



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 Month	12 months rolling	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.) <sup>^^</sup>
Net <sup>^</sup>	2.51%	-1.23%	1.84%	2.67%	4.84%	6.09%	6.83%
Benchmark*	4.57%	5.11%	15.17%	11.44%	7.97%	8.65%	9.35%
Alpha	-2.06%	-6.34%	-13.33%	-8.77%	-3.13%	-2.56%	-2.52%

<sup>^</sup>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.

<sup>^^</sup>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	23
Minimum Investment	Initial investment - \$50,000 Additional investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.90% p.a.
Performance Fee <sup>1</sup>	15.00%
Buy/Sell Spread	0.25% / 0.25%

<sup>1</sup>Of the investment return above the Benchmark, after recovering any underperformance in past periods.

## The Team



**Chris Kourtis**  
Director & Portfolio Manager

40 years of industry experience.



**Stephen Giubin**  
Senior Investment Analyst

37 years of industry experience.

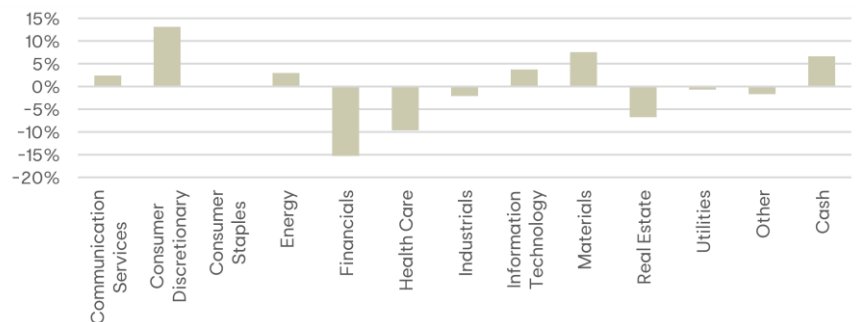
## Top 10 Holdings\*\*

Ampol	Bapcor	IGO	Iluka Resources	IRESS
Johns Lyng Group	Liberty Financial Group	Mineral Resources	Perpetual	Premier Investments

Source: Ellerston Capital.

\*\*In alphabetical order.

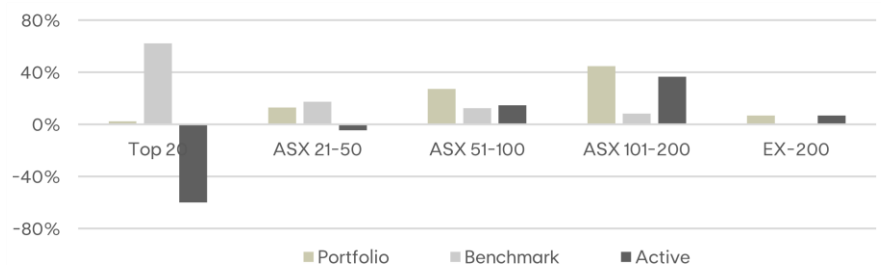
## Active Sector Exposures\*\*\*



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.

