# Ellerston Overlay ASF

**Monthly Report as at 31 August 2024**

APIR Code: ECL0012AU

Concentrated portfolio of up to 30 Australian listed securities, created via an active "bottom up" approach, seeking to identify mispricing opportunities.

Seeks to take opportunity of shorter-term opportunities via the use of Derivatives and shorter-term trading strategies, in order to enhance income and alpha.

Overall objective of providing investors with a return above the Benchmark, whilst delivering additional income.

## Performance Summary

| Performance | 1 Month | 3 Months | 12 months rolling | 3 Years (p.a.) | 5 Years (p.a.) | 10 Years (p.a.) | Since Inception (p.a.) ^^ |
|---|---|---|---|---|---|---|---|
| Net^ | -2.47% | 2.12% | 6.22% | 2.87% | 6.93% | 5.91% | 7.00% |
| Benchmark* | 0.47 | 5.74% | 14.90% | 6.73% | 8.14% | 8.02% | 9.11% |
| Alpha | -2.94% | -3.62% | -8.68% | -3.86% | -1.21% | -2.11% | -2.11% |

*^The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.*
** The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.*
*^^Inception date is 1 July 2011.*

## Key Information

| | |
|---|---|
| **Portfolio Manager** | Chris Kourtis |
| **Investment Objective** | To outperform the Benchmark whilst delivering additional income through option strategies over time. |
| **Benchmark** | S&P/ASX 200 Accumulation Index |
| **Liquidity** | Weekly |
| **Target Number of Holdings** | Up to 30 |
| **Number of Holdings at Month End** | 20 |
| **Minimum Investment** | Initial investment - $50,000<br>Additional investment - $10,000 |
| **Distribution Frequency** | Half-Yearly (where available) |
| **Management Fee** | 0.90% p.a. |
| **Performance Fee[1]** | 15.00% |
| **Buy/Sell Spread** | 0.25% / 0.25% |

*[1]Of the investment return above the Benchmark, after recovering any underperformance in past periods.*

## The Team

**Chris Kourtis**
Director & Portfolio Manager

39 years of industry experience.

**Stephen Giubin**
Senior Investment Analyst

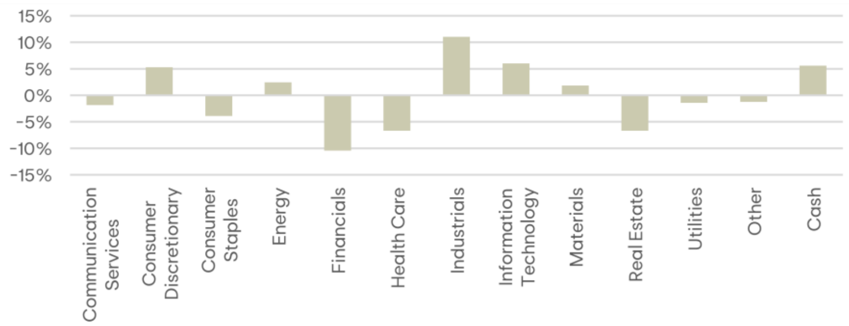
36 years of industry experience.

## Top 10 Holdings**

| | | | | |
|---|---|---|---|---|
| Atlas Arteria | Bapcor | Fortescue | IGO | Iluka Resources |
| Insignia Financial | IRESS | Orora | Perpetual | Santos |

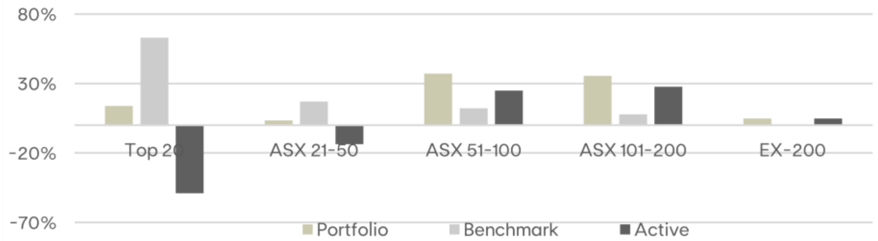
*Source: Ellerston Capital.*
***In alphabetical order.*

## Active Sector Exposures***




*Source: Ellerston Capital.*
****Active sector exposures are determined by subtracting Fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to Benchmark and negative percentages represent under-weight sector exposures relative to the Benchmark.*

## Size comparison Chart vs ASX 200




*Source: Factset, Ellerston Capital*

## Asset Class Exposures

| Exposure (% of NAV) | Equity | Long Option | Short Option | Cash | Grand Total |
|---|---|---|---|---|---|
| Net | 95.66 | 0 | -1.26 | 5.60 | 100 |

