

# Ellerston Capital

Monthly Newsletter August 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 Australian Absolute Return Fund	2.9%	9.7%	-4.0%	3.9%	5.2%
Ellerston Australian Micro Cap Fund	0.2%	25.6%	-2.0%	11.5%	14.2%
Ellerston Global Mid Small Cap Fund – Class A	-0.2%	3.3%	-1.4%	9.0%	10.5%

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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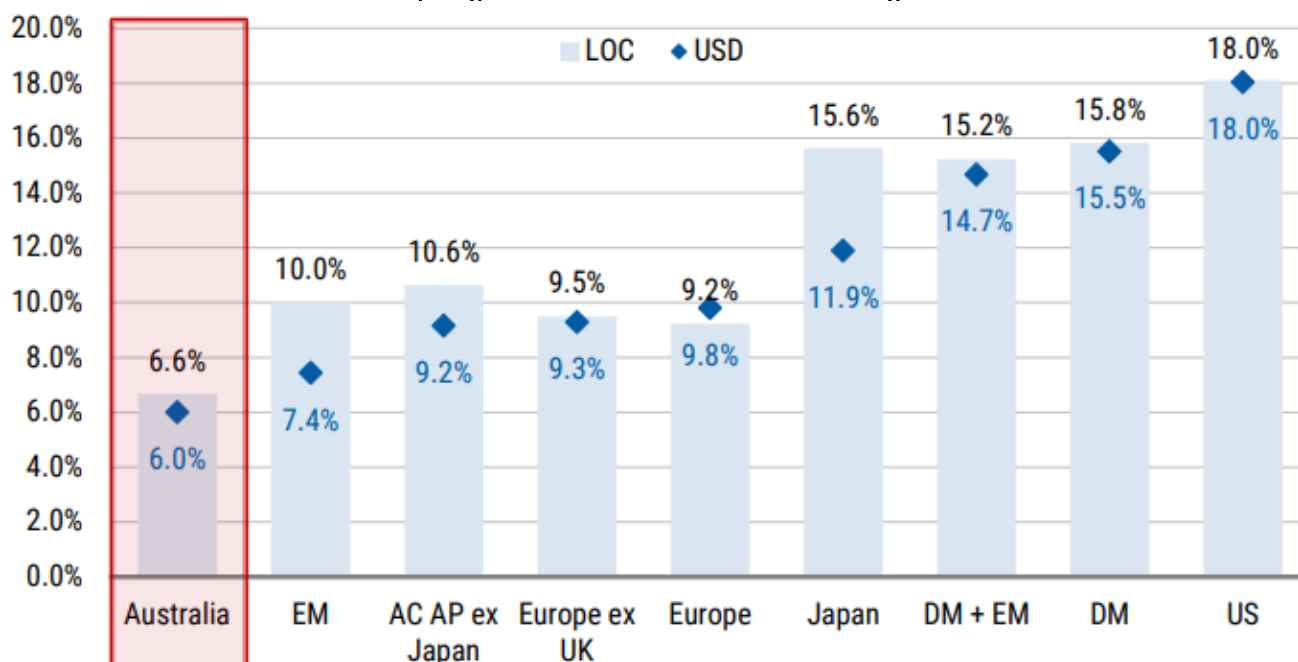
## Monthly Market Update

### Market Overview

Markets nose-dived in early August. The initial catalyst was renewed US recession fears on weaker jobs data that missed the mark. The slide intensified when the BOJ suddenly raised rates for the first time in 17 years. This led to a sharp rally in the Yen and a rapid unwind in a series of carry trades. The Nikkei's 12.4% drop on August 5th was the sharpest one-day fall since the Black Monday crash of 1987 (-14.9%). The VIX spiked to levels last seen during the depths of the initial COVID sell-off. A sense of gloom pervaded over most corners of the market. However, it didn't last long, with the upward trajectory in equity markets resuming in a matter of days. Firming expectations of an imminent start to the Fed rate cutting cycle (September), as well as the possibility of deeper 2024 cuts (-100bp) was enough to assuage market concerns.

The MSCI Developed Markets World Index (DM) squeezed 1.9% higher, in line with the US and outperformed Emerging Markets that finished down 0.1% in local currency terms. The S&P 500 set a record intra month high and rallied 2.4%, with Real Estate leading the GICS sector charge (+5.3%). Meanwhile domestically, the S&P/ASX 200 which was mainly driven by Financials (+1.9%) and Industrials (+3.9%), underperformed the DM performance, increasing by a mild +0.5%. Globally, Real Estate and Utilities were the best performing sectors in the month of August and domestically it was IT (+7.9%), Industrials (+3.9%) and Communication Services (+3.5%).