## Size comparison Chart vs ASX 200



Source: Factset, Ellerston Capital

## Asset Class Exposures

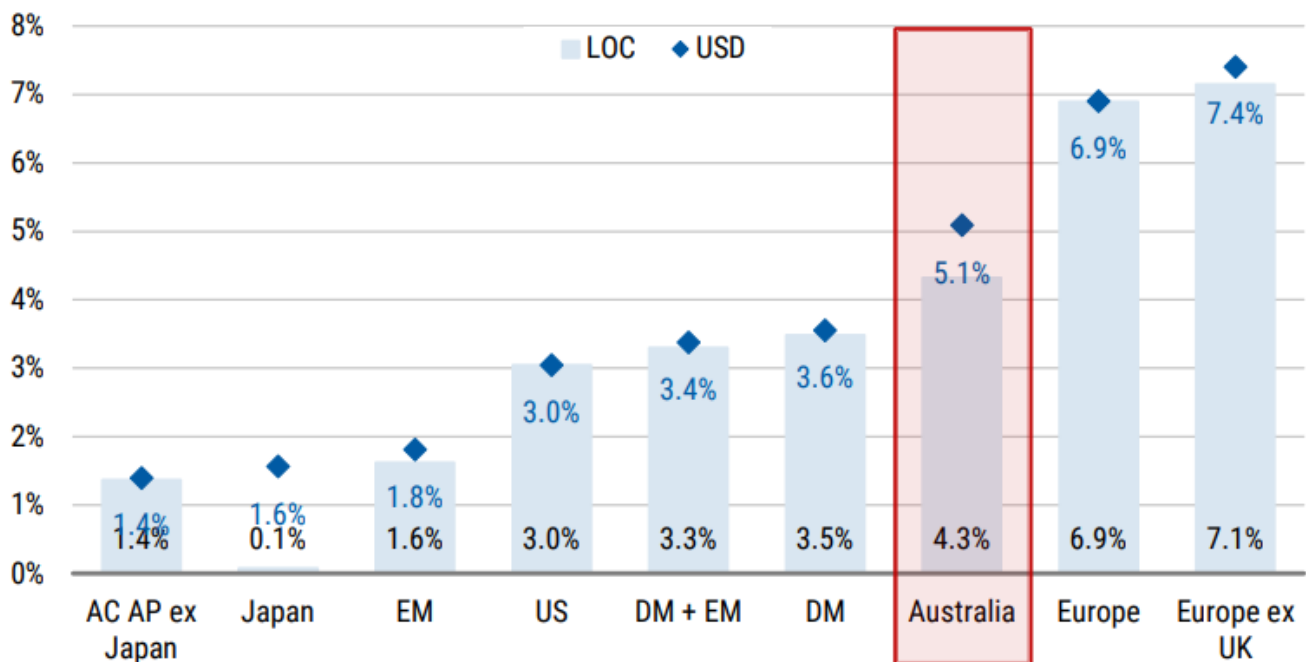
Exposure (% of NAV)	Equity	Long Option	Short Option	Cash	Grand Total
Net	95.04	0	-1.69	6.65	100

Source: Ellerston Capital.

## MARKET OVERVIEW

In a transient rally to start the new year, the AI theme was rattled by the emergence of DeepSeek's showcased efficiency which went way beyond the market's expectations. This caused sharp sell offs in the likes of Nvidia, dragging the US IT sector well into the red as investors began to seriously question the necessity of the ongoing AI investment boom. President Trump's pending imposition of tariffs on China, Mexico and Canada was also front and centre for investors, coupled with the US Federal Reserve confirming its hawkish pause on rates. Yet against this backdrop of uncertainty, global equities performed strongly, with Europe leading the charge. The MSCI World Index lifted 3.5%, outperforming the MSCI Emerging Markets Index which posted small positive returns and rose 1.6% in local currency terms. Communication Services (+8.7%) and Financials (+6.6%) topped the global sector tables. Information Technology (-1.5%) was the laggard. The S&P 500 rose 2.8% and on the home front, the S&P/ASX200 outperformed, posting a gain of 4.6%. Domestically, the best sectors were Consumer Discretionary (+7.1%), Financials (+6.1%) and Real Estate (+4.7%).

MSCI Global Country/Regional Indices Performance for January 2025



Source: Morgan Stanley

### USA

January saw several major developments, most of which were positive for risk assets up until the announcement of tariffs on Canada (25%), Mexico (25%) and China (additional 10%) at month end (announced on 1 February). Not surprisingly, the Federal Reserve FOMC held interest rates steady, in a range of 4.25%-4.5%, pausing to assess the inflation outlook following a string of rate reductions last year. Officials repeated that inflation remains "somewhat elevated," but removed its reference to having made progress toward their 2% goal, also noting the unemployment rate had stabilised at a low level. Strong economic growth, supplemented by a solid labour market has allowed the Fed to wait for further evidence of cooling inflation, giving it time to evaluate the Trump administration policy impacts on the economy, before adjusting rates again.

The big market moving news in January revolved around Chinese artificial-intelligence startup DeepSeek, which put the cat amongst the pigeons. The introduction of DeepSeek's open-source R1 model shocked investors. A record stock market value was wiped off the world's largest company Nvidia, which shed 16.9% in one session on 27 January. This was the biggest drop since March 2020, erasing ~US\$600 billion off its market capitalisation. Nvidia's sell-off rippled through the broader market, given its large weight amongst major indices, causing the S&P 500 to finish down 1.5% and the Nasdaq Composite to close down 3.1% on the day. DeepSeek's low-cost approach reignited concerns that big US companies have poured excessive capex into developing artificial intelligence. The Chinese firm appears to provide a comparable or superior performance to Western chatbots at a fraction of the price, driving a broader sell-off in technology stocks, with the likes of Oracle down 13.8% on the same day.

In the wash up, the Dow Jones Industrial Average outperformed in January, rising 4.8%, followed by the S&P 500 (+2.8%) and the small cap Russell 2000 (+2.6%), with the NASDAQ Composite index being the clear laggard, finishing up 1.7%.

