

# Ellerston Australian Share Fund

Monthly Report as at 28 February 2025

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 (%) <sup>^</sup>	1 Month	3 Months	12 months rolling	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)	Since Inception (p.a.) <sup>^^</sup>
ASF	-7.66%	-9.03%	-4.03%	1.30%	6.71%	5.31%	7.79%
Benchmark*	-3.79%	-2.56%	9.94%	9.24%	8.87%	7.51%	9.68%
Alpha	-3.87%	-6.47%	-13.97%	-7.94%	-2.16%	-2.20%	-1.89%

<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.

\*S&P/ASX 200 Accumulation Index. <sup>^^</sup>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	24
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
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.



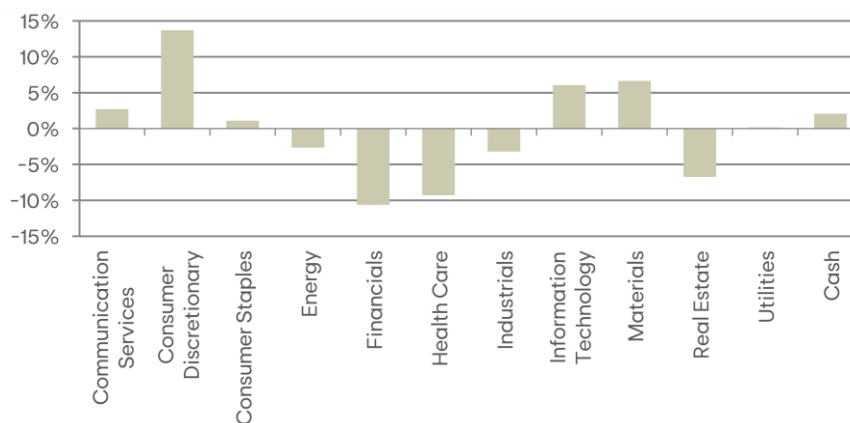
**Stephen Giubin**  
Senior Investment Analyst  
37 years of industry experience.

## Top 10 Holdings\*\*

Bapcor	Graincorp	Iluka Resources	IRESS	Liberty Financial
Mineral Resources	Orica	Perpetual	Premier Investments	Seek

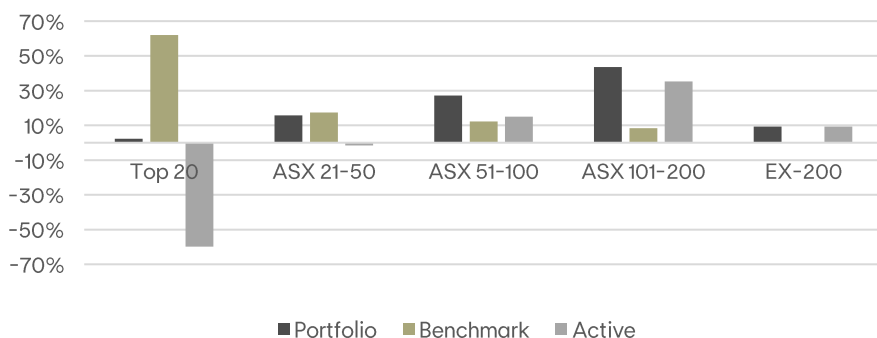
\*\*In alphabetical order.  
Source: Ellerston Capital.

