

Ellerston Equity Income KIS Fund

Monthly Report as at 30 April 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	6 Months	FYTD24	12 Months Rolling	3 Years (p.a.)	4 Years (p.a.)	Since Inception (p.a.) ^^
Fund Net Return [^]	-0.77%	3.38%	20.45%	11.17%	10.11%	7.88%	13.56%	9.52%
Benchmark [*]	-2.94%	1.04%	15.17%	9.97%	9.07%	7.30%	12.74%	8.00%
Alpha	2.17%	2.34%	5.28%	1.20%	1.04%	0.58%	0.82%	1.52%

[^]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	31
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	\$76.33m
Platform Availability	HUB24, Netwealth
SQM Rating ³	Superior / 4.25 Stars

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

²Funds invested across all Equity Income KIS strategies.

³Rating assigned 6 October 2023.

The Team



Chris Kourtis

Director & Portfolio Manager

39 years of industry experience.



Stephen Giubin

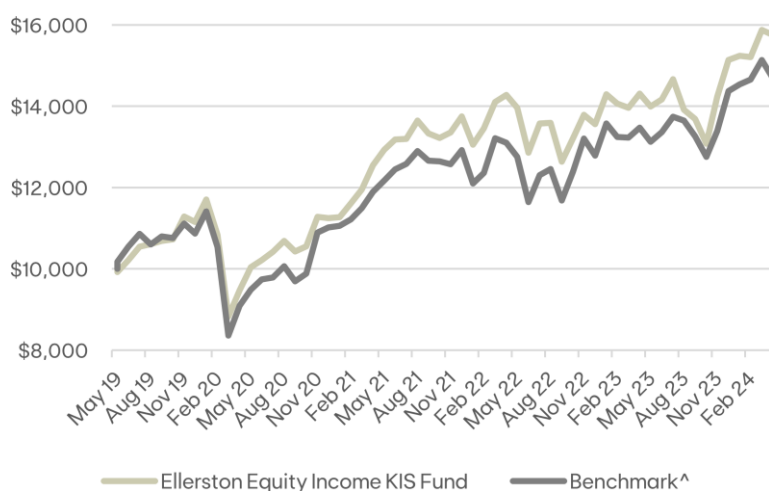
Senior Investment Analyst

36 years of industry experience.

FY24(E) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	6.9	5.1
Price/Earnings (x)	12.7	16.8
Dividend Yield (%)	5.6	3.9

Source: Ellerston Capital.

Growth of \$10,000 Investment

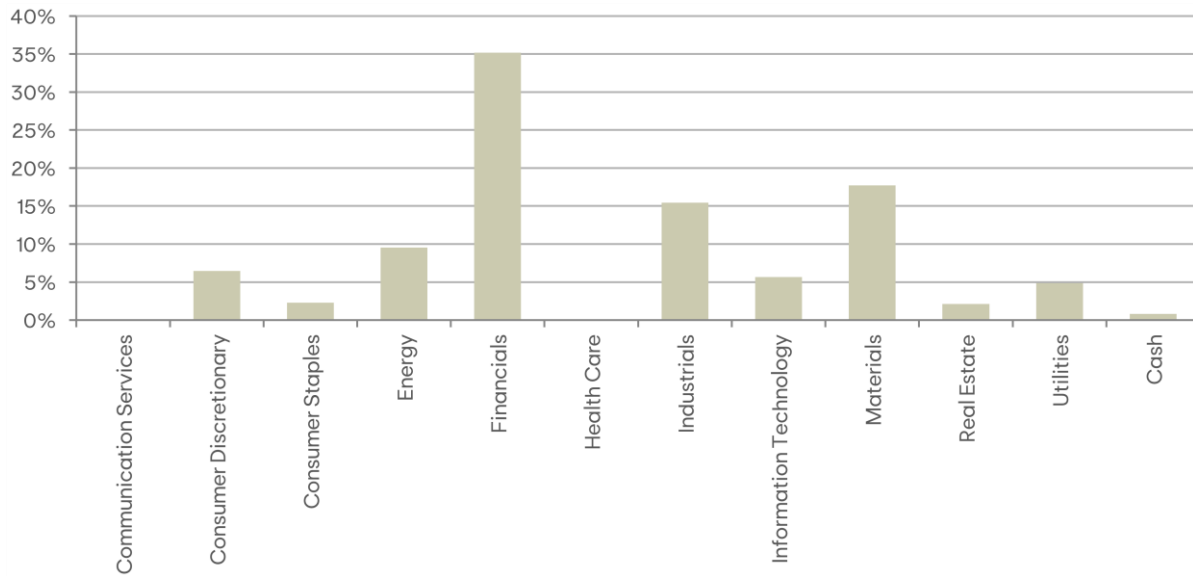


Fund Performance shown is net of fees, assuming all distributions are reinvested.

Past performance is not a reliable indication of future performance.