MSCI Global Country/Regional Indices Performance for the August CYTD



Source: Morgan Stanley

## Australia

As expected, the RBA left rates unchanged at its August meeting and later, Governor Bullock's speech and testimony to Parliament was still hawkish, as in her press conference immediately after the RBA meeting. Bullock pushed back again on market pricing for rate cuts and emphasised that the RBA was more focussed on upside risks to underlying inflation, with focus on risks to the outlook being more global than domestic, especially noting China.

Australian equities edged higher in August with the S&P/ASX 200 Accumulation Index closing up 0.5%, with Information Technology, Industrials and Communication Services, the best performers. Information Technology (+7.86%) was driven by WiseTech Global (+25.0%) and Life360 (+15.5), followed by Industrials (Brambles +17.2%, after delivering a very credible result) and Communication Services (Carsales.Com +8.6%). The worst performing sectors were Energy (-6.0%), dragged down by previous market darling uranium names Boss Energy (-22.2%) and Paladin Energy (-14.2%), followed by Materials (Mineral Resources -26.2%, smashed on a poor result) and Utilities (Origin Energy -5.1%).

For the month, the top stocks that made a positive contribution to the Index's return were CBA (+35bp), Westpac (+22bp), WiseTech (+19bp), ANZ (+18bp) and Brambles (+16bp). Conversely, the bottom five stocks detracting from the Index's performance were BHP (-36bp), QBE Insurance (-14bp), Goodman Group (-13bp), Cochlear (-13bp) and Mineral Resources (-11bp). The ASX Small Ordinaries closed down 2.0%, just behind the broader benchmark of +0.5%. Within the ASX Small Ordinaries, the Small Industrials did marginally better, down 1.9% versus the Small Resources, which were down -2.2%

The August reporting period saw earnings fall 4.4%, which was 1.1% better than expected. Positive earnings surprises were generally due to better margins, suggesting some companies still have sufficient pricing power to protect margins. For others, it was the ability of management to control costs which helped in a slowing demand environment. Positive earnings surprises marginally outnumbered negative surprises by a ratio of 10:9, but interestingly, dividend surprises were stronger than earnings beats, running at a ratio of 3 beats for every 2 misses. Growth sectors (IT and Health Care) had the most upside surprises, while Global Cyclical had the most misses, in part due to the higher AUD. Disappointingly, more than 40% of companies provided FY25 guidance that was below consensus, resulting in negative earnings revisions, delivering a flattish FY25 EPS outlook.

## USA

Federal Reserve (Fed) Chairman Powell spoke at the Jackson Hole Symposium on 23 August basically saying what the market was already expecting and pricing in. "After a pause earlier this year, progress toward our 2.0% objective has resumed. My confidence has grown that inflation is on a sustainable path back to 2.0%. The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

Importantly Powell said "the current level of our policy rate gives us ample room to respond to any risks we may face, including the risk of unwelcome further weakening in labour market conditions." The Fed put is alive and well, as is seemingly the soft-landing Goldilocks scenario.

The Small Cap Russell 2000 Index, which was last month's star performer, was August's laggard (-1.5%). The NASDAQ Composite (+0.7%), the Dow Jones Industrial Average (+2.0%) and the S&P 500 (+2.4%) were outperformers.

## Europe

Inflation looks to have cooled further in August, removing one of the last remaining obstacles for the second interest rate cut from the ECB at its next meeting to be held in September. Eurozone headline and Core CPI were in line with estimates, but core inflation was proving sticky at 2.8%, with a similar situation in the UK, which cut in August.

The Euro STOXX50 Index finished the month up 1.8%. Among the major exchanges, Germany's DAX was up 2.2%, followed by France's CAC 40 which rose 1.3%, with the FTSE 100 the laggard at +0.9%.

## Asia

China's growth momentum remained weak in July and early August. Retail sales growth edged up while manufacturing and infrastructure FAI remained resilient in July, all mainly due to a lower base last year. Property activity remained weak, with new start volumes stabilising in July versus June, but hovering lower than the Q2 average. Export growth cooled yoy, but real export volume was solid and loans to the real economy contracted. The July Politburo meeting called for faster implementation of existing policy support measures, but with no apparent new stimulus. The government rolled out more easing measures, including a policy rate cut, using special CGB funds to support consumption and equipment upgrades. Given the disappointing growth in recent months and the persistent property downturn, the government will need to seriously ramp up policy support for the rest of this year.

