



Ellerston Capital

Monthly Newsletter July 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 Equity Income KIS Fund	6.5%	12.3%	7.7%	9.3%	10.0%
Ellerston Global Mid Small Cap Fund – Class A	6.1%	4.2%	0.7%	9.4%	10.7%
Ellerston India Fund	5.9%	35.4%	14.8%	12.8%	11.3%

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

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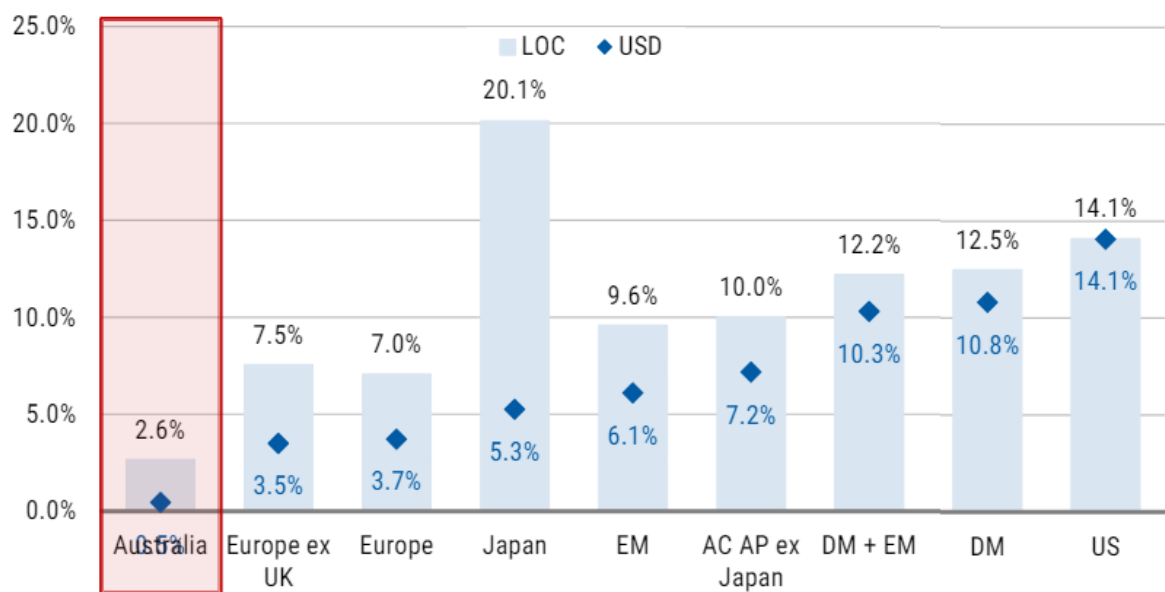
Monthly Market Update

Market Overview

What a month, full of geopolitical twists and turns and market volatility! An assassination attempt on Donald Trump, Joe Biden pulling out of the Presidential race, an Israeli air strike in Beirut which targeted Hezbollah's top military commander, immediately followed by the assassination in Tehran of Hamas political chief Ismail Haniyeh, Iran's Khamenei threatening to retaliate by ordering an attack on Israel and Netanyahu warning of "challenging days ahead". Stop the press... Throw in a massive global IT outage stemming from a botched software update by CrowdStrike Holdings affecting Windows computers worldwide, wreaking chaos across a range of businesses, including airlines, banks and healthcare systems – and then of course, the Paris Olympics – quel mois!

In the wash up, July marked a rotation from large caps, growth, and tech stocks, toward smaller companies, value, and more cyclically oriented sectors. This shift was quite pronounced, but choppy. The MSCI Developed Markets World Index (DM) squeezed 1.2% higher, in line with the US and outperformed Emerging Markets that finished up 0.2% in local currency terms. The S&P 500 set record highs intra month and rallied 1.2%, with Real Estate leading the GICS sector charge (+7.0). Meanwhile domestically, the S&P/ASX 200 which was driven by Industrials (+5.8%) and REIT's (+6.8%), outperformed the DM performance, rallying by a robust +4.2%. Globally, Real Estate and Utilities were the best performing sectors in the month of July and domestically, it was Consumer Discretionary (+9.1%), Real Estate (+6.7%) and Financials (+6.3%) that led the charge.

