Ellerston Capital

Monthly Newsletter May 2024

Founded on Discovery

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Ellerston Capital

Monthly Newsletter May 2024

Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception* (p.a.)
Ellerston Global Mid Small Cap Fund - Class A	**1.0%**	6.1%	0.5%	9.8%	10.1%
Ellerston Australian Micro Cap Fund	**0.9%**	20.7%	-0.04%	11.4%	13.4%
Ellerston India Fund	**0.3%**	25.3%	12.7%	9.5%	9.9%

Performance figures shown are net of fees and expenses. Past performance is not a reliable indication of future performance.
*Please refer to a summary of fund performance page for Fund inception dates and APIR codes.

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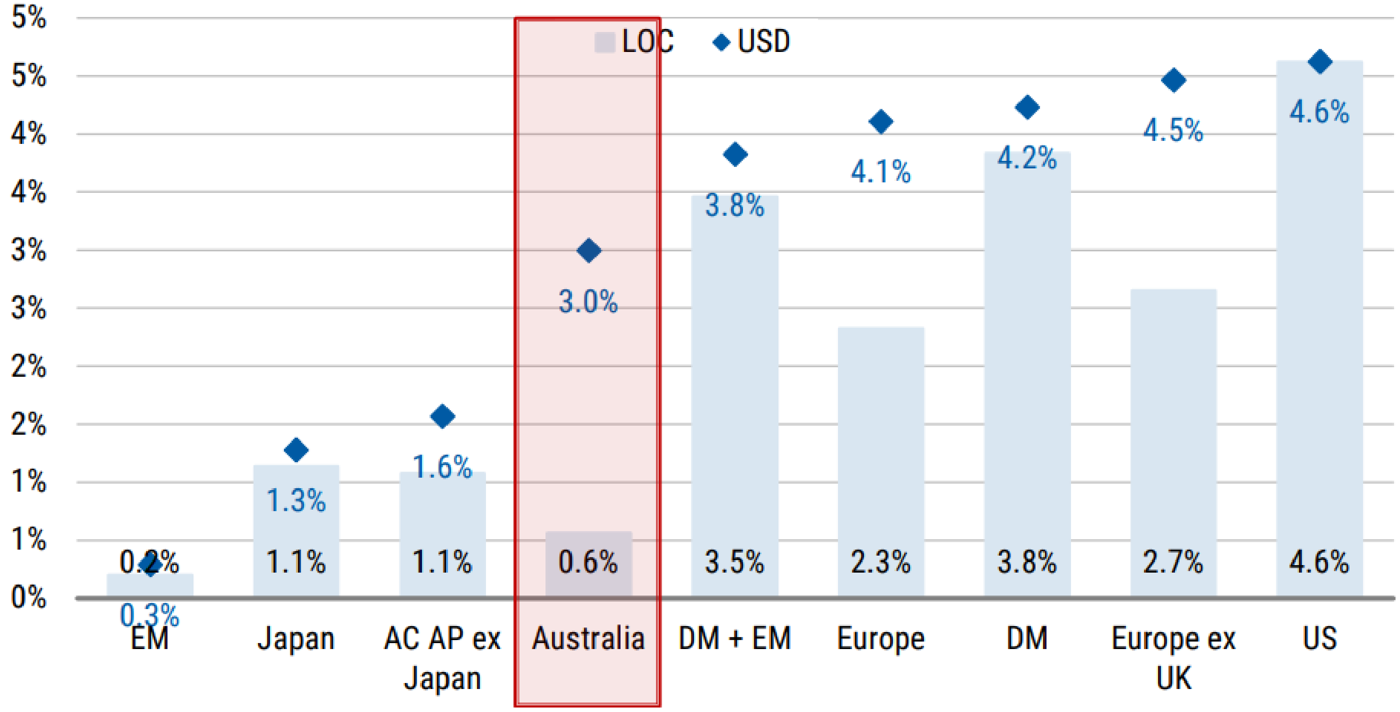
Monthly Market Update