Asian markets generally underperformed the US and most European markets, however the Hang Seng was an exception with a return of +3.9%, followed by India's SENSEX which rose 1.0%. Japan's Nikkei violently reacted to the BOJ's 0.25% rate hike, which pushed up the Yen and sunk its stock market, falling 20% before stability returned. This was only after Yen carry trade covering by investors, with the Nikkei "magically" finished the month down only -1.1%. China's SSE fell -3.4% and Korea's KOSPI was the laggard, down -3.5%.

## Commodities

Chinese growth concerns have continued to weigh on commodities, particularly crude oil, coal and lithium. Iron ore prices went on a rollercoaster ride this month, falling 9% at mid-month and bouncing back to end flat at US\$100/tonne. At lower prices, we saw ex-Australia/Brazil/SA supply contract given their higher operating costs, which was responsible for the price rebound. Coking coal prices fell further, down 9% to US\$198/tonne, due to a ramp up in Mongolian exports and a recovery in Shanxi output following earlier safety related restrictions. The base metals complex was better, with aluminium the standout, rising 9% in line with the 8% increase in the alumina price and both copper and nickel were flat. Crude oil prices fell 5% to close at US\$77/barrel as a result of weaker Asian demand and concerns over OPEC's 12 month tapering of its 2.2MBD voluntary cuts, starting in a month's time. Gold finished up 2% at US\$2503/oz (equivalent to A\$3753/oz) in line with a weaker US dollar and the ongoing hostilities in the Middle East.

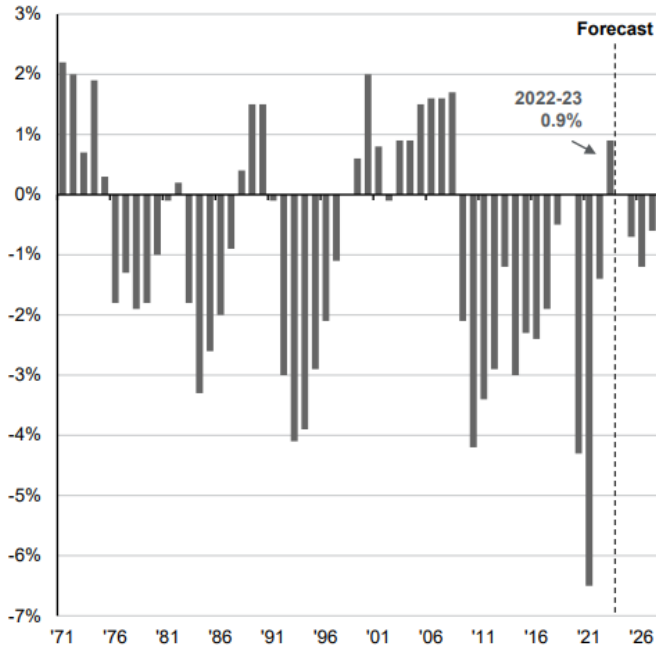
## Bonds

The US 10-year bond yield fell 13bps to 3.90%. Treasuries reacted positively to the friendlier inflation numbers and encouraging comments from Fed chairman Powell at the Jackson Hole symposium, with a September rate cut a lay-down misère. The Australian 10-year bond yield also followed the trend, down 15bps to 3.97%. The A\$ closed up 3% at US\$0.68, due to the weaker US dollar.