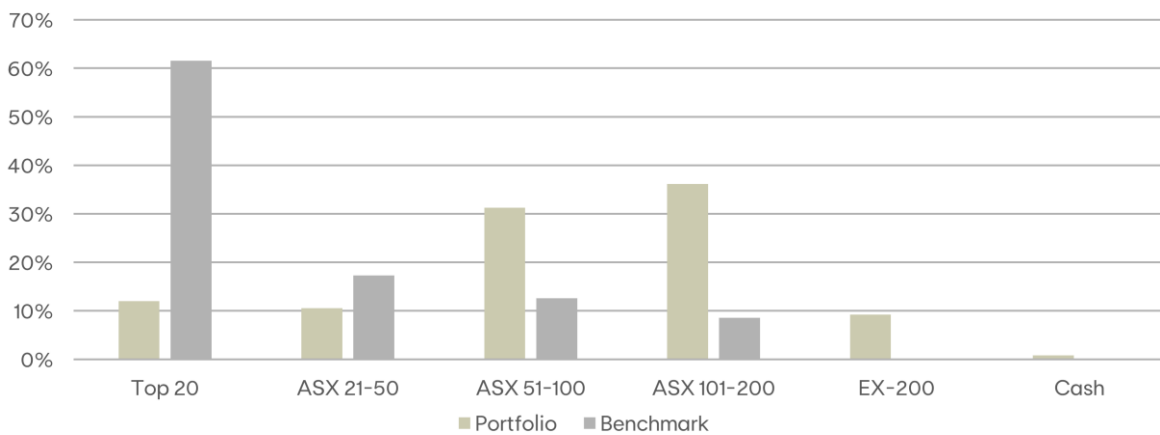
Source: Ellerston Capital.

Sector Allocation



Source: Ellerstion Capital.

Exposure by Market Capitalisation



Source: Ellerstion Capital.

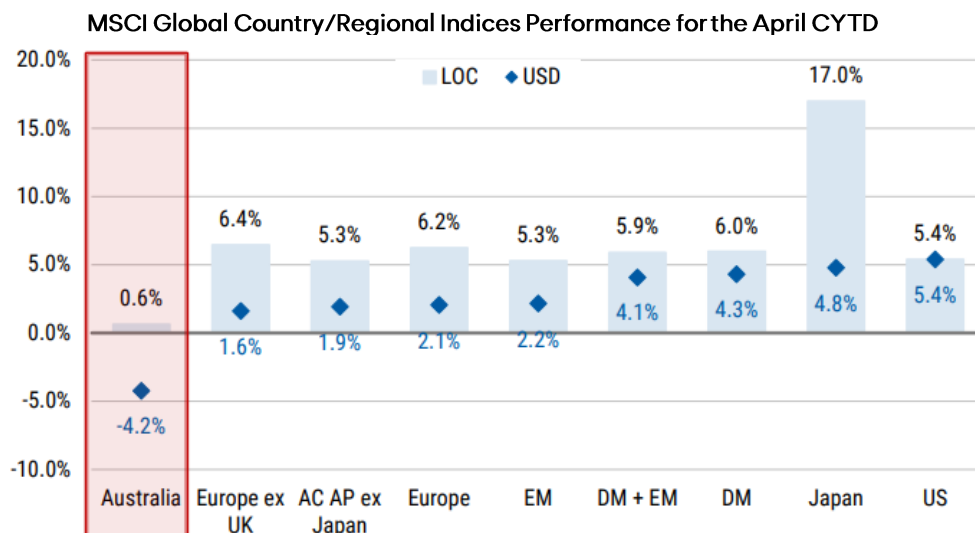
Top 10 Holdings*

Ampol
Atlas Arteria
Bapcor
BHP
Challenger
Insignia Financial
IPH Ltd
IRESS
Liberty Financial Group
Perpetual

* In alphabetical order.
Source: Ellerstion Capital

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.



Source: Morgan Stanley

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%.

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%.

COMPANY SPECIFIC NEWS

The Market Hits

Emerald Resources (EMR +20.8%) / Newmont Corporation (NEM +18.6%) / Red 5 (RED +18.4%) / Silver Lake resources (SLR +17.7%) / Evolution Mining (EVN +13.4%)

The gold sector rallied 8% during April in response to a further +3% move in the physical gold price, finishing at an all-time monthly high of US\$2286/oz. EMR delivered a strong 3Q production report towards the top end of guidance, coupled with encouraging exploration results at its Memot resource in Cambodia. After downgrading its CY24 production in late February, which caused an 8% slide in the stock price, NEM delivered a better than expected March quarter result. The first quarter was known to be the weakest quarter of the year and it seems investors were waiting to step in, which they did with gusto, pushing the shares up 14% on the day of the release. RED and SLR are in the process of merging, with the scheme meeting scheduled for 31 May. The merger will result in a ~445kozpa mid-tier producer and both companies delivered good 3Q activity updates. EVN was an "each way bet", given it's both a gold and copper producer, with a 70/30 revenue split, benefitting from both the 3% move in the bullion price and 13% lift in the copper price.

