

Ellerston Equity Income KIS Fund

Monthly Report as at 31 July 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	CYTD	12 Months Rolling	3 Years (p.a.)	4 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Fund Net Return [^]	6.45%	4.54%	8.78%	12.33%	7.67%	12.13%	9.33%	9.97%
Benchmark [*]	4.19%	6.21%	8.59%	13.53%	7.44%	12.37%	7.52%	8.84%
Alpha	2.26%	-1.67%	0.20%	-1.20%	0.23%	-0.24%	1.80%	1.12%

[^]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	32
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	\$81.72m
Platform Availability	HUB24, Netwealth
Lonsec Rating ³ SQM Rating ³	Recommended 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.

³Lonsec Rating assigned 31 May 2024. SQM Rating assigned 6 October 2023.

The Team



Chris Kourtis
Director & Portfolio Manager

39 years of industry experience.



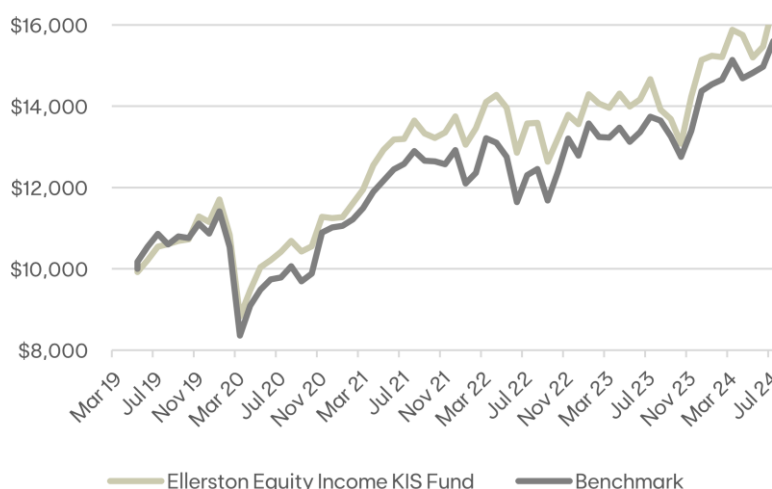
Stephen Giubin
Senior Investment Analyst

36 years of industry experience.

FY25(e) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.2	4.9
Dividend Yield (%)	6.1	3.7
Price/Earnings (x)	12.4	17.3

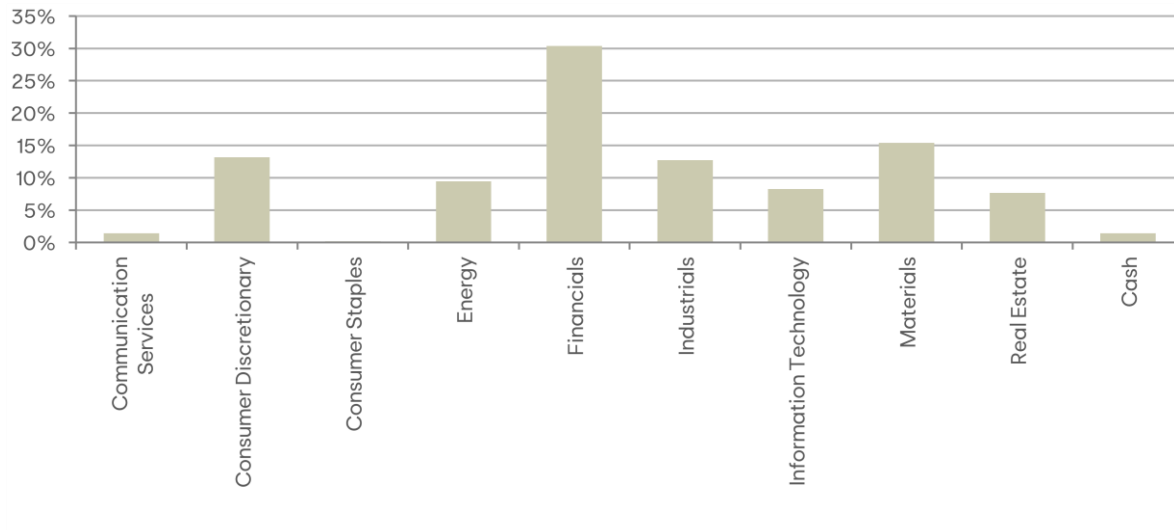
Source: Ellerston Capital.

Growth of \$10,000 Investment



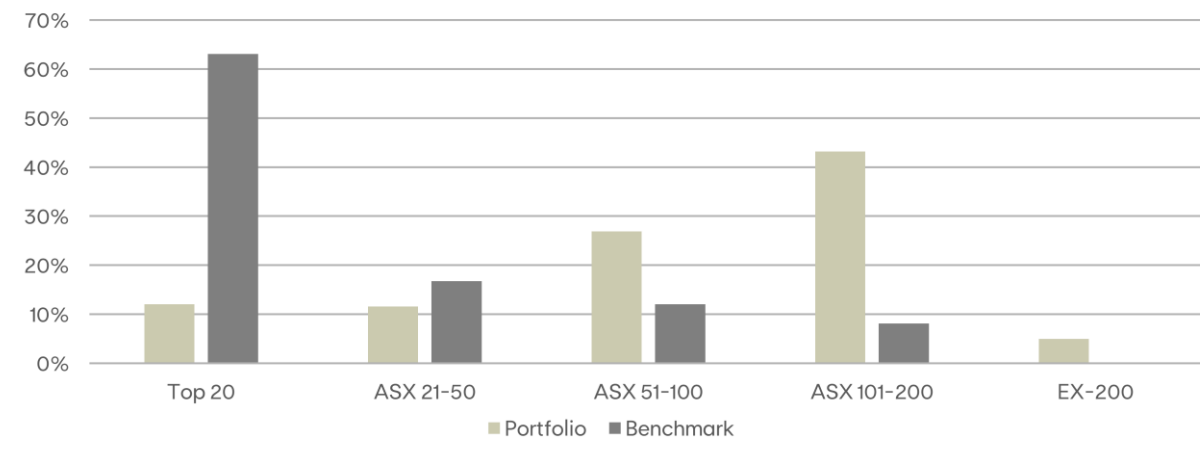
Fund Performance shown is net of fees, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. Source: Ellerston Capital.

