

# Ellerston Capital

Monthly Newsletter April 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 India Fund	3.7%	30.2%	14.9%	10.1%	9.9%
Ellerston Asia Growth Fund (Hedge Fund)	2.4%	-	-	-	8.9%^^
Ellerston Overlay Australian Share Fund	1.8%	3.5%	7.2%	7.0%	7.4%

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.

^^Cumulative since inception

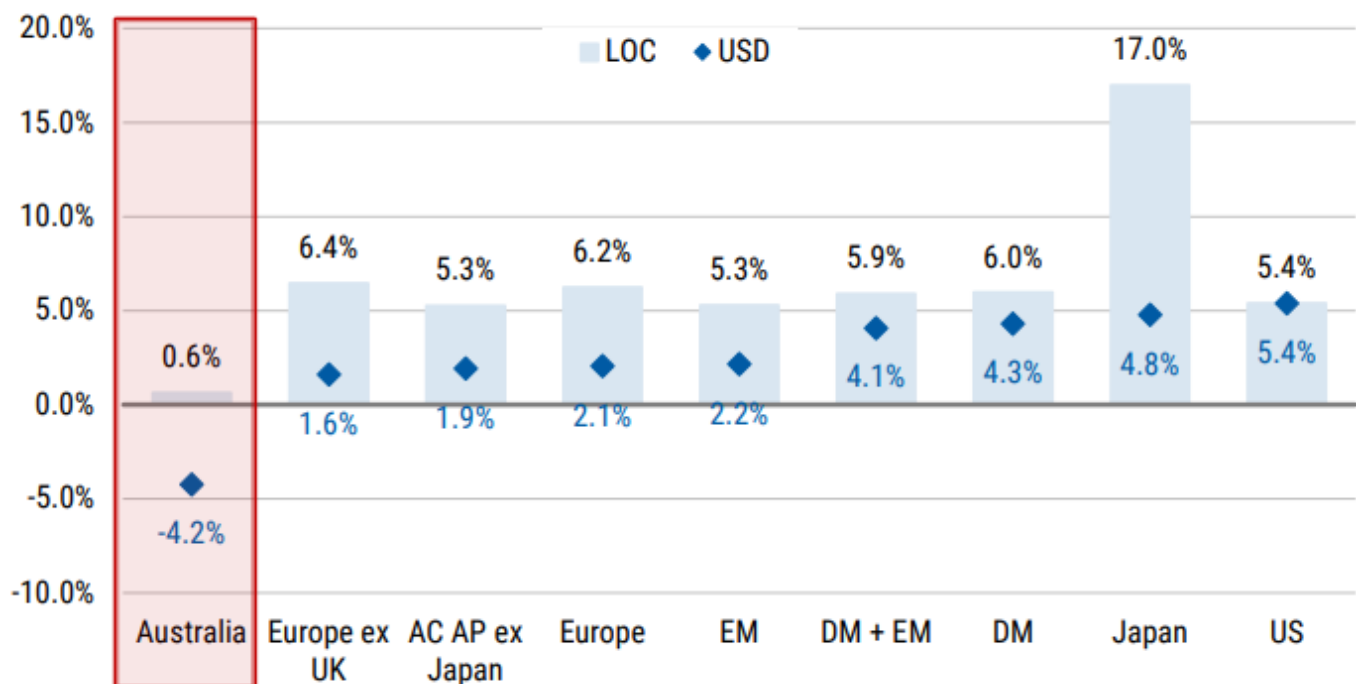
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## Monthly Market Update

### Market Overview

The prospect of higher-for-longer interest rates put a dampener on global equities, with the MSCI World falling 3.2% in local currency terms which was concentrated in Developed Markets (DM -3.9%), with the S&P 500 falling 4.1%. In contrast, EM delivered a positive return (+0.3%), buttressed by a 6.4% gain in the MSCI China. A sharp reversal in central bank rate cut expectations spurred the DM sell-off, with the Fed now priced to cut only once this year, against the three cuts that were priced at the beginning of April. The S&P/ASX 200 Accumulation Index closed down 2.9% in April, breaking its five month winning streak. Globally, Utilities and Energy were the two best performing sectors in April and domestically, it was Utilities (+4.8%) and Materials (+0.6%) that outperformed, benefitting from rotation out of the financials.