The best performing sectors were Communication Services (+9.1%), Health Care (+6.8%) and Financials (+6.6%), with the worst performing sector and the only one in the red being Information Technology (-2.9%, clearly impacted by DeepSeek upsetting the AI apple cart), followed by Real Estate (+1.8%) and Consumer Staples (+2.0%).

## Europe

The ECB cut rates by 25bp (the fifth), as expected, taking the deposit rate to 2.75%. ECB president Lagarde reinforced the neutral range she stressed in Davos, which was 1.75%-2.25%, suggesting that the ECB has more room to cut rates. Further cuts are also consistent with December projections, which have factored in a policy rate path down to around 2%. This nevertheless showed inflation returning to its target rate this year (and core slipping 0.1% below in 2026 and 2027).

European stocks materially outperformed global indices for the second month in a row, surprising many investors. The Euro STOXX50 Index advanced 8.1%, its best performance since November 2023. The move came as Trump was inaugurated and made no mention of tariffs on European goods. Among the major exchanges, Germany's DAX closed up 9.2%, followed by France's CAC 40 which rose 7.8% as the political situation settled down and the FTSE 100 posted a solid 6.2% return.

## Asia

Asian equity markets got caught in the tariff crosswinds, given potential US tariff hikes are the biggest headwind for China's growth this year, and could disrupt supply chains and exports, impact corporate capex and household consumption. China will need to roll out greater policy support at the March NPC meeting, with the market expecting its budget deficit to move towards 4% of GDP, an all-time high. March should provide better clarity of the extent of US tariffs and the NPC responses.

Given the uncertainty, Asian markets generally underperformed, with the Hang Seng in positive territory at +1.2%, followed by Japan's Nikkei and India's SENSEX both down 0.8%. The laggard was China's SSE down 2.8%.

## Commodities

Commodities were stronger, except coal, with thermal coal falling 11% to US\$122/tonne and coking coal down 9% to US\$186/tonne. In contrast, iron ore saw benchmark prices rise 6% to US\$106/tonne. Gold made new all-time highs, up 6% to US\$2793/oz (A\$4498/oz), fuelled by the uncertainty over Trump administration policies, particularly tariffs and the potential inflation consequences. Brent Crude ticked up by 1% to US\$76/barrel as the outgoing Biden Administration tightened sanctions and cold weather in the US spiked energy usage. The base metals complex edged higher, with aluminium up 4%, copper up 3% and nickel down 1%. The alumina market continued to adjust lower, with a further fall of 22% to US\$525/tonne, now down 35% from its recent all-time high of US\$805/tonne.

## Bonds

The US 10-year bond yield traded in a 28bp, mostly higher range, finishing 3bp lower to 4.54%, helped by the Fed's hawkish pause. The Australian 10-year bond yield was relatively steady, edging up 6bp at 4.43% and the A\$ was flat at US\$0.62, in line with the US dollar.

## Australia

There was no RBA meeting in January, however the December meeting provided more dovish commentary, saying "some of the upside risks to inflation appear to have eased". Together with the better December quarter CPI print, this raised the probability and hopes of a February rate cut. The CPI trimmed mean inflation rose 0.5% QoQ, below market consensus and importantly, below the RBA's preferred data point.

Australian equities outperformed most developed global peers, with the S&P/ASX 200 Accumulation Index closing up 4.6%, increasing the FYTD return to +11.8%. In January, Consumer Discretionary (+7.1%) was the best performing sector, driven by Tabcorp Holdings (+20.4%), followed by Financials (Insignia Financial +24.8%, subject to a bidding war) and the Real Estate sector which was led by Ingenia Communities (+25.5%).

Defensives proved to be the worst performing sectors, with Utilities, dragged down by Origin Energy (-4.1%) and APA Group (-2.2%), followed by Consumer Staples (Treasury Wine Estates -4.7%) and Communication Services, due to TPG Telecom (-2.0%), Chorus (-1.5%) and Telstra (-1.5%).

In January, the top stocks that made a positive contribution to the Index's return were mostly financials, namely CBA (+50bp), NAB (+38bp), Macquarie Group (+28bp) and ANZ (+26bp). Wesfarmers was also a solid contributor (23bp). Conversely, the bottom five stocks detracting from the Index's performance were Origin Energy (-3bp), CSL (-3bp), Telstra (-3bp), ZIP (-3bp) and Treasury Wine Estates (-2bp). The ASX Small Ordinaries kept pace with the broader benchmark with a return of +4.6%. Within the ASX Small Ordinaries, Small Resources closed up 8.3%, driven by uranium and gold stocks, materially outpacing the Small Industrials.