South32 (S32 +19.7%)

S32 was a beneficiary of the strong move in the base metals; aluminium, copper, lead and nickel, as well as alumina. Disappointingly, S32 announced that post the cyclone damage to key infrastructure, its Australian manganese production at GEMCO would be out for ~12 months, but perversely, this in turn had a massive impact on manganese pricing, spiking 44% in April, which should benefit its South African manganese operation, mitigating the GEMCO impact.

Nickel Industries (NIC +17.3%)

It was all about the 15% rise in the spot LME nickel price, despite NIC reporting weaker nickel production in their 3QFY24 report.

Telix Pharmaceuticals (TLX +16.8%)

TLX is a biopharmaceutical company focused on the development and commercialisation of diagnostic and therapeutic radiopharmaceuticals and associated medical devices. Its lead product is marketed under the brand name Illuccix, which is an advanced imaging tracer that binds to prostate cancer cells in and around the prostate, or throughout the body. This imaging tracer is then detected with a positron emission tomography (PET) scan to reveal prostate cancer. TLX announced 1Q Illuccix sales of US\$115m (A\$175m), an increase of 18% on the prior quarter and well ahead of what investors were expecting. The TLX stock price rallied 9% on the announcement, resulting in strong revenue upgrades by sell-side analysts. TLX's revenue multiple of 6x is starting to look quasi reasonable, whilst its EV/EBITDA multiple of ~40x is way up there and still a long wait for any potential dividends.

Lynas Rare Earths (LYC +15.3%)

LYC beat production expectations in 3QFY24, with its Malaysia operations ramping up better than expected. Sales underperformed due to strategic inventory management by LYC amid the current low NdPr market prices, but the recent 14% price rise in April gave investors confidence that we'd seen the bottom of the pricing cycle.

Alumina (AWC +14.4%)

AWC is currently in the process of being acquired by Alcoa Corp US via an all scrip scheme of arrangement, so AWC is tied to Alcoa's stock price. Base metals performed strongly in April, delivering double-digit returns, with aluminium rising 13%. Alcoa reacted, rising 11%, dragging up AWC with it.

The Market Misses

Star Entertainment Group (SGR -29.6%)

A confluence of bad news continued to drive Star's share price lower. Early in the month, SGR announced a sharp deterioration in operating earnings, with EBITDA in March coming in at just \$7m, versus an average run rate of ~\$20m over the past six months. The market took the view that the current margin squeeze would continue for the next 9-12 months, leading to material sell side earnings downgrades to FY24E and FY25E. The larger impact was the blow out in control costs (mainly compliance), which increased operating costs by 11% in February (versus January) and 9% in March (versus January) on a daily run rate basis. The ongoing negative mix shift from lower PGR revenues (which drove group revenue down 5% yoy), a high margin product for the casino (high average bets, with no rebates) further concerned the market. The bad news for SGR didn't end there, with Gold Coast CEO, Jessica Mellor, stepping down from her role in May, after only joining in Oct-23. Surprising evidence delivered in Bell 2 public hearings to date also made matters worse, which did not change anything other than the public understanding of Star's deep seated problems. Not even pokies magnate Bruce Mathieson increasing his position in the struggling casino giant could stop the share price slide, with Mr Mathieson's family company confirming that it had boosted its stake to 9.6%. Revelations of disunity within the leadership team and of inadequate oversight from current and former employees featured at the Bell 2 Inquiry, which has no doubt threatened the future of its Sydney casino licence. Something had to give and at month end, the Star Entertainment Group announced that Ms Anne Ward (a former director of Crown Resorts) had been appointed as Chairperson, effective immediately and that for an interim period, existing Chair David Foster would remain on the Board, continuing his executive responsibilities. A search for a permanent Group CEO to replace ousted Robbie Cooke was commenced back in March. SGR faces a number of serious outstanding hurdles and risks, namely: the NSW casino inquiry/The Star Sydney licence suitability, pending AUSTRAC monetary penalty, a tough revenue environment, cost mitigation, Queen's Wharf Brisbane opening and Queen's Wharf Brisbane debt refinance. What a complete and utter mess!!!

Lifestyle Communities (LIC -23.2%)

LIC shares slumped after the company reduced settlement expectations for FY24 and FY25 - shortly after the recent equity raise at \$16.00. LIC surprisingly downgraded FY24 volume guidance to 290-310 settlements, which at the midpoint, was -15% lower than prior guidance of ~350 lot settlements. FY23-FY25 guidance was also significantly downgraded to 1080 - 1150 vs. expectations provided back in August 2023. The weaker volumes were attributed to extended settlement times (a common theme in the REIT sector), given market conditions had softened since February 2024 in some parts of Melbourne, with days on market increasing at beachside and the northwest locations. The new FY24 lowered guidance of ~300 settlements is backed by 290 homes either "already settled or have a confirmed settlement date prior to 30 June", with an additional 92 customers marketing their existing homes for sale to settle on LIC purchases. This new guidance therefore seems well supported. However, investors were disappointed, as LIC had raised \$275m of fresh equity capital in February 24 (the first time since listing) and its deployment was on track. LIC announced that it was under due diligence to acquire 3 additional land sites for expansion purposes. Despite the settlement delays, the balance sheet remains in a strong position near term, with gearing currently standing at 20%, rising to 30% vs. 48% pre the capital raise.