MSCI Global Country/Regional Indices Performance for the April CYTD



Source: Morgan Stanley

## Australia

On the domestic economic front, inflation proved hotter than expected. The Q1 CPI came in at +1.0% qoq, higher than the 0.8% expected and the trimmed mean, the RBA's preferred measure, of +4.0% yoy, was also higher than the consensus number, +3.8%. Reacceleration in domestic economic activity, likely easing of fiscal policy with the May budget and reduced expectations of global rate cuts is proving challenging for the RBA's less restrictive policy stance. Astonishingly, some commentators are even calling for a rate hike which seems an overreaction, unless inflation accelerates materially. However, we can be pretty sure that there will not be a rate cut at the RBA's next policy meeting, which is scheduled for May 6-7. The A\$ closed the month flat at US\$0.65, despite stronger commodity prices, particularly iron ore.

The S&P/ASX 200 Accumulation Index was down 2.9% in April, breaking its five month winning streak, with Utilities and Materials the only sectors delivering a positive return. Utilities (+4.8%) were driven by Origin Energy which continued to rally (+6.0%) and AGL Energy (13.4%), followed by Materials (South32 +19.7%) and Health Care (Resmed +9.0%). The worst performing sectors were Real Estate (-7.7%), the outperformer in March, impacted by the sharp backflip in bond rates, dragging down by Goodman Group (-6.3%) and Mirvac Group (-12.7%). Consumer Discretionary came under pressure (Aristocrat Leisure -7.2%) and Energy (Woodside -7.4%) also struggled following a soft Q1CY24 production result, with risks at Senegal also weighing on sentiment.

For the month, the top stocks that made a positive contribution to the Index's return were Rio Tinto (+14bps), South32 (+11bps), Newmont Corporation (+7bps), Resmed (+7bps) and Origin Energy (+4bps). Conversely, the bottom five stocks detracting from the Index's performance were CBA (-41bps), BHP (-30bps, post the surprise left field 31.1bn pound all-share bid for Anglo American PLC for a total value of 2508 pence), CSL (-23bps), Woodside (-19bps) and Macquarie Group (-18bps). The ASX Small Ordinaries closed down 3.1%, slightly worse than the broader benchmark at 2.9%. Within the ASX Small Ordinaries, the Small Resources fared particularly well, up 2.0% versus the Small Industrials, which returned -5.0%.

## USA

As widely expected, the Federal Reserve decided to leave the benchmark rate unchanged in a range of 5.25% to 5.5% for a sixth straight meeting on 1 May. If there was any doubt about US rates being higher for longer, Fed Chair Powell made it crystal clear, noting the lack of progress in bringing inflation back to its 2% target in recent months and that gaining confidence in achieving this target will take longer than previously thought. Powell didn't comment that current policy setting were sufficiently restrictive and focused more on policy longevity, as opposed to the potential for further hikes.

In a mixed reporting bag for US Q1 earnings, the S&P 500 finished down 4.1%, followed by the NASDAQ Composite, which returned -4.4%. The Dow Jones Industrial Average dropped 4.9%, with the Russell 2000 Index faring the worst, down 7.0%.

## Europe

As anticipated, the ECB left rates on hold at their April meeting. It's looking like a done deal that the ECB will deliver a June rate cut at its next meeting, given the divergent economic growth with the US, however the recent uptick in inflation was a good reminder of how difficult the last mile of bringing inflation back to 2% will be for the ECB.

The Euro STOXX50 Index finished the month down 2.4%. Among the major exchanges, UK's FTSE was the only bourse in positive territory, up 2.7%, followed by France's CAC 40 which was down 2.1% and Germany's DAX the laggard, falling 3.0%.

## Asia

China's 1Q24 GDP data showed that its economy rebounded stronger than expected, with real GDP growing at 5.3% yoy, higher than market consensus of 4.8% with qoq growth accelerating to 1.6% in 1Q24 (4Q23: 1.2%). While the recovery in 1Q24 was robust, it proved highly uneven. China's economy remains in two-speed recovery mode, under which growth is driven by exports and new energy-related investment. Industrial production grew 6.1% yoy in 1Q24, accounting for 37% of the GDP growth print and within investment, manufacturing and infrastructure spending were strong, up 9.9% and 8.8% yoy. However, property investment remained constrained, falling by 9.5% given the downward spiral between declining new home sales (down 28% yoy in value) and shrinking developer financing (down 26%). Consumption remains lacklustre, with retail sales up 4.7% yoy in 1Q24.