Market Overview

Global equities squeezed higher during May on the back of surging hopes surrounding the extensive possibilities that AI technologies can bring. The MSCI Developed Markets Index rose +4.1%, with the US proving the strongest region by returning +4.6%, ahead of the Emerging Markets which closed up 1.2%. The S&P 500 increased by +5.0% in local currency terms, with IT leading the GICS sector charge (+9.95%), while Energy (-1.0%) was the only sector to end the month lower. Meanwhile domestically, the S&P/ASX 200 underperformed the DM World performance, rising by a more modest +0.9%. Globally, IT and Utilities were the two best performing sectors in May, and domestically, it was IT (+5.4%), Utilities (+3.4%) and Financials (+2.6%) that outperformed.

MSCI Global Country/Regional Indices Performance for the May CYTD



Source: Morgan Stanley

Australia

On the domestic economic front, labour force data volatility continued in April, with better than expected jobs growth but a sharp unexpected rise in unemployment due to a stronger participation rate. As a result, bonds rallied on the softer data. However, in late May, the inflation print proved hotter than expected. The April CPI jumped 0.7%, ticking up to 3.6% on a YoY basis, much higher than consensus of 3.3%. The trimmed mean, the RBA's preferred measure, also ticked up to 4.1% YoY.

A relatively friendly, yet expansionary Federal Budget was delivered, with a message that fiscal policy would buy time on headline inflation, address consumption risks via cost of living support, while laying a foundation for investment pathways to be built. It posted a FY24 surplus of 0.3% of GDP, thanks to higher than forecast commodity prices and low unemployment. The Federal Budget, the expected July tax cuts and higher inflation data all make the likelihood of any rate cuts this year a low probability. We can be pretty certain that there will be no rate cut at the RBA's next policy meeting scheduled for June 17-18. The A$ closed the month 3.0% higher at US$0.67, given the hot inflation print late in the month and buoyant commodity prices.

Australian equities rose in May. The S&P/ASX 200 Accumulation Index closed up 0.9%, with IT, Utilities and Financials the best performers. IT (+5.4%) was driven by Xero (+10.6%) and Technology One (+9.7%) showing that technology firms can still deliver materially positive earnings surprises, followed by Utilities (Origin Energy +4.5%) and Financials (CBA +4.4%). The worst performing sectors were Communication Services (-2.6%) dragged down by Telstra (-5.4%, after the market reacting negatively to the move away from CPI-linked post-paid mobile pricing), followed by Consumer Staples (Wesfarmers -2.8%) and Energy (Woodside -1.9%).

For the month, the top stocks that made a positive contribution to the Index's return were CBA (+37bps), BHP Group (+31bps), Aristocrat Leisure (+15bps, after posting a 1H24 beat), Westpac (+14bps) and Goodman Group (+14bps).

Conversely, there were multiple negative earnings surprises in May. The bottom five stocks detracting from the Index's performance were James Hardie (-14bps)., Telstra (-10bps), Fortescue (-10bps), Wesfarmers (-8bps) and Sonic Healthcare (-5bps, after a big earnings miss). The ASX Small Ordinaries closed down 0.5%, worse than the broader benchmark of +0.9%. Within the ASX Small Ordinaries, the Small Resources fared particularly well, up 1.9% (driven by Lithium hopeful Vulcan Energy, +40.2%) versus the Small Industrials, which returned -0.9%. The worst performing Small Cap was Omni Bridgeway, plunging 32.5% in May after its major shareholder class action against the CBA was found in favour of CBA, with the shares proceeding to sink to a 52-week low.

USA

The Federal Reserve (Fed) unsurprisingly left the benchmark rate unchanged in a range of 5.25% to 5.5% for a sixth straight meeting. Against the backdrop of a surprise increase in unemployment, Fed officials grew more concerned at this meeting about the stickiness of inflation, as highlighted in the FOMC minutes: "in recent months there had been a lack of further progress toward the Committee's 2.0% objective", with some members posing a willingness to tighten policy further if required. After a run of bad news on the inflation front, the Core PCE Deflator, the Fed's preferred inflation measure, was released at the end of the month and was in line with both the market and the Fed's expectations. The key measure increased by 0.2% mom, lower than the previous 3 monthly readings and was holding steady at 2.8% YoY. The next FOMC meeting is on 11-12 June and will include the Fed's Summary of Economic Projections.