## COMPANY SPECIFIC NEWS

### The Market Hits

#### **Boss Energy (BOE +36.2%)**

BOE's production scorecard was solid, with its flagship Honeymoon uranium project in South Australia producing 137,084lbs of drummed U3O8, up 53% QoQ, with columns 1 & 2 operating at nameplate capacity and column 3 expected to hit capacity in February 2025. Columns 4,5 & 6 are being commissioned during CY25 as a part of the ramp up to 2.45mlbs p.a. of U3O8. BOE re-affirmed its FY25 production target of 850,000lbs, despite weather related power supply disruptions in the December quarter. BOE management also provided cost guidance for the 2HFY25 of \$37-41/lb, which was ~20% lower than expectations. The de-risking of the 18 month ramp up to 2.45mlbs p.a. and the lower cost estimates was enough to get investors radiantly exited.

**Emerald Resources (EMR +33.2%) / Genesis Minerals (GMD +29.1%) / Capricorn Metals (CMM +22.9%) / Gold Road (GOR +21.0%) / Regis Resources (RRL +20.0%)**

The domestic gold sector fell 12% in last two month of 2024 as gold prices retreated by 4%, however the bullion price rose 6% in January, reaching new all-time highs, coinciding with President Trump's second term. In response, the gold sector rallied 15% and those that bettered their December quarter activities report, such as the five names above, materially outperformed.

#### **Liontown Resources (LTR +28.6%)**

LTR's Kathleen Valley lithium project delivered a strong 2QFY25 report, with spodumene production of 88.7kt (underpinning lower unit costs) and sales of 81.3kt beating consensus expectations by 39% and 25%, respectively. Importantly, LTR's closing cash position of \$193m was 26% better than expected, because of stronger production volumes, leaving the company with net debt of \$509m. It provided some hope for the true believers who rejected Albemarle's \$3.00/share, with LTR now trading at \$0.675!

#### **Ingenia Communities Group (INA +25.5%)**

INA released an upgrade to its FY25 Underlying EPS guidance, with management now expecting 29-30 cps vs previous expectations of 24.4-25.6 cps. The group also raised its Target EBIT for FY25 to \$162-165m, 6.5% to 9.5% higher than its earlier guidance of \$148-155m, which exceeded market consensus expectations. INA also highlighted lower interest costs and tax benefits, resulting in the better EPS outlook. INA shares reacted positively to the upgrade, with stock closing 15% higher on the day.

#### **Insignia Financial (IFL +24.8%)**

After the IFL board rejected Bain Capital's 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 in mid-December, this month CC Capital Partners joined the party and offered \$4.30 cash per share. A week later, Bain Capital matched CC Capital's bid and offered to discuss a different transaction structure which would enable IFL shareholders to receive part of their consideration in the form of scrip. A few days later CC Capital increased their offer to \$4.60 cash per share and not long after Bain Capital matched the offer. IFL has agreed to allow both parties limited access to certain non-public information on a non-exclusive basis. Given competing bids and tension, one can only feel that this tale has further to unfold.

#### **Tabcorp Holdings (TAH +20.4%)**

After new CEO Gillon McLachlan made sweeping leadership changes in December, including increased wagering and media capability to deliver Tabcorp's strategic growth ambitions, he appointed Hong Kong Jockey Club Executive Michael Fitzsimons this month to the newly created Chief Wagering Officer role. This initiative was aimed at bringing together all the core wagering functions of digital, retail, trading, marketing and product, including Tote innovation. Fitzsimons, the respected executive director of wagering products for the HK Club immediately got the big thumbs up from investors. Also, TAH competitor Entain, owner of the Ladbrokes and NEDS brands here in Australia, reiterated its group guidance. This was a relief after Flutter, which owns Sportsbet locally, recently came out saying that they had been hit by punters luck beating the house, spooking some investors going into reporting season in mid-February. The combination of Fitzsimons and Entain certainly improved the odds for investors.