# Charts of the Month

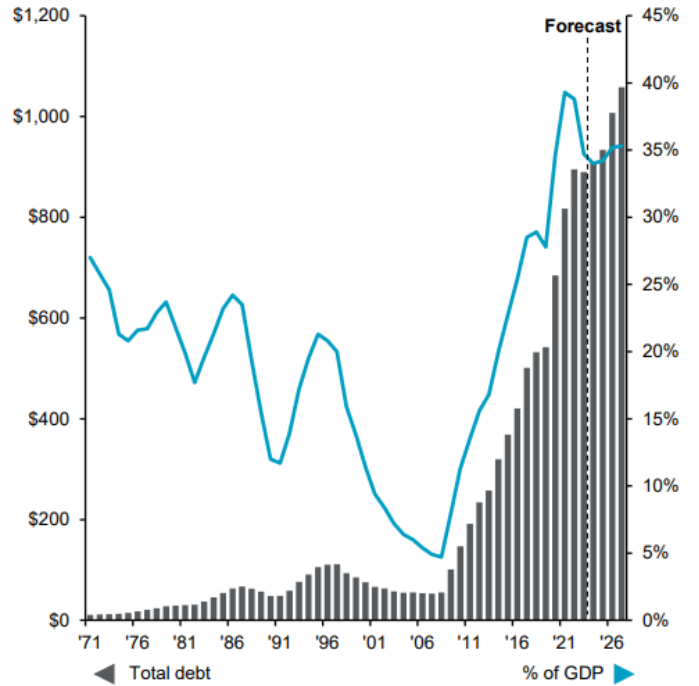
## Government Finances

**Commonwealth budget surplus/deficit**  
% of GDP, 2023-24 budget



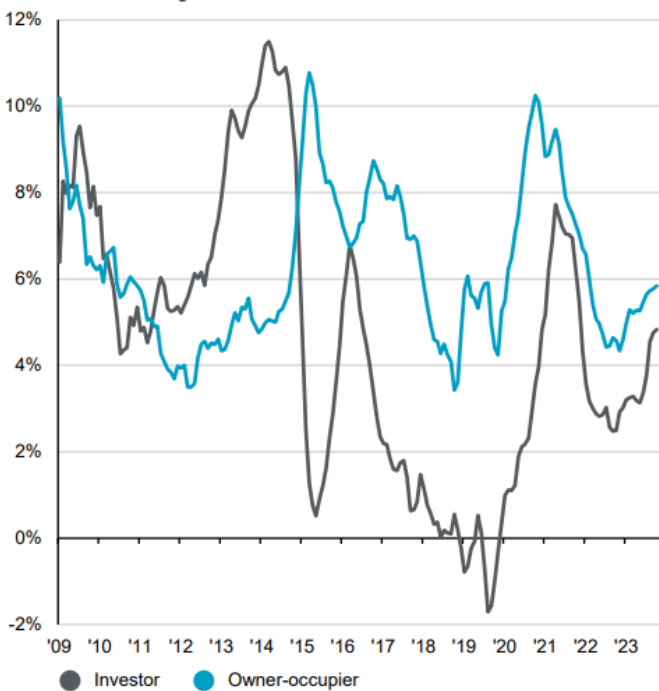
Source: Australian Treasury, J.P. Morgan Asset Management.  
Guide to the Markets – Australia. Data as of 30/08/24.

**Commonwealth gross debt**  
2023-24 budget, end of fiscal year, AUD billions

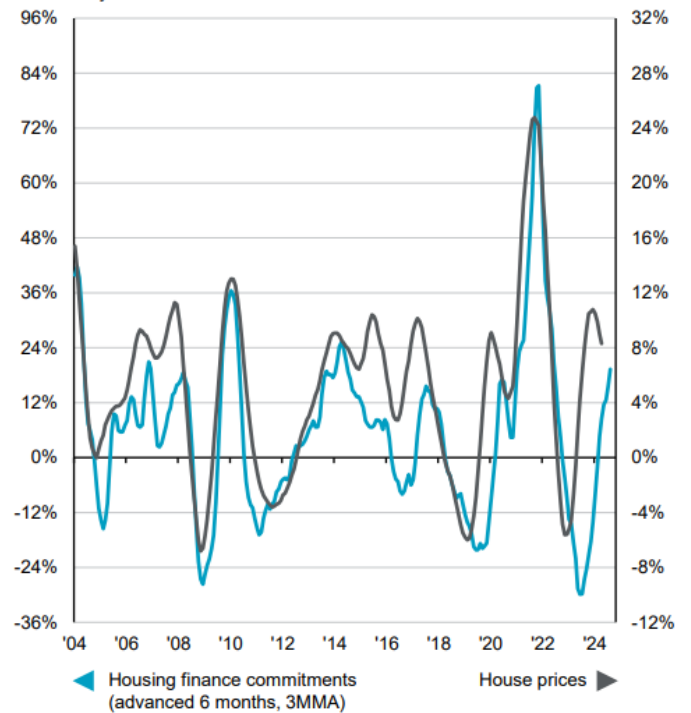


## Global Inflation

**Mortgage lending**  
3-month annualised growth rate



**Housing finance and house prices**  
Year-over-year



Source: Australian Bureau of Statistics, J.P. Morgan Asset Management; (Right) RPD CoreLogic.  
House price is the year-over-year change in the hedonic index for national dwelling prices. Past performance is not a reliable indicator of current and future results.  
Guide to the Markets – Australia. Data as of 30/08/24.



