Ellerston Australian Share Fund

Ellerston Capital

Monthly Report as at 31 December 2024

APIR Code: ECL0005AU | ARSN 135 591 534

Concentrated portfolio of 10-25 Australian securities with a minimum market capitalisation of $300 million and a bias away from the ASX Top 20.

Seeks companies which can sustain high returns or improve their return on capital, and that trade at a market value below the Portfolio Manager's perceived valuation.

Aims to outperform the Benchmark over rolling five-year periods.

Performance Summary

Net (%)^	1 Month	3 Months	12 months rolling	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.) ^^
ASF	-4.16%	-6.39%	0.06%	2.11%	6.19%	7.07%	8.23%
Benchmark*	-3.15%	-0.80%	11.44%	7.41%	8.06%	8.51%	9.74%
Alpha	-1.01%	-5.59%	-11.38%	-5.30%	-1.87%	-1.44%	-1.51%

^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 31 March 2009.*

Key Information

Portfolio Manager	Chris Kourtis
Investment Objective	To outperform the Benchmark over rolling five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Liquidity	Daily
Target Number of Holdings	10-25
Number of Holdings at Month End	22
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.90% p.a.
Performance Fee[1]	15.00%
Buy/Sell Spread	0.25% / 0.25%

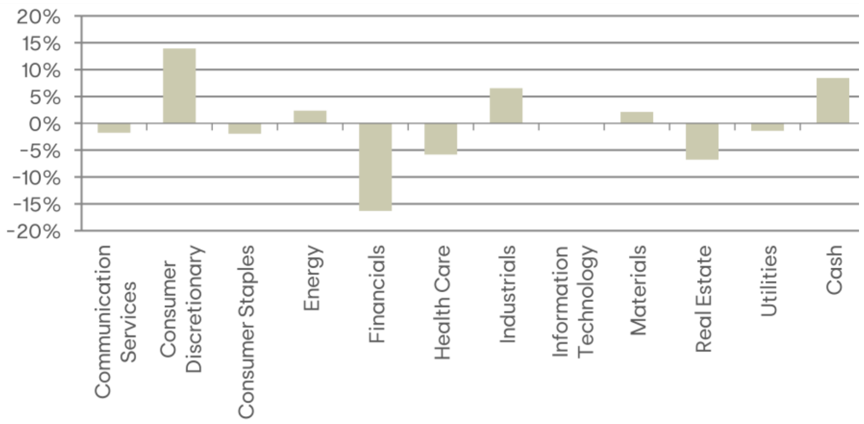
[1]Of the investment return above the benchmark, after recovering any underperformance in past periods.

Top 10 Holdings**

Ampol	Bapcor	Cleanaway Waste	Dominos	IGO
Iluka Resources	Liberty Financial	Mineral Resources	Perpetual	Premier Investments

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

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.*

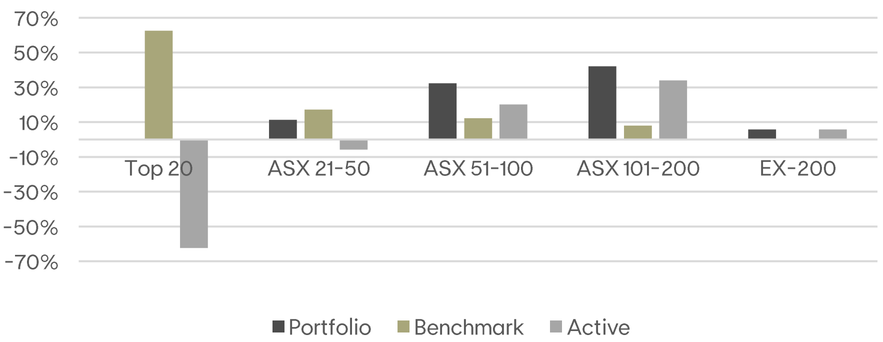
The Team

Chris Kourtis
Director & Portfolio Manager

40 years of industry experience.

Stephen Giubin
Senior Investment Analyst

37 years of industry experience.