## 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.

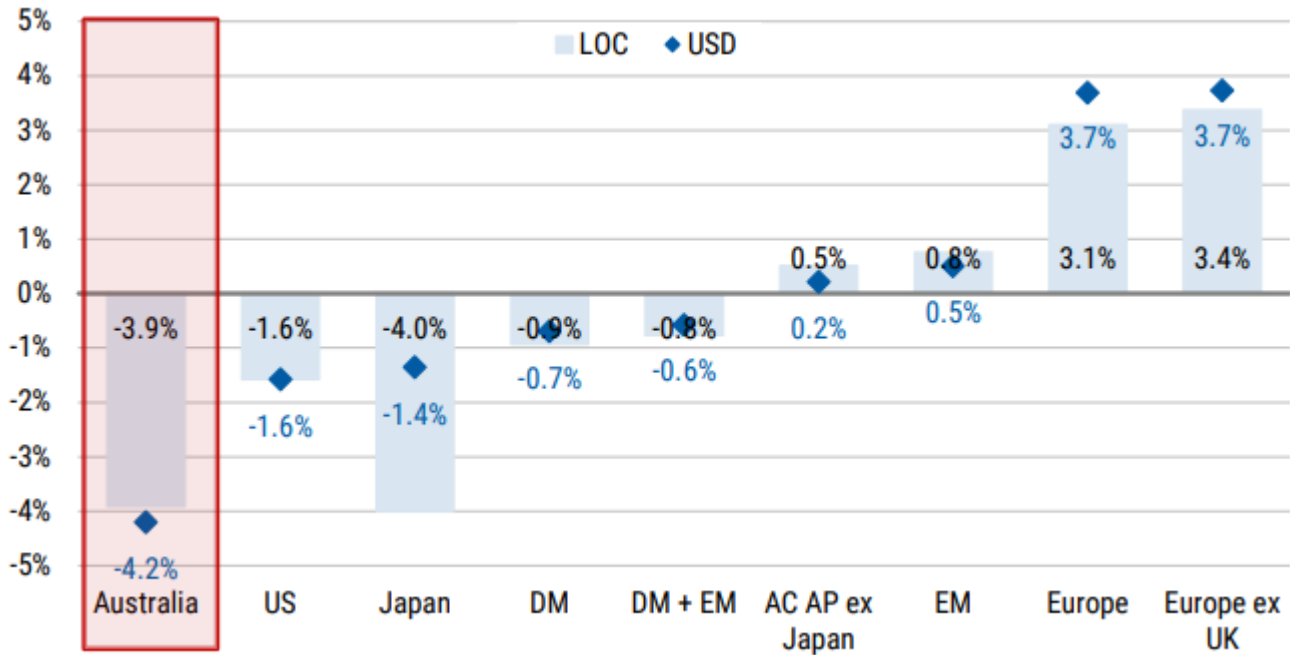


Source: Ellerston Capital, Factset

## MARKET OVERVIEW

Escalating geopolitical tensions, a public Trump-Zelensky stoush in the oval office, on and off tariff threats, softening US economic data and fears of fading US "exceptionalism" drove market volatility higher. The MSCI World Index fell 0.9%, underperforming the MSCI Emerging Markets Index which posted a small positive return of +0.8% (due to MSCI China rallying 11.6%) in local currency terms. Not surprisingly, defensive sectors such as Consumer Staples (+4.5%) and Real Estate (+2.8%) topped the global sector tables, with Consumer Discretionary (-7.0%) the laggard. The S&P 500 was down 1.5% and on the home front, the S&P/ASX200 succumbed to broad based pressure, posting a loss of 3.8%. Domestically, the best sectors were also defensives, namely Utilities (+3.2%), Communication Services (+2.6%) and Consumer Staples (+1.5%).

MSCI Global Country/Regional Indices Performance for February 2025



Source: Morgan Stanley

### USA

US economic activity softened, with Q1 GDP tracking at 1.4%. Key data on US consumption also slowed in retail sales, services and consumer confidence. US tariffs on Canada (25%), Mexico (25%) and China (additional 10%) take effect on 4 March and no doubt with it, retaliatory responses from those countries are expected. To top the Trump-Zelensky showdown, President Trump sided with Russia on the war in the Ukraine, angering European leaders. Given the uncertainty created by the US administration tariff imposts and their economic implications, equities sold off towards month end, with the S&P 500 falling 1.3%, followed by the Dow Jones Industrial Average (-1.4%) and the NASDAQ Composite index (-3.9%, as DeepSeek continued to weigh on the US tech market). The small cap Russell 2000 Index was the clear laggard, finishing down 5.3%. The best performing sectors were Consumer Staples (+5.7%), Real Estate (+4.2%) and Energy (+4.0%), with the worst performing sector being Consumer Discretionary (-9.4%), followed by Communication Services (-6.3%) and Industrials (-1.4%).

### Europe

European stocks outperformed global indices for the third month in a row. The Euro STOXX50 Index advanced by 3.5%, after the strong January performance of 8.1%. Among the major exchanges, Germany's DAX closed up 3.8%, followed by France's CAC 40 and FTSE 100, both posting a return of +2.0%.

### Asia

China's National Committee of the Chinese People's Political Consultative Conference (CPPCC) and the National Peoples Congress will meet in March and their deliberations will be key to the country's economic recovery. Expectations are for more stimulus, with its budget deficit to move towards 4% of GDP, an all-time high.

