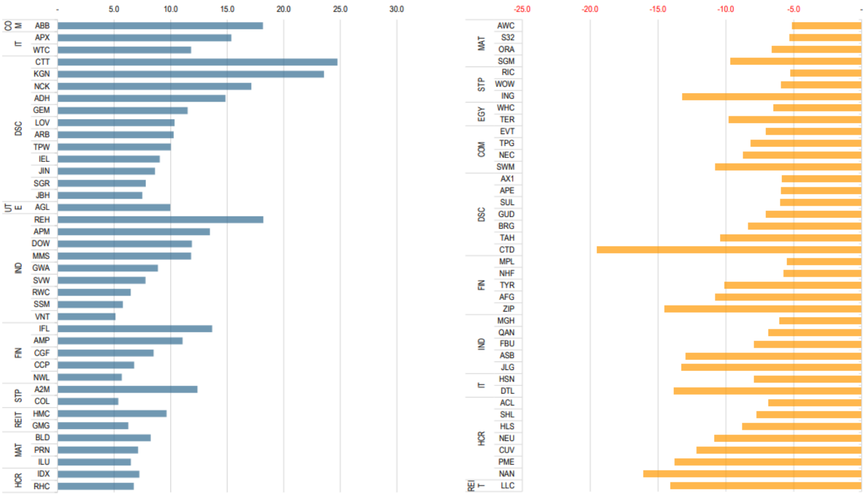
Source: Morgan Stanley

We've just had the most volatile season for 17 years - we've all felt it, but here is the data for on-day relative performance and also key stocks moving higher (in blue) and lower (in yellow) than 5% on results.



Source: JP Morgan

Stocks moving by +/- 5% on results day



Source: JP Morgan

Financials, which rallied 3.5%, posted the largest contribution (+105bps) to the market's return during the month of February, driven by the Banks subsector (with Westpac leading the charge, +9.0%), followed by the Consumer Discretionary (Wesfarmers +16.2%) and Info Tech (Wisetech Global +29.4%, Altium +30.4%, Nextdc +25.9% and Xero +14.9%) sectors.

Conversely, Materials (BHP Group -7.1%), Energy (Woodside Energy -6.3%) and Health Care (CSL -5.1%) weighed heavily on the broader market.

Returns"(%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	-0.81%	0.79%	-1.60%	-0.90%
3 Months	4.59%	9.39%	-4.80%	4.31%
12 Months Rolling	6.12%	10.64%	-4.53%	4.96%
3 Years (p.a.)	12.24%	9.32%	2.92%	11.02%
4 Years (p.a.)	10.77%	8.60%	2.17%	9.58%
5 Years (p.a.)	9.35%	8.61%	0.74%	8.17%
10 Years (p.a.)	8.18%	7.95%	0.23%	7.03%
Since Inception (p.a.)	9.81%	9.66%	0.15%	8.63%

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 February Attribution

Securities Held

Securities Not Held

Source: Ellerston Capital

In the month of February, the main positive contributors to the Fund's performance were its overweight positions in Insignia Financial (IFL+10.2%) which delivered a strong 1H24 result, Ampol (ALD +8.3%), Challenger (CGF +4.7%), IGO (IGO +5.0%) and not owning CSL (-5.1%) or Woodside Energy (WDS -6.3%).

The detractors during the month that more than offset the above positives were overweight positions in South32 (S32 -11.9%), Seven West Media (SWM -19.2%), Iluka (ILU -5.5%), and not holding the major banks which collectively detracted ~0.6% (WBC +9.0%, ANZ +4.6%, and NAB +3.8%) and Wesfarmers (+16.2%).

FUND ACTIVITY

The Fund took profits and reduced its position in Cleanaway, as well as exiting remnant positions in Insurance Australia Group, Orica and Johns Lyng Group. We used the proceeds to strengthen Bapcor, Ampol and IGO, the latter two of which were re-introduced into the portfolio in January 2024. We also added a new stock, Metals Acquisition (MAC) to the Fund.