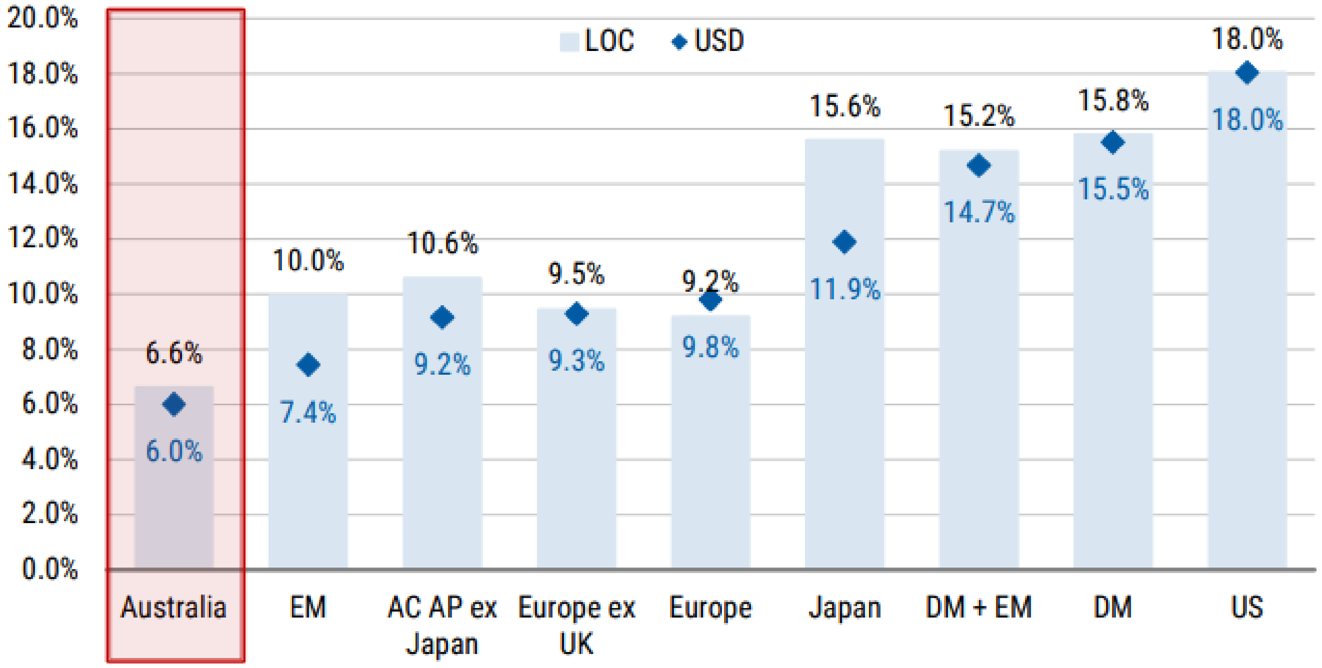
*Source: Ellerston Capital.*

## 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

### 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.

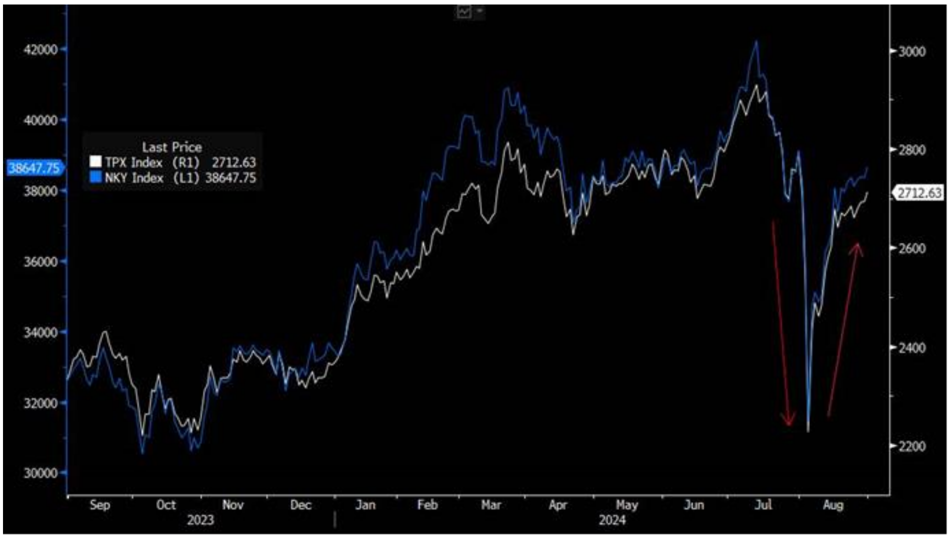
The Euro STOXX50 Index finished the month up 1.8%. Among the major exchanges, Germany's DAX was up 2.2%, followed by France's CAC 40 which rose +1.3%, with the FTSE 100 the laggard at +0.9%.

### 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%.

**Japanese Equities in their biggest rout since 1987**




Source: Bloomberg

### 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 at 3.97%. The A$ closed up 3% at US$0.68, due to the weaker US dollar.

### 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 Cyclicals 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.

## COMPANY SPECIFIC NEWS

### The Market Hits

#### Zip Co. (ZIP +25.7%)

Buy Now Pay Later service provider ZIP added to its 31.0% July monthly performance which was kicked off by its $217m equity placement. The raising aimed to optimise its capital structure by repaying an existing $150m corporate debt facility (incurring a prohibitive 15% interest charge) and associated exit fee, to provide greater flexibility for future growth. In August, price momentum continued and given its FY24 results were largely pre-reported in mid-July, investors were pleased with a revised "medium term" outlook to a specific "2yr outlook". The company tightened their cash NTM margin outlook to the higher end of the previous range, suggesting improved management confidence and so too for investors.