### The Market Misses

#### **Star Entertainment Group (SGR -36.8%)**

A Misses regular, SGR's financial situation went from bad to worse in January, starting with an update on its unaudited cash and liquidity position. Available Cash (AC) at 31 December sank to \$79 million from the previously reported 30 September balance of \$149 million. AC included the impact of drawn down Tranche 1 of the Group's new debt facility (New Facility) which occurred on 3 December 2024. The full \$100 million of Tranche 1 was drawn at the time, resulting in a net increase in AC to the Group of \$37.1 million. Adjusting for the impact of the draw down, there was a reduction in AC over the three-month period ended 31 December of approximately \$107 million. The cash drain reflects the continued difficult trading conditions highlighted at the Group's AGM in November. It also reflects essential capital expenditure, significant items including upfront fees relating to the establishment of the New Facility and the first \$5 million instalment of the \$15 million fine imposed by the NSW Independent Casino Commission in

October 2024. This followed considerations of the Bell Two Report, significant legal and consulting fees, ongoing transformation and remediation activities and joint venture contributions. The Company and its directors continued to seek external advice in respect of their duties, including the applicability of, and the ongoing reliance on, safe harbour provisions under the Corporations Act as previously noted and continued to explore other possible liquidity solutions, including the announced sale of the Star Sydney Event Centre properties for \$60m. These funds received will go into escrow until settlement and then become restricted cash under SGR's debt facility. AUSTRAC is yet to hand down their fines. It does feel like SGR is getting closer to calling in the undertaker!

### **Zip Co (ZIP -17.6%)**

Buy Now Pay Later service provider ZIP has been a stellar performer, rising 124% for the FYTD, when it announced its 2QFY25 results which underwhelmed. While TTV was in line, 2Q revenue missed forecasts by -4%, primarily driven by a -6% miss in ANZ revenue. The market overestimated revenue margin benefits from the launch of Zip Plus and underestimated the impact of tightening conditions in early CY24, which resulted in receivables declining -9% yoy. The update caused earnings downgrades across the street of ~10% to EBITDA and ~20% to core net profit, which saw the share price zapped by 25% on the news.

### **Coronado Resources (CRN -13.7%)**

CRN reported a weaker than expected 4Q25 result, with lower saleable coal production of 4.0Mt, mainly due to lower yields at its Curragh operation and the scheduled longwall move at Buchanan. Total saleable coal production for 2024 was 15.5Mt, down slightly YoY, but at the bottom end of management's guidance range. Also, US realised met coal prices of US\$147/t) were ~15% lower than expected due to a higher portion of lower priced domestic sales, resulting in overall group coal revenue to be down -9% QoQ.

### **Iluka Resources (ILU -12.5%)**

ILU's 4QCY24 result was mixed, with beats in production (+14%), sales (+3%), revenue (+34%), with unit costs largely in line, however their CY25 guidance rattled some investors. CY25 combined Zircon/Rutile/Synthetic Rutile production guidance was ~11% below consensus, with a number of analysts expecting that the Synthetic Rutile 1 kiln (SR1) would actually contribute volumes in 2025. However as previously stated by management, ILU would only re-start SR1 if sufficient market demand was available and would lock in contracts as they have done for SR2. As a result, consensus earnings were downgraded.

### **Stanmore Resources (SMR -12.3%)**

As widely expected, SMR had a weak Q42024, with saleable production down 14% q/q. Looking into 2025, SMR expects another strong year for production on the back of improved productivities at Poitrel/Isaac Plains Complex and a new CHPP module at South Walker Creek. Despite higher volumes, operating costs were expected to remain high at South Walker Creek reflecting higher material movements, resulting in much lower CY2025 earnings.

### **Clarity Pharmaceuticals (CU6 -11.8%)**

CU6, the clinical stage radiopharmaceutical company focussed on targeted copper theronostics, was December's biggest miss, with its shares slumping 35%. The downward momentum continued into January, on no particular news, with investors heading for the exit.

### **NRW Holdings (NWH -10.7%)**

NWH CFO, Richard Simons sudden resignation from the Company certainly surprised the market, given he had only been in the role a little over 2 years, with no interim handover announced. This spooked investors, resulting in the stock falling 9%.

### **Westgold Resources (WGX -8.8%)**

WGX pre-reported group production of 81koz which was 15% below consensus's expectations, but maintained their FY25 production guidance of 400-420koz at an AISC of \$2000-2300/oz. With only 39% of the mid-point produced in the 1H, a significant HoH lift is required. Given delays at Bluebird in the Murchison region and Bet Hunt in the southern goldfields, it seems that WGX will miss its guidance targets. Investors agreed and pushed the stock down 14% on the announcement.

### **Nickel Industries (NIC -7.3%)**

NIC reported 4Q24 EBITDA of US\$72m, way below consensus at US\$117m with the miss primarily attributable to NIC's 9mt annual ore sales quota being reached in early December. Also pressuring earnings was a US\$20m FX adjustment in relation to IDR-denominated VAT receivables associated with their nickel rotary kiln electric furnaces (RKEF) division.