Source: Ellerston Capital, Factset

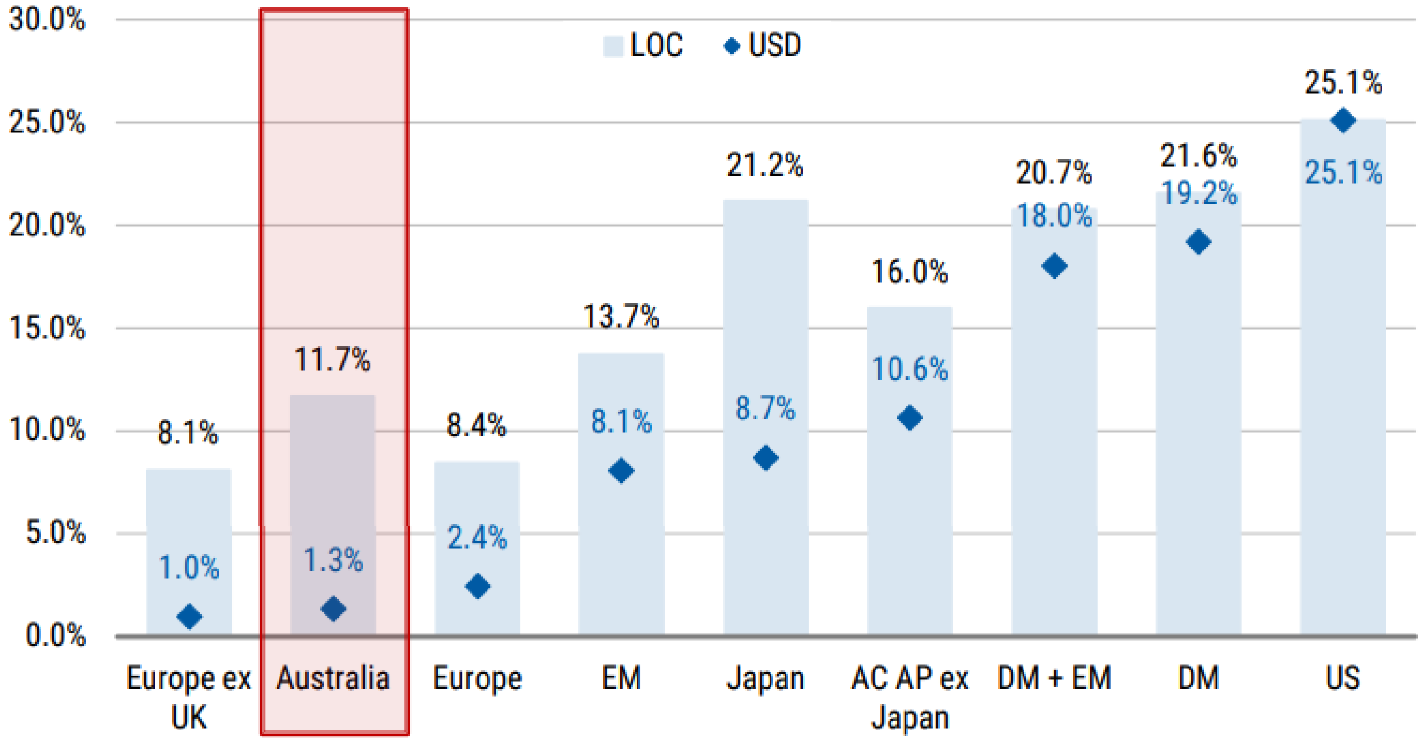
MARKET OVERVIEW

Global equities sold off towards year end as markets reacted to further disappointing stimulus out of China and a more hawkish tone from the US Federal Reserve.

The Fed revised inflation projections and dot plots higher after the PPI, CPI and non-farm payroll prints all came in higher than expected, causing the market to price in a slowing easing cycle.

Reversing the trend throughout 2024, the MSCI Emerging Markets Index rose 1.2%, outperforming the MSCI World Index which fell 1.9% in local currency terms. Consumer Discretionary (+3.1%) and Communication Services (+2.6%) topped the global performance sector table with Real Estate (-7.3%) being the laggard. The S&P 500 dropped 2.4% and domestically, the S&P/ASX200 lagged again, posting a loss of -3.2%, with the best sectors being Consumer Staples (+0.6%), Utilities (+0.4%) and Industrials (+0.3%).

MSCI Global Country/Regional Indices Performance for CY 2024



Source: Morgan Stanley

USA

The FOMC cut the Fed Funds rate by 25 bps to the 4.25% to 4.50% range as expected, although Chair Powell noted "today was a closer call but we decided it was the right call. The Fed surprisingly indicated that it would only lower twice more in 2025. According to the closely watched "dot plot" matrix of individual members' future rate forecasts, this hawkish move was deemed negatively by financial markets. The key takeaway from Chair Powell's press conference was that there will be a slower pace of rate cuts ahead. Currently expectations are for no rate cut in January.

Against this backdrop, the NASDAQ Composite index outperformed, rising 0.6%, but the S&P 500 (-2.4%) and the Dow Jones Industrial Average (-3.0%) sold off, with the small cap Russell 2000 being the clear laggard, finishing down 8.3%. This capped off a 25.0% return for the S&P500 in 2024, with Large Caps outperforming Small by 11.5%.

Only three S&P 500 sectors closed in positive territory, namely Communication Services (+3.6%, with Broadcom rallying 25.2% after it reported 4Q24 earnings which smashed expectations), Consumer Discretionary (+2.4%) and Information Technology (+1.2%), with the worst performing sectors being Materials (-10.7%), Energy (-9.5%) and Real Estate (-8.6%).

Europe

The ECB made a fourth rate cut of 25bps in December, which was no surprise and left the door open for further easing to support a struggling economy amid heightened political risks, particularly in France.

The Euro STOXX50 Index bucked the global sell off and actually finished the month up 1.9%. Among the major exchanges, France's CAC 40 closed up 2.1%, followed by Germany's DAX which rose 1.4%, with the FTSE 100 posting -1.3% return. Danish healthcare market darling

Novo Nordisk stood out during the month by slumping -21.9% after the company revealed disappointing results from its highly anticipated late-stage trial for its next-generation obesity drug CagriSema.

Asia

The Central Economic Work Conference (CEWC) held its annual meeting which sets the national agenda for the Chinese economy and its financial and banking sectors. In short, policymakers saw boosting domestic demand, especially household consumption, as their top policy priority for 2025. To achieve this aim, policymakers intend leveraging up the central government to boost fiscal spending. Fiscal policy will be more proactive, by increasing the budget deficit and increasing ultra-long Treasury bond and special local government bond quotas. Additionally, monetary policy will aim to be "moderately loose." Post the CEWC, rumours quickly spread that China could raise its budget deficit to 4% of GDP in 2025, the highest on record, but there has been no confirmation as yet.

The CEWC meeting and a weaker Yen (BoJ stood pat) saw Asian markets generally rebound. Japan's Nikkei rose 4.5% after BOJ Governor Ueda hinted to a longer time line before interest rates were lifted and the Hang Seng rose 3.3%, followed by China's SSE at +0.5%. India's SENSEX was down 2.1% and the clear laggard was the Korea's KOSPI, which closed 2.3% lower, not helped by President Yoon Suk Yeol briefly imposing Martial Law and the current tumultuous political situation.