#### WiseTech Global (WTC +25.0%)

WTC reported FY24 EBITDA of $496m, which was 1% ahead of consensus, with FY25 guidance showing re-acceleration in growth of the core CargoWise (CW) product. Margin guidance for FY25 implied an exit run-rate of 53%, which was ahead of consensus sitting at 49%. Investors were encouraged by the signing of three new large global freight forwarders and the release of three new products. These are expected to encourage increased usage of the core CW offering and revenue from adjacencies in FY25 (thereby extending the 30%+ CW growth duration). The shares rallied by 18% on the day and continued rising for the rest of the month. Sell-side analysts increased their earnings forecasts across the board and disproportionately raised valuations by over 20%. WTC is now a ~$40bn market cap company which trades on a Price/Revenue multiple of 30x and a PER of ~100x, amazing.

#### Orora (ORA +25.0%)

Mid way through the month, ORA received and promptly rejected a conditional and non-binding proposal from PE firm Lone Star to acquire 100% of the company by way of a scheme of arrangement at $2.55 cash, less any dividends declared or payable. This represented a 34% premium to the previous day's close. The Board considered the Indicative Proposal and determined that it was not in the best interests of its shareholders to further engage with Lone Star on the basis that the bid materially undervalued ORA. The takeover offer was a reminder of ORA's inherent value and turn around potential, as cyclical headwinds are expected to abate and medium term earnings are expected recover (this was central to our original investment thesis). ORA, which pre-bid was trading on 11.5x forward PE, well below its 16.6x long term average.

A day after the bid, Orora announced it scheduled results that were much better than feared, with beats on revenue, EBIT and NPAT. FY24 EBIT of $404m was +6% ahead of consensus forecasts, reflecting stronger performance from both Orora Packaging Solutions in North America (OPS) and the recently acquired Saverglass business. Margin expansion bettered expectations, with excellent cost control resulting in higher EBIT margins across each division and +113bp yoy. OPS delivered +50bps of EBIT margin expansion, despite revenues declining -11% in USD terms. While Saverglass EBITDA was consistent with guidance, EBIT was +16% ahead of consensus due to lower D&A. Not surprisingly, the business continued to be negatively impacted by destocking in the 2H, with 2H volumes down -11% on pcp. The Australasian business delivered +2% EBIT growth, with record production from the Cans business helping offset weaker Glass volumes. ORA's FY25 outlook commentary for Saverglass was also more upbeat, resulting in aggregate earnings and valuation upgrades by the Street in the order of 8.0% -13.0%.

The upshot is that ORA's FY24 results beat has taken a back seat to M&A and portfolio action, which has seen its shares rebound from decade lows. With the Board having rejected an opportunistic takeover offer from Lone Star, ORA confirmed that it was conducting an extensive portfolio review and is currently in advanced discussions to potentially divest its North American OPS business. Assuming recent packaging industry transaction multiples, an OPS sale would clear nearly all of ORA debt, while strategically re-positioning the portfolio to a more focused, specialised beverage packaging business commanding market leading positions.

At the time of writing ORA announced the sale of OPS to US company Veritiv for an enterprise value, higher than expected, of A$1.775bn, at a multiple of 9.9x cash EBITDA, higher than ORA's. The net proceeds will be A$1.687bn after tax and transaction costs. With current net debt of $1.753bn ORA is virtually debt free but intends to maintain an investment grade balance sheet and make a material distribution to shareholders, likely via a capital return. Very positive update, as it removes any balance sheet concerns held by the bears.

**Judo Capital Holdings (JDO +18.3%)**

JDO released its FY24 results, with reported PBT of $104m slightly above expectations and cash earnings of $70m in line. All up, it was a reasonable result with the business performing in-line with the FY24-25 targets that management provided to the market.

The key to JDO's update was management's confidence in the earnings growth trajectory in FY25. Whilst aspirations beyond the 1H25 remain a stretch, the market took the view that the new base appears very achievable, especially given that JDO's balance sheet growth and pipeline remain strong and management seem confident about more favourable near-term lending spreads. A potential soft landing scenario would be a plus for JDO, as it would remove near term credit cycle risk. Management guided for improved impairment charges relative to 2H24, pleasing investors.

**Brambles (BXB +17.2%)**

Logistics company BXB posted a 5% beat on its underlying FY24 NPAT of US$780m (+11% versus pcp) and delivered US$883m of free cash flow (FCF), which was the highlight. BXB also guided to FY25 NPAT growth of 8-11%, ahead of consensus of 6%, raised its dividend payout ratio to 50-70% (from 45-60% previously) and announced a US$500m buyback. With consumer and destocking trends now shifting favourably, the outlook for both underlying demand and net new wins appeared favourable heading into FY25. This should provide robust top-line growth with a reduction in IPEP charges providing a further boost to margins. For investors, this combination was irresistible, with the shares rallying by 9% on the day.