		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total	0.5	6.5	9.5	16.3	8.0	8.3	7.8
	S&P/ASX 200	Total	0.5	5.7	9.1	14.9	6.7	8.1	8.0
	S&P/ASX 200 Industrial	Total	1.5	10.9	17.8	23.0	6.8	8.1	8.2
	S&P/ASX 200 Resources	Total	-3.0	-9.7	-14.1	-7.5	6.7	8.7	7.2
	S&P/ASX Small Ordinaries	Total	-2.0	0.0	4.2	8.5	-2.9	3.9	5.8
	S&P/ASX Small Industrials	Total	-1.9	4.6	7.9	12.2	-2.8	3.4	6.1
	S&P/ASX Small Resources	Total	-2.2	-10.9	-6.0	-1.8	-2.1	6.7	5.0
	MSCI Australia Value	Net	-0.3	2.2	3.4	11.4	9.3	8.9	6.4
	MSCI Australia Growth	Net	1.0	9.7	15.0	20.4	6.3	7.0	9.0

ASX 200 Sectors	Energy	Total	-6.0	-7.8	-9.0	-16.0	14.4	2.7	-0.8
	Utilities	Total	-1.1	0.5	12.6	8.2	19.9	7.4	9.4
	Financials	Total	1.9	13.7	26.2	34.4	12.3	10.3	7.8
	Materials	Total	-1.9	-8.3	-13.4	-3.7	5.1	10.5	10.0
	Industrials	Total	3.9	9.5	10.7	13.5	7.3	4.9	9.3
	Real Estate	Total	0.6	7.4	16.4	23.3	4.6	3.7	8.0
	Consumer Discretionary	Total	-0.3	12.2	19.5	22.1	5.2	11.3	11.0
	Health Care	Total	-1.0	8.1	9.0	15.6	-0.1	5.8	13.3
	Information Technology	Total	7.9	9.7	38.3	35.7	2.8	13.4	13.7
	Consumer Staples	Total	0.2	8.9	6.4	4.6	-0.5	3.5	5.9
	Communication Services	Total	3.5	11.8	4.8	8.1	5.1	8.0	2.4

Local Currency

World	MSCI World Index	Net	1.9	5.5	17.0	23.8	8.0	13.4	10.5
	MSCI EM (Emerging Markets)	Net	0.4	5.3	12.1	16.3	0.1	6.6	5.4
	MSCI AC World Index ex Australia	Net	1.7	5.5	16.6	23.1	7.1	12.7	9.9
	MSCI World Mid Cap	Net	1.5	4.3	11.4	17.4	3.2	9.8	8.4

Americas	S&P 500	Net	2.4	7.3	19.2	26.6	8.9	15.4	12.4
	Dow Jones Industrial Average	Net	2.0	7.8	11.3	21.3	7.1	11.1	11.0
	NASDAQ Composite	Net	0.7	6.0	18.4	26.9	5.7	18.0	-
	Russell 2000	Total	-1.5	7.5	10.4	18.5	0.6	9.7	8.0

Asia Pac	Hang Seng Index	Net	3.9	1.6	9.1	2.1	-8.2	-3.8	0.2
	Nikkei 225 Stock Average	Net	-1.1	0.6	16.4	20.2	13.0	15.1	11.3
	MSCI AC Asia ex Japan	Net	0.5	4.7	13.3	15.7	-0.9	6.2	5.2
	MSCI India	Net	1.2	12.9	23.8	41.6	16.3	20.5	13.2

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6785	3.9	2.0	-0.6	4.8	-2.4	0.1	-3.2
	Euro per Australian Dollar	0.6130	1.6	0.1	-0.8	2.7	-0.3	0.0	-1.5
	British Pounds per Australian Dollar	0.5163	1.5	-1.2	-3.5	1.0	-0.9	-1.4	-0.9
	Japanese Yen per Australian Dollar	98.7930	0.6	-5.5	2.7	4.8	7.2	6.7	0.2