Commodities

Commodities were generally weaker, the exception being oil, with Brent Crude rising 4% to US$75/barrel, partly due to the fall of the Assad government in Syria which was supportive of Tehran. Both Iron ore and Coking Coal retreated 4% to US$101/tonne and US$194/tonne respectively, weighed down by a weaker China steel price environment. The base metals complex edged lower, with nickel down 4%, aluminium 3% lower and copper falling 2%. The supply led tightness in bauxite and alumina continued, driving the alumina price to a new an all-time high of US$805/tonne in early December, before it tumbled 17% to US$672. The gold price (buffered by China boosting official reserves for the first time in 6 months) was relatively steady, only down 1% to US$2625/oz, however with the 5% fall in the local currency, bullion rose to an all-time high of A$4240/oz.

Bonds

The US 10-year bond yield finished 40bps higher to 4.57%, following a more hawkish outlook by the Fed, with the median FOMC participants assuming only two 25bps rate cuts in 2025. The Australian 10-year bond yield was relatively steady, edging up 3bps at 4.37%. The A$ fell 5% to US$0.62, due to the stronger US dollar and after Domestic Q3'24 GDP came in well below expectations (0.3%QoQ vs 0.5% expected).

Australia

Australian stocks fell in December, as reduced expectations for Fed hikes in 2025 and a resulting 40bp spike in bond yields were key drivers of year-end volatility.

The RBA's December meeting held the cash rate at 4.35%, as widely expected, but the outlook commentary was more on the dovish side compared to its November statement. The RBA noted "while underlying inflation is still high, other recent data on economic activity have been mixed, but on balance, softer than expected in November." Hence, "some of the upside risks to inflation appear to have eased." The RBA added "wage pressures have eased more than expected in the November SMP". It certainly increases the probability of a cut at the next meeting in February, but of course, will be data dependant.

Australian equities underperformed most developed global peers, with the S&P/ASX 200 Accumulation Index closing down 3.2%, reducing the calendar year 2024 return to +11.4%. In December, Consumer Staples (+0.6%) was the best performing sector, driven by Bega Cheese (+9.3%), followed by Utilities (AGL +0.8%) and the Industrials sector which was led by Auckland International Airport (+10.5%) and Computershare (+6.5%).

The worst performing sectors were Real Estate (due to the rise in bond yields), with REITs dragged down by HMC Capital (-20.0%), Lendlease Group (-13.0%) and Mirvac (-11.2%). Materials, pressured by Liontown Resources (-28.1%), Coronado Global Resources (-17.3%) and Alcoa Corporation (-16.2%) followed suit.

For the final month of the year, the top stocks that made a positive contribution to the Index's return were Transurban Group (+11bp), Computershare (+5bp), Telstra Group (+3bp), De Grey Mining (+2bp) and Coles Group (+2bp). Conversely, the bottom five stocks detracting from the Index's performance were CBA (-36bp), ANZ Group Holdings (-31bp), NAB (-24bp), BHP (-21bp) and Goodman Group (-15bp). The ASX Small Ordinaries closed down 3.1% marginally better than the broader benchmark return of -3.2%. Within the ASX Small Ordinaries, both the Small Industrials and Small Resources closed down 3.1%.

COMPANY SPECIFIC NEWS

The Market Hits

De Grey Mining (DEG +16.1%) / Gold Road Resources (GOR +9.9%)

Northern Star Resources (NST) agreed to acquire DEG, with the Board unanimously supporting an all scrip transaction by way of a recommended scheme of arrangement. DEG shareholders will receive 0.119 new NST shares for each DEG share held. DEG's flagship Hemi gold project, provides NST with an additional Tier 1 future low-cost production centre, which is aligned to its existing strategy. DEG rose 30% on the day of the announcement and NST finished down 8%. The scheme is expected to be implemented in April/May 2025. GOR was also an indirect beneficiary, given its 17.3% ownership of DEG.

Beach Energy (BPT +13.4%)

BPT conducted a site visit to its Waitsia gas project in the Perth Basin near Geraldton. Completion of the project should drive a step-change in BPT's cashflow from late FY25, but the project continues to limp to the finish line after another modest delay of 4-8 weeks. The project, operated by Mitsui, has suffered a number of challenges, with BPT trying to influence outcomes as best it can, but there is clear management frustration with the project so close to completion. Mitsui's operatorship of the project's drilling (the development wells which feed the gas plant) appears to be going very well, with costs coming in under budget, boding well for future exploration /expansion opportunities in the Perth Basin upon plant completion. Investors reacted positively, with expectations that this was the last of a series of project downgrades.

Insignia Financial (IFL +13.1%)

IFL received from Bain Capital a confidential, preliminary, non-binding and indicative proposal to acquire all of the shares in Insignia Financial by way of a scheme of arrangement pitched at $4.00 cash per share, 31% higher than the IFL share price prior to the media speculation. After consideration of the indicative proposal, the IFL board believed that the deal did not adequately represent fair value for IFL shareholders in the context of a change of control transaction and that it was not in the best interests of IFL shareholders to engage with Bain Capital. The ball is now in Bain Capital's court, with the shares closing well under Bain's cash offer.

Auckland International Airport (AIA +10.5%)

As expected by the market, the Auckland council sold their remaining 9.71% stake in the airport at NZ$8.08 per share, removing yet another overhang for the stock. Also, AIA's Nov-24 traffic highlighted a solid uptick in traffic volumes, with both international and domestic PAX up ~3% YoY in November, which was taken well by investors.