**JB Hi-Fi (JBH +17.0%)**

Another strong result by JBH driven by healthy 4Q24 revenue growth across JB Australia and The Good Guys softer. The Good Guys gross margins offset by stronger JB Aus gross margins. July trading update was solid with JB Aus LFL +5.2% and The Good Guys LFL +2.7%. The outlook for FY25 is more positive highlighted by the $200m (80cps) special dividend and acquisition of premium appliance retailer e&s for $48m (for 75%). E&S is a sound acquisition, extending into an adjacent customer (commercial) and range (premium). Investors particularly liked the special dividend and pushed up the stock price by 8%.

**Life360 Inc. (360 +15.5%)**

360 is an information technology company providing location-based services to consumers globally. Its main service called Life360, is a family social networking app released around 15 years ago. 360 delivered a strong 2Q result with revenue of US$85m up 20% and in line plus a material EBITDA beat of US$11m compared to consensus at US2.0m. 360 also increased its CY24 revenue guidance by 2% to US$370-378m and adjusted EBITDA by 18% to US$36-41m. Investors liked the result, pushing the stock price up 18% on the day of the announcement.

**Breville Group (BRG +14.5%)**

BRG delivered a solid top line result highlighted by 2H Americas sales lifting +12% yoy, while EBIT (+8% yoy) came in marginally ahead of guidance. The strength in Americas and Europe was due to momentum returning in direct distribution markets, driving a faster acceleration of sales growth. Cash flow was strong, inventory returned to 'equilibrium' and the balance sheet was now in a net cash position. The Americas performance was particularly important given this represents a return to a normal cadence of growth in BRG's main geography. BRG's stock rose 5.0% on the day of the update and continued to rise in line with peer consumer discretionary names in the US, spurred on by the expected interest rate cut in September.

**Ramelius Resources (RMS +14.4%)**

Gold producer RMS reported a strong FY24 result with a net profit of $217m and a dividend, 10% and 25% ahead of consensus, respectively.

**Charter Hall Group (CHC +14.3%)**

Heading into the result, most investors were expecting CHC to announce declining earnings in FY25, however management surprised the market with stronger than expected FY25 OEPS guidance, despite AUM headwinds. This suggested that the Group was seeing early signs of transactional activity and investment opportunities picking up. CHC guided to 4.2% YoY growth, resulting in a 17% rally in shares, helped by some short covering. Key drivers of growth were good expense control, expectations of transaction recovery and the stabilisation of asset values, with no performance fees included in their guidance (vs market expectations of ~$25m). Cost management featured in the update, with 5% savings achieved in FY24, driving an annualised benefit into FY25. While uncertainties remain on the trajectory of any transaction uptick, CHC remains the highest operationally leveraged name in the sector to a recovery in commercial property when the cycle turns. CHC's upbeat comments gave investors more comfort around the outlook. Also helping sentiment, was the prospect of eligibility to go into the FTSE NAREIT Index, given CHC now derive 53% of their EBITDA from traditional real estate (Property Investment and Development Investment).

## The Market Misses

### Audinate Group (AD8 -36.4%)

AD8 provides professional audio and more recently, visual digital networking technologies globally. The company's core technology, Dante, distributes digital audio over an existing computer network and is the dominant provider. AD8 announced its FY24 preliminary unaudited results and FY25 outlook. Whilst the FY24 financials were broadly in line, the FY25 outlook was a huge miss, with AD8 shocking the market by guiding FY25 revenue to be lower than in FY24, compared to sell-side consensus expectations of ~20% growth! AD8's stock price fell 36% on the day of the announcement. Investors patience continues to be tested, with AD8 shares now trading at $9.84, 58% lower than its mid-March high of $23.31per share.

### Johns Lyng Group (JLG -36.3%)

JLG reported a mixed but hugely disappointing FY24 result, with headline underlying EBITDA broadly in line with expectations, but with a much lower quality mix (CAT beat, BaU miss) and particularly weak operating cashflow. The company also guided to a weaker than expected FY25 outlook with organic BaU growth for revenue and EBITDA of 10% and 1%, respectively, which leads to material downgrades to consensus earnings expectations. JLG also highlighted that margins in the IBR&S business are expected to normalise lower after a number of years of extraordinary CAT activity, just more fuel to the fire which resulted in the stock falling 25% on the close.

### Tabcorp Holdings (TAH -32.6%)

TAH delivered an incredibly messy result amid a soft wagering market, but it was a lack of cost outs that upset the apple cart, leading to an EBITDA miss, with adjusted EBITDA of $318m (13.6% margin) vs. consensus at $326m (14.1% margin). Furthermore, the new CEO walked away from the previous TAB25 targets (including FY25 opex $640m - $660m). Management expects soft market conditions (experienced in 2H24) to continue, with ongoing pressure on consumers and regulatory environment challenges. Compared to FY24 ($614m) opex, TAH now expects: a) inclusion of VRI opex post VIC licence restructure, b) Inflationary pressures, c) Increased regulatory costs, d) $10m TLC dis-synergies (very odd given demerger in May 2022), less e) $20m in targeted cost savings. Net debt / EBITDA now stands at 2.0x, with revised target ratios raised to <2.5x (from 1.0x - 1.5x, at time of demerger). All in all, yet another gaming stock the likes of Star under maximum pressure.