MSCI Global Country/Regional Indices Performance for the July CYTD



Australia

The Q2 CPI release on 31 July was keenly anticipated, given the risk of a rate rise on the heels of the hot May inflation data the previous month. The headline rate for the June quarter was 1.0% qoq (3.8% yoy) due to the June monthly print ticking down from 4.0% yoy to 3.9% yoy. However, the key measure market observers were focused on was the Q2 trimmed mean CPI number. It came in below consensus expectations (1.0% qoq, 4.0% yoy) at 0.84% qoq, 3.9% yoy, resulting in the AUD weakening and the 10-year bond yield falling 16bps. The next RBA meeting is scheduled for 5-6 August (as there was no meeting in July) and following the lower June inflation print, it looks like the expected rate hike has been given a stay of execution.

Australian equities pushed higher in July, which saw the Index finish at a record high of 8092 at month end. The S&P/ASX 200 Accumulation Index closed up 4.2%, with Consumer Discretionary, Real Estate and Financials, the best performers. Consumer Discretionary was driven by Wesfarmers (+13.0%) and Aristocrat Leisure (+9.0), followed by Real Estate (Scentre Group +11.2%) and Financials (CBA +7.9%). The worst performing sectors were Utilities (-2.9%), dragged down by AGL (-4.2%) and Origin Energy (-3.4%), followed by Energy (Woodside Energy -2.2%, selling off after announcing it would acquire LNG export developer Tellurian for \$900m) and Materials (Fortescue -11.9%, weighed down by a \$1.9bn block sell down).

For the month, the top stocks that made a positive contribution to the Index's return were CBA (+73bps), Wesfarmers (+41bps), Westpac (+38bps), NAB (+31bps) and CSL (+30bps). Conversely, the bottom five stocks detracting from the Index's performance were Fortescue (-18bps), South32 (-11bps), BHP (-7bps), Woodside Energy (-5bps) and Wisetech Global (-4bps). The ASX Small Ordinaries closed up 3.5%, just behind the broader benchmark of +4.2%. Within the ASX Small Ordinaries, the Small Industrials fared particularly well, up 5.1% versus the Small Resources, which were down -0.9%.

USA

In a widely anticipated move, the Federal Reserve (Fed) left its benchmark rate unchanged in the range of 5.25% to 5.5% for an eighth straight meeting, which is likely to be the last. Chair Jerome Powell said an interest-rate cut could come as soon as September. "The question will be whether the totality of the data, the evolving outlook, and the balance of risks are consistent with rising confidence on inflation and maintaining a solid labour market. If that test is met, a reduction in our policy rate could be on the table as soon as the next meeting in September." Despite the fact that existing expectations were already baking in a 25bps rate cut in September, the more dovish tone from Powell raised concerns that perhaps the soft-landing scenario could be at risk, with the market-implied probability now fully pricing in three interest rate cuts this year. In June, the Bank of Canada became the first major central bank among the Group of Seven countries to cut interest rates by lowering its official rate by 25bps to 4.75% and the central bank followed it up with another 25bps cut in July to 4.50%.

The NASDAQ Composite (-0.7%, with mega cap tech names generally missing results expectations) and the S&P 500 (+1.2%) lagged behind the Dow Jones Industrial Average, +4.5%. The Small Cap Russell 2000 was the significant outperformer, returning an impressive +10.2%, thanks to compelling valuations and the high expectations of a soft economic landing (questionable now).