China's Politburo at its April meeting pledged more support with measures to shore up growth and announced that the long-awaited important policy gathering, the so-called third plenum, would be held in July. It called for faster issuance of special CGB and warned against late implementation of fiscal support (which was the case back in 2023), acknowledging weak domestic demand and corporate operating difficulties. It also called for ensuring delivery of homes, adjusting property policies and was considering measures to help digest existing inventory of properties. More concrete measures were expected to be rolled out by various government agencies, as well as by local governments. It seems that increased risk of trade tensions following Yellen's visit to China may have speeded things up.

Asian markets outpaced the US and most European markets, led by the Hang Seng with a stellar +7.4% return, followed by China's SSE which rose 2.2%, then India's SENSEX which gained 1.1%. Those in the red were Korea's KOSPI which closed 2.0% lower, with the Nikkei uncharacteristically in the doghouse, down 4.9% but remained the best CYTD performer across world markets, rising 15.5%.

## Commodities

Iron ore prices bounced back strongly, driven by improved Chinese steel margins and cost curve support, rising 14% to US\$117/tonne, although coking coal prices were treading water at US\$243/tonne. The base metal complex was on fire, with zinc rising 21%, followed by nickel 15% higher, with both aluminium and copper up 13%. A number of co-incident factors, namely Russian sanctions by the LME, a pick-up in Chinese demand and global supply issues, particularly for copper, drove prices higher. Crude edged down 1% after peaking at US\$91/barrel after the tit for tat between Israel and Iran de-escalated somewhat, with Brent closing at US\$86/barrel. Gold made a new all-time monthly close in April, finishing up 3% at US\$2286/oz (equivalent to A\$3538/oz).

## Bonds

The US 10-year bond yield rose 49bps to 4.69%, reacting negatively to the stronger inflation numbers and the likelihood of no rate cuts this year. The Australian 10-year bond yield was also higher, for similar reasons, rising 45bps to close at 4.42%.