Asian markets were mixed, with the Hang Seng the standout performer, rising 13.4%, led by Alibaba's collaboration with Apple to introduce AI features for phone users in China. This helped invigorate the heavy component of Chinese tech companies in the HK index. China's SSE closed up 1.8% and Korea's KOSPI ended 0.6% higher, with both India's SENSEX and Japan's Nikkei in sharp negative territory down 5.5% and 6.1%, respectively.

## Commodities

The feature of commodity markets was the weakening oil price, with Brent Crude down 4% to US\$73/barrel as hopes of a resolution of the Russia-Ukraine conflict could lift Russian sanctions and OPEC+ overproducing above its quotas in the month of February. Thermal coal continued to weaken, falling 16% to US\$102/tonne (-25% CYTD), coking coal remained steady at US\$186/tonne and iron ore benchmark prices edged down 2% to US\$104/tonne. Gold hit another all-time high of US\$2956, before retreating 3% to the highest monthly close of US\$2858/oz (A\$4602/oz), continuing to be fuelled by tariff uncertainty and Bitcoin volatility. The base metals complex squeezed higher, with copper up 5%, nickel up 2% and aluminium up 1%. The alumina market continued to adjust lower and dropped a further 10% to US\$472/tonne, now down 41% from its recent all-time high of US\$805/tonne.

## Bonds

The US 10-year bond yield finished 32bp lower to 4.22%, against a backdrop of softer economic data and weaker consumer sentiment. The Australian 10-year bond yield also edged down by 13bp to 4.30% and the A\$ was flat at US\$0.62, in line with the US dollar.

## Australia

As expected, the long awaited first RBA rate cut finally arrived, with the RBA lowering the cash rate 25bp to 4.10%. Despite lowering official rates, Governor Michele Bullock adopted a fairly hawkish tone. The board's justification for the February cut was based on lower inflation and "subdued growth in private demand". The Board's message for the near-term was that policy "has been restrictive and will remain so after this reduction". So, it's too early to call this cut the start of an easing cycle, given the macro uncertainties in terms of domestic fiscal policy commitments, an expected Federal Election this May, Fed monetary policy and global trade policy backdrop.

Australian equities underperformed most developed global peers, with the S&P/ASX 200 Accumulation Index finishing down 3.8%, but not before setting a new all-time high at 8,556 (closing at 8,172), reducing the FYTD return to +7.6%. Defensive sectors were favoured despite Health Care performing poorly. Utilities (+3.2%) was the best performing sector, driven by APA Group (+8.2%) and Origin Energy (+4.7%), followed by Communication Services (Telstra +7.3%) and the Consumer Staples sector which was led by A2 Milk Company (+35.3%, post delivering a very strong 1H result and lift in guidance).

Information Technology was the worst performing sector, dragged down by WiseTech Global (-27.7%), followed by Health Care (Polynovo -31.6% and Cochlear -19.0%) and Real Estate, due to Lifestyle Communities (-18.9%) and Goodman Group (-14.1%).

In February, the top stocks that made a positive contribution to the Index's return were Computershare (+13bp), Telstra (+13bp), Brambles (+6bp), A2M (+6 bp) and Bluescope Steel (+5bp). Conversely, the bottom five stocks detracting from the Index's performance were NAB (-57bp), Goodman Group (-40bp), CSL (-37bp), WiseTech (-26bp) and Westpac (-25bp). The ASX Small Ordinaries fared better than the broader benchmark with a return of -2.8%. Within the ASX Small Ordinaries, Small Industrials closed down 2.5%, outpacing the Small Resources at -3.7%.

## COMPANY SPECIFIC NEWS

### The Market Hits

#### The A2 Milk Company (A2M +35.3%)

A2M delivered a 1H25 NPAT of \$91.7 million, a quality beat which was 10% above consensus. Revenue rose 10% (consensus +7%), cash conversion was credible and management did a good job by stemming the losses from the US and MVM (Mataura Valley Milk). A2M declared its first ever dividend, broadening its investor base with a 8.5cps dividend, above expectations of 7.2cps. A2M's guidance for FY25 was the cherry on the cake, with the company now expecting revenue growth of low to mid double-digits compared to mid to high single-digit previously.