Europe

The ECB left rates unchanged after cutting rates in June by 25bps, the first since September 2019, however ECB president, Christine Lagarde said that the next interest rate meeting would be left "wide open", hinting that another cut could also be on the cards. At the time of writing, the Bank of England joined the party, with its first rate cut since March 2020 by 25bps to 5.0%, causing a sharp selloff in the FTSE Banks Index. The 6.0% drop in UK Banks on the night was the biggest one-day fall since March 2022. Despite downbeat results from luxury names (with a number of companies citing weakness in the Chinese consumer), the Euro STOXX50 Index finished the month only down 0.3%. Burberry fell 21.3 % soon after the company suspended its dividend and reported a -21% drop in sales in the 13 weeks to the end of June and fellow luxury brand Hugo Boss (-11.5%) also fell after downgrading sales forecasts. LVMH shares also declined after missing estimates for Q2 sales. Among the major exchanges, the FTSE 100 was up 2.5% after the landslide win by the Labour Party, with Keir Starmer declared the new PM, followed by Germany's DAX which rose 1.5%. France's CAC 40 lagged (+0.8%), with the French election outcome ending in a hung parliament with no absolute majority.

Asia

China's top leaders gathered in mid-July for their highly anticipated meeting known as the Third Plenum. Xi Jinping unveiled sweeping plans to bolster the finances of China's local governments, which combined, had a total deficit of 15 trillion yuan (US\$2.1 trillion) in 2023. Beijing is aiming to shift some of its revenue, including receipts from consumption tax to regional coffers, in yet another signal that Xi is focused on supporting, rather than employing new big bang stimulatory measures. The current deleveraging will continue, with the Politburo setting a deadline for the completion of related goals (derisking property, local governments and regional banks) by the end of 2029. It seems their end game is to lower the contribution to GDP from old growth drivers (property and financial sectors) and increase that from new segments of the economy. A week later, the PBoC unexpectedly cut the 7-day reverse repo rate (its key policy rate), by 10bp to 1.7% and the 1-year and 5-year Loan Prime Rates (LPRs), China's benchmark loan rates, were also lowered by 10bp. For the past 11 months, the PBoC has kept its policy rate steady, largely for the sake of currency stability, likely due to weaker 2Q data prints and the heightened odds of a US FOMC rate cut in September.

Asian markets generally underperformed the US and most European markets, however India's SENSEX continued charging ahead with a return of +3.2%, followed by China's SSE which rose 0.9%, Korea's KOSPI returned -1.0% and the Hang Seng was down 1.1%. After surpassing its all-time high for three days in a row in week two, Japan's Nikkei was the standout underperformer, falling 1.2% (dragged down by the Japanese exporters) after the yen's stunning late month revival, gaining over 6% against the greenback since hitting a multi-decade low earlier in the month. This was caused by speculation that the BOJ would raise its target policy rate. The BOJ did indeed raise the rate on the last day of the month from 0.0-0.1% to 0.25%, as well as announcing a quantitative tightening (QT) plan that would roughly halve monthly bond buying to 3 trillion yen from the current 6 trillion yen, starting from early 2026. This will no doubt cause further dislocation across all risk assets in the near future.