Sector Allocation



Source: Ellerstun Capital.

Exposure by Market Capitalisation



Source: Ellerstun Capital.

Top 10 Holdings*

Atlas Arteria
Bapcor
Dexus
Insignia Financial
IRESS
Liberty Financial Group
Medibank Private
Orora
Perpetual
Santos

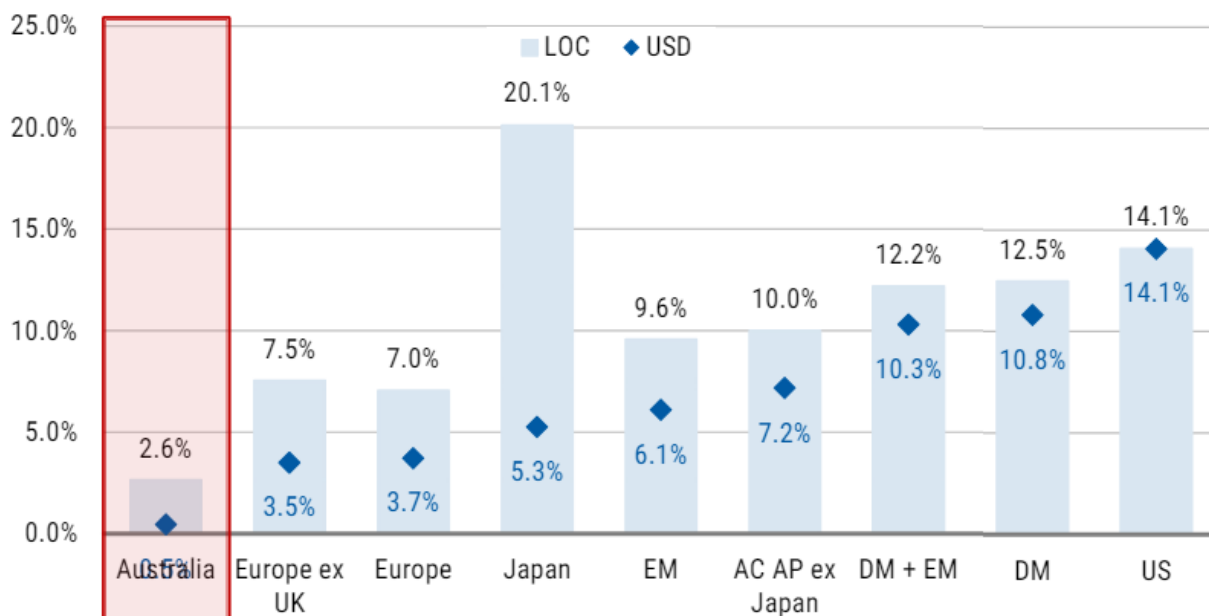
* In alphabetical order.
Source: Ellerstun Capital

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 (+6.6%) and Financials (+6.3%) that led the charge.

MSCI Global Country/Regional Indices Performance for the June CYTD



Source: Morgan Stanley

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.

Australia

The Q2 CPI release on 31 July was keenly anticipated, given the risk of a rate rise on the heels 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 (-6.5%), 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%.

COMPANY SPECIFIC NEWS

The Market Hits

IRESS (IRE +32.0%)

IRE provided a very positive trading update with 1H24 adjusted EBITDA guidance of \$65-67m, 10% above consensus expectations, with the company on track to achieve half of the mid-point of their previous full year guidance, given that the 2H is typically seasonally stronger. The 1H24 EBITDA guidance represents an impressive like for like earnings uplift of ~50% on pcp, as a result of active cost management and revenue growth. IRE also announced that the sale of its UK mortgages business was also expected to consummate by 1 August 2024, following the successful completion of all conditions precedent. The company stated that it will use the net proceeds of all divestments to retire debt, "paving the way to return to maintainable dividends", post a temporary pause of dividend payments in 1H23. The combination of an earnings upgrade, timely sale receipt of the mortgage business and planned capital management via a return to dividends was exactly what investors wanted to hear, giving them more confidence that after a few initial speed humps, IRE's transformational strategy was beginning to deliver.