Orora (ORA -19.5%)

ORA shares took a sharp leg down early in the month after the company once again downgraded its FY24 outlook, with headwinds apparent in both of its offshore manufacturing and distribution operations in North America and the recently acquired Saverglass business in Europe. Excluding Saverglass, the group now expects EBIT to be 1-4% lower than FY23 (\$321m). This compared with recent guidance of EBIT to be higher and VA consensus of \$332m. The key detractor this time was OPS in North America, with distribution singled out in particular, which is expected to see a ~3% sequential decline vs 1H24. As a result, EBIT for this division now stands at US\$102-107m vs VA consensus of \$113m. ORA's updated FY24E earnings guidance showed that investor forecasts were far too optimistic in a challenging operating environment, when coupled with integrating a large-scale offshore acquisition. Of most concern to the market, was the lower guidance for the North Americas segment of the 'core business' (excluding Saverglass). ORA's guidance for flattish EBITDA in FY24E was impacted by no improvement in the weak volumes attributed to industry destocking trends, where visibility of customer inventory remains very difficult. The sustainability of this earnings weakness caused by the lack of visibility in the de-stocking cycle into FY25E soon became front and centre. The core business downgrade was extremely disappointing, as it occurred just six weeks after the company announced its 1H24 results, denting managements credibility and accordingly, the shares were punished.

Strike Energy (STX -15.4%)

STX hasn't quite recovered from the disappointing result with its South Erregulla-3 (SE-3) well in WA's Perth Basin that failed to flow gas, back in February. STX had a solid quarter of production at Walyering, however weaker Western Australian onshore gas pricing, lower than expected certified resources and a faster cash burn hampered the stock.

Charter Hall Group (CHC -12.8%) / Mirvac Group (MGR -12.7%)

Not surprisingly, the Real Estate sector was under pressure as bond rates backed up in April, with the sector down 8%, after rising 9.3% in March. CHC being more focused on growth-linked opportunities rather than playing defence, in a tough property and interest rate environment, maybe explains its underperformance compared to its peers. MGR's large residential development pipeline, at a time when some economists are actually calling for a rate hike in Australia, wasn't going to fare better than the sector either.

G.U.D. Holdings (GUD -12.6%)

GUD is an automobile products manufacturer, distributor and importer with two segments: Automotive and APG. Automotive is focused on parts and other accessories and APG participates in towing, trailers and cargo management. GUD did highlight at its 1H24 result that they were seeing Industry supply improving, but conditions remained volatile between OEMs and models. External factors such as lower orders from Toyota following closure of its factories in Japan and no rebound in NZ on the back of repealing the Clean Car Rebate, are likely to affect APG revenues, which are expected to be slightly down on 1H24. Recent FCAI March data showed that 4x4 models were up 5% YoY, underpinned by strong results across Ranger, Triton and Navara, but key Toyota models like Prado and Hilux were down -51% and -13%, respectively. The weaker Toyota result supports GUD's 1H24 commentary that short-term deferrals of replenishment orders from Toyota had impacted Jan-24 sales revenue and were likely to impact 2H24. Weaker recent industry data has resulted in higher earnings risks for most of the listed automotive sector, with GUD not being spared.

Johns Lyng Group (JLG -12.3%)

Following a 1H24 Result that disappointed, JLG shares continued to sell off in the month of April. While JLG provided earnings guidance which upgraded underlying FY24 across revenue (+3.5% driven by CATs) and EBITDA (+5%, driven by CATs and BaU margins), the market was still troubled by the Commercial Construction losses which extended further. The 1H24 result was impacted by a much larger loss than forecast in the Commercial Construction business, with EBITDA at -A\$5.8m, well below analyst forecasts. Given that the company recently guided for the division to lose another A\$1.2m in 2H24, this would bring the full year loss to -A\$7.0m. While JLG has a number of meaningful growth drivers in Australia (IBR&S, Strata Management, Essential Home Services, cross-sell synergies), the investment case for JLG from here has been largely driven by the future success of its expansion in the US. However, management need to better message and address the US revenue stalls and margins declines, in order to deliver further growth in that part of the business and drive a re-rating. Given the US opportunity alone stands at \$250b TAM vs. ANZ \$25b, which the company has emphasized cements a 10-15 year runway of growth (JLG have 7% ANZ market share, with an aspiration to double), they better get moving.... Director Adrian Gleeson selling \$618,000 worth of shares recently did not help sentiment.