Monadelphous Group (MND +9.7%)

MND shares rallied after the Federal Government released its roadmap for the decommissioning of offshore energy infrastructure. The total cost has been put at $60bn over the next 35yrs, with peaks expected in 2033-37 and 2043-47. The initiative will involve the removal of 35 platforms and 11 floating facilities in NT/WA and 22 platforms in Victoria (all up 1,008 wells). The relevant work for MND is to dismantle steel structures with large production decks, providing a strong revenue opportunity. With construction revenue from the O&G sector only $50m in FY24 and far cry from the peak of $660m back in FY18, investors expect that it should provide a very long tail of projects and new source of profits. Also, with a number of mining projects in WA impacted by lower commodity prices causing mine closures, MND and its peers should benefit from a better labour market.

Bega Cheese (BGA +9.3%)

BGA buys milk locally and has struggled during the past few years, as domestic milk prices have risen whilst NZ prices kept falling, causing a classic bulk commodity input/output price squeeze. NZ's milk output now shows signs of recovery, with increased demand in China and Southeast Asia. Fonterra's forecast for improved milk prices has seen the farmgate price rise from ~NZ$8.00 to ~NZ$10.00 per kgMS over the last quarter, which is now A$1.00 higher than BGA's farmgate price and takes the pressure off its bulk milk margins. Their branded business continues to perform well.

Computershare (CPU +6.5%)

Since Trump's election win, the US cash rate forward curve has flattened, flowing through to both UK and Australian rates, which benefits CPU's cash margin income and was responsible for CPU's stellar November share price performance of +20.9%. This month saw the yield curve rising overall, including at the short end, predominantly in the UK and the US. However the short end was lower in Australia, negating the benefit derived from their UK exposure. Despite this, it didn't stop CPU rising +6.5% - let's put it down to Christmas liquidity!

Tabcorp Holdings (TAH +5.6%)

TAH trended higher with recent CEO Gillon McLachlan making more sweeping leadership changes, including increased wagering and media capability to deliver Tabcorp's strategic growth ambitions. Central to the changes is the creation of a Chief Wagering Officer role bringing together the core wagering functions of digital, retail, trading, marketing and product, including Tote innovation. The Chief Wagering Officer role is expected to be announced in the new year. In conjunction, a Chief Commercial and Media Officer role has also been created aiming to deliver stronger commercial outcomes and maximise the value of TAH's assets across domestic and international media (Sky Racing) and its retail footprint. This role will also have responsibility for TAH's Gaming Services business, Max. Also, perhaps more importantly in the eyes of the market, one of TAH's key competitors Entain (owner of the Ladbrokes and NEDS brands in Australia) faced allegations of non-compliance with AML/CTF laws by AUSTRAC. This will likely result in a material penalties and potential restrictions on how Entain operates here. It's not clear if/how the proceedings against Entain would benefit TAH's market share, but it certainly won't hurt.

New Hope Corporation (NHC +5.5%)

A major international broker upgraded NHC to a buy based on lower A$/US$ assumptions going forward, boosting NHC's earnings, valuation and dividend prospects. NHC is now trading on a 9.0% fully franked dividend yield and has net cash on the balance sheet. This places the coal producer in a much better position than most of the other listed thermal coal producers.

The Market Misses

Clarity Pharmaceuticals (CU6 -35.0%)

CU6 is a clinical stage radiopharmaceutical company focussed on targeted copper theronostics, which IPO'd in August 2021. The company came back for $121m more capital in March this year at $2.55 per share. CU6 was then included in the ASX300 on 23 September, quickly posting a high of $8.79 per share, however profit taking saw the stock retreat by ~30%. While CU6's December inclusion in the ASX200 drove a temporary bounce, further profit taking ensued, which saw CU6 close at $4.17 per share, but still 64% above the price struck during the capital raising.

Liontown Resources (LTR -28.1%)

LTR continues to do it tough in the current, lower for longer, lithium prices environment. After giving Kathleen Valley's maiden 2H FY25 guidance in November, highlighting the higher than expected AISC of A$1170-1290/t, which is higher than the current spot market spodumene price, this will result in further cash drawdowns. Given the current negative sentiment in lithium, LTR's ramp up of its Kathleen Valley project and balance sheet stress will remain a focus for investors until the company can demonstrate positive free cash flow. It was only a little over a year that US lithium behemoth Albemarle offered $3.00 a share for LTR, which closed at $0.52. Ouch!

Ventia Services Group (VNT -20.9%)

The ACCC launched Federal court proceedings against VNT, Spotless (now owned by Downer EDI), BGIS and four senior executives at VNT and Downer for alleged cartel behaviour, with respect to defence estate management contracts between 2019-2022, centring on price fixing arrangements/understandings between the defendants. The reputational damage from the allegations is clearly meaningful. Any resulting impact on the prospect for future government contract wins and to the broader business remains uncertain until the ACCC process is resolved and/or there are positive outcomes from the upcoming Defence contract renewal process, expected to be delivered in early 2025.

HMC Capital (HMC -20.0%)

HMC is the largest shareholder and facilitator of the DigiCo Infrastructure REIT (DGT), the biggest IPO by capital raised in calendar 2024, since Viva Energy's 2018 listing at $2.75bn. DGT's well hyped IPO flopped, with the $5.00 issue price finishing the month at $4.45, erasing HMC's November performance of +21.2%.

Data#3 (DTL -18.0%)

DTL is an IT reseller of software and infrastructure products to government and enterprise customers in Australia. It uses its technical expertise to procure and package a tailored IT solution for customers. Key vendor partner Microsoft (~60% of DTL sales) surprisingly announced changes to its reseller incentive structures to take effect from January 2025. The changes are a shift away from multi-year Enterprise Agreements (EAs) to Cloud Solution Provider (CSP) programs. EAs are typically fixed around 3-4 year contracts, while CSPs are typically more dynamic and flexible monthly contracts for customers. While 1H25 PBT guidance ($31-33m) was reaffirmed, DTL said the new incentives would have a -3% impact to FY24 gross profit if applied across the full year (implies -13% to FY24 PBT assuming full flow-through). DTL fell 10% on the announcement and investor concerns over the risk associated with DTL's large exposure to one vendor with significant clout, drove the stock down further.