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
	Ellerston Australian Absolute Return Fund	2.9	2.2	9.7	-4.0	3.9	3.6	5.2	ECL0013AU ^3/6/13
	RBA Cash Rate	0.4	1.1	4.3	2.7	1.7	1.7	1.8	
	<b>Excess Return</b>	<b>2.5</b>	<b>1.1</b>	<b>5.4</b>	<b>-6.6</b>	<b>2.2</b>	<b>1.8</b>	<b>3.4</b>	
Australian Equity	Ellerston Australian Share Fund	-2.8	2.4	7.4	5.0	8.7	6.8	8.5	ECL0005AU 1/4/09
	S&P/ASX 200 Accumulation Index	0.5	5.7	14.9	6.7	8.1	8.0	9.8	
	<b>Excess Return</b>	<b>-3.3</b>	<b>-3.3</b>	<b>-7.5</b>	<b>-1.7</b>	<b>0.6</b>	<b>-1.2</b>	<b>-1.3</b>	
	Ellerston Overlay Australian Share Fund	-2.5	2.1	6.2	2.9	6.9	5.9	7.0	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	0.5	5.7	14.9	6.7	8.1	8.0	9.1	
	<b>Excess Return</b>	<b>-2.9</b>	<b>-3.6</b>	<b>-8.7</b>	<b>-3.9</b>	<b>-1.2</b>	<b>-2.1</b>	<b>-2.1</b>	
	Ellerston Equity Income KIS Fund	-3.4	4.7	14.4	5.3	8.5	-	9.1	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	0.5	5.7	14.9	6.7	8.1	-	8.8	
	<b>Excess Return</b>	<b>-3.8</b>	<b>-1.0</b>	<b>-0.5</b>	<b>-1.5</b>	<b>0.3</b>	<b>-</b>	<b>0.3</b>	
	Ellerston Australian Micro Cap Fund	0.2	8.4	25.6	-2.0	11.5	-	14.2	ECL0984AU 1/5/17
	S&P/ASX Small Ordinaries Accumulation Index	-2.0	-0.0	8.5	-2.9	3.9	-	6.1	
	<b>Excess Return</b>	<b>2.3</b>	<b>8.4</b>	<b>17.0</b>	<b>0.9</b>	<b>7.7</b>	<b>-</b>	<b>8.1</b>	
Ellerston Australian Emerging Leaders Fund	-0.3	6.1	30.8	-0.1	-	-	0.9	ECL6748AU 13/8/21	
S&P/ASX Small Ordinaries Accumulation Index	-2.0	-0.0	8.5	-2.9	-	-	-2.3		
<b>Excess Return</b>	<b>1.8</b>	<b>6.1</b>	<b>22.3</b>	<b>2.8</b>	<b>-</b>	<b>-</b>	<b>3.2</b>		



Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
International Equity	Ellerston Global Mid Small Cap Fund - Class A	-0.2	5.2	3.3	-1.4	9.0	-	10.5	ECL8388AU 28/2/17
	MSCI World Mid Cap Index	-1.2	3.6	12.9	4.1	9.1	-	10.1	
	<b>Excess Return</b>	<b>1.0</b>	<b>1.5</b>	<b>-9.5</b>	<b>-5.4</b>	<b>-0.1</b>	<b>-</b>	<b>0.4</b>	
	Ellerston Global Mid Small Cap Fund - Class B	-0.2	5.1	3.3	-1.1	-	-	8.2	ECL3306AU 18/8/20
	MSCI World Mid Cap Index	-1.2	3.6	12.9	4.1	-	-	10.9	
	<b>Excess Return</b>	<b>1.0</b>	<b>1.5</b>	<b>-9.6</b>	<b>-5.2</b>	<b>-</b>	<b>-</b>	<b>-2.7</b>	
	Ellerston Asia Growth Fund (Hedge Fund)^	-3.1	3.4	8.4	-	-	-	8.6	ECL1411AU 1/6/2023
	MSCI Asia ex Japan (non-accumulation)	-2.1	3.0	8.1	-	-	-	7.0	
	<b>Excess Return</b>	<b>-1.0</b>	<b>0.4</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.6</b>	
	Ellerston India Fund	-3.4	7.7	30.1	10.1	12.0	-	10.6	ECL0339AU 4/5/17
	MSCI India Net Return Index	-2.7	10.1	33.4	13.9	16.5	-	13.3	
	<b>Excess Return</b>	<b>-0.6</b>	<b>-2.4</b>	<b>-3.3</b>	<b>-3.8</b>	<b>-4.5</b>	<b>-</b>	<b>-2.7</b>	
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
	<b>Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 30 June 2024</b>								

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### Disclaimer

The net return figure is calculated after fees and expenses. Above figures are those available as at 10 September 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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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](mailto:nboroughs@ellerstoncapital.com) or 0466 775 961.

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