Commodities

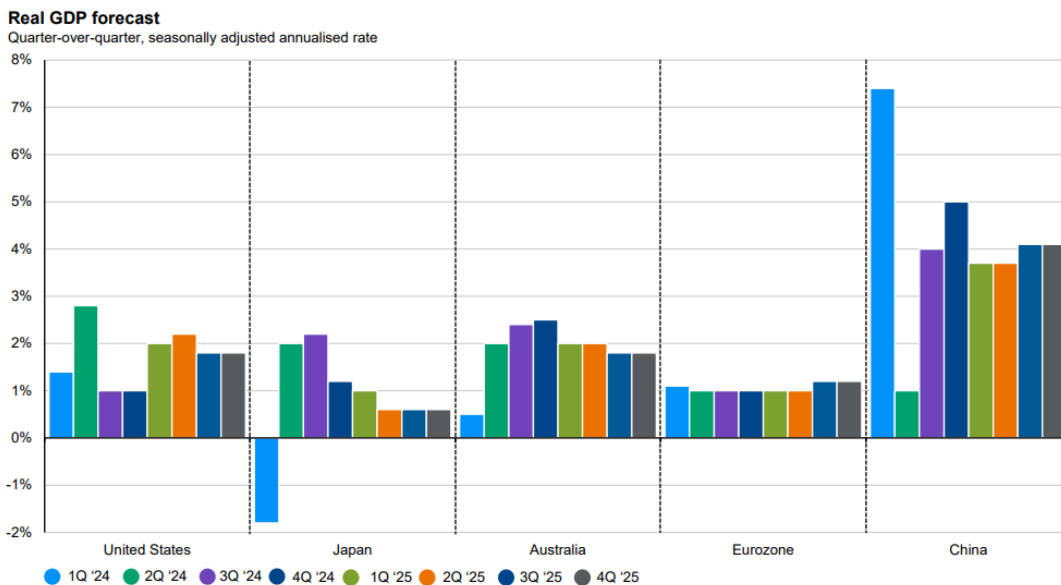
Chinese growth concerns have continued to weigh on commodities across the board. Iron ore prices weakened due stronger exports from Australia and Brazil in recent months, leading to rising port inventories in China, which should rebalance following weaker shipments experienced in July. Prices were down 5% to US\$101/tonne, with coking coal prices also falling 7% to US\$217/tonne. The base metals complex had a strong reversal in trend due to softening global demand, with copper down 4%, nickel falling 5% and aluminium collapsing by 11%. Crude oil prices fell 4% to close at US\$81/barrel as a result of underwhelming demand from Asia, with China crude imports the main culprit, down 325kb/day (-3%). Gold finished up 5% US\$2448/oz (equivalent to A\$3743/oz), reacting to a weaker US dollar, India cutting import duties on gold and silver from 15% to 6.0% in a move to lift retail demand and the recent escalation of hostilities in the Middle East towards month end.

Bonds

The US 10-year bond yield retreated by 37bps to 4.03%. Treasuries reacted positively to the friendlier inflation numbers and more dovish comments from the FOMC meeting, with a September rate cut a lay down misère. The Australian 10-year bond yield also followed the trend, down 19bps at 4.12%, but it was the unexpected lower core inflation print on 31 July which contributed 16bps of the 19bps rally. The A\$ closed the month down 2% at US\$0.65, due to weaker commodity prices and lower bond yields.

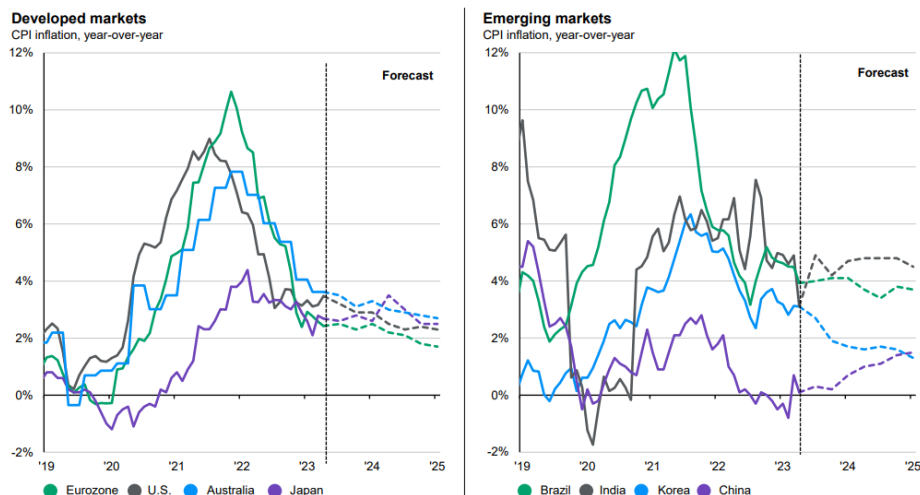
Charts of the Month

Global Growth



Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management. Forecasts are from 2Q '24 onwards. Past performance is not a reliable indicator of current or future results.
Guide to the Markets – Australia. Data as of 02/08/24.