Coronado Global Resources Inc. (CRN -17.3%)

CRN is a coking coal producer operating in Queensland's Bowen Basin and West Virginia in the USA. Coking coal prices have fallen 40% this year and CRN is maintaining a prudent capital structure. Despite a volatile coal market outlook in 2025, the company expects that there is sufficient liquidity to fund their capital requirements next year. It also means that CRN won't be FCF positive until 2026. After the 5% coking coal price fall in December and only a 1.5% dividend yield likely, 2026 looks like a bridge too far for many investors.

Alcoa Corporation (AAI -16.2%)

AAI traded down in line with lower aluminium and alumina prices, particularly the latter which has been on a tear this year after supply impediments propelled the alumina price to an all-time high of US$805/tonne in early December, then closing down 17% to US$672/t.

Audinate Group (AD8 -16.1%)

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. There was no particular fresh news on the stock, but rather disgruntled investors who have watched the stock price fall from its mid-March high of $23.31, to this month's closing price of $7.41, continuing to bail out. A growth stock needs to grow its top line!

BlueScope Steel (BSL -15.5%)

Steel spreads in both Asia and the US again moved lower, resulting in material downgrades by BSL's peers for the December quarter. Major US producer Nucor guided 4Q earnings down 30% versus consensus, caused by decreased volumes and lower average selling prices. This led to certain key sell-side analysts aggressively downgrading BSL's FY25 EBIT by ~15% on consensus estimates of ~$700m.

Collins Foods (CKF -15.5%)

CKF released its HY25 results which were broadly in line, but the company spooked investors with disappointing FY25 guidance. EBITDA margins of 14.2-14.7% and EBIT margins of 6.8%-7.3% were weaker than expected, with consensus previously sitting at the top end of the range. Also, FY25 interest expense at $42m was higher, as was the effective tax rate at 33% vs. 30% expected. The overall earnings impact to consensus was minor, but it did result in a couple of overly bullish sell-side analysts downgrading their FY25 and FY26 earnings by 10% to 15%.

FUND PERFORMANCE

Against the backdrop of a global sell off in equities, the Fund underperformed in December, mainly due to our low exposure to traditional defensives such as Transurban, CSL and Telstra which rallied. The return of -4.07% fared worse than the benchmark of -3.15%. The half-time score for the 2025 FYTD, has been more a case of stocks we didn't own ripping (the likes of Pro Medicus +74.8%, Technology One +69.3% and Block +46.6%) that has constrained performance. This has been the story for the past 6 months and as a result, when coupled with the bank rally, the Fund's total return of +1.39% trails the benchmark return of +6.93%.

For the month of December, Consumer Staples (+0.6%), Utilities (+0.4%) and Industrials (+0.3%) were the best performing sectors, whilst the underperformers were Real Estate (-6.1%), Materials (-4.5%) and Information Technology (-4.4%).

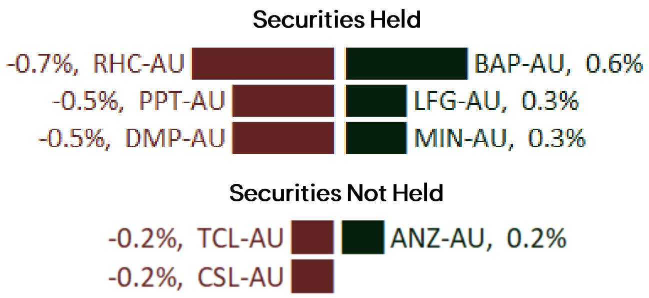
Industrials, Consumer Staples, Energy and Utilities were the only positive sectors, but collectively only posted a contribution (+7bp) to the market's return in December.

Conversely, Financials contributed -141 bps to the downside (driven by the major banks), followed by Materials (-88bp) and Real Estate (-41bp) which represented -270bp, or 86% of December's negative return.

Returns"(%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	-4.07%	-3.15%	-0.92%	-4.16%
3 Months	-6.13%	-0.80%	-5.33%	-6.39%
12 months rolling	1.18%	11.44%	-10.26%	0.06%
3 Years (p.a.)	3.24%	7.41%	-4.17%	2.11%
5 Years (p.a.)	7.36%	8.06%	-0.70%	6.19%
10 Years (p.a.)	8.23%	8.51%	-0.28%	7.07%
Since Inception (p.a.)	9.41%	9.74%	-0.33%	8.23%

Past performance is not a reliable indicator of future performance
"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 December Attribution



Source: Ellerston Capital

For December, the main positive contributors to the Fund's performance were overweight positions in Bapcor (BAP +4.7%). Liberty Financial (LFG +5.1%), Mineral Resources (MIN +1.8%) and not owning any ANZ (ANZ -8.4%). Detractors during the month included overweight positions in Ramsay Health Care (RHC -12.8%), Perpetual (PPT -8.3%), Domino's Pizza Enterprises (DMP -9.7%) and not holding any of the traditional defensives, Transurban (+7.1%) and CSL (CSL -0.2%).

Tech (+17.2%) was the best sector in the FYTD with gains driven by higher EPS. In contrast, the past 6 month gains for banks (+15.3%) were largely due to further PE expansion. Resources (-4.9%) was the largest underperformer for the FYTD, as lower commodity prices drove downgrades which have negatively impacted valuations.