Beach Energy (BPT -12.3%)

Perennial operational miser BPT had another disappointing update to its Waitsia Stage 2 project in WA, advising that it has experienced further quality control issues during pre-commissioning. Management now expect start-up in early CY25, with an additional A\$150m net capex (A\$300m gross) to complete the project. BPT shares had performed well up to this stage on the new CEO (who stated on 21 February) exuberance after announcing the first phase of the strategic review, including a 30% reduction in head count and completion of its strategic review in May/June. Ten days later, he stepped on a land mine and the market truculence was quashed with a 15% tumble on the day.

James Hardie Industries (JHX -12.0%)

JHX has been an exceptionally strong performer, up 58% since the US Fed pivot in the latter part of 2023, as were its building material peers. April has been the month when the US rate cuts were stolen from the 3 bears and Goldilocks' porridge disappeared. The large move up in US bond yields and mortgage rates put a halt to investor's enthusiasm towards the sector, with JHX falling in sync with its US comparatives.

FUND PERFORMANCE

Against the backdrop of weaker offshore markets, domestic equities fared slightly better, down 2.9% for the month. The Utilities and Materials sectors were the best and only positive performers, whilst the interest rate sensitive Real Estate sector was the worst, hard hit by the backflip in bond yields.

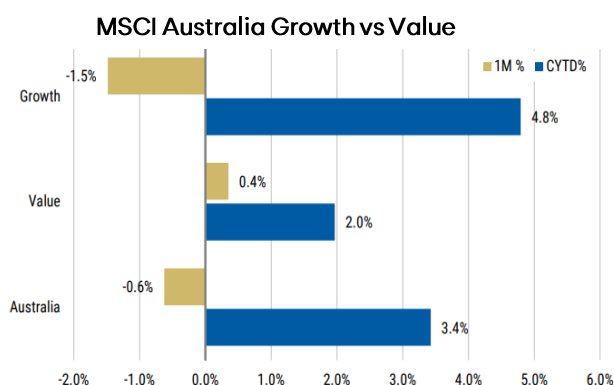
In tough market conditions, the Fund delivered a return of -0.71% during April, outperforming the benchmark return of -2.94%. Our underweight exposure to REIT's and zero weight to Banks, together with our large position in Resources drove this month's alpha of 2.23%

The 3-year return of 8.91% p.a. remains credible and is 1.60% p.a. above benchmark, as is the since inception return of 10.58% p.a.

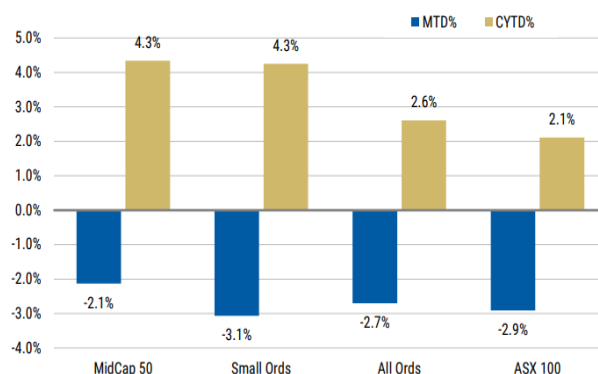
The FYTD24 return of 11.82% is also above benchmark by 1.84%, which is pleasing, given we held no Banks. During this period, our selectively contrarian Value and Ex- Top 20 size bias remained out of favour in a market chasing, Tech, Growth, FOMO and Momentum. Yet we have outperformed.

In April, we saw a major rotation which went in our favour, whereby we have been patiently waiting and positioned for. As you can see below, both Value and MidCaps turned around sharply this month. In the wake of all the noise, we have stayed disciplined and true to label - it simply cuts against our grain to chase Momentum and pockets of overvaluation.

Value outperformed Growth during April, but still lags by 2.8% for the CYTD



MidCaps outperformed in April and during



Source: Morgan Stanley

Materials, which rallied 0.6%, posted the largest contribution (+11bps) to the market's return during the month of April, driven by the likes of Rio Tinto (+7.2%), South32 (+19.7%) and Newmont (+18.6%), followed by the Utilities (Origin Energy +6.0%) and Information Technology (Life360 +5.2%) sectors.

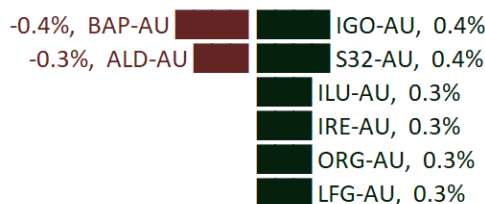
Conversely, Financials (CBA -4.8%), Real Estate (Goodman Group -6.3%) and Consumer Discretionary (Aristocrat Leisure -7.2%) were a drag on the broader market.