# Charts of the Month

## Labour market

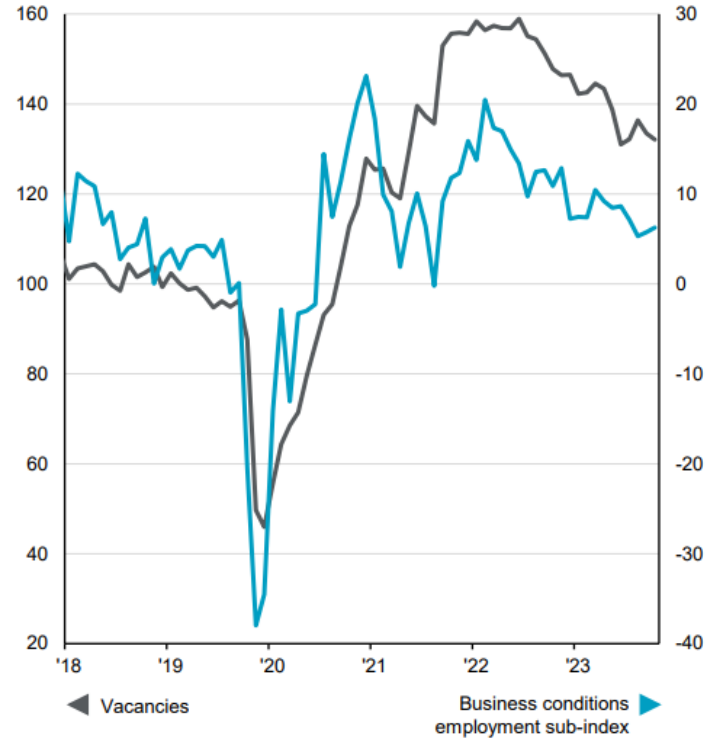
### Unemployment and wage growth

Seasonally adjusted



### Vacancies and employment

Index



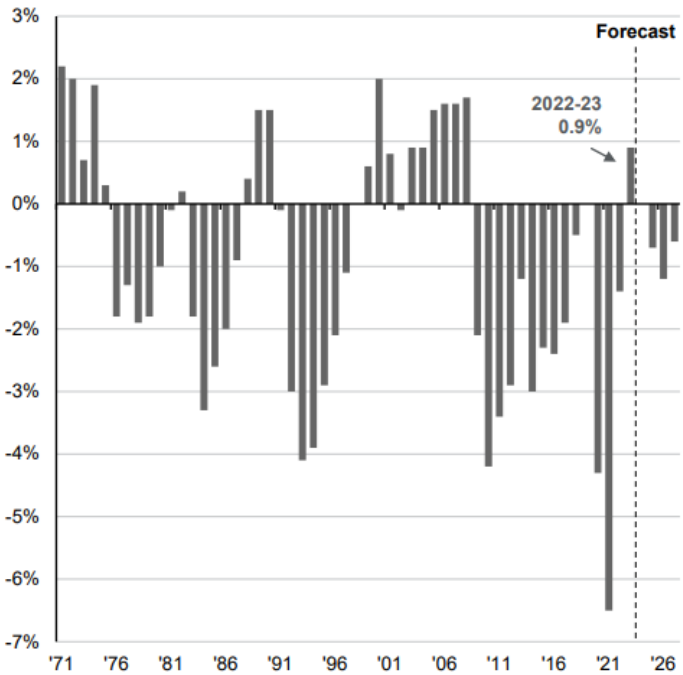
Source: FactSet, J.P. Morgan Asset Management; (Left) Australian Bureau of Statistics; (Right) ANZ-Indeed, National Australia Bank.

Guide to the Markets – Australia. Data as of 26 April 2024.

## Government finances

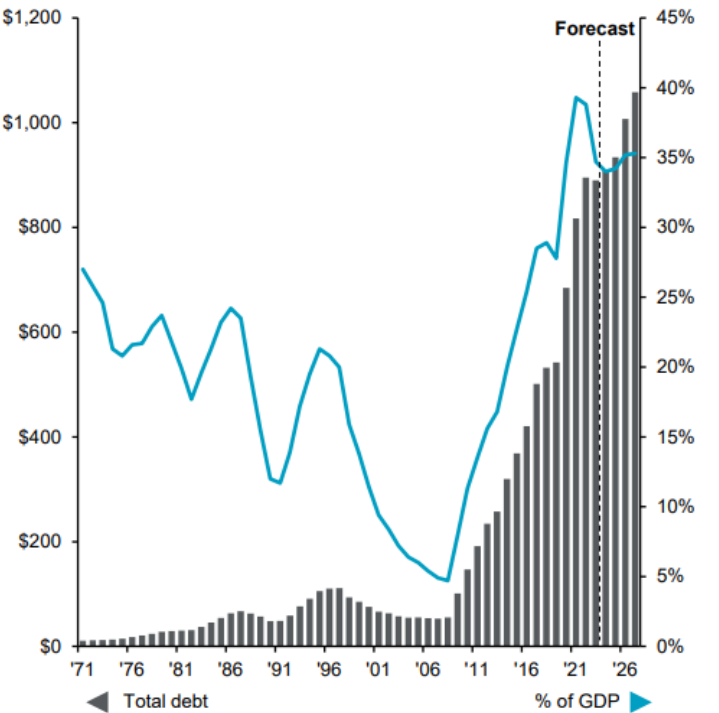
### Commonwealth budget surplus/deficit

% of GDP, 2023-24 budget



### Commonwealth gross debt

2023-24 budget, end of fiscal year, AUD billions



Source: Australian Treasury, J.P. Morgan Asset Management.