We participated in the new listing of MAC, which operates the recently acquired CSA copper mine in Cobar NSW from Glencore PLC. The mine currently produces ~40ktpa of copper at a competitive cash cost of US$2.00/lb and is to ramp up capacity to 48ktpa. The expansion will get cash costs down to a very low US$1.60/lb after planned mining improvements. This would see the company produce 100+mlbs at an EBITDA margin of ~60% based on current copper prices. We are positive on the outlook for copper, an important critical metal, with supply struggling to keep up with demand going forward, requiring higher prices to ensure investment in more supply.

NEW STOCKS ADDED
- Metals Acquisition

STOCKS EXITED
- Insurance Australia Group
- Johns Lyng Group
- Orica

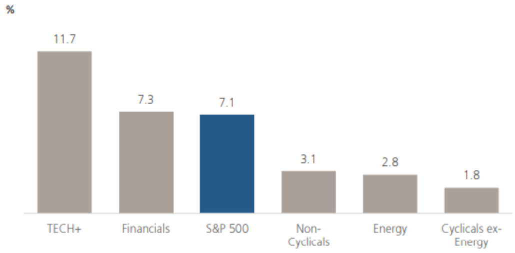
INCREASED
- Ampol
- Bapcor
- IGO

DECREASED
- Cleanaway Waste Management

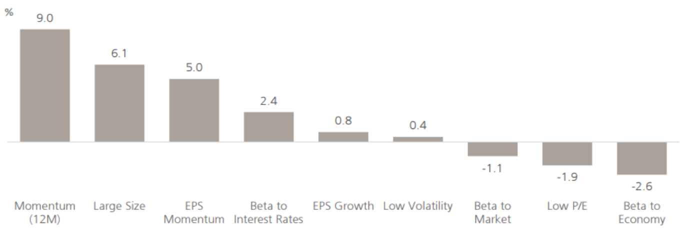
FUND STRATEGY AND OUTLOOK

The drivers of sector performance that dominated US and global markets last calendar year have continued into 2024, with Tech in the US the standout winner. In terms of factor contribution, Momentum, Growth and Large Caps (size) have significantly outperformed, with cyclicals lagging.

YTD Market Leadership



YTD Factor Returns



Source: UBS

The US reporting season just finished saw EPS growth of 10.3%, comfortably surpassing estimates of 6.8%, with 70% of companies topping projections. Tech was the largest contributor to EPS growth, followed by Communication Services - Energy and Materials were the biggest detractors. The below chart for Q4 pretty much sums up the story.

S&P500 vs S&P500 ex Mag 7 Q4 '23 earnings growth

Alphabet	51%
Amazon	304%
Apple	13%
Meta Platforms	197%
Microsoft	26%
Nvidia	489%
Tesla	-40%
Magnificent 7	**56%**
S&P500	**8%**
S&P500 ex Magnificent 7	**-2%**

Source: JP Morgan

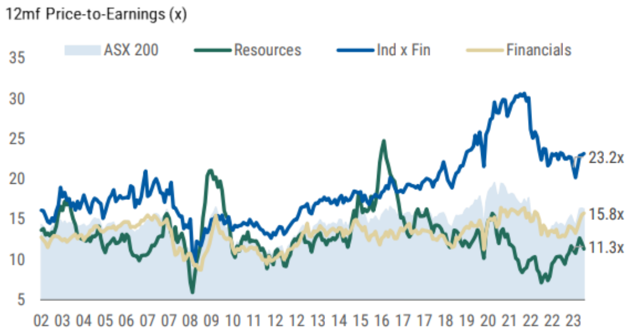
At a sector level, commodity Stocks generally delivered another dismal quarter in all regions, acting as a drag on European earnings: Ex-Energy, EPS growth YoY in the European zone was flat. As in the US, European Cyclical sectors also fared poorly, with Industrials, Materials and Discretionary printing negative EPS growth. Looking ahead to 2024 full year outlooks in the US, interestingly, a smaller proportion of companies raised EPS guidance this quarter (29%) and well below the historical median closer to 44%. This compares to the proportion of S&P500 companies which revised lower at ~19%, broadly in line with the historical averages.