2024 Year in Reflection

The most glaring feature in 2024 was the sizeable disparity in performance across stocks, sectors, styles and regions (also the case since the market lows achieved in October 2022), with the MSCI Emerging Markets +8.1% materially underperforming the MSCI Developed Markets by a whopping 11.1% in USD. Trump's assassination attempt and astonishing re-election to the oval office were without doubt amongst the most newsworthy headlines. However, confounding most observers, the stronger than expected US economy was a key driver of market returns, with strength being most evident in the upgrade to consensus GDP projections over the course of the year. According to Bloomberg, 2024 forecasts increased from 1.3% to 2.7% over the past 12 months, a doubling of the pace of economic growth.

In a volatile year, even after December's pull back, the ASX posted a total return of 11.4% in 2024. This follows a similar low double-digit return in calendar 2023. The 2024 return was largely driven by PE expansion, which accounted for ~7% of the total return in 2024, with rising EPS only adding 0.5% to this return, while dividends added 4%.

The best sector in 2024 was Tech (+49.9%) and nearly 90% of this gain was driven by higher earnings. Banks were second-best with a 2024 TSR of 35.7%, however, 80% of the sector's return was due to PE expansion. Resources (-14.9%) were the clear laggard , as anaemic Chinese growth and lower prices for iron ore, coal and steel, coupled with significantly lower lithium prices drove an 8% downgrade overall to forecast EPS for the Resources sector. Despite multiple false starts and periodic China stimulus rallies, with the prospect of Trump materially lifting tariffs on China, Resources was one of the few sectors in the Australian market that suffered from PE contraction in 2024. Gold was the exception, with central bank buying fuelling a 27% rise in the bullion price and a 16% rally in ASX gold stocks.

Growth as a factor, significantly outperformed Value by ~ 16% in 2024, largely due to the performance spread between Tech and Resources. Despite a well held expectations early in 2024 of a small cap resurgence, large caps outperformed by 3.4% in 2024.

Style patterns in the US were similar, but due to the dominance of the Magnificent 7, Growth (+22%) and Quality materially outperformed, as did large caps (+13%) in the US. Analysis of returns has highlighted the importance of the 6th largest stocks. Excluding this group from the S&P 500 would have lowered returns from 25.0% to 16.0% in 2024 and 70.1% to 48.3% over the past 2+ years. NVIDIA alone would have reduced the index's return by 5.2% and 10.2%.

This concentration of a handful of mega companies also explains most of the relative underperformance of small caps and non-US stocks.

FUND ACTIVITY

The Fund was reasonably active in December, taking profits in Light & Wonder, reducing Ramsay Health Care and completely exiting Santos. We used the share price weakness to selectively strengthen existing positions in Ampol, Bapcor, Iluka and Mineral Resources and added one new stock, GrainCorp (a stock we know well and have owned in the past) to the portfolio.

We bought back into GrainCorp after its sharp ~20% fall in the past two months. This follows the recently released ABARE third estimate and upgrade to the East Coast Australia winter 2024/25 crop production of 30.0mt, 38% above the 10-year average of 21.7mt and+26% vs 2023/24's 23.8mt. We believe GNC's stock price does not reflect these improved conditions, and its price fall is overdone.

NEW STOCKS ADDED

- Graincorp Limited

STOCKS EXITED

- Santos

INCREASED

- Orora Limited
- Mineral Resources
- Iluka Resources Limited
- Bapcor
- Ampol Limited

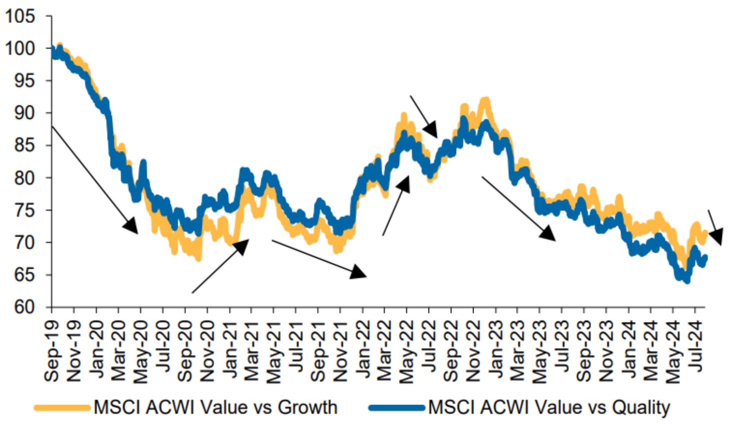
DECREASED

- Ramsay Health Care
- Light & Wonder

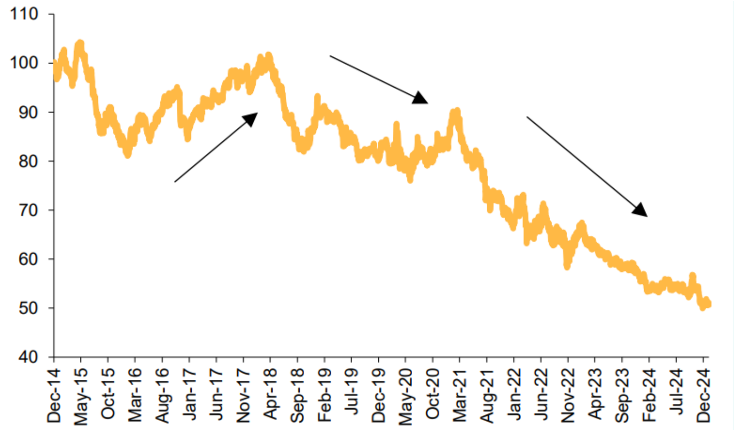
FUND STRATEGY AND OUTLOOK

2024 was a year of Growth and Quality styles trouncing Value and Defensives. It was also another year of US dominance and Emerging Markets suffering from relative underperformance, which was also the case for European equities and Japan. Both these markets underperformed given the surging US dollar and the structural advantages of US equities, the likes of the Mag7.