In a lopsided reporting season for US Q1 earnings, the NASDAQ Composite (+7.0%) and the S&P 500 (+5.0%) were major beneficiaries of the Magnificent One (NVIDIA) which finished up 27% (123% CYTD) after posting a better-than-expected result, followed by the Russell 2000 which returned +5.0%. The laggard was the Dow Jones Industrial Average, +2.6%. Having said that, it's the first time in its 128-year history, that the Dow Jones Industrial Average of American "blue chips" has closed above the 40,000-mark intra-month!

Europe

It's looking like a done deal that the ECB will deliver a June rate cut of 25bps at its next meeting, given the divergent economic growth with the US, however this month's uptick in inflation to 2.6% was a friendly reminder of just how difficult the last mile of bringing inflation back to 2% will be for the ECB.

The Euro STOXX50 Index finished the month up 2.1%, with Financial Services (+6.8%) the top gaining sector, while Travel and Leisure fell the most (-4.02%). Among the major exchanges, Germany's DAX rose 3.2%, followed by the FTSE 100 which was up 2.1%, buoyed by dovish Bank of England remarks which signalled that it might need to cut rates more aggressively and France's CAC 40 was the laggard, closing 1.2% higher.

Asia

China economic activity confirmed stabilizing yet unbalanced growth, marked by robust export driven production and weak domestic consumption. 1Q24 GDP data showed that its economy rebounded stronger than expected, with real GDP growing at 5.3% YoY. A big miss in April retail sales (2.3% YoY versus consensus of 3.7%) re-enforced this divergence, where growth is driven by exports and new energy-related investment, while domestic consumption remains muted.

The latest round of property easing in China appears to be the most comprehensive and forceful in years. It encompasses centralised easing on both the supply and demand side, involving the clearing of property inventory by encouraging local governments to buy unsold homes, coupled with mortgage rate and down-payment relaxation (demand-side stimulus) aimed at stimulating more housing demand from first-time buyers and upgraders. Whilst these measures will take time, the RMD300bn relending scheme for local SOE'S demonstrates Xi Jinping's central government's determination to restore market confidence and attempt to rescue the beleaguered property market.

Asian markets performed mixed, but generally underperformed the US and most European markets, with the Hang Seng again leading with a return of +2.5%, followed by the Nikkei which rose 0.2%, but still powering ahead +19.3% for the CYTD. China's SSE and India's SENSEX were both down 0.3% and at the back was Korea's KOSPI, falling 2.1%.

Commodities

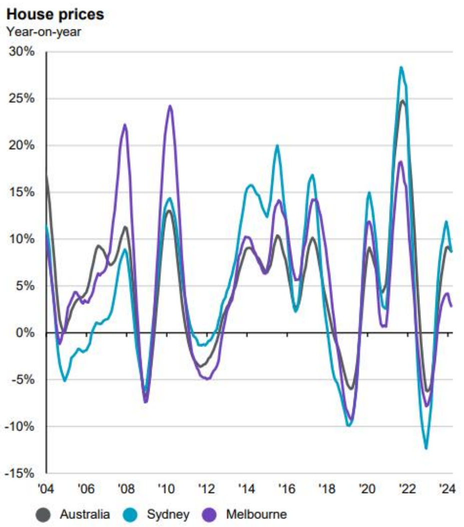
Iron ore prices were held back by rising port inventories, down 1% to US$117/tonne and coking coal prices were treading water at US$242/tonne. The base metal complex consolidated its recent gains after April's double digit run, with nickel 2.0% higher, aluminium up 1.0% and copper and zinc flat. Crude oil was off 6.0% with no Israel/Iran strikes this month and ongoing truce talks unwinding the geopolitical risk premium, which saw Brent closing at US$81/barrel. Gold edged up, finishing up 2% at US$2327/oz (equivalent to A$3493/oz), despite the PBoC slowing the pace of their gold buying, but continuing to increase their gold reserves for the 18th month in a