### Kelsian Group (KLS –28.4%)

KLS announced indicative numbers for FY24 which delivered a record result that exceeded analyst forecasts (Underlying EBITDA of $265m, +64% yoy), but the FY25 line item guidance for capex, depreciation and interest were surprisingly higher than investor expectations, especially the capex program. KLS announced a revised FY25 investment program of $180-190m, considerably higher than consensus of $98m, resulting in depreciation charges of $117m and interest costs of $59m. Of the FY25 capex program, over half of the anticipated expenditure was deemed non-recurring in nature, with the Board anticipating FY26 capital expenditure for the core asset base to be ~$100m. The capex increase was primarily driven by: 1) an extra $25m for the Kangaroo Island Ferry Infrastructure 25 year contract, 2) the Hoxton Park Bus Depot acquisition to drive growth strategy in Sydney (~$31m), 3) purchase of 60 new buses for the Bankstown Rail replacement, expected to be redeployed following the completion of the contract and 4) Final investment for their SE QLD fleet renewal of Stradbroke Island busses and expansion of the AAAHI motorcoach fleet. This caused the stock to fall 24% on the day.

### Mineral Resources (MIN -26.0%)

MIN was already under pressure at the start of the month, with the Platt's spodumene benchmark price down another 20% to a multi-year low, coupled with volatile iron ore prices falling and rising 10% intra month. Towards month end, after delivering a reasonable FY24 result, MIN's FY25 guidance caught investors totally by surprise. Capex spend ($1.95bn) was way above expectations and volumes underwhelmed, putting the balance sheet under pressure. With its ~ $5bn debt burden and high iron ore production costs, MIN decided not to pay a final dividend for the first time in over a decade. With poor guidance in what was already a bad month, MIN shares fell a further 8%, an especially bad outcome for CEO/founder Chris Ellison, whose PA holding dropped ~$300m mark to market on paper, ouch!

### Boss Energy (BOE -22.2%)

Listed uranium companies continued to sell off as the spot uranium price drifted lower from February highs of US$105/lb this year, with the current price now US$80/lb, down 3% this month. BOE is in the process of ramping up its Honeymoon Well project in South Australia which carries more capex and opex risk. This explains why BOE has fallen further than peers Paladin Energy and Cameco, which are only down 14% this month.

### Megaport (MP1 -22.2%)

MP1 is a network-as-a-service (NaaS) company offering carrier-neutral, SDN-based elastic interconnection services. MP1 reported its FY24 results that were in line with expectations, with revenue of $195m and EBITDA $57m (midpoint of management's latest range $56-58m). The company printed positive cash flow of $28m (+ $62m yoy) and hit $204m ARR, despite some currency headwinds. However, MP1's FY25 guidance was quite a negative surprise, with FY25 revenue of $214-$222m (growth of 10-14%) and EBITDA of $57-$65m (growth of 0-14%) way below market expectations. MP1 has a history of large and volatile moves with result's releases and this was no exception. The share price slumped 21% that day.

**A2 Milk Company (A2M -21.9%)**

A2M reported its FY24 broadly in line with consensus numbers, but the FY25 guidance for mid-single digit revenue growth (consensus +9%) and flat EBITDA margins (with expectations of a 110bp increase) didn't sit well with investors. A2M flagged some supply constraint issues affecting growth and inflating costs. These factors would constrain profitability in an important year for new customer recruitment. In China, 2024 is the Year of the Dragon, historically the year driving the highest number of newborns. A2M suffered not just a FY25 earnings downgrade, but also a sharp reversal of its recent re-rating, both combining to hit the stock with a 19% fall on the announcement.

**Liontown Resources (LTR -21.1%)**

Lithium companies continued to be under pressure after the Platt's benchmark spodumene price fell another 20% to a multi-year low of US720/t during the month. With LTR's Kathleen Valley project ramping up, its production costs will be twice the current spodumene price (not good), so it will be a race between the hope of prices recovering significantly, or care and maintenance, hence why LTR has materially underperformed its peers this month. It is less than a year when Albermarle walked away from its $3.00/share cash bid, with LTR trading at $0.75 now!

**Neuren Pharmaceuticals (NEU -19.2%)**

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. Neuren has granted an exclusive worldwide licence to Acadia Pharmaceuticals Inc. (ACAD) for the development and commercialisation of DAYBUE. ACAD came out and announced 2Q24 sales of DAYBUE of US$84.6m (earning NEU royalties of A$13m) which were up 11% on 1Q24, however the net rate of patient additions in Q2 was slower than expected. This caused Acadia to update its guidance for net sales in 2024 to US$340-370 million (lower and narrower than the previous range of US$370-420 million), resulting in sizeable earnings downgrades across the Street.