Zip Co (ZIP +30.8%)

Buy Now Pay later service provider ZIP announced its 4Q24 results update and on the same day, a \$217m equity placement via a bookbuild at \$1.56, which surprisingly, was done at only a 2.8% discount to ZIP's last traded price. The company also announced a non-underwritten share purchase plan to raise up to \$50m for retail investors. ZIP upgrades FY24 Normalised Cash EBITDA to \$67-70m, compared to the previous guidance for at least \$60.6m. The capital raising will be used to repay ZIP's existing \$150m corporate debt facility (incurring a prohibitive 15% interest charge) and associated exit fee, all aimed to optimise ZIP's capital structure and provide greater flexibility for future growth. Investor focus centred on the strong US TTV growth, which was up 41% yoy, ignoring ANZ TTV that remained weak (-11%) and side stepping bad debts which ticked up from 3.49% in 3Q to 4.69%. The company has always sold future growth to investors but needed equity to keep fuelling it. Positive EBITDA in FY24 and post the current equity raising implies that ZIP can fund its growth internally, exciting investors that vehemently bid the stock up this month. It wasn't that long ago when ZIP closed at \$13.92 on 16 February 2021 and this month raised equity at \$1.56, 89% lower! Coincidentally, ZIP returned to the S&P/ASX 200 index during the month on the same day that the new equity placement shares settled.

Coronado Global Resources (CRN +21.5%)

CRN, a metallurgical coal producer with perennially low expectations, reported a stronger than expected 2Q result. Saleable coal production of 4.1Mt, was up 21% on the 1Q, with strong production across all three coal assets, in particular from the Curragh mine in Australia (+23%) and the US mines which were up 18%. After a year of heavy reinvestment in waste stripping catch-up at the Curragh mine and recapitalisation of the Buchanan underground mine in the US, CRN appears to have finally turned the corner operationally, firing up those investors previously sitting on the sidelines.

Magellan Financial Group (MFG +21.4%)

MFG reported FUM for the period ending June 30, showing that net flow had stabilised. Inflows matched outflows, with total FUM settling at \$36.6bn, which was well received. In addition, MFG announced that surprisingly, estimated performance fees for FY24 will be \$19m, up from \$0.1m at the 1H result and better than the FY23 fees of \$11.5m. FUM was down 68% from the 30 June 2021 level of \$113.9bn and since then, MFG which had fallen ~90% to a low of \$6.06 back in October last year, has managed to rally ~58%, but still down ~80% from the "dizzy" levels above \$70/share back in 2019.

Insignia Financial (IFL +21.0%)

IFL totally surprised the market by announcing that its FY24 UNPAT will be significantly higher than its prior consensus. IFL indicated that it expected to exceed FY24E guidance for net revenue margin (45.5-46.0bps) and EBITDA margin (11.8-12.2bps), given strong FUMA growth and the cost-optimisation programme benefits coming through towards the upper end of its \$60-70m guidance range. As a result, despite a large pre-tax increase in legacy remediation provisions to be booked in 2H24E (reflecting a more conservative approach than before and presumably aims to make this the final provision pertaining to this matter), new management expect to deliver FY24E UNPAT in the range of \$212-218m. The market concluded that the update was driven by more sustainable, rather than one-off factors, with the new CEO Scott Hartley keen to drive cost savings harder and much faster than previous management. With early signs that near term news flow could be more positive, analysts were quick to upgrade their earnings by ~10%, coupled with commensurate valuation/target price uplifts.

Genesis Minerals (GMD +19.1%)

GMD had a really good run this month, along with most of the Aussie gold producers which were up 8%. Veteran CEO Raleigh Finlayson is still highly regarded by investors during after his 14 year tenure at Saracen Mineral Holdings, which saw the market capitalisation rise from \$53m to \$6.0bn in 2021, before merging with Northern Star Resources. The strong potential for GMD's to accelerate its organic production growth, differentiated it from the broader sector performance.

Star Entertainment Group (SGR +18.4%)

According to press reports, SGR had as many as four bidders circling its struggling operations in the past few months, with the most serious bidder being a cashed-up Los Angeles-based casino developer who apparently lobbied plans to dramatically upgrade Star's local offering. Also, major long and wrong shareholder, Bruce Mathieson was granted regulatory approval to increase his stake above 10%. Media coverage was enough to get punters in and short sellers closing out positions. It is worth noting that the report of Mr Adam Bell SC in relation to the inquiry into the suitability of SGR in New South Wales, is due to be provided to the NSW Independent Casino Commission on 31 July 2024, with a public release thereafter, so SGR is far from out of the woods with regard to risks over its licence.

Elders (ELD +16.7%)

Elders attracted investor interest post lifts to target prices by a number of sell-side analysts. The ABARE June update was favourable for the winter crop production, given the conducive sub-soil moisture based on the weather outlook. This is good for farmers and thus good for ELD. Also, cattle prices started to turn up in July, just as weakness in north Asia created opportunities for Australian beef in the US market, with prices reaching 5-year highs.

Waypoint REIT (WPR +16.6%)

WPR is Australia's largest REIT owner of fuel and convenience retail properties. WPR gave a market update of its half-year portfolio valuation, resulting in a 1.8% uplift from the 31 December NTA. REITS as a sector rose 7% in July, buoyed by lower bond rates, but WPR got an added tailwind from an NTA increase, while most of its peers NTA's have been falling. The 6.4% rock solid yield was also deemed attractive.

James Hardie Industries (JHX +15.6%)

Sell-side analysts returned from their extensive overseas JHX investor days with gusto, especially the operational leverage to a recovering building materials and housing market premised on the expectation that mortgage rates in the US have peaked. The better economic data and the almost guaranteed September FOMC rate cut ignited investor interest in the industrial cyclicals across the board. The US Homebuilders index rose ~20%, dragging JHX up with it.