Global Growth & Quality vs Value



Relative Performance of MSCI EM vs. MSCI World (DM)



Source: Macquarie Research

As mentioned earlier, last year's domestic market performance was predominantly driven by PE expansion, which accounted for ~7% of 2024 TSR, with rising EPS only adding 0.5% to this return. Growth and Momentum stocks globally (particularly the likes of Nvidia and other tech mega caps) helped to deliver the best equity returns in over 20 years, propelling world markets to all-time highs. With PEs in Australia also nearing record highs, a positive return for investors in 2025 will likely need to be derived from a stronger earnings contribution (and in our view that's not coming from the Banks that have enjoyed the greatest PER expansion - given no earnings growth). Relative to the US, Australia again, looks set to be an earnings growth laggard near term, as official interest rate cuts won't fully kick in and help industrials until FY26.

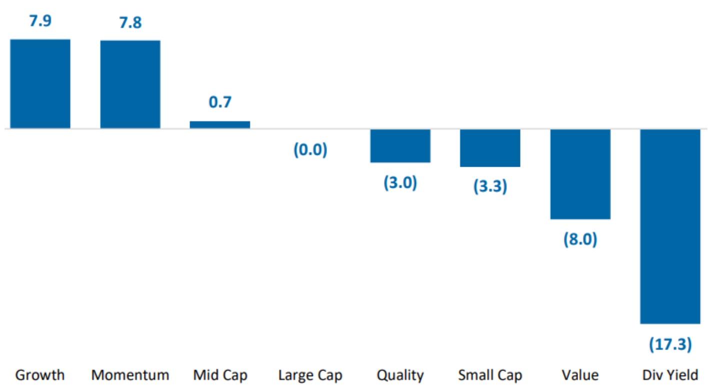
The other potential handbrake domestically is the uncertainty with respect to the impacts on global trade (particularly to our biggest trading partner China) from pending US tariff wars. China's stimulus measures are yet to kick in, but the leadership is committed to boosting growth and is soon to clarify the size of planned stimulus for 2025. Current rumours persist that China could raise its budget deficit to 4% of GDP in 2025, the highest ever on record, but there has been no confirmation yet. This is vitally important to our Resources dependent economy, which would obviously be a huge beneficiary of a pick- up in China.

The Resources sector has underperformed Banks in the past 12 months by a whopping 51%. We believe Resources are in the process of bottoming, as we are seeing production curtailments in a number of key commodities, which should drive some mean-reversion. **Our key Resource holdings: Mineral Resources (MIN), Iluka (ILU) and lowest cost lithium play Independence Group (IGO) have all been accumulated at an average cost price a third to half the share prices prevailing 18 months ago. Given AUD weakness, they should be major revenue beneficiaries and we are well positioned.**

As in the US, Growth and Momentum have been the dominant factors in 2024 and Value, as well as Dividend Yield, have significantly underperformed. In fact, Yield was the worst quant factor by a big margin.

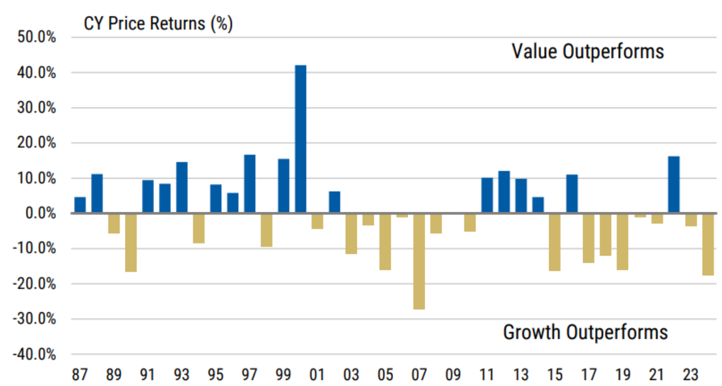
In the last 10 years Value has only outperformed twice in 2016 and 2022. Ironically if we go back to the last major tech boom/bust, not only did Value do better, it massively outperformed! History doesn't necessarily repeat, but there is a certain analogue in the current AI euphoria.

Relative Factor Returns in 2024



Source: Macquarie research

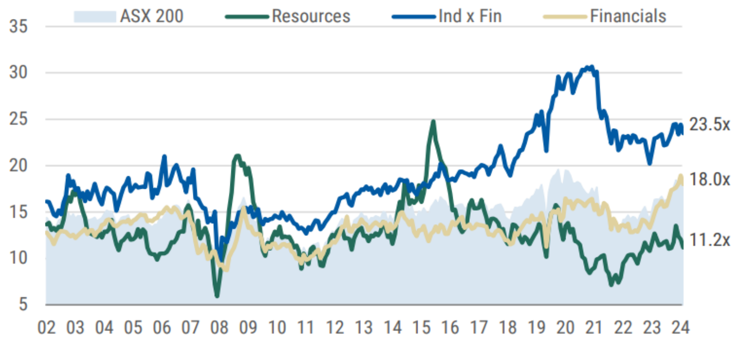
Calendar Years Value/Growth Spreads



Source: Morgan Stanley

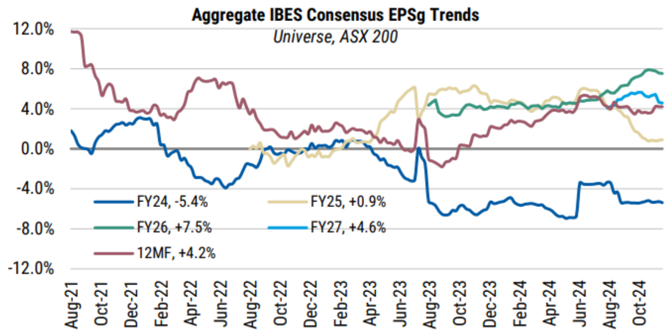
In terms of Valuations, the domestic market 12MF P/E currently stands at 17.4x in December, trading at ~2 standard deviations above the long-term average (14.7x since 1992). With aggregate earnings stabilising in December, consensus earnings growth expectations for FY25 are basically flat, with the level down 6% so far this year. This effectively pushes out the expected earnings rebound to FY26 and stands in stark contrast to a market multiple that has re-rated by 1 P/E point since the start of the financial year.