# FUND PERFORMANCE

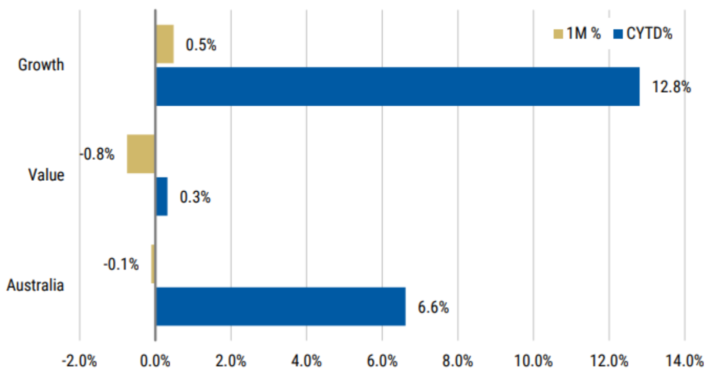
Against the backdrop of heightened volatility and slightly better offshore markets, domestic equities finished up a modest +0.5% in August to an all-time monthly high, lifting the CY24 total return to +9.1%. In the month of August, the Information Technology (+7.9%) and Industrials (+3.9%) sectors were the best performers, whilst Energy (-6.0%) and Materials (-1.9%) led the declines.

Following an exceptionally strong month in July, the August reporting season proved very challenging and our performance was disappointing thanks to two key positions. **The Fund return of -2.38% in August underperformed the benchmark return of +0.47%.**

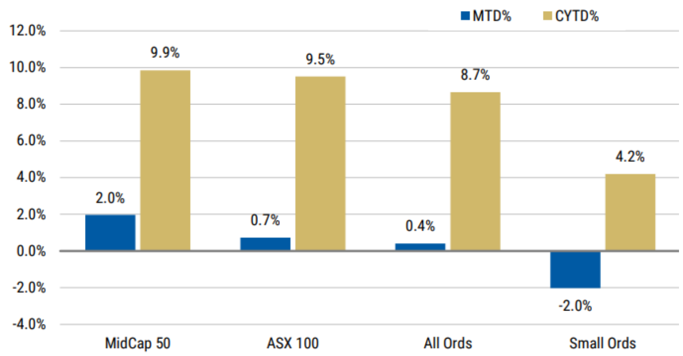
Growth continued to outperform significantly in August and Mid Caps outperformed, with Small Caps proving to be the worst performing.

**Growth outperformed Value during August and for the CYTD**

**MSCI Australia Growth vs Value**




**Mid Caps outperformed in August and CYTD**




Source: Morgan Stanley

Financials, which rallied 1.9%, posted the largest contribution (+65bp) to the market's return in August, driven by three of the major banks; CBA (+3.3%), Westpac (+4.8%) and ANZ (+4.6%). Industrials followed suit (Brambles +17.2%), with the Information Technology sector (WiseTech +25%) also outperforming. Conversely, Materials (BHP -3.6%), Energy (Santos -7.3%) and Healthcare (Cochlear -12.9%) acted as a major drag on the broader market.

| *Returns" (%)* | *Gross* | *Benchmark** | *Excess* | *Net* |
|---|---|---|---|---|
| *1 Month* | -2.38% | 0.47% | -2.85% | -2.47% |
| *3 Months* | 2.38% | 5.74% | -3.36% | 2.12% |
| *12 months rolling* | 7.21% | 14.90% | -7.69% | 6.22% |
| *3 Years (p.a.)* | 3.86% | 6.73% | -2.87% | 2.87% |
| *4 Years (p.a.)* | 11.08% | 11.72% | -0.64% | 9.98% |
| *5 Years (p.a.)* | 8.01% | 8.14% | -0.13% | 6.93% |
| *10 years (p.a.)* | 6.93% | 8.02% | -1.09% | 5.91% |
| *Since Inception (p.a.)* | 8.11% | 9.11% | -1.00% | 7.00% |

"The return figures are calculated using the redemption price for Class A Units 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 for the Class A Units. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.
* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

## Month of August Attribution

**Securities Held**


**Securities Not Held**


Source: Ellerston Capital

In the month of August, the main positive contributors to the Fund's performance were its large overweight positions in Orora (ORA +25.0%, following an earnings beat - refer Market Hits section), IDP Education (IEL +8.3%) and not owning any BHP (-3.6%), having switched out and into Fortescue back in July.

The major detractors during the month included large overweight positions in Insignia Financial (IFL -16.2%), which had previously guided to beat earnings expectations and it did, however the market was totally taken by surprise (as were we) and spooked by a temporary "pause" in the dividend. As a result, IFL gave back most of July's +21.0% outperformance. IRESS (IRE -8.9%) delivered a solid result at the top end of guidance, but after July's +32.0% move, investors seemingly took profits post the delivery of a clean underlying set of numbers. The weakness in the Perpetual share price (PPT -11.4%) confounded us and was also a detractor, as the company clarified the net after tax proceeds to shareholders post the KKR transaction. This was in fact a much better outcome than the market feared, yet the shares continued to drift lower. When coupled with not owning any of the four major banks, it was a difficult month.