#### Megaport (MP1 +30.5%)

MP1 is a network-as-a-service (NaaS) business offering carrier-neutral, SDN-based elastic interconnection services. The company has a history of large and volatile moves with its result's releases and this was no exception. MP1 reported underlying NPAT of \$3 million, missing expectations of \$6 million due to higher costs, higher share based payments and D&A, but revenue was slightly ahead. The key metrics of Annual Recurring Revenue (ARR) growth (+18% yoy) and Non-Recurring Revenue (NRR) one off (+1% hoh) were better than expected, as 67 customer logos were added in 2Q25, the strongest since 2Q23, with a further port adds of 307 in 2Q. MP1 tightened its revenue guidance range to \$216m - \$222m, but investors saw this as very conservative, given ARR implies \$220 million without any growth in 2H. MP1 did not provide colour on 2H but noted it wouldn't have shared that NRR had stabilised if it wasn't comfortable and seeing the right signals. Positive ARR and NRR, together with 10% of MP1 stock being shorted, resulted in a +19% price move post the presentation.

### **Helia Group (HLI +25.7%)**

HLI (formerly known as Genworth Mortgage Insurance Australia) posted its 2H24 result which beat expectations across various line items, including better GWP, smaller claims, and higher investment returns. Total incurred claims remained negative, supported by a strong property market and low negative equity, leading to continued releases to reserves and lower levels of actual claims paid. These drivers have supported capital generation and increased capital management activity, which resulted in HLI surprisingly declaring a special dividend of 53cps. This was on top of the 16cps final and well ahead of the 30cps pcp. The Board extended and increased its buyback to \$200m from \$100m. The market liked it, totally putting aside any lingering concerns regarding the CBA contract renewal, pushing the stock up 17% on the news.

### **EVT (EVT +23.4%)**

EVT, formally Event Hospitality and Entertainment, released its 1H25 results with EBITDA of \$100m, a large beat on consensus at \$89m, driven by stronger than expected hotels and property performance, coupled with lower corporate overheads. Hotels surpassed expectations, with EBITDA of \$53m, 11% above pcp and EVT guided to modest growth in entertainment, stable performance in hotels and strong expectations for growth in the Thredbo Winter 2025 season, provided weather conditions are favourable. EVT also announced they will pursue divestment of 525 George St to realise value created, which will free up capital primarily for growth in the Hotels division.

### **Light & Wonder, Inc. (LNW +22.6%)**

LNW started the month with good news on LNW's Dragon Train slot machine series that will be allowed to remain on Australian gaming floors after the Federal Court of Australia denied a request from arch rival Aristocrat Leisure Ltd for an interlocutory injunction. This positive outcome was soon followed by the acquisition of the charitable gaming assets of Grover Gaming for a total consideration of \$850m in cash, subject to customary purchase-price adjustments and a four-year revenue based earn-out of up to \$200m cash. The upfront consideration implies a ~7.7x acquisition multiple being paid, based on Grover's 2024 adjusted EBITDA and a ~7.1x multiple based on Grover's adjusted EBITDA run-rate. The market liked this highly accretive complementary strategic acquisition, resulting in a +10% move on the day. Finally, LNW announced its Q4 results, which beat consensus, with management maintaining guidance of \$1.4bn EBITDA, excluding any benefit from Grover Gaming (settling 2Q25), implying 13% growth. If that's not all, LNW also noted they are looking at making Australia their primary listing, given 30% of market cap/register is in Australia. LNW premised that at US\$1.4bn EBITDA, it is trading on 12x vs. Aristocrat Leisure on ~20x valuation. Busy month indeed!

### **Nine Entertainment (NEC +19.9%)**

NEC reported a reasonable 1HFY25 result with EBITDA +3% ahead of consensus on better than expected costs. This drove a 7% beat to NPAT and a marginally higher interim dividend at 3.5cps. The big action in NEC shares was caused by its 60% stake in Domain Holdings, which received an unsolicited, non-binding indicative proposal to be acquired by US listed CoStar, an online real estate platform, for A\$4.20 cash per share, representing a 35% premium. CoStar had acquired 16.9% of Domain's ordinary shares on 20 February 2025 at \$4.20 per share just prior to announcing its offer. NEC's 60% Domain shareholding accounts for ~60% of its market capitalisation, so no surprise that it rallied 20%.

### **Computershare (CPU +18.1%)**

CPU delivered a strong 1H25 result and a guidance upgrade driven by a recovery in transactional revenues (Employee Share Plans and Register Maintenance both delivered significant growth at 34% and 14% respectively), margin income and a lower tax rate. CPU's upgrade of its FY25 management EPS growth guidance from ~7.5% growth previously to ~15% growth vs. pcp, was a surprise to all.