Global Inflation



Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current or future results.
Guide to the Markets – Australia. Data as of 02/08/24.



			Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total		4.2	7.0	8.9	15.0	8.5	7.7	7.8
	S&P/ASX 200	Total		4.2	6.2	8.6	13.5	7.4	7.5	8.0
	S&P/ASX 200 Industrial	Total		5.8	10.5	16.1	20.9	8.3	7.5	8.2
	S&P/ASX 200 Resources	Total		-1.0	-6.6	-11.4	-6.4	4.5	7.6	7.3
	S&P/ASX Small Ordinaries	Total		3.5	2.0	6.3	9.3	-0.6	3.5	6.3
	S&P/ASX Small Industrials	Total		5.1	5.7	10.0	12.7	-0.3	3.1	6.7
	S&P/ASX Small Resources	Total		-0.9	-7.1	-3.8	-0.4	-1.1	5.6	4.9
	MSCI Australia Value	Net		2.7	3.5	3.7	10.1	9.3	8.0	6.5
	MSCI Australia Growth	Net		5.2	9.9	13.8	19.9	7.5	6.7	8.9
ASX 200 Sectors	Energy	Total		-0.4	-2.6	-3.2	-10.1	15.3	2.7	0.2
	Utilities	Total		-2.9	5.0	13.8	5.1	20.7	7.0	9.7
	Financials	Total		6.3	14.6	23.9	30.9	13.3	9.3	7.7
	Materials	Total		-0.1	-6.5	-11.8	-3.8	3.1	9.2	9.8
	Industrials	Total		5.6	5.1	6.6	7.0	6.9	3.6	9.1
	Real Estate	Total		6.7	8.7	15.6	24.5	6.4	4.1	8.2
	Consumer Discretionary	Total		9.1	11.8	19.8	29.5	6.4	11.4	11.0
	Health Care	Total		4.7	9.4	10.1	15.6	2.5	6.8	14.1
	Information Technology	Total		0.2	7.2	28.2	23.2	5.6	11.8	12.6
	Consumer Staples	Total		4.0	7.7	6.2	1.1	1.7	3.5	5.8
	Communication Services	Total		5.3	5.2	1.2	3.6	5.7	6.6	2.5
Local Currency										
World	MSCI World Index	Net		1.2	7.8	14.8	19.4	8.3	12.5	10.6
	MSCI EM (Emerging Markets)	Net		0.6	5.4	11.7	10.4	0.7	5.9	5.6
	MSCI AC World Index ex Australia	Net		1.1	7.6	14.6	18.4	7.4	11.8	10.0
	MSCI World Mid Cap	Net		3.9	5.1	9.7	12.6	3.6	9.0	8.5
Americas	S&P 500	Net		1.2	9.9	16.4	21.6	9.1	14.4	12.5
	Dow Jones Industrial Average	Net		4.5	8.4	9.2	16.5	6.9	10.4	11.2
	NASDAQ Composite	Net		-0.7	12.6	17.6	23.3	6.8	17.2	-
	Russell 2000	Total		10.2	14.6	12.1	14.3	1.9	8.9	8.7
Asia Pac	Hang Seng Index	Net		-1.1	0.2	5.0	-9.8	-9.4	-5.9	-0.2
	Nikkei 225 Stock Average	Net		-1.2	1.9	17.7	19.6	14.6	14.5	11.3
	MSCI AC Asia ex Japan	Net		0.1	5.7	12.8	9.3	-0.5	5.4	5.2
	MSCI India	Net		4.4	12.4	22.3	38.1	19.2	20.4	13.4
			SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6530		-2.2	0.6	-4.3	-3.1	-3.9	-1.1	-3.5
	Euro per Australian Dollar	0.6035		-3.2	-0.6	-2.3	-1.3	-0.9	-0.5	-1.4
	British Pounds per Australian Dollar	0.5084		-3.8	-2.0	-5.0	-2.9	-1.3	-2.0	-0.8
	Japanese Yen per Australian Dollar	98.2504		-8.5	-3.9	2.1	2.6	6.8	5.6	0.3