Returns (%)*	Gross	Benchmark	Excess	Net
1 Month	-0.71%	-2.94%	2.23%	-0.77%
3 Months	3.56%	1.04%	2.52%	3.38%
6 Months	20.86%	15.17%	5.69%	20.45%
FYTD24	11.82%	9.97%	1.85%	11.17%
12 Months Rolling	10.88%	9.07%	1.81%	10.11%
2 Years (p.a.)	5.87%	5.90%	-0.03%	5.05%
3 Years (p.a.)	8.91%	7.30%	1.61%	7.88%
4 Years (p.a.)	14.62%	12.74%	1.88%	13.56%
Since Inception (p.a.)^^	10.58%	8.00%	2.58%	9.52%

*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. ^^Inception date is 1 May 2019.

Month of April Attribution

Securities Held



Securities Underweight/Not Held



Source: Ellerstion Capital.

In the month of April, the main positive contributors to the Fund's performance were its overweight positions in IGO (IGO +11.9%), South32 (S32 +19.7%), Iluka (ILU +6.5%), IRESS (IRE +3.5%), Origin Energy (ORG +6.0%), Liberty Financial (+2.3%) and not owning CBA (CBA -4.8%).

The detractors during the month were overweight positions in Bapcor and Ampol (ALD -7.5%). Frustratingly, Bapcor will no doubt fall a lot further given the shock announcement on 30 April that highly regarded CEO elect Paul Dumbrell, will not be commencing as anticipated on 1 May 2024 and is cum downgrade.

FUND ACTIVITY

In April, the Fund took profits in GrainCorp, Rio Tinto and South32 given their recent strong performance. Following Resmed's V-shaped share price recovery from their Oct/Nov 2023 GLP-1 scare lows, we completely exited our residual holding and banked great profits. Post the intra-month spike in RHC, we exited remnant positions in Ramsay and also in Link Administration, with the scheme of arrangement takeover all but completed post Supreme Court approval. We strengthened recent new positions in GQG Partners, Suncorp and IPH and introduced a few new well-known securities to the portfolio, namely Coles (which should be out-gunning Woolies) and Dexus, plus Kelsian and Orora, with write-ups below.

NEW STOCKS ADDED

- Coles Group
- Dexus
- Kelsian Group
- Orora

STOCKS EXITED

- Link Administration
- Ramsay Health Care
- Resmed

INCREASED

- GQG Partners
- IPH Ltd
- Origin Energy
- Suncorp Group

DECREASED

- BHP
- GrainCorp
- Rio Tinto
- South32

Kelsian Group (KLS)

KLS engages in the provision of tourism and transportation services, operating through the following segments: Marine & Tourism, Australian Bus, International Bus and Corporate. The Marine & Tourism segment operates vehicle and passenger ferry services, barging, coach tours and package holidays, lunch, dinner and charter cruises and accommodation facilities throughout Australia. The Australian Bus segment operates metropolitan public bus services on behalf of governments in Sydney, Melbourne, Perth, Adelaide and Darwin. The International Bus segment operates metropolitan public bus services on behalf of governments in London and Singapore. KLS's recent \$500m acquisition of All Aboard America Holdings Inc. (AAAH) in June 2023, provides passenger motorcoach services to corporate, government, education, LNG and tourism sector customers in the USA. KLS earnings are 80% underpinned by long term sticky contracts, with very little volumes risk. As such, we think the market view KLS as a quasi-small cap infrastructure play.

The KLS stock price has fallen 25% in the last three months, with half the drop occurring on the day it posted underwhelming 1H24 results on the 28th February which caught the market off-guard. The other cause of weakness was that KLS was unsuccessful in the third and final tranche of the Transport for Greater Manchester (TfGM) franchise bus contract tender process. Four of the five large franchises were awarded to Metroline (a subsidiary of ComfortDelGro), with one awarded to incumbent operator Stagecoach. This was another disappointing outcome for KLS in the UK, with the focus shifting to the cost base that the company has retained in the UK for tendering purposes. Further franchised bus tenders are likely coming to market in the UK and will continue to represent an attractive pipeline of opportunity.

Operationally the result was broadly in line, but disappointingly, it missed on pretty much every item below the EBITDA line, with depreciation and funding costs both higher than the market anticipated. The 1H24 result contended with higher accident rates, labour headwinds in its Sydney and Singapore public bus operations, namely a shortage of bus drivers which resulted in increased overtime levels, contract penalties and missing out on punctuality bonuses. This has now normalised. Also, the recently acquired US bus operations appear to be performing better than guidance provided on acquisition. Furthermore, in February, another ring-fenced (limited-recourse) asset facility totalling \$75m was secured for contracted bus assets in Regions 2 & 3, significantly larger than the \$40m facility in Region 6 established in July last year, with first purchases of \$6.8m in November. The asset facilities help to lower interest costs going forward and mitigate the impact of term debt renewals at present high interest rates.

We see the recent earnings downgrade as more of a poor communication and messaging issue, not a fundamental problem with the business model. Now resetting funding costs expectations, KLS is poised for sales growth and margin repair over the next 12-18mths.