### **Magellan Financial Group (MFG -5.5%)**

MFG announced a number of executive and investment team changes, including the departure of their Head of Investments, who has been at MFG for 18 years. As the leader of MFG's respected listed infrastructure team, managing 43% of MFG's FUM as at the end of December 2024, the departure caused major nervousness with investors, now expecting further outflow, pushing the shares down 8% on the news.

## FUND PERFORMANCE

In a surprisingly strong start to the new year, the Fund return of +2.60% lagged the Benchmark return of +4.57%. The underperformance for the month was mainly due to some of our overweight Materials positions, not helped by uncertainty over the imposition of US tariffs and fears that potential trade wars would impact China's future commodities demand.

For the month of January, Consumer Discretionary (+7.1%), Financials (+6.1%) and Real Estate (+4.7%) were the best performing sectors, whilst the underperformers were Utilities (-2.4%), Consumer Staples (+0.7%) and Communication Services (+2.4%).

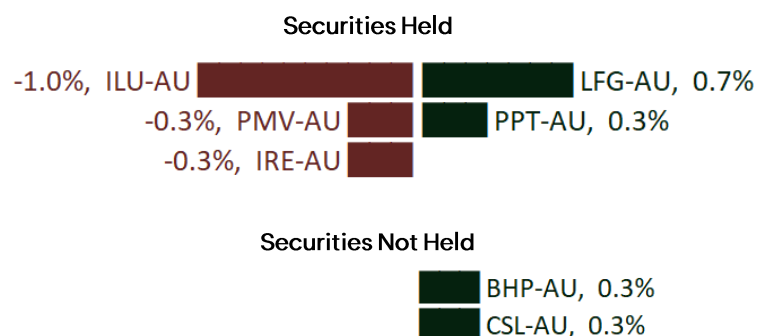
The major contributors to January's benchmark return were Financials, adding +205bp (accounting for yet another 45% of the market's performance), Materials (+75bp) and Consumer Discretionary (+54bp). Conversely, the major detractors were defensive sectors such as Utilities (-3bp), Consumer Staples (+2bp) and Communication Services (+9bp).

Returns" (%)	Gross	Benchmark*	Excess	Net
<b>1 Month</b>	2.60%	4.57%	-1.97%	2.51%
<b>3 Months</b>	-0.96%	5.11%	-6.08%	-1.23%
<b>12 months rolling</b>	2.88%	15.17%	-12.29%	1.84%
<b>3 Years (p.a.)</b>	3.66%	11.44%	-7.78%	2.67%
<b>5 Years (p.a.)</b>	5.90%	7.97%	-2.07%	4.84%
<b>10 years (p.a.)</b>	7.11%	8.65%	-1.54%	6.09%
<b>Since Inception (p.a.)</b>	7.93%	9.35%	-1.42%	6.83%

"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 January Attribution



Source: Ellerston Capital

For January, the main positive contributors to the Fund's performance were overweight positions in Liberty Financial Group (LFG +19.9%), Perpetual (PPT +7.8%) and not owning any BHP (BHP +1.0%) or CSL (CSL -0.4%) which lagged. Detractors during the month, which were not enough to compensate for the above, included overweight positions in Iluka (ILU -12.5%), Premier Investments (PMV -4.2%) and IRESS (IRE +1.1%).

## FUND ACTIVITY

The Fund was highly active in January, totally exiting Atlas Arteria, Aurizon, Cleanaway, News Corporation and Ramsay. The proceeds were redeployed to strengthen higher conviction positions in GrainCorp and IRESS, and for the introduction of new stocks to the portfolio. We added James Hardie, Orica and Origin (stocks we know well and have owned and written about in the past). The Fund also received Myer stock via its Premier Investment 7.2 for 1 in specie distribution. We also added two new names to the portfolio (not previously held), Seek and WEB Travel.

In late September 2024, WEB Travel Group (WEB) completed the demerger of its B2C business Webjet Group (WJL), to focus on its B2B business which owns WebBeds and the global B2B travel distribution business. Soon after, WEB delivered a disappointing update in October and while the top line was solid, the re-basing of revenue margins to ~6.5% from ~7.5% prior, caused earnings downgrades of ~30% for FY25, ~15% for FY26. This resulted in the WEB share collapsing by 30%. Considering WEB's top line TTV growth rate of ~20% p.a. and the re-basing of earnings and revenue margins, we believe WEB at ~10x EV/EBITDA is attractively priced and the sharp selloff has provided a good opportunity. So does the company, which given its strong net cash position, is buying back \$150m of its shares.