The Market Misses

Strike Energy (STX -28.6%)

STX came back down to earth this month after the 40% spike in June, following a more analytical approach to STX's June announcement. The pivot in the development concept from domestic gas sales to an 85MW gas peaking power project, aimed to achieve significantly higher average realised gas prices, was the main culprit. The scale of the new concept was small, the capacity tender process looks very competitive and at the same time, the Australian Government launched a CIS tender for 500MW/2,000MWh of clean dispatchable capacity (i.e. batteries). This will further crowd out short-term trading opportunities for "peakers", meaning the likelihood of receiving higher average realised gas prices via the spark spread, to compensate for the 65% downgrade of its South Erragulla reserves, was materially less than was initially thought.

Lifestyle Communities (LIC -27.6%)

Land lease company LIC was hit after negative media reports were aired by ABC news on 15 July. Specifically, complaints were lodged with the Victorian Civil and Administrative Tribunal (VCAT) from a few select homeowners in Wollert, a community in northwest Melbourne. The complaints pointed to a number of issues, but primarily the exit fees or DMF (deferred management fee) charged by LIC at time of the sale, which is relatively sizeable. Whilst these DMF fees have always been clearly spelt out in all LIC contracts, they make up ~4-14% of the company's pre-tax profit but represent a much higher percentage of cash earnings (~25%). As a reminder, the upfront price at which LIC sells a home to a new buyer is lower than peers Stockland and Ingenia (lower upfront margin), which arguably facilitates better equity release. On average, LIC's communities have historically seen capital growth of ~10% p.a., so to some extent, the DMF has been funded out of the capital growth. Given the extensive negative media coverage, the company was quick to withdraw forward guidance, citing difficulty in forecasting future sales and settlements, catching the market off guard, resulting in a sharp sell-off in the shares.

Bellevue Gold (BGL -23.2%)

BGL undertook a \$150m institutional placement at \$1.55 per share, a steep 15.3% discount to the closing price of \$1.83 on 25 July. Thereafter, BGL traded well below the placement price. The raising was partly for debt reduction and partly for its Stage 2 project expansion, however investor concern revolved around the fact that that Stage 1 had not yet fully been delivered/derisked and that insufficient exploration and development had occurred to sanction an expansion.

South32 (S32 -16.1%)

S32 guided to lower FY25 production across its asset base than market expectations, but it was primarily the shortfall in the Worsley alumina production numbers that caused S32 to fall 13% on the announcement. The WA EPA environmental approval process for ongoing bauxite production was yet to be finalised, however, the WA EPA released recommendations which created "significant

operating challenges for Worsley Alumina and impact its long-term viability". As a result, S32 announced it would take an impairment charge of US\$554m for its Worsley carrying value, so did investors.

Alumina (AWC -14.5%)

The all-scrip acquisition of AWC by Alcoa Corporation (AA) was completed on 23 July, along with a local listing for AA (ASX code AA1). AWC has traded in line with AA since the March 2024 announcement, but AWC shareholders have effectively swapped their bulk alumina production exposure for a leveraged aluminium company. The 11.0% fall in the aluminium price in July had a negative impact on both group of investors.

Fortescue (FMG -11.9%)

The big local miners were all down in July due to the 5.0% fall in the benchmark iron ore price. However, FMG was hit much harder as one of its investors dumped 100 million shares at \$18.55, representing 3.2% of the shares on issue. It was done via a block trade priced at the bottom end of the \$18.55 - \$19.10 range, a discount of 8.8% to the last trade price. The \$1.9bn block trade via JP Morgan caused some initial indigestion on the day, seeing the stock close at \$18.28, or 1.2% below the sale price and 10.2% below the last trade price. This follows a similar JPMorgan block trade of \$1bn done at \$21.60 as recently as on the 18th of June.

Boss Energy (BOE -11.6%) / Paladin Energy (PDN -8.6%)

Both uranium producers were impacted by another 4.0% fall in the U3O8 spot price to US\$82/lb, now down 22% from the US\$105/lb high in February. The radiation has certainly been lowered in the uranium sector, by investors taking profits and moving further away from the source!

Neuren Pharmaceuticals (NEU -9.3%)

NEU develops new drug therapies to treat multiple serious neurological disorders that emerge in early childhood and have no, or limited, approved treatment options. DAYBUE™ (trofinetide) has been previously approved by the US Food and Drug Administration (FDA) for the treatment of Rett syndrome in adult and paediatric patients, two years of age and older. NEU received Rare Paediatric Disease Designation from the US Food and Drug Administration (FDA) for its leading pipeline drug NNZ-2591 in Phelan-McDermid syndrome. A sponsor who receives an approval for a drug with this designation may qualify for a priority review voucher (PRV) that can be redeemed to receive priority review for a different product or sold to another sponsor. The rare paediatric disease PRV program aims to incentivize drug development for serious rare paediatric diseases. Whilst this news was positive, it wasn't a material move forward from the Phase 2 results of two months ago, leaving investors disappointed.

Domino's Pizza Enterprises (DMP -8.7%)

DMP gave an underwhelming business update and FY25 outlook mid-month, which wasn't taken too well by investors. Ongoing weakness in Japan and France saw DMP announce the closure of ~80 low volume stores in Japan and 20-30 in France. As a result, forecast store growth in FY25 is now essentially flat, with only +3-4% growth in FY26. For a growth, roll out new store business model, even the true believers were left scratching their heads and questioning the business strategy and poor execution...The update saw consensus earnings estimates fall 5%, 12% and 13% across the Street for FY24 to FY26, respectively (gone are the days when the stock traded at \$160 per share).