In Australia, the reporting season was the worst in terms of earnings revision since February 2009 and one of the most volatile. Australia doesn't have heavyweight Magnificent 7 earnings growth type companies, so it was no surprise that our market lagged developed global peers in February.

The domestic market 12MF P/E currently stands at 16.3x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

The 12M forward PE of the Industrials ex- Financials

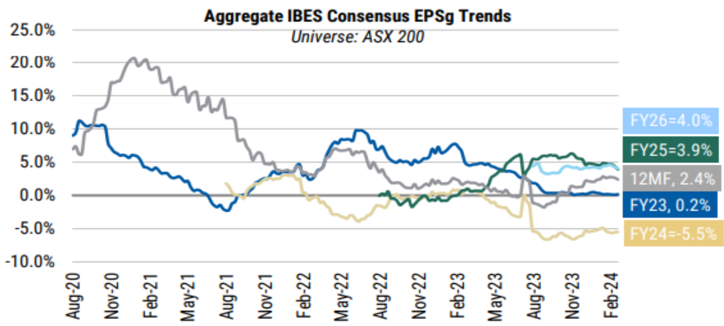
Has Fallen from 30.2x to 23.2x



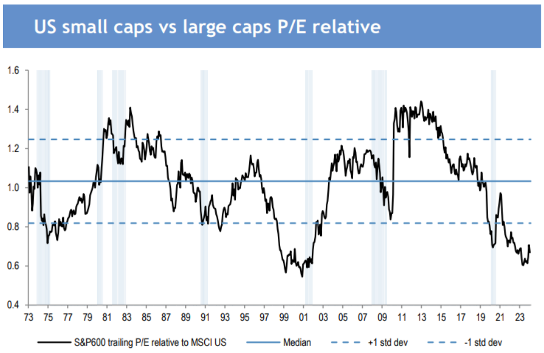
Source: Morgan Stanley

Annual

Consensus EPS Growth Trends FY23-26

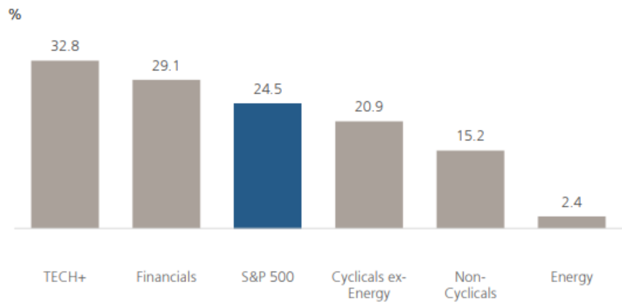


Just like the US, Mid and Small caps are representing the best value that we have seen for a long while and this is an area where we still think we are very well placed to capture medium term alpha going forward.



Source: JP Morgan

The current equity rally from 27 October 2023, driven by the tech up crash, continued to drive markets to new highs in February. We would expect the domestic market to consolidate recent gains now that the reporting season is out the road, but we would not rule out a short-term pull back.



Source: UBS

The S&P500 has now risen 24.5% in the current rally (from 27/10/23). Short covering and FOMO have been spurred by the prospect of a Goldilocks macro scenario, with near term rate cuts and reasonable economic growth in the US. Chair Powell emphasised a cut at the March meeting was unlikely and in the past month, the market has agreed, given the back up in bond yields. Many of the geo-political risk factors do not seem to be priced in and any escalation of tensions in the Middle East, coupled with Putin's nuclear threat, should keep markets on tender hooks. Perhaps we are just climbing the wall of worry? Stay tuned!

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, Ampol, Atlas Arteria, Cleanaway Waste Management, IPH, Liberty Group 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 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. Bapcor, 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, IGO, Iluka Resources, Lynas Rare Earths, Metals Acquisition and South 32

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

Warmest Regards,

Chris Kourtis

Portfolio Manager

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.

STRATEGY FUNDS UNDER MANAGEMENT	$706,683,121.34
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	$19,275,649.43
APPLICATION PRICE	$0.9296
REDEMPTION PRICE	$0.9250
NUMBER OF STOCKS	21
INCEPTION DATE	1-Apr-09

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
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