With strong EPS growth of ~25% expected in FY25, a current dividend yield of 3.3% fully franked (rising to 4.0% in FY23) and trading on 8x forward EV/EBITDA (below its 10year average of 10.3x), we believe the recent sell off in KLS represents an attractive buying opportunity at current levels.

Orora (ORA)

Orora (ORA) was introduced to the portfolio during the month after the share price collapsed following yet another disappointing trading update (refer to our Misses section for details). Persistent customer destocking had driven two quick successive profit warnings for FY24, as the severity of the cyclical downturn had been far worse than the market expected. ORA's Saverglass Investor Day presentations provided further useful material across each of the business units, whereby FY24 guidance was reaffirmed for the base business EBIT of \$307-317m and Saverglass EBITDA of €84-88m. Channel checks confirmed that investors returned from the Saverglass site tour with a better appreciation of the assets and of the local management. Saverglass remains a high quality business and is well positioned with premiumisation of beverage products being pursued by customers. The assets are well invested and operated - the headwinds are cyclical, not structural.

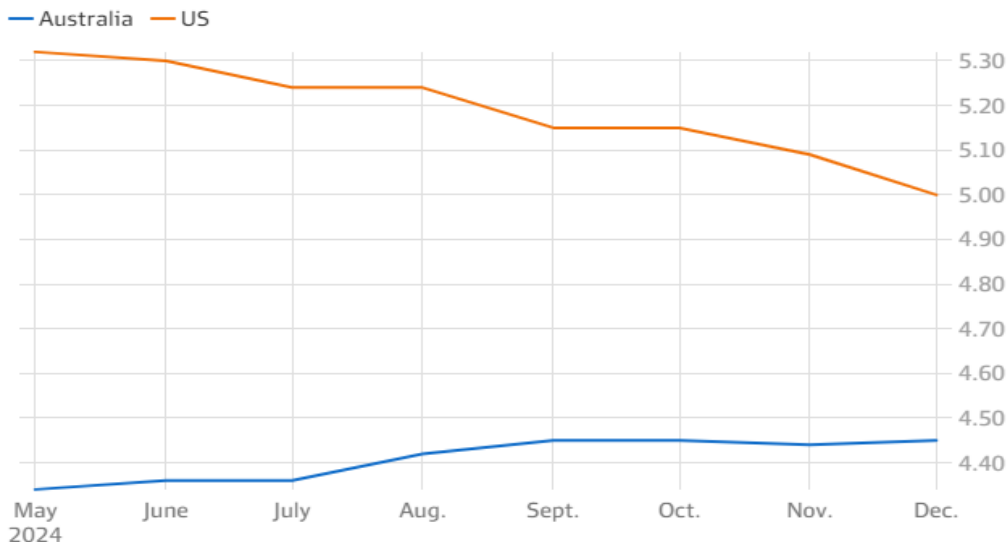
We believe tailwinds from strong premiumisation trends should underpin a profit recovery in FY25 and FY26. The CFO relocating back to France was also deemed a positive. With regard to the North American OPS business, after 18 months of negative comps, manufacturing volumes have now stabilized, while after 12 months, distribution continues to decline and guidance implies a continuation of current trends for another 6 months, with limited seasonal uptick. Looking forward, there appears to be price/demand driven green shoots, which are too late to impact FY24. However current industry data suggests these will begin to impact FY25 positively. Management remains confident of its balance sheet position, with leverage guided to rise 0.2x to 2.8x, well below bank covenant levels of 3.7x, but above ORA's stated target range of 2.0-2.5x and ORA has no material debt maturities until July 2025. Given that reducing gearing is a priority, growth capex deferrals are likely and we would expect ORA's dividend to be at the bottom of its 60-80% payout range.

Whilst short term cyclical headwinds remain, given early signs of improved consumer demand, this appears to be the last of the downgrades, with the bad news priced in at current levels of \$2.10. With ORA trading at decade low valuations, a material discount to its offshore peers (vs a historical premium) the risk-reward equation looks attractive.

FUND STRATEGY AND OUTLOOK

Equity markets retreated in April as the inflation, rate and policy paths were re-priced. The Fed left rates unchanged, with Chair Powell suggesting either softer inflation data or weaker labour markets would provoke a cut. Higher inflation prints and stronger global growth have shifted consensus on central bank policy with rates now seen higher for longer. Policy easing priced by the market has declined and in Australia, the tail risk of a restart in rate hikes was pondered. Our view is that the RBA will stay on hold through 2024 with easing starting in 2025.