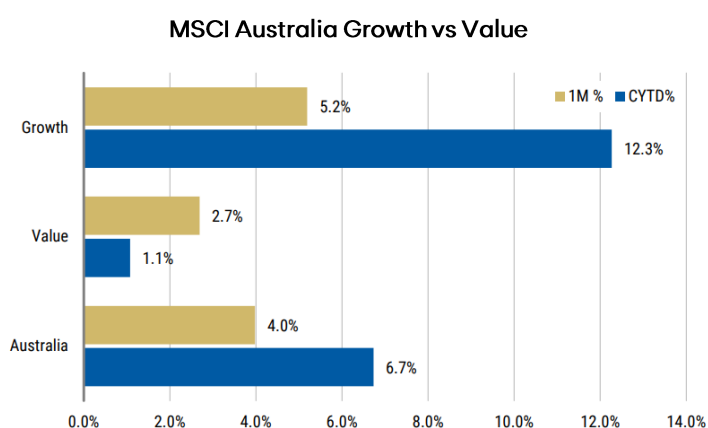
FUND PERFORMANCE

Against the backdrop of more subdued offshore markets, domestic equities excelled, finishing up 4.2% for the month to an all-time high and lifting the CY24 total return to +8.6%. In the month of July, the Consumer Discretionary 9.1% and Real Estate +6.6% sectors were the best performers (although Financials +6.3% contributed +2.0% to the +4.2% benchmark return), whilst Utilities -2.9% and Energy -0.4% led declines.

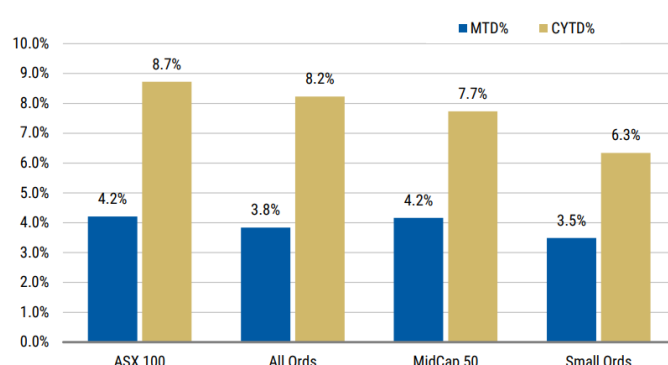
The Fund return of +6.53% in July materially outperformed the benchmark return of +4.19%, kicking off the new 2025 Financial Year on the right foot after a pretty tough FY24, where our numbers were slightly behind the ASX200 benchmark return, almost entirely due to our zero weight to Banks where we faced a huge 700 bps headwind by not owning any. This brings the return for the CYTD to a satisfactory 9.24%.

As it turned out, Banks contributed to just under half the benchmark's 4.2% in July, so despite this hurdle, it was even more pleasing that a couple of our high conviction stocks performed exceptionally well, upgrading their earnings and driving stock selection alpha for the Fund. With Bank multiples at all-time extreme highs and projections for the major banks earnings pointing to another down year (-4%), this disconnect cannot continue, especially with RBA rate cuts coming as early as February, which the market will start to pre-empt.

Growth outperformed Value during July, and for the CYTD



Large Caps outperformed in July and CYTD



Source: Morgan Stanley

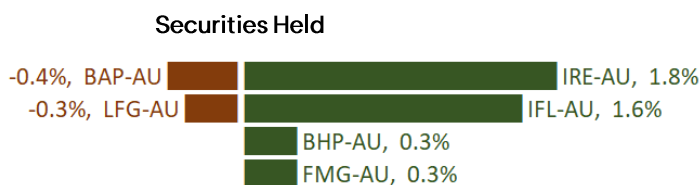
Financials, which rallied 6.3%, posted the largest contribution (+197bps) to the market's return during the month of July, driven by four of the major banks; CBA (+7.9%), Westpac (+9.4%), NAB (+6.5%) and ANZ (+2.3%). Consumer Discretionary followed (Wesfarmers +13.0% and JB HiFi, they've done it again) and the Health Care sector (CSL +4.9%) also outperformed.

Conversely, Utilities (Origin Energy -3.4%), Energy (Woodside Energy -2.2%) and Materials acted as the major drag on the broader market. Materials were weighed down by BHP and RIO which declined after releasing their quarterly results (RIO delivering lower than expected iron-ore shipments owing to a train derailment and BHP citing metallurgical coal production which fell 42% from the prior year). Fortescue fell sharply (-12%) as a sizeable \$1.9bn block sale was completed towards month end at a substantial discount to market.

Returns (%)*	Gross	Benchmark	Excess	Net
1 Month, FYTD 2025	6.53%	4.19%	2.33%	6.45%
3 Months	4.74%	6.21%	-1.48%	4.54%
CYTD	9.24%	8.59%	0.65%	8.78%
12 Months Rolling	13.13%	13.53%	-0.40%	12.33%
3 Years (p.a.)	8.68%	7.44%	1.24%	7.67%
4 Years (p.a.)	13.11%	12.37%	0.74%	12.13%
5 Years (p.a.)	10.39%	7.52%	2.87%	9.33%
Since Inception (p.a.)^^	11.03%	8.84%	2.18%	9.97%

*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 July Attribution



Securities Underweight/Not Held

N/A

Source: Ellerston Capital.