### **Fletcher Building (FBU +16.5%)**

FBU reported 1H25 EBIT before significant items of \$167m, which was largely in line with consensus. There were some swings and roundabouts, with beats on Building Materials, Construction, Australia and Corporate offsetting misses in Distribution and Residential & Development. Key highlights from the result included: 1H25 volume decline of 10%-15% in Materials & Distribution which was in line with the AGM guidance range, the company announced better than expected gross cost out progress, with an expected annualised gross cost reduction of \$200m+ (was \$180m) required to offset cost inflation and plans to increase the percentage of JV stores in Placemakers, aimed to improve customer service and mitigate further market share loss. FBU expect FY25 EBIT to be ~60% weighted to 2H25 primarily due to cost savings, housing settlements and non-repeat costs, implying ~\$418m EBIT for FY25, if all goes right in the 2H (which is a big step up vs 1H25). FBU was one of the very few second-half club stocks to rise during this reporting season. Given the stock is trading at a 30 year low and has been in the doldrums, investors believe the company is at the bottom of its downgrade cycle.

## **Eagers Automotive (APE +16.1%)**

APE's small beat was driven by a stronger than expected gross margin and boosted by a sizeable acquisition back in Oct-24. The outlook commentary was relatively more upbeat (expecting flat to growing margins in CY25), with management guiding to +\$1bn growth, implying ~3-4% organic and predicated on resilient demand and emerging macro tailwinds. APE noted that trading YTD had started positively, with a clear uptick in orders written, boosted by a surge in PHEV demand ahead of the removal of the FBT discount. Acquisitions remain a clear focus, ranging from further dealership bolt-ons to adjacencies (finance, novated, fleet management) to possible overseas ventures. Once again, the heavy short interest in the stock saw a significant share price reaction.

## **NIB Holdings (NHF +15.6%)**

NHF reported 1H25 NPAT of \$83m and Underlying Operating Profit of \$106m, which was 1% and 8% above consensus, respectively, as well as an interim dividend of 13cps which was 13% better than expected. This was followed by the Federal Government coming to the party on premium rate increases, allowing an average increase of 3.73%, with NHF faring better at +5.79% effective 1 April 2025. It certainly allayed investors' fears.

## **The Market Misses**

### **Mineral Resources (MIN -35.1%)**

MIN delivered a 1H25 reported NPAT loss of -\$198m which bettered market consensus (-A\$288m), driven by stronger Mining Services EBITDA and reduced corporate costs. Net debt of A\$5.1bn was pre-reported at its recent Quarterly update. What totally surprised the market was MIN lowering its Onslow Iron FY25 ore production guidance by 18%, pushing the 35Mt p.a. full run rate target out by about 6 weeks to Q1FY26 from the previous June 2025 timeline. This was due to 17.5 days lost time due to a one in forty year severe rain event, with issues apparently relating to the spray seal on the private 150km haul road given the occurrence of significant flooding. Water ingress affected road pavement and basecourse in certain sections. Following a detailed technical review, including by third-party experts, no fatal flaws have been identified and remedial works include seal binder upgrades, cement stabilisation in certain sections and asphaltting across the full length of the haul road. The sting for the market (including us) was this short delay and an additional \$230m capex spend for rectification, with an annual saving of \$20-25m in operating costs. The market's aggressive negative reaction highlights concerns around achieving Onslow's nameplate capacity and managing its balance sheet risk, given the peak in its capex spend as production ramps up driving the company's leverage to 7.4x. The company was quick to point out that the US\$3.05bn (A\$4.9bn, 85% of gross debt) in US bonds carry no financial maintenance covenants, plus it has \$1.5m in cash and undrawn facilities. Despite this, MIN copped an extreme reaction with the stock down 21% after its results presentation, and drifted lower after.