## FUND ACTIVITY

The Fund pared back some of its Orora holding (which investors were previously giving away below $2.00) and right sized the position after its stellar run in August (see Market Hits write up). The Fund also took good profits in Challenger and GrainCorp, exited remnant positions in Ampol (on a disappointing refining result) and James Hardie and added to Fortescue and Iluka during weakness early in the month. In terms of new positions, the portfolio has re-introduced Aurizon, Cleanaway and Ramsay Health Care (with this market leading hospital operator trading at a 10 year low).

| NEW STOCKS ADDED | STOCKS EXITED |
|---|---|
| • Aurizon Holdings | • Ampol |
| • Cleanaway | • James Hardie Industries |
| • Ramsay Health Care | |

| INCREASED | DECREASED |
|---|---|
| • Fortescue | • Challenger |
| • Iluka | • GrainCorp |
| | • Orora |

## FUND STRATEGY AND OUTLOOK

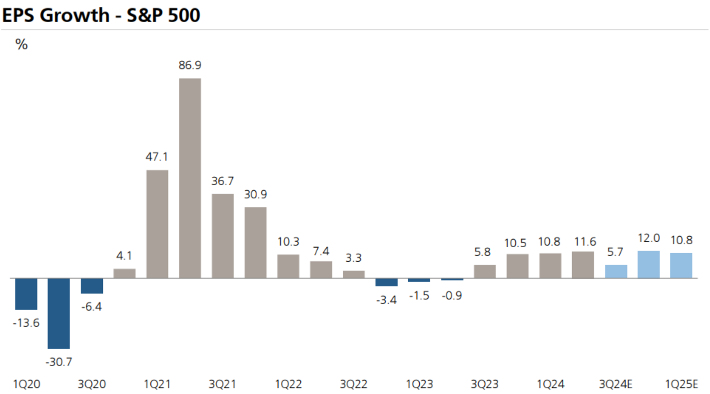
Global growth continues to moderate, but the world is becoming less dependent on US demand as ROW capital expenditure and European consumers begin to pick up the slack. These developments are generating a modest recovery in global manufacturing ex the US. Inflation looks like it will remain sticky and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

At the time of writing, the US equity market kicked off September with a very ugly session (S&P 500 is down 2.2%) and with market darlings like Nvidia under maximum pressure. The selloff was initially sparked by weaker manufacturing data points, placing doubts on the conventional and well baked in soft landing scenario. It felt like déjà vu early August all over again, but raises the question - has the Fed been behind the curve?

US 2Q24 earnings growth came in at 11.6%, which was the best of the four sequential quarters of positive growth. Tech+, Financials and Utilities did most of the heavy lifting.

### US S&P 500 2Q24 EPS Growth

| | EPS | |
|---|---|---|
| | Weighted | Median |
| **S&P 500** | **11.6** | **8.6** |
| **TECH+** | **30.0** | **11.1** |
| **Cyclicals** | **0.0** | **9.0** |
| Energy | 1.2 | 14.2 |
| Materials | -5.9 | 7.9 |
| Industrials | 0.4 | 9.1 |
| Discretionary ex-AMZN | 0.7 | 8.7 |
| **Non-Cyclicals** | **5.4** | **5.6** |
| Staples | 3.7 | 4.4 |
| Health Care | 7.1 | 8.6 |
| Utilities | 13.2 | 11.1 |
| REITs | -1.5 | 1.9 |
| Telcos | -3.4 | -5.0 |
| **Financials** | **13.3** | **11.6** |




Source: UBS

Domestically, the reality of a deteriorating earnings backdrop finally caught up with the market during the August reporting season. Margin degradation was a persistent factor, as was higher interest costs hitting bottom line earnings. The theme of 'retail resilience' (Breville and JB Hi-Fi) morphed into one of 'retail bifurcation' (Harvey Norman and Woolworths Big W). Airline ticket deflation was a prominent feature (Flight Centre and Qantas), as was cost of living pressures (Medibank Private, Wesfarmers, Woolworths). The upshot was for FY25 earnings downgrades, driving EPS growth forecasts to uninspiring low single digit levels.

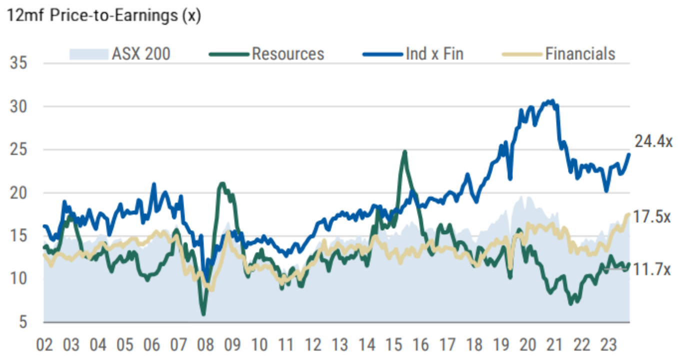
Australia now looks set to be an earnings growth laggard for the foreseeable future, save a commodity price rally following the recent sharp pull back.