Guide to the Markets – Australia. Data as of 26 April 2024



		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total	-3.0	0.1	1.8	9.3	8.2	8.2	7.5
	S&P/ASX 200	Total	-2.9	1.0	2.2	9.1	7.3	8.0	7.8
	S&P/ASX 200 Industrial	Total	-4.0	2.0	5.1	11.3	6.5	7.1	7.5
	S&P/ASX 200 Resources	Total	0.5	-1.6	-5.1	3.1	9.8	11.0	8.4
	S&P/ASX Small Ordinaries	Total	-3.1	3.3	4.3	7.4	0.0	3.9	6.5
	S&P/ASX Small Industrials	Total	-5.0	2.1	4.1	10.4	-1.3	2.6	6.3
	S&P/ASX Small Resources	Total	2.0	5.6	3.5	-1.5	5.0	9.2	6.8
	MSCI Australia Value	Net	-2.7	-1.0	0.2	10.4	9.6	9.0	6.5
	MSCI Australia Growth	Net	-3.9	1.6	3.5	9.6	6.4	6.7	8.2

ASX 200 Sectors	Energy	Total	-4.7	-5.6	-0.6	2.5	16.1	3.3	0.9
	Utilities	Total	4.8	10.0	8.3	8.3	18.0	6.8	9.6
	Financials	Total	-3.5	3.0	8.1	19.5	9.7	8.0	6.7
	Materials	Total	0.6	-0.9	-5.6	4.5	8.6	12.9	10.8
	Industrials	Total	-4.0	1.4	1.4	3.6	7.3	4.3	9.0
	Real Estate	Total	-7.7	5.1	6.4	17.4	5.8	4.2	8.1
	Consumer Discretionary	Total	-5.1	4.6	7.2	14.5	5.1	10.1	9.9
	Health Care	Total	-2.5	-3.4	0.7	-2.8	1.7	7.7	13.3
	Information Technology	Total	-3.9	18.2	19.6	38.6	1.5	10.6	12.5
	Consumer Staples	Total	-3.3	-1.4	-1.4	-8.8	2.3	3.6	5.2
	Communication Services	Total	-4.9	-5.3	-3.8	-1.0	6.0	8.2	2.5

Local Currency

World	MSCI World Index	Net	-3.2	4.7	6.5	20.2	7.4	11.1	10.0
	MSCI EM (Emerging Markets)	Net	1.7	9.8	6.0	12.9	-2.4	4.1	5.9
	MSCI AC World Index ex Australia	Net	-2.7	5.3	6.5	19.5	6.1	10.3	9.6
	MSCI World Mid Cap	Net	-3.7	4.8	4.4	14.9	3.0	8.1	8.3

Americas	S&P 500	Net	-4.1	4.2	5.9	22.1	7.6	12.6	11.8
	Dow Jones Industrial Average	Net	-4.9	-0.5	0.7	12.5	5.2	8.9	10.3
	NASDAQ Composite	Net	-4.4	3.4	4.5	28.8	4.5	14.8	-
	Russell 2000	Total	-7.0	1.7	-2.2	13.3	-3.2	5.8	7.2

Asia Pac	Hang Seng Index	Net	7.4	15.3	4.7	-7.3	-12.1	-6.9	1.2
	Nikkei 225 Stock Average	Net	-4.4	6.5	15.5	35.1	11.8	13.3	12.1
	MSCI AC Asia ex Japan	Net	2.4	11.5	6.6	10.4	-4.2	3.3	5.6
	MSCI India	Net	2.4	6.5	8.8	37.0	18.1	16.1	13.7

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6494	-0.5	-1.8	-4.8	-1.7	-5.6	-1.6	-3.5
	Euro per Australian Dollar	0.6073	0.5	-0.2	-1.7	1.5	-1.8	-0.7	-1.0
	British Pounds per Australian Dollar	0.5186	0.4	-0.1	-3.1	-1.4	-2.4	-0.8	-0.6
	Japanese Yen per Australian Dollar	102.1850	3.5	5.7	6.2	13.6	6.6	5.4	0.8