### **Viva Energy Group (VEA -33.7%)**

VEA reported disappointing 2024 results with the stock under heavy pressure given VEA's weak guidance for 1H25. VEA has faced a particularly challenging sales and earnings backdrop in its key Convenience and Mobility (C&M) division, driving large (20-25%) downgrades to FY25 C&M estimates. Their guidance infers C&M earnings will be ~A\$40m-100m in 1H25. For reference C&M made A\$296m in FY23 (pro forma) and A\$231m in FY24, highlighting the weak current conditions. The market was actually expecting an improvement in 1H25, given previously flagged synergies. Dividends were also 7% below consensus, with leverage forecast to rise from 2.4x as at end FY24, to ~2.7x at the end FY25. It appears the recent OTR acquisition in South Australia made only A\$45m of EBITDA (on full year basis) in FY24, reflecting a multiple of ~26x EV/EBITDA on Viva's A\$1.15bn acquisition price, so the sale of OTR to Viva looks well-timed for the Shahin family. It is now expected that Viva will reach ~\$400m of EBITDA in FY28, ~19% below management's original five year C&M EBITDA target of \$500m. While the convenience backdrop is tough, Ampol's Convenience division (+1.5% EBITDA growth) has clearly navigated FY24 much better than Viva (-22% pro-forma EBITDA decline) due to Ampol's greater discipline around costs, new stores and a focus on fuel premiumisation.

### **Block, Inc. (XYZ -31.6%)**

XYZ reported a messy Q4, with several key metrics landing below the Street and Q4 EPS missing consensus (EPS \$0.71 ex-items vs consensus \$0.88). Revenue for the full calendar year was \$24bn (+10% yoy), EBITDA was \$3.03bn (+18% yoy and in line), and Adjusted Operating income was \$1.6bn (+357% and a beat). 1Q guidance was slightly below market, requiring accelerated growth to hit its FY25 guidance. It was a case of another quarter of EBITDA exceeding expectations despite missing revenue targets, with Q4 revenues of \$6.03 bn falling short of consensus. Adjusted EBITDA reached \$757 million, driven by strong performance from Cash App and Square. Operating expenses increased by 6% yoy. Pleasingly, Gross Payment Volume (GPV) of \$61.95 billion beat expectations, with growth in both the US and global markets. While the FY25 outlook was lowered and skewed to the 2H, management articulated several encouraging growth drivers set to accelerate both Square and Cash coming online. Despite investor focus on Seller GPV that beat expectations for Q4 (landing at +9.8%

cc vs. the consensus at ~9.0%), the market reacted poorly to softer Q1 guidance. Now that the restructure is behind them, key metrics are showing strategy delivery, namely growth in Cash App paycheck deposit users to 2.5m (+25% yoy) and management hitting their double digit GPV target. The share price reacted aggressively to mixed Q1 GPV guidance of "high single digit" vs full year guidance of Gross Profit growth of "at least 15%", i.e. a run rate in Q1 below full year guidance. Q1 Seller guidance was impacted by LA fires, a 1% headwind to Square/Cash App due to leap-year and a 1% FX headwind to Square GP. This drove the 2.5% miss for Q1 Square Gross Profit vs market expectations. The company reconfirmed FY25 guidance of "at least 15% gross profit growth" and its intention to have Rule of 40 at 35.5% by end of FY25. With XYZ now trading on a PER of 10.6x FY26, growing EPS at >25% (Bloomberg consensus), the stock sell off has been brutal.

### **Polynovo (PNV -31.6%)**

PMV is a medical device company, focused on advanced wound care that designs, develops, and manufactures dermal regeneration solutions (NovoSorb BTM, NovoSorb MTX) using its patented NovoSorb biodegradable polymer technology. PNV pre-reported top-line revenues, however the result disappointed the market with its BTM commercial sales growth rate (+28% vs pcp) and cash flows from operations (-\$12.5M). This was mainly attributed to certain customers affected by hurricanes, causing slower payments, but investors voted with their feet, dragging PNV's stock price down 18% on the day of the result.

### **Johns Lyng Group (JLG -31.0%)**

Having re-affirmed guidance back in November, JLG's 1H25 underlying NPAT of \$22.6m disappointed, with EBITDA missing consensus by 14%, so the 5.0% cut to FY25e revenue guidance was greeted with total disdain. The 1H result highlighted several difficulties, namely a step-down in organic growth for the core ANZ business, with revenues down 16% yoy. JLG had previously pointed to full restoration of a major NSW insurance contract (believed to be Suncorp) it lost back in Mar'24, however is now ~6 months behind schedule; the USA business fell -10% organically due to project commencement delays and weak operating cashflow was driven by further run off of negative working capital and Disaster Management work. JLG declared an interim dividend of 2.5cps, below expectations of 4.7cps. JLG's 5% downgraded FY25 guidance means BAU revenue now sits at \$1,100m (previously \$1,177m), implying organic growth of -4% yoy, and BAU EBITDA at \$119.6m (previously \$126.3m). CAT work-in-hand stands at \$62.4m and is well below \$177.8m in pcp. Following three successive years of CAT growth, Catastrophe registrations nosedived in the 1H25 (QLD and NSW registrations were +50% in Jan/Feb 24 for context). JLG's BAU earnings guidance assumes a 58% bias to 2H, with the majority expected to be driven by margin. The market doesn't like second-half club stocks at the best of times and didn't buy JLG's 2H outlook. However, the -33% caning on the day seemed very harsh and looks overdone.