In the month of July, the main positive contributors to the Fund's performance were its overweight positions in IRESS (IRE +32.0%, following a surprise upgrade to earnings - refer Market Hits section), Insignia Financial (IFL +21.0%, which also gained after reporting that it expects to exceed FY24 revenue and EBITDA margins it previously guided to in February) and switching our residual large underweight position in BHP (BHP -0.9%) into Fortescue at the bottom (FMG -11.9%).

The detractors during the month were overweight positions in Bapcor (BAP -0.2%, lagging the market after announcing it had rejected Bain Capital's \$5.40 cash buyout offer) and Liberty Financial Group (LFG -2.2%).

FUND ACTIVITY

The Fund profitably exited remnant positions in Deterra, Elders, IPH and Origin and substantially pared back GQG and Suncorp after their recent strong performance. We added to existing holdings in Aurizon, Dexus, IGO and Orora and also lifted the weighting in Fortescue by switching out of BHP. We re-introduced a number of stocks to the portfolio that we know well and which we have held and profitably traded in the past, notably Santos (funded from a sell down in Woodside Energy) and leading retailer Premier Investments. We also dipped our toe in the water in IDP Education for the first time, which was a market darling and is now totally bombed out and friendless given the known risks and headwinds, yet has a very good business model placing students into education institutions globally as well as English language accreditation and teaching.

NEW STOCKS ADDED	STOCKS EXITED
<ul style="list-style-type: none"> IDP Education Premier Investments Santos Smartgroup Corporation Waypoint REIT 	<ul style="list-style-type: none"> BHP Group Deterra Royalties Elders IPH Origin Energy
INCREASED	DECREASED
<ul style="list-style-type: none"> Aurizon Holdings Dexus Fortescue IGO Orora 	<ul style="list-style-type: none"> GQG Partners Suncorp Group Woodside Energy

We switched out of the Fund's BHP Position and added to FMG on valuation grounds after FMG had fallen ~35% this calendar year, materially underperforming peers BHP and RIO (down 16% and 13% respectively) and significantly lagging the ASX200 (+8.6%) for the right reasons. Following the sharp de-rating, we believe FMG now offers a compelling entry point at current bombed out levels. Negative sentiment around sluggish but flat Chinese steel demand, elevated China port inventory and an improving iron ore supply outlook from West Africa (Guinea to ramp up to 60mtpa by 2027) have weighed on the big three Australian iron ore producers. However, we believe the valuation buffer now accounts for much of the risk of spot prices moving below US\$100/t. After this down leg, FMG screens with a higher FY25 dividend yield (7.2%), lower PE (8.0x) and a lower P/NPV (0.8x) than rivals BHP and RIO. We think this discount is unwarranted given the quality of FMG's long life iron ore assets and the fact that its C1 costs are lower than rivals MIN, RIO and BHP. Mineral Resources being by far the highest cost producer, recently announcing the pending closure of its very high cost Yilgarn operation (and retrenching ~1,000 workers).

FUND STRATEGY AND OUTLOOK

Global growth continues to moderate but the world is becoming less dependent on US demand as ROW capital expenditure and European consumers begin to pick up the slack. These developments are generating a modest recovery in global manufacturing ex the US. Inflation looks like it will remain sticky and persist given tight labour markets and elevated wages claims limiting the prospect of service sector disinflation. This sows the seeds for an easing cycle which has already started in Canada and the EU, with markets now pricing in cuts by the US Fed in September and November (possibly even 50 bps respectively).

Is the Fed behind the curve?

At the time of writing, the selloff in stocks so far early in August has intensified and bond yields have tumbled further. The weak US jobs report and surprisingly soft Manufacturing PMI print (the biggest fall in 8 months) has fuelled concerns that the Fed's restrictive policy of holding rates at a two-decade high has risked a deeper economic slowdown. The S&P 500 saw its worst reaction to jobs data in almost two years, with a plunge in key technology companies sending the Nasdaq 100 down over 10% from its peak, matching the definition of a technical "correction." A rally in Treasuries extended into a seventh straight day, with traders projecting the Fed will cut rates by more than a full percentage point in 2024 (two 50s later this year). "Bad news is no longer good news for stocks".

In the month of July, we saw a distinct rotation from Big Tech and Growth to Small Caps (Russell 2000), with PE contraction and expansion in the cohorts respectively.

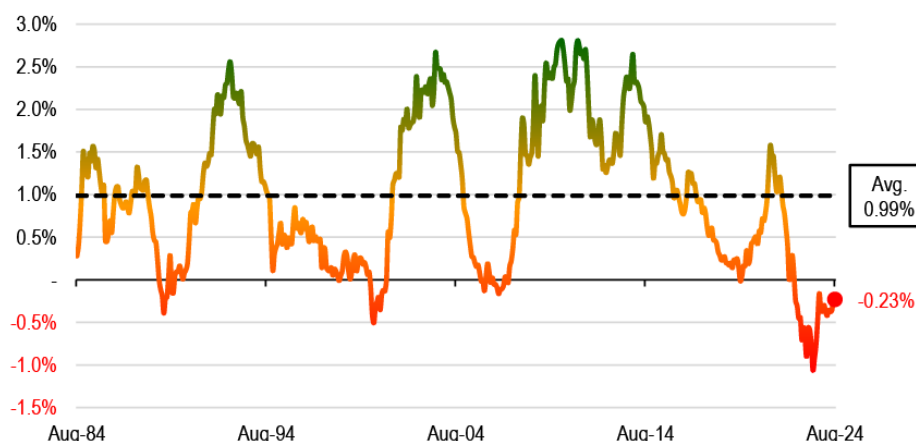
Return Decomposition

July 2024	EPS*	P/E	Price Return (Local)	Total Return (USD)
S&P 500	1.0	0.1	1.1	1.2
Big 6 TECH+	1.9	-4.9	-3.1	-3.1
S&P 500 ex TECH+	0.5	3.7	4.3	4.4
Russell 1000 Value	0.7	4.3	5.0	5.1
Russell 1000 Growth	1.5	-3.2	-1.7	-1.7
Russell 2000	1.1	8.9	10.1	10.2
MSCI EAFE	0.3	0.4	0.7	2.9
MSCI Europe	0.0	0.9	0.9	2.2
MSCI Pacific	1.0	-0.8	0.2	4.5