After a two year earnings downgrade cycle and startling 20% underperformance by Seek(SEK) to the broader market (even worse versus quality online cohorts like Car Group and REA Group), we believe SEK now represents an attractive buying opportunity. We expect job volumes will return to growth in FY26, supported by soon to come RBA rate cuts and ongoing low unemployment, coupled with price/yield growth.

### NEW STOCKS ADDED

- James Hardie Industries
- Myer Holdings
- Orica
- Origin Energy
- Seek
- WEB Travel Group

### STOCKS EXITED

- Atlas Arteria
- Aurizon Holdings
- Cleanaway Waste Management
- News Corporation
- Ramsay Health Care

### INCREASED

- GrainCorp
- IRESS

## FUND STRATEGY AND OUTLOOK

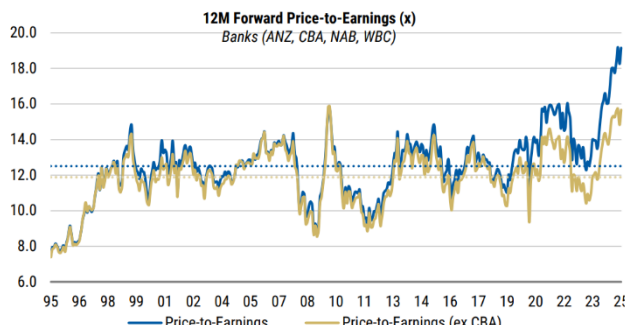
On January 23 President Trump addressed the World Economic Forum in Davos, announcing plans to cut US corporate taxes to 15%, lower interest rates, boost U.S. energy production and secure LNG supplies for Europe. He called on OPEC to lower oil prices and urged NATO members to increase defence spending, criticized the European Union for what he called an "unequitable trade relationship" and warned of tariffs on companies not manufacturing in the US. Trump also pledged to fast-track infrastructure projects and eliminate diversity measures, promoting his "America First" agenda.

The outlook for trade policy remains highly uncertain. Day one in the Whitehouse, President Trump published a memo entitled "America First Trade Policy", including the request for the Office of the US Trade Representative (USTR) to assess an earlier report on the actions taken under section 301. The 301 tariffs were implemented during Trump's first administration, imposing duties ranging from 7.5% to 25% on an array of Chinese imports, including electronics, machinery, furniture, toys and plastics and to "consider potential additional tariff modifications as needed". The deadline for the USTR to report back is April 1, so further actions could be taken then.

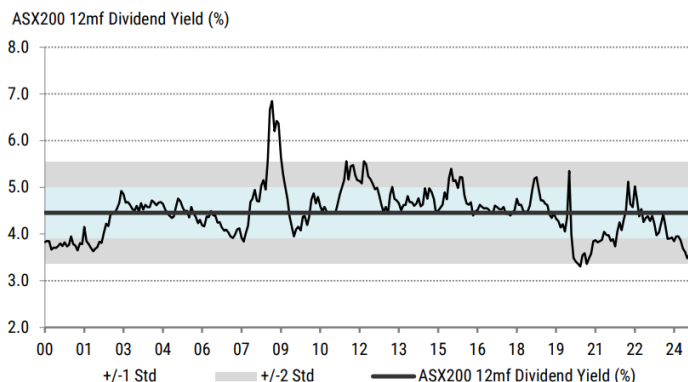
Despite the 25% tariffs for Canada and Mexico being stalled for one month, President Trump proceeded with the previously proposed 10% additional tariff to hit Chinese imported goods. China's response was rather muted. Counter measures that would take effect February 10 included 15% tariffs on US coal and liquified natural gas imports, as well as 10% tariffs on crude oil, farm equipment and certain vehicles. The delay seemingly leaves more time for wriggle room. These actions would represent new tariffs on ~\$20bn of US exports, miniscule relative to the ~\$430bn of Chinese imported goods covered by the new 10% tariff from the US. Although the full scope and implications of the recently announced tariffs are uncertain, what is certain is that tariffs are definitely the weapons of choice to achieve President Trump's ambitions, causing a rough ride for investors in the process.



In terms of Valuations, the domestic market 12MF P/E currently stands at 18.3x in January, trading at two standard deviations above the long-term average (14.7x since 1992). Banks again traded 1P/E turn higher in January to 19.2x. Excluding CBA, the multiple sits at 15.7x, in-line with the previous high of 15.9x reached in 2009 when earnings crashed during the GFC! As you would expect, higher Banks PE with minimal earnings growth, results in lower dividend yields, which has had a big hand in dragging the markets dividend yield to 25-year lows.