### **Reece (REH -27.8%)**

Given lofty multiples, many observers have long been waiting for a cyclical reality check to REH's market expectations and rating. Whilst the result itself was only a 5% earnings miss, the altered competitive landscape in the US waterworks business was new news, unsettling the market. REH's US Waterworks business Fortiline was acquired back in 2018 and Fortiline's original founder had then teamed up with past CEO (a REH employee until 2022) in rival venture STAline, specifically targeting and threatening Fortiline's markets. It appears that STAline had secured 25% of REH's relevant workforce over the past six months. REH's US Waterworks business is estimated to now account for ~40% of its broader US revenue base and importantly, also represents REH's highest margin US operation. It is unclear how REH mitigates the near-term impacts of this real competitive threat, especially in a soft market. REH is seeing little to no change in the soft market conditions that the group experienced in 1HFY25 and the group did not provide any specific quantitative guidance. However, not surprisingly, it did point to continued soft market conditions in ANZ and in the US, with no material change to volume expectations in the 'near term'. In both markets, given interest rate movements are seen as key, with delayed benefits and a slow recovery likely, investors headed for the exit gate.

### **WiseTech Global (WTC -27.7%)**

Four independent NEDs resigned from the WTC board following intractable differences in the board and differing views around the ongoing role of the Founder and Founding CEO, Richard White, which again raised governance issues at WTC. Richard stepped down in October in order to be a circuit breaker, but delays because of disagreement with his role going forward came to a head. Richard didn't feel a contractor agreement gave him engagement or delegation needed. Post this board spill, Richard is in an Executive Chair role which helps with the delegation. Further, WTC provided a trading update with revenue to be at bottom end of guidance of US\$792-858m, however the EBITDA margin was at the top end of 50-51%. The announcement of the board spill resulted in a 20% stock price collapse as some investors who hung on in October, threw in the towel.

## Boss Energy (BOE -25.1%) / Deep Yellow (DYL -23.2%) / Paladin Energy (PDN -22.9%)

Listed uranium companies continued to sell off as the spot uranium price drifted lower by 9% this month to US\$65/lb, a far cry from the February 2024 high of US\$105/lb (down 38%). Both BOE and PDN delivered earnings misses due to higher production costs, as both producers ramp up their projects to full production. Whilst DYL has yet to start producing, all of the local peers were caught in the uranium price down draft, with their Canadian peers Nexgen (also yet to start production), down 20% and stalwart producer Cameco (-11%) also suffering this month.

## AMP (AMP -23.5%)

AMP's FY24 result saw headline NPAT beat +5% vs consensus, however the stock de-rated immediately (shares -15% on the day) reflecting disappointment around both the result quality and capital position. While overall Wealth net outflows continued to moderate, the transformational progress disappointed, especially against a backdrop of stronger peer outcomes and a low quality beat in the Bank which benefited from provision releases. AMP Bank's underlying NPAT decreased by 22.6% to \$72 million, due to subdued volume growth and margin compression. The bigger disappointment was the limited prospects for further near-term capital management, given clarity that surplus ex DTAs sat at \$139m, with a weaker FY25 dividend outlook. AMP appeared to indicate that whilst their capital position remained healthy, the company has no immediate plans to announce additional capital management. AMP is now moving away from its capital return phase, into a "growth phase" as they look to reinvest. AMP remains a business in transition as it repositions itself to focus on its core businesses, i.e., the bank, Platforms and Master Trust. AMP has reset its strategy now focused on growth over the long term amidst continued industry disruption. The market was not convinced and the stock closed down 23.5%.

## FUND PERFORMANCE

In what proved to be a brutal reporting season with outsized volatility in share prices, the Fund return of -7.57% underperformed the Benchmark return of -3.79%. The disappointing performance for the month was mainly due to overweight positions in two particular stocks, namely Mineral Resources (-35%) and Johns Lyng (-31%). Both were very harshly treated after delivering 1H25 results which underwhelmed the market, but we believe the selloff was a gross overreaction (please refer to our write ups in the Market Misses commentary).