Source: UBS

Following a prolonged period of inversion, the US yield curve is now approaching positive territory. For many, this steepening is seen as a key factor in the July rotation.

US Yield Curve



Source: JP Morgan

US 2Q24 Earnings: It was a mixed bag during US reporting season, with poor results from the likes of Alphabet (-5.0%). All eyes were on Tesla Inc., which reported another quarter of disappointing profit and postponed its highly anticipated unveiling of autonomous taxis, sending the carmaker's volatile stock plunging the most in six months. Quarterly adjusted earnings fell to 52 cents per share, missing estimates for the fourth consecutive quarter. Chief Executive Officer Elon Musk confirmed the company will push back its much-anticipated event showcasing robotaxi prototypes by about two months to October, which saw investors rushing for the exit doors, with the stock closing down 12.3%. It wasn't just the mega cap technology names that featured. Lamb Weston slumped -28%, a record one

day decline in a session, after the potato chips and fries maker reported a decrease in its 4Q24 revenue and printed EPS way below consensus amid what it called "challenging market dynamics", citing menu price inflation at restaurants negatively impacting demand. Bellwether United Parcel Service (UPS) fell 10.5% post a Q2 miss (EPS of \$1.79 missed consensus of \$1.99) and a FY guidance cut. The result disappointed, with a large miss in operating margin as well as pricing which proved to be very weak. Car maker Ford Motor slumped 18.4% on the night after reporting second-quarter EBIT of US\$2.8b that missed Wall Street's expectations of US\$3.7b, with the return of frustrating warranty costs driving the disappointing print.

In megatech land, 5 of the 6 largest TECH+ companies reported EPS growth (29.0% vs. 9.7% for the S&P 500), while surprises have been less spectacular (5.4% vs. 4.8%). Last quarter, the group saw both higher growth (38.3%) and stronger beats (9.8%).

With 75.6% of the S&P 500's market cap having reported, 2Q expectations are now for revenues to grow 4.9% and EPS by 9.7%. Growth among groups varies significantly, as show below.

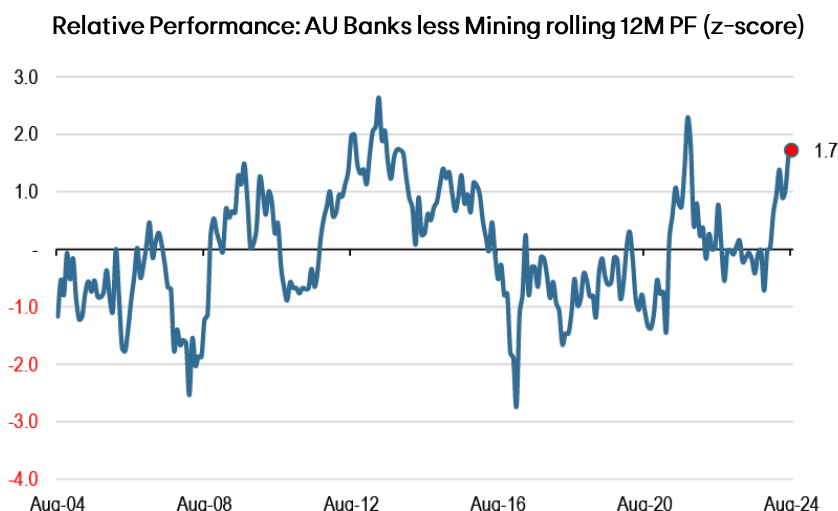
Q2 Group EPS Growth

- TECH+ 28.3%
- Financials 11.4%
- Utilities 10.0%
- Non-Cyclicals ex-Utilities 2.2%
- Industrials & Disc ex-AMZN -1.0%
- Energy & Materials -2.7%

Since the February results season here in Australia, up until now, the global economy appeared less prone to recession than many bears had feared. Outside of those companies with China exposure, most sectors have sailed through in the past six months. As it stands, only two sectors have endured earnings downgrades YTD - Mining and Energy. Looking ahead, the threat of a major down leg in earnings looks remote (with bank profits expected to retreat). For domestic cyclicals, the outlook should be somewhat buffered by tax cuts, rising real wages and the prospect of an RBA cut in early 2025. However, valuations in pockets of this group look extreme, with bank multiples at all-time highs and the retailers (JBH, SUL, HVN), not far behind. These eye watering valuations leave some cyclicals vulnerable to earnings disappointment in the upcoming August reporting season.

Resources appear to be the main drag on index earnings, with combined Mining and Energy EPS set to slide 16%. Projections for the major banks point to another down year, with harmonised FY24 EPS set to fall by ~4.0% and Large-cap healthcare stocks poised for a rebound in earnings this year.