The 12M forward PE of the Industrials ex- Financials at 23.5x



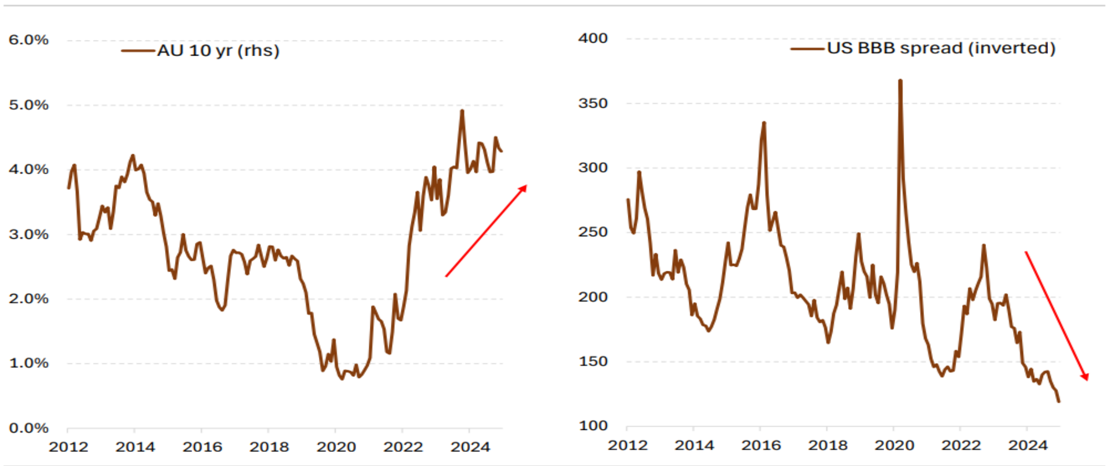
Source: Morgan Stanley

Annual Consensus EPS Growth Trends FY24-27



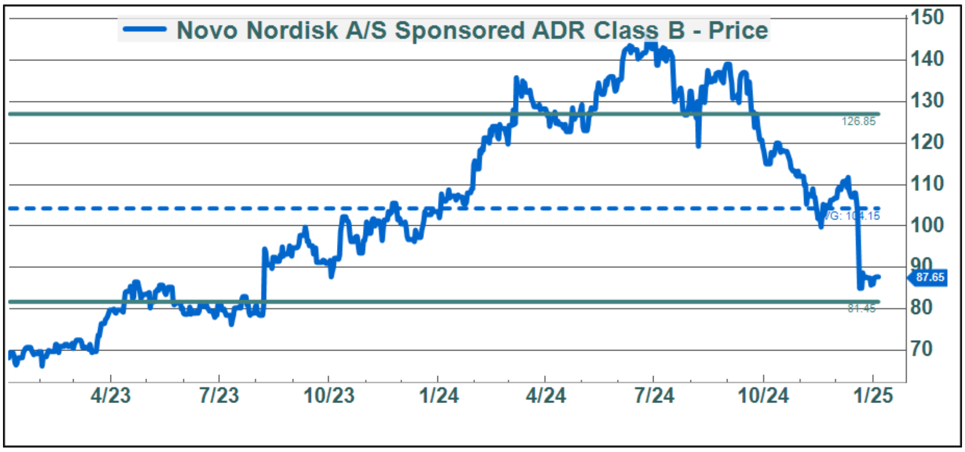
In recent months, longer duration bonds have sold off sharply on the inflationary prospects from Trump's plans for tariffs on trade and cuts to the corporate tax rate. However, we've seen credit spreads narrowing further, implying that investors are hunkered down with the 'risk-on' mindset. The picture will soon become clearer on Trump Administration policy and whether these proposed policy goals will be implemented in a Draconian, or more minimalist fashion. The market would embrace a softer approach.

10 Year Bond Rate and BBB Credit Spread



Source: UBS

Like many investors, we are concerned about distorted market prices caused this time by AI hype and concentration risk. We remind investors of the GLP-1 frenzy and Novo-Nordisk hitting all-time highs less than a year ago, only to almost halve in price since the end of June 2024…….



Source: FactSet

Given equities are flirting with all-time highs, this poses potential risks for another unforeseen destabilising event for investors and risk assets.

The wall of worry continues to be climbed as equity markets squeeze higher and whilst the fools were dancing last year, the greater fools (including us), were wrong footed. We were more defensively positioned in value names trading well below intrinsic, which traded sideways and hence as contrarians, we were left sitting on the dance-floor sidelines.

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, Ampol, Aurizon, Cleanaway, Light & Wonder, News Corp, Premier Investments, 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, GrainCorp, Johns Lyng, 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, Domino's Pizza, 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 longer term thematics are still positive and any demand pick up will challenge balanced supply.

IGO, Iluka Resources and Mineral Resources.

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

Warmest Regards,

Chris Kourtis

Portfolio Manager

About the Ellerston Australian Share Fund

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

STRATEGY FUNDS UNDER MANAGEMENT	$649,556,154.53
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	$19,271,077.39
APPLICATION PRICE	$0.8967
REDEMPTION PRICE	$0.8923
NUMBER OF STOCKS	22
INCEPTION DATE	31-March-09

Contact Us

Sydney

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info@ellerstoncapital.com

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.

Ellerston Capital