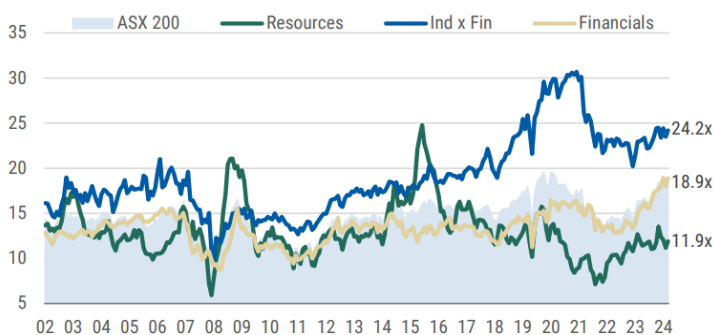


Source: Morgan Stanley



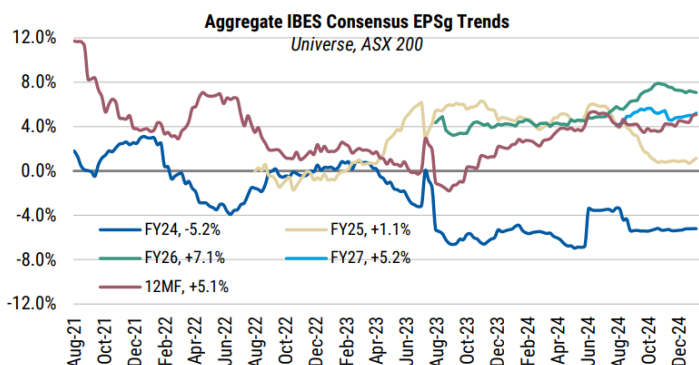
Domestically, heading into the results season, earnings sentiment continues to look for a base after observing an uptick across the forward year. Earnings estimates for FY25 are flat at best and effectively pushes out the expected earnings rebound to FY26, with expectations of 7% growth, which stands in stark contrast to a market multiple that has re-rated by 2 P/E points since the start of the financial year.

### The 12M forward PE of the Industrials ex- Financials at 24.2x



Source: Morgan Stanley

### Annual Consensus EPS Growth Trends FY24-27



With 63.4% of the S&P 500's market cap having reported so far, 4Q expectations are for revenues to grow in the US by 5.0% and EPS by 11.2%. Projected EPS growth among the sub-sectors vary significantly, as seen below (using a blend of consensus estimates and reported results where available): Expected EPS Growth YoY:

- Financials: 28.5%
- TECH+: 24.4%
- Non-Cyclicals: 4.2%
- Cyclical ex-Energy: -3.0%
- Energy: -30.6%

January has been an extraordinary month, to say the least, with President Trump coming out of the blocks swinging and the disruptive entrance of DeepSeek from left field. DeepSeek's competitive efficiency and less capital intensity may force companies to carefully reassess their AI capex plans down the track, this at a time when record capex budgets (predominately aimed at data centres and AI related applications) are being announced. This key pressure point has raised the ire of the broader investment community post Google parent Alphabet Inc.'s Q4 result which showed a material step up in forward capex guidance, in Alphabet's case, up from \$52.5 to \$75bn YoY, just when investors are rightly asking "where is the ROIC?"... Alphabet's \$75bn capex figure in 2025 follows Microsoft at \$80bn and Meta guidance at \$60-65bn. Amazon had yet to disclose at the time of writing, however it spent \$75bn in 2024.

The Fed pausing on rates and the prospect that they hold for the remainder of the first half of 2025, further confounds the investment climate and when coupled with equities flirting with all-time highs, the risk of other unforeseen destabilising events for risk assets remains high. We expect the RBA to cut rates in February, which would be supportive of the domestic market, particularly in the more cyclical sectors.



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.

Ampol, IPH, Light & Wonder, James Hardie, Premier Investments, Seek, Liberty Group and WEB Travel.

### 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, Myer, Orica, Origin, 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 and Perpetual.

### 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 thematic 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 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	\$199,399,544
FUNDS UNDER MANAGEMENT – OASF UNIT TRUST	\$7,459,945
APPLICATION PRICE	\$1.0824
REDEMPTION PRICE	\$1.0770
NUMBER OF STOCKS	23
INCEPTION DATE	1-Jul-11

Source: Ellerston Capital.

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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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or [ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au).

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