Ellerston Capital Limited
Summary of Fund Performance

31 July 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	1.9	-1.1	4.8	-3.7	3.7	3.5	5.0	ECL0013AU 3/6/13
	RBA Cash Rate	0.4	1.1	4.3	2.6	1.7	1.7	1.8	
	Excess Return	1.5	-2.2	0.5	-6.3	2.0	1.8	3.2	
Australian Equity	Ellerston Australian Share Fund	5.7	0.9	6.1	7.5	8.7	7.1	8.8	ECL0005AU 1/4/09
	S&P/ASX 200 Accumulation Index	4.2	6.2	13.5	7.4	7.5	8.0	9.8	
	Excess Return	1.5	-5.3	-7.4	0.0	1.1	-0.9	-1.0	
	Ellerston Overlay Australian Share Fund	5.4	0.1	4.2	5.0	6.8	6.2	7.3	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	4.2	6.2	13.5	7.4	7.5	8.0	9.1	
	Excess Return	1.2	-6.1	-9.3	-2.4	-0.7	-1.8	-1.9	
	Ellerston Equity Income KIS Fund	6.5	4.5	12.3	7.7	9.3	-	10.0	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	4.2	6.2	13.5	7.4	7.5	-	8.8	
	Excess Return	2.3	-1.7	-1.2	0.2	1.8	-	1.1	
	Ellerston Australian Micro Cap Fund	4.9	9.1	25.7	0.4	11.6	-	14.3	ECL0984AU 28/4/17
	S&P/ASX Small Ordinaries Accumulation Index	3.5	2.0	9.3	-0.6	3.5	-	6.4	
	Excess Return	1.4	7.1	16.4	1.0	8.1	-	7.9	
	Ellerston Australian Emerging Leaders Fund	3.3	6.6	33.7	-	-	-	1.0	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	3.5	2.0	9.3	-	-	-	-1.7	
	Excess Return	-0.2	4.6	24.4	-	-	-	2.7	



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	6.1	6.5	4.2	0.7	9.4	-	10.7	ECL8388AU 1/3/17
	MSCI World Mid Cap Index	7.0	5.4	14.7	5.6	9.3	-	10.4	
	Excess Return	-0.9	1.1	-10.5	-4.9	0.0	-	0.2	
	Ellerston Asia Growth Fund (Hedge Fund)^	0.6	5.1	10.0	-	-	-	12.2	ECL1411AU 1/6/2023
	MSCI Asia ex Japan (non-accumulation)	1.7	4.0	7.2	-	-	-	9.5	
	Excess Return	-1.0	1.1	2.7	-	-	-	2.7	
	Ellerston India Fund	5.9	11.8	35.4	14.8	12.8	-	11.3	ECL0339AU 4/5/17
	MSCI India Net Return Index	6.3	11.4	40.0	19.2	17.0	-	13.9	
	Excess Return	-0.5	0.5	-4.6	-4.4	-4.2	-	-2.6	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)**	-	3.6	12.7	9.8	-	-	17.1	ECL2707AU 5/7/19
	Ellerston Pre IPO Fund	-	1.2	2.0	-0.9	-	-	3.1	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 30 June 2024								

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Disclaimer

The net return figure is calculated after fees and expenses. Above figures are those available as at 08 August 2024, except where otherwise stated. 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).

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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	Fixed Income & Multi-Asset
				
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 Bespoke Global Portfolios	Australian P/E Strategy – Tech & Healthcare Unlisted / Pre-IPO Venture Capital Bespoke Unlisted Strategies	Fixed Income Bespoke Multi-Asset Solutions

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

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