Up until this round, it would seem that share price reactions to earnings results were more measured, as investors generally 'looked past the result' and short term noise/headlines, mostly focussing on any new information learned about that company's medium-term prospects. Times have clearly changed and throughout this reporting period, participants (including ourselves) have been stunned by the outsized share price moves (often 15% swings intraday) being exhibited following results that were often only slight beats or misses, or where estimates appeared stale.

Defensives were, unsurprisingly, outperformers in a falling market. For the month of February, Utilities (+3.2%), Communication Services (+2.6%) and Consumer Staples (+1.5%) were the best performing sectors, whilst the underperformers included Information Technology (-12.3%), Health Care (-7.7%) and Real Estate (-6.4%). Technology was the clear laggard due to a 27.7% fall in WTC following their ongoing governance issues, plus a modest guidance cut. Health also performed poorly with a surprising guidance downgrade from COH (-19.0%), while US tariffs were an overhang for Fisher and Paykel (-11.5%) given its large manufacturing base in Mexico.

The major contributors to February's benchmark return were Industrials (+9bp), Communication Services (+9bp) and Consumer Staples (+5bp). Conversely, the major detractors were Financials (-147bp), Health Care (-73bp) and Materials (-57bp).

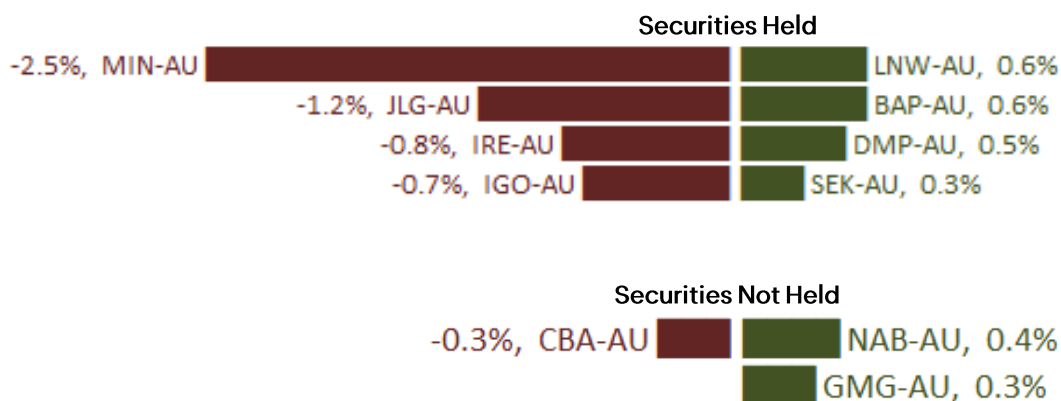
Returns <sup>1</sup> (%)	Gross	Benchmark*	Excess	Net
1 Month	-7.57%	-3.79%	-3.78%	-7.66%
3 Months	-8.77%	-2.56%	-6.21%	-9.03%
12 months rolling	-2.96%	9.94%	-12.90%	-4.03%
3 Years (p.a.)	2.42%	9.24%	-6.82%	1.30%
5 Years (p.a.)	7.88%	8.87%	-0.99%	6.71%
10 Years (p.a.)	6.46%	7.51%	-1.05%	5.31%
Since Inception (p.a.)	8.96%	9.68%	-0.72%	7.79%

Past performance is not a reliable indicator of future performance

<sup>1</sup>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 February Attribution



Source: Ellerstion Capital

For February, the main positive contributors to the Fund's performance were overweight positions in Light & Wonder (LNW +22.6%), Bapcor (BAP +3.0%), Domino's Pizza (selling early in the month after its 21% spike post a trading update), Seek (SEK +4.4%) and not owning NAB (-12.1%) or Goodman Group (GMG -14.1%). Detractors during the month, which were nowhere near enough to compensate for the above, included overweight positions in Mineral Resources (MIN -35.1%), Johns Lyng (JLG -31.0%), IRESS (IRE -15.3%), IGO (IGO -19.3%) and not holding CBA (CBA -1.0%).

## FUND ACTIVITY

The Fund was highly active in February, totally exiting Domino's Pizza after the stock spiked ~20% on its store closure strategy and prior to delivering an underwhelming result, which was fortuitous. We also trimmed Ampol ahead of its result. The Fund strengthened a number of existing positions after reporting their interim results, namely Challenger, GrainCorp, IRESS and