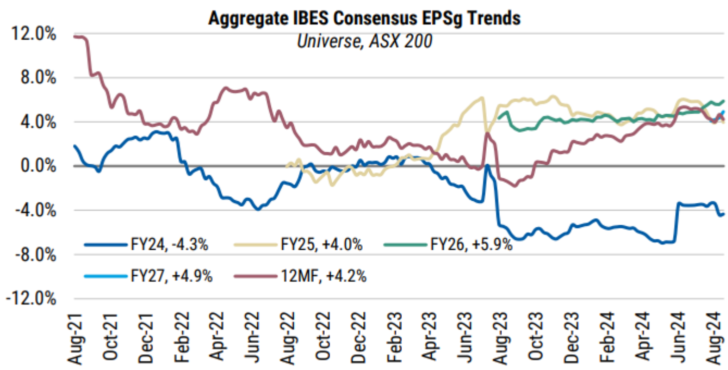
Post Governor Bullock's hawkish speech and testimony to Parliament mid-month, this reinforces the view that the RBA is more likely stay on hold through the remainder of 2024, with rate cuts sometime in 2025, data dependent.

In terms of Valuations, the domestic market 12MF P/E currently stands at 17.7x. 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 24.4x**

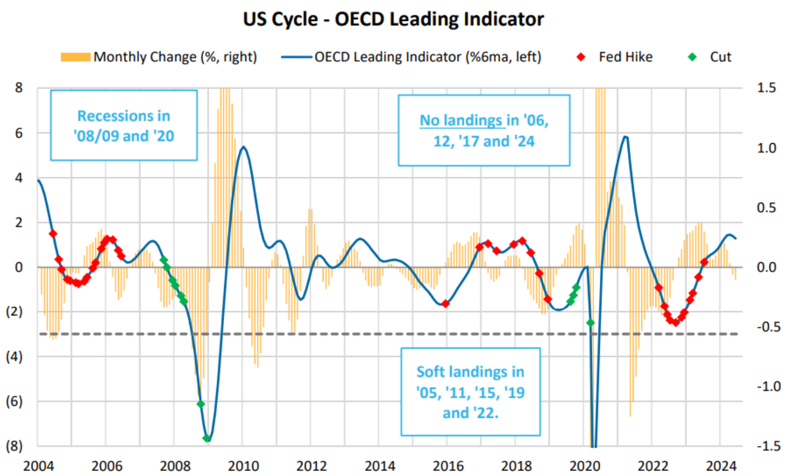
**Annual Consensus EPS Growth Trends FY24-27**




Source: Morgan Stanley

History suggests that post the first rate cut, equity markets soften on ongoing concerns of economic weakness and that the Fed is behind the curve. Recession seems unlikely, although the consensus held soft landing scenario doesn't preclude the prospect of a short and sharp economic rebound. The Fed will no doubt cut in September (question is by how much), starting the easing cycle. So, will the cuts be aggressive enough to appease the market?




Source: Macquarie Research

Given the geo-political risks and uncertainty regarding the US election outcome (now a much closer call), against the backdrop of sticky inflation, sluggish growth reigniting recession fears and equities flirting with all-time highs, the risk of another unforeseen destabilising event for global markets remains high. The recent Yen carry trade unwinding was painful, albeit for only a short time, but the next "shock" may be less telegraphed. The US market fall on their first trading day in September, which is too early to call it a rout, highlights that short term volatility will remain high. We continue to keep an eye on the seatbelt sign.

To summarise your portfolio's current positioning:

### 1. Quality Franchises, Growth at Reasonable, Attractive Valuations

Solid companies with strong/leading market positions and credible management with good balance sheets.

Atlas Arteria, Aurizon, Cleanaway, GrainCorp, IDP Education, IPH and Liberty Group.

### 2. Businesses that are highly cyclical or seasonal in nature, that have faced headwinds

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather.

Challenger, Kelsian, Orora and Seven West Media.

### 3. Turnarounds

Sound businesses that have historically generated poor returns, have been badly managed, resulting in poor execution of strategy and have under-earned versus their potential. These stocks are in a transition phase, and we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions.

Bapcor, Insignia Financial, IRESS, Perpetual and Ramsay Health Care.

### 4. Deeper Value Resource Plays

Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self-help, deleveraging). The cycle and thematics are still positive and any demand pick up will challenge balanced supply.

Fortescue, IGO, Iluka Resources and Santos.

We are truly grateful for, and always appreciate your continued support.

Warmest Regards,

Chris Kourtis

Portfolio Manager

## About Ellerston Overlay ASF

The investment objective of the Fund is to provide investors with a return that outperforms the Benchmark whilst delivering additional income through option strategies over time.

The Fund aims to achieve this by investing in a concentrated portfolio comprising of no more than 30 Australian Listed Securities and where possible, enhancing income through the use of Derivatives and shorter term trading strategies.

The Fund aims to be invested with a minimum of 90% in physical Securities at all times and must maintain a net exposure of 50% or greater. At least 75% of the Fund will be aligned to the portfolio of the Ellerston Australian Share Fund (EASF). The Fund may invest in REITS.

| | |
|---|---|
| **STRATEGY FUNDS UNDER MANAGEMENT** | $199,711,095 |
| **FUNDS UNDER MANAGEMENT – OASF UNIT TRUST** | $7,437,377 |
| **APPLICATION PRICE** | $1.0894 |
| **REDEMPTION PRICE** | $1.0840 |
| **NUMBER OF STOCKS** | 20 |
| **INCEPTION DATE** | 1-Jul-11 |

Source: Ellerston Capital.

Contact Us

Sydney

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Find out more:

For new or additional applications into the Fund, please click here.

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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