Cash rate expectations (%)

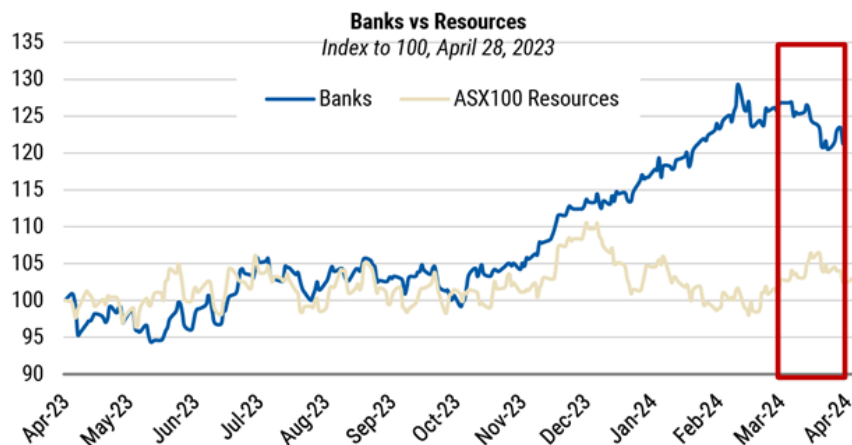


Source: LSEG

With over half of the S&P 500's market cap having reported in the US, the key takeaways are:

- Earnings are beating expectations by 8.4%, substantially better than the historical average of 4.8% and last quarter's 6.9%.
- EPS was projected to grow 4.1% at the start of earnings season but is now projected to expand 8.3%.
- The market's response to beats and misses has been less favourable than typical, +1.0% when both revenue and earnings beat, -3.5% when both miss.
- Growth is extremely divergent across sectors, with Big Tech expected to grow 51.2%, Energy & Materials -23.5% but these extremes are expected to fade as the year progresses.

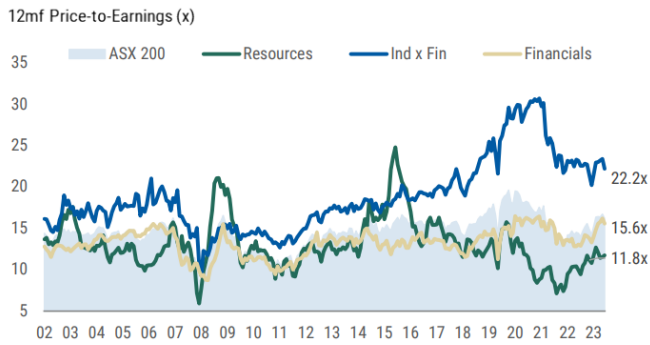
The gap between Resources and Banks (which blew out post the Fed pivot) narrowed in April, as the rotation which began in March accelerated. The repricing for the rates outlook to remain higher for longer, is linked to stronger growth, which is conducive to global cyclical exposure. The large gap in performance of Resources stocks against the stretched valuation of the Banks has now started to revert.



Source: Morgan Stanley

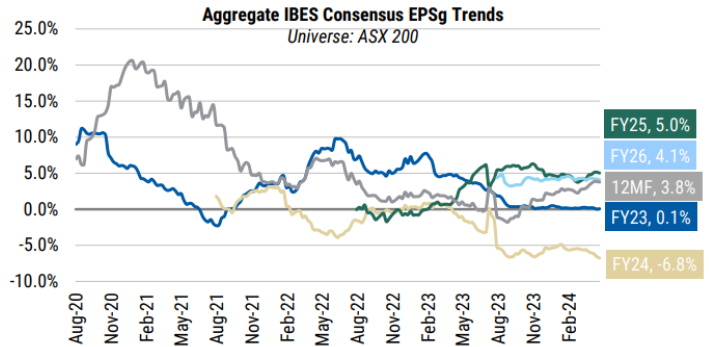
In terms of Valuations, the domestic market 12MF P/E currently stands at 16.2x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

The 12M forward PE of the Industrials ex- Financials has Fallen from 30.2x to 22.2x



Source: Morgan Stanley

Annual Consensus EPS Growth Trends FY23-26



The Fed pivot is now a distant memory given the recent shift in investor psyche to a higher for longer rate cycle, thus we would expect the domestic market to consolidate its recent gains and definitely take a breather. Last month, we mentioned not to rule out a sharp short-term pull back, as stickier inflation and stronger economic data would unsettle the bond market. Well, we got it in April and it may remain choppy for a while yet. The most likely scenario is no recession, moderate and re-accelerating growth, lower rates and higher liquidity. This setting is still a recipe for a "Goldilocks" outcome. However, when combined with many of the geo-political risk factors which are impossible to price in and the prospect of any further escalation of tensions in the Middle East (which for now look reduced), this should keep markets on tender hooks. Perhaps we are just climbing the wall of worry and the bull market continues?

Expect heightened volatility from here on.

We remind investors that we are managing an equity income fund and don't want to die waiting for Tech company dividend streams to flow. Wisetech is now priced on a FY24(e) Revenue multiple of 29 times and pays no dividend and the dividend yield on Xero Ltd is exactly that, zero! We remain true to label and endeavour to swim between the dividend flags.

The grossed-up dividend yield on the portfolio now rests at 6.9%, which remains superior to the market dividend yield of 5.1%, despite owning no Banks and many other traditional income payers.

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For new or additional applications into the Fund, please click [here](#).

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