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
Alternatives	Ellerston Australian Absolute Return Fund	0.5	4.0	2.4	-2.8	5.4	4.4	5.2	ECL0013AU 3/6/13
	RBA Cash Rate	0.4	1.1	4.2	2.2	1.5	1.7	1.7	
	<b>Excess Return</b>	<b>0.2</b>	<b>2.9</b>	<b>-1.8</b>	<b>-5.0</b>	<b>3.9</b>	<b>2.7</b>	<b>3.5</b>	
Australian Equity	Ellerston Australian Share Fund	1.6	4.1	6.0	9.9	8.7	7.4	8.9	ECL0005AU 31/3/09
	S&P/ASX 200 Accumulation Index	-2.9	1.0	9.1	7.3	8.0	7.8	9.6	
	<b>Excess Return</b>	<b>4.6</b>	<b>3.0</b>	<b>-3.0</b>	<b>2.6</b>	<b>0.7</b>	<b>-0.4</b>	<b>-0.7</b>	
	Ellerston Overlay Australian Share Fund	1.8	3.8	3.5	7.2	7.0	6.5	7.4	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	-2.9	1.0	9.1	7.3	8.0	7.8	8.8	
	<b>Excess Return</b>	<b>4.7</b>	<b>2.7</b>	<b>-5.6</b>	<b>-0.1</b>	<b>-1.0</b>	<b>-1.2</b>	<b>-1.4</b>	
	Ellerston Equity Income KIS Fund	-0.8	3.4	10.1	7.9	9.5	-	9.5	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	-2.9	1.0	9.1	7.3	8.0	-	8.0	
	<b>Excess Return</b>	<b>2.2</b>	<b>2.3</b>	<b>1.0</b>	<b>0.6</b>	<b>1.5</b>	<b>-</b>	<b>1.5</b>	
	Ellerston Australian Micro Cap Fund	0.6	9.1	15.9	-0.4	11.9	-	13.4	ECL0984AU 28/4/17
	S&P/ASX Small Ordinaries Accumulation Index	-3.1	3.3	7.4	0.0	3.9	-	6.4	
	<b>Excess Return</b>	<b>3.6</b>	<b>5.7</b>	<b>8.6</b>	<b>-0.4</b>	<b>8.0</b>	<b>-</b>	<b>7.1</b>	
	Ellerston Australian Emerging Leaders Fund	-1.0	9.9	27.6	-	-	-	-1.2	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	-3.1	3.3	7.4	-	-	-	-2.6	
	<b>Excess Return</b>	<b>2.1</b>	<b>6.6</b>	<b>20.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.3</b>	



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	1.0	6.7	0.8	9.1	-	10.1	ECL8388AU 1/3/17
	MSCI World Mid Cap Index	-4.0	5.1	14.3	6.5	8.8	-	10.0	
	<b>Excess Return</b>	<b>-2.4</b>	<b>-4.1</b>	<b>-7.6</b>	<b>-5.7</b>	<b>0.3</b>	<b>-</b>	<b>0.1</b>	
	Ellerston Global Mid Small Cap Fund - Class B	-6.3	1.0	6.6	1.2	-	-	7.2	ECL3306AU 18/8/20
	MSCI World Mid Cap Index	-4.0	5.1	14.3	6.5	-	-	10.7	
	<b>Excess Return</b>	<b>-2.4</b>	<b>-4.2</b>	<b>-7.7</b>	<b>-5.3</b>	<b>-</b>	<b>-</b>	<b>-3.6</b>	
	Ellerston Asia Growth Fund (Hedge Fund)^	2.4	14.4	-	-	-	-	8.9^^	ECL1411AU 1/6/23
	MSCI Asia ex Japan (non-accumulation)	1.6	11.2	-	-	-	-	6.9	
	<b>Excess Return</b>	<b>0.7</b>	<b>3.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.0</b>	
	Ellerston India Fund	3.7	9.4	30.2	14.9	10.1	-	9.9	ECL0339AU 4/5/17
	MSCI India Net Return Index	2.8	7.9	36.8	20.3	13.8	-	12.7	
	<b>Excess Return</b>	<b>0.9</b>	<b>1.5</b>	<b>-6.6</b>	<b>-5.4</b>	<b>-3.6</b>	<b>-</b>	<b>-2.7</b>	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	-	3.4	14.6	12.4	-	-	16.9	ECL2707AU 5/7/19**
	Ellerston Pre IPO Fund	-	-3.4	1.3	-0.7	-	-	2.9	ECL0405AU 31/3/20
	<b>Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 31 March 2024</b>								

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### Disclaimer

The net return figure is calculated after fees and expenses. Above figures are those available as at 07 May 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

\*\* Since inception performance is calculated from 30 September 2019, which is the date from which the Ellerston JAADE Australian Private Assets Fund (Retail) made its first investment into the Ellerston JAADE Australian Private Assets Fund (Wholesale).

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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

Ellerston Capital has been managing money since 2002. Our clients include Sovereign wealth, industry and corporate superannuation funds, international funds, family offices and high net worth investors.

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