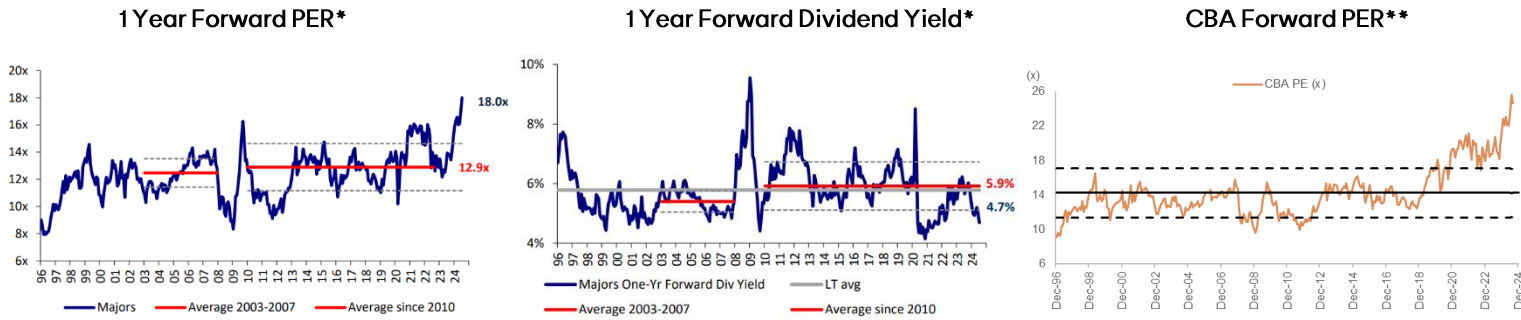
The performance gap (rolling YoY) between the Banks and Miners is currently at an extreme level (1.7 std dev) and is impossible to ignore. Something's got to give!



Source: JP Morgan

Historical Banks PER

The major banks are at an all-time high PER of 18.0x, yet their dividend yield has plummeted to recessionary, GFC or Covid levels. **CBA in particular, is way over-bought. It's now got to 4 standard deviations above its 30 year average!**



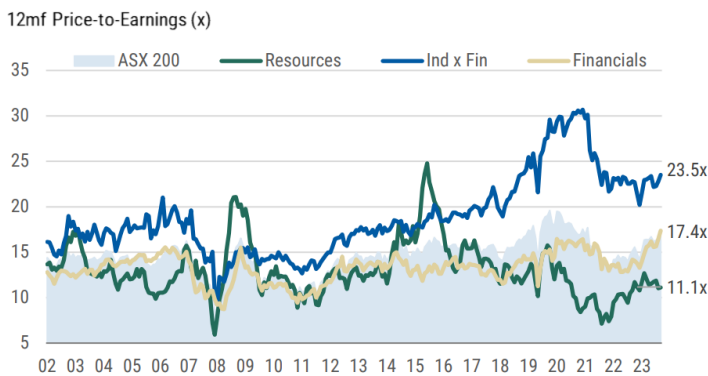
Source: Morgan Stanley*

Source: Barrenjoey**

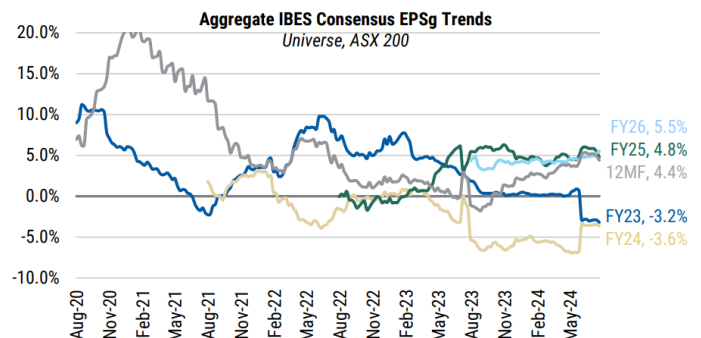
The RBA's view of the data remains somewhat cautious, discounting areas of strength and highlighting downside risks in the labour market and accelerating business insolvencies. The recent data since the June meeting, particularly the June CPI print, has put the kybosh on any rate rise. As we stated in June, the RBA is more likely stay on hold through 2024, with easing starting in early 2025.

In terms of Valuations, the domestic market 12MF P/E currently stands at 17.0x. Outer year earnings growth forecasts remain fairly anchored in very low-single-digit territory.

The 12M forward PE of the Industrials ex- Financials has Fallen from 30.2x to 23.5x



Annual Consensus EPS Growth Trends FY23-26



Source: Morgan Stanley

FY24 was a tougher year from a performance perspective given our selectively contrarian Value and Ex-Top 20 size bias, which during the period, remained out of favour in a market still chasing Big Caps, Tech, Growth, FOMO and Momentum. **Whilst we have been able to navigate around those factors many times before, the performance by the major banks was from PE expansion, despite earnings downgrades and valuations became very stretched, which caught us off guard.**

In July those banks edged higher once again, contributing almost half of the 4.2% benchmark return, but our high conviction positions delivered the outperformance. We are strongly of the view that our high conviction positions will continue to deliver and when coupled with the expected bank reversion, this should more than compensate in FY25 and we would expect significant alpha to be delivered.

Given the geo-political risks (the step up in tensions in the Middle East, China's military aspirations in the South Pacific) and uncertainty re the US election outcome now that Biden has pulled out, against the backdrop of sticky inflation and equities flirting with all-time highs, the risk of another unforeseen destabilising event for markets is high. Keep an eye on the seatbelt sign, as it's going to be a bumpy next few weeks.

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