

Ellerston Australian Emerging Leaders Fund

Monthly Report as at 31 August 2024

APIR Code: ECL6748AU | ARSN 647 979 333



Portfolio of 30-60 smaller companies built through an active, research-driven investment approach.



Focus on companies which have a sound business franchise with an attractive earnings profile, which operate in growth industries and trade at a discount to valuation.



Aims to outperform the Benchmark over a rolling three-year period.

Performance Summary

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	-0.25%	6.09%	30.78%	-0.06%	0.91%
Benchmark*	-2.02%	-0.01%	8.51%	-2.90%	-2.31%
Alpha	1.77%	6.10%	22.27%	2.84%	3.22%

[^]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 Small Ordinaries Accumulation Index. ^{^^}Inception date is 13 August 2021.

Key Information

Portfolio Manager(s)	David Keelan & Alexandra Clarke
Investment Objective	To outperform the Benchmark over a rolling three year period.
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-60
Number of Holdings at Month End	43
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.10% (p.a.)
Performance Fee ¹	20.00%
Buy/Sell Spread	0.25% / 0.25%

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

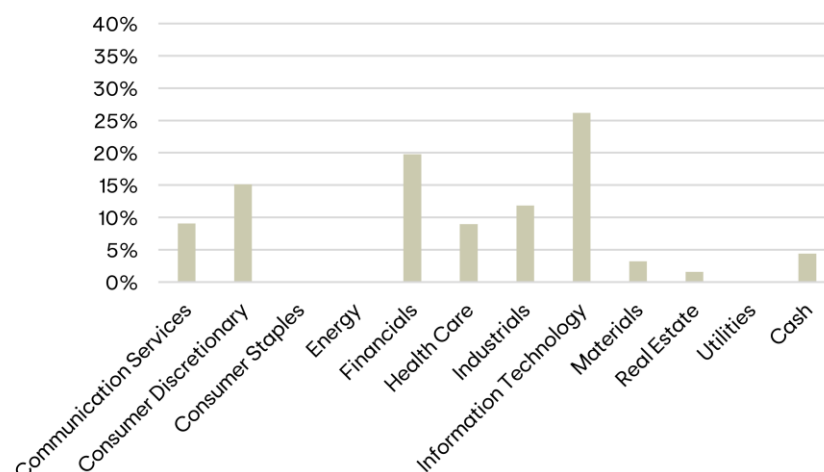
Top Holdings*

Company	Sector
Alliance Aviation Services Limited	Industrials
Codan Limited	Information Technology
Generation Development Group	Financials
Life360, Inc.	Information Technology
Zip Co Ltd.	Financials

*In alphabetical order.

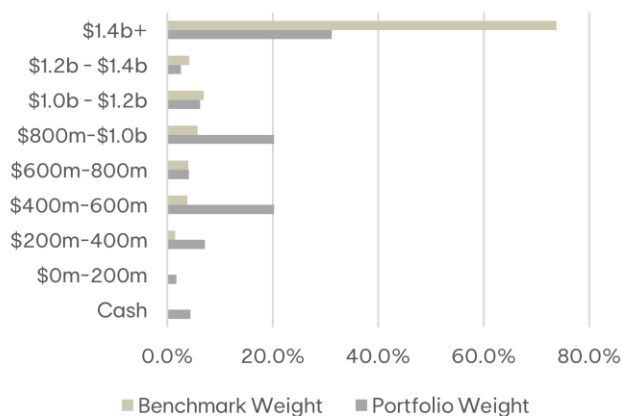
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerstion Capital.

Key Portfolio Metrics

FY25e	Fund	Benchmark
Price/Earnings	17.74x	18.46x
Dividend Yield	2.68%	3.10%
Net Debt/EBITDA	0.14x	1.39x

Source: Ellerstion Capital.

COMMENTARY

The Ellerstion Australian Emerging Leaders Fund delivered -0.25% (net) in August relative to the S&P/ASX Small Ordinaries Accumulation Index which returned -2.02%. August started off in the red as the market experienced extreme volatility on the back of the Yen carry trade reversing and softer than expected US job data. The Australian market's focus quickly turned to the reporting season. This reporting season we saw increased levels of volatility as macroeconomic challenges of the last 12 months played out in FY24 results. As usual, we saw a rebasing of FY25 estimates (consensus EPS -3.4% for the ASX200) which provides a favourable setup for the year ahead. Key winners out of reporting season included the Technology, Consumer Discretionary and Financials sectors. While key losers were the Industrial/Commercial Service Providers, Travel, Materials and the Utilities sectors. We also saw several key thematic play out over this reporting season including a recovery in financials; FY25 Darlings not being the same as those in FY24; and structural growth being rewarded.

A couple of stocks that provided positive updates in August were Australia Financial Group (AFG AU) and Life 360 (360 AU).

AFG was solid performer, putting on around 9% during the month. While the result was only marginally ahead of expectations, the stock rallied with the market taking the view that this half was the trough for earnings. The AFG securities loan book returned to growth after shrinking for the past couple of years due to the intense competition from the major banks - this has finally started to ease. Furthermore, normalising conditions saw the NIM relatively stable and should start improving from this level. We think the stock is well placed to benefit from interest rate cuts, combined with the growing loan book and improving NIM which will drive earnings upgrades from here. Concurrently, the structural shift towards the mortgage broking channel for lending will continue to play out for years to come as major banks close branches and broker's assist with serviceability challenges. AFG remains a core position in the portfolio.

Life360 (360 AU) share price gained 15% in August. This was on the back of a strong 1H24 result driven by a meaningful increase in net circle adds, combined with strong operating leverage. Given the 1H24 outcome, management lifted its revenue and adjusted EBITDA expectations for the full year. Notably, all operating business metrics are accelerating prior to the key back to school period, as well as before its nascent advertising business starts to contribute more meaningfully. We continue to see upside to current levels through 360 leveraging its customer strength to expand its product offering over time.

With reporting season now behind us, we look forward to getting back on the road, chasing down new ideas and catching up with management teams on their own turf. As we move into FY25, we expect a continued rotation into more cyclical exposures on the back of a macroeconomic recovery driven by falling interest rates. The smaller end of the market remains attractive, with a lot of negatives having been priced in, and we expect a sharp and fast turnaround as inflation remains tame and rate cuts on the horizon (albeit pushed to the right). We also think EPS revisions have been priced into the current valuation multiples which provides a meaningful opportunity.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Find out more:

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

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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