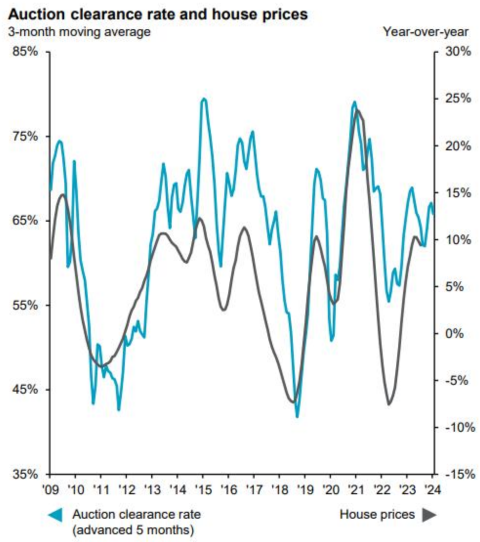
Bonds

The US 10-year bond yield retreated by 19bps to 4.50%, reacting positively to the April nonfarm payrolls at 175k additions, the lowest gain in six months and well below the consensus 240k. An in-line core CPI print early in the month and the better Core PCE Deflator also helped. The Australian 10-year bond yield was only marginally lower, given the late May CPI release, down 1bp to close at 4.41%.

Charts of the Month

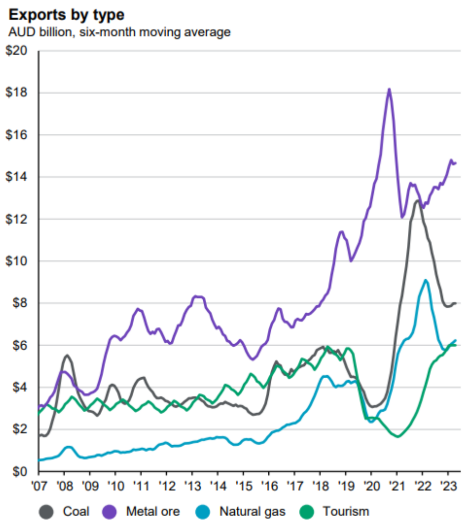
Residential Real Estate Prices

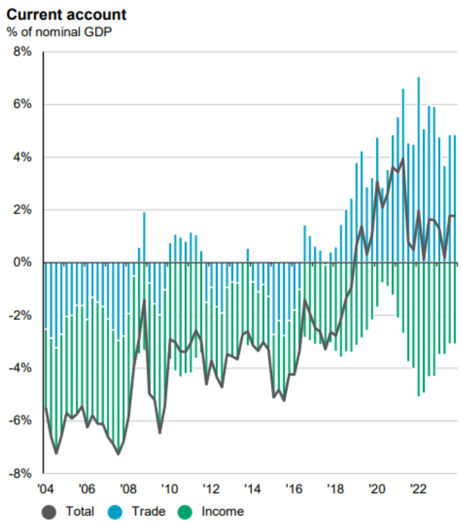




Source: RPD CoreLogic, J.P. Morgan Asset Management.
Guide to the Markets – Australia. Data as of 31/05/24.

Trade





Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – Australia. Data as of 31/05/24.

Ellerston Capital Limited
Summary of Market Performance

31 May 2024

		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total	1.0	0.9	2.8	13.7	7.5	7.9	7.5
	S&P/ASX 200	Total	0.9	1.2	3.2	12.9	6.8	7.8	7.8
	S&P/ASX 200 Industrial	Total	1.1	-0.1	6.2	14.9	6.0	7.0	7.5
	S&P/ASX 200 Resources	Total	0.4	5.1	-4.8	7.7	9.5	10.8	8.5
	S&P/ASX Small Ordinaries	Total	0.0	1.5	4.2	10.9	-0.1	4.2	6.5
	S&P/ASX Small Industrials	Total	-0.9	-2.5	3.2	11.4	-1.4	2.7	6.2
	S&P/ASX Small Resources	Total	1.9	12.8	5.5	8.1	4.3	9.8	6.9
	MSCI Australia Value	Net	1.0	0.9	1.2	15.8	8.7	8.4	6.6
	MSCI Australia Growth	Net	1.2	0.1	4.8	12.9	6.1	6.8	8.2
ASX 200 Sectors	Energy	Total	-0.7	-0.3	-1.3	1.6	16.6	3.9	0.5
	Utilities	Total	3.4	13.5	12.0	10.7	22.1	7.7	9.7
	Financials	Total	2.6	2.1	10.9	26.8	8.7	8.0	6.9
	Materials	Total	0.1	4.4	-5.6	9.4	8.1	12.3	11.2
	Industrials	Total	-0.4	-1.5	1.1	4.1	7.6	4.2	8.7
	Real Estate	Total	1.8	2.7	8.3	21.5	5.9	4.0	8.3
	Consumer Discretionary	Total	-0.6	-4.7	6.5	21.2	3.7	9.6	10.0
	Health Care	Total	0.1	-0.6	0.8	-2.7	0.6	7.0	13.0
	Information Technology	Total	5.4	4.3	26.1	31.0	7.0	12.7	12.8
	Consumer Staples	Total	-1.0	-1.8	-2.3	-5.3	1.2	4.3	4.9
	Communication Services	Total	-2.6	-7.9	-6.3	-2.5	4.4	6.1	2.0

Local Currency

		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
World	MSCI World Index	Net	4.1	4.1	10.9	25.3	8.4	13.3	10.2
	MSCI EM (Emerging Markets)	Net	0.5	5.0	6.5	14.6	-2.7	5.7	5.7
	MSCI AC World Index ex Australia	Net	3.7	4.3	10.5	24.3	7.1	12.5	9.7
	MSCI World Mid Cap	Net	2.4	2.9	6.9	20.3	3.5	9.8	8.3
Americas	S&P 500	Net	4.9	3.8	11.1	27.6	9.1	15.2	12.1
	Dow Jones Industrial Average	Net	2.5	-0.5	3.3	19.2	5.4	10.9	10.5
	NASDAQ Composite	Net	7.0	4.1	11.7	30.1	7.3	18.2	-
	Russell 2000	Total	5.0	1.1	2.7	20.1	-1.7	8.6	7.7
Asia Pac	Hang Seng Index	Net	2.5	10.9	7.4	3.2	-11.9	-4.7	0.9
	Nikkei 225 Stock Average	Net	0.2	-1.2	15.7	26.5	11.9	15.1	11.9
	MSCI AC Asia ex Japan	Net	1.4	6.9	8.2	13.7	-4.0	5.3	5.4
	MSCI India	Net	0.8	4.6	9.6	32.7	15.9	16.2	13.0

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6650	2.4	2.1	-2.5	2.8	-4.9	-0.8	-3.3
	Euro per Australian Dollar	0.6126	0.9	1.8	-0.8	0.9	-1.1	-0.3	-1.1
	British Pounds per Australian Dollar	0.5223	0.7	1.5	-2.4	0.0	-1.4	-1.0	-0.6
	Japanese Yen per Australian Dollar	104.5093	2.3	7.2	8.6	15.6	7.3	6.8	1.0

Ellerston Capital Limited
Summary of Fund Performance

31 May 2024

	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	3.2	3.8	-3.5	5.2	4.1	5.1	*ECL0013AU 3/6/13*
	RBA Cash Rate	0.4	1.1	4.2	2.3	1.6	1.7	1.8	
	Excess Return	**-0.8**	**2.1**	**-0.5**	**-5.8**	**3.7**	**2.4**	**3.4**	
Australian Equity	Ellerston Australian Share Fund	-4.2	0.6	3.0	6.9	9.0	6.9	8.5	*ECL0005AU 31/3/09*
	S&P/ASX 200 Accumulation Index	0.9	1.2	12.9	6.8	7.8	7.8	9.6	
	Excess Return	**-5.2**	**-0.6**	**-9.9**	**0.1**	**1.2**	**-0.9**	**-1.1**	
	Ellerston Overlay Australian Share Fund	-4.4	0.2	0.5	4.4	7.2	6.0	7.0	*ECL0012AU 1/7/11*
	S&P/ASX 200 Accumulation Index	0.9	1.2	12.9	6.8	7.8	7.8	8.8	
	Excess Return	**-5.3**	**-0.9**	**-12.5**	**-2.4**	**-0.6**	**-1.8**	**-1.9**	
	Ellerston Equity Income KIS Fund	-3.5	-0.1	8.6	5.5	8.9	-	8.6	*ECL7259AU 1/5/19*
	S&P/ASX 200 Accumulation Index	0.9	1.2	12.9	6.8	7.8	-	8.1	
	Excess Return	**-4.4**	**-1.2**	**-4.3**	**-1.3**	**1.1**	**-**	**0.5**	
	Ellerston Australian Micro Cap Fund	0.9	7.5	20.7	-0.0	11.4	-	13.4	*ECL0984AU 28/4/17*
	S&P/ASX Small Ordinaries Accumulation Index	-0.0	1.5	10.9	-0.1	4.2	-	6.3	
	Excess Return	**0.9**	**5.9**	**9.8**	**0.0**	**7.2**	**-**	**7.1**	
	Ellerston Australian Emerging Leaders Fund	0.2	3.6	32.1	-	-	-	-1.1	*ECL6748AU 13/8/21*
	S&P/ASX Small Ordinaries Accumulation Index	-0.0	1.5	10.9	-	-	-	-2.5	
	Excess Return	**0.3**	**2.0**	**21.2**	**-**	**-**	**-**	**1.4**	

Ellerston Capital Limited
Summary of Fund Performance

31 May 2024

	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	1.0	-4.0	6.1	0.5	9.8	-	10.1	*ECL8388AU 28/2/17*
	MSCI World Mid Cap Index	0.5	0.3	16.3	6.2	9.8	-	10.0	
	Excess Return	**0.6**	**-4.2**	**-10.1**	**-5.8**	**-0.1**	**-**	**0.2**	
	Ellerston Global Mid Small Cap Fund - Class B	1.0	-4.0	6.1	0.8	-	-	7.3	*ECL3306AU 18/8/20*
	MSCI World Mid Cap Index	0.5	0.3	16.3	6.2	-	-	10.6	
	Excess Return	**0.6**	**-4.3**	**-10.2**	**-5.5**	**-**	**-**	**-3.3**	
	Ellerston Asia Growth Fund (Hedge Fund)	-1.4	4.9	7.3	-	-	-	7.3	*ECL1411AU 1/6/2023*
	MSCI Asia ex Japan (non-accumulation)	-1.1	2.6	5.7	-	-	-	5.7	
	Excess Return	**-0.3**	**2.3**	**1.6**	**-**	**-**	**-**	**1.6**	
	Ellerston India Fund	0.3	5.5	25.3	12.7	9.5	-	9.9	*ECL0339AU 4/5/17*
	MSCI India Net Return Index	-1.7	1.7	28.0	16.4	13.0	-	12.3	
	Excess Return	**1.9**	**3.8**	**-2.7**	**-3.7**	**-3.5**	**-**	**-2.4**	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)**	-	3.4	14.6	12.4	-	-	16.3	*ECL2707AU 5/7/19*
	Ellerston Pre IPO Fund	-	-3.4	1.3	-0.7	-	-	2.9	*ECL0405AU 31/3/20*
	Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 31 March 2024								

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Disclaimer

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

** 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).

About Ellerston Capital

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

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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Should investors have any questions or queries, please contact our Investor Relations team on **02 9021 7701** or info@ellerstoncapital.com or visit us at **ellerstoncapital.com.**

For further information about any of our funds, please contact National Account Manager Nathan Boroughs at nboroughs@ellerstoncapital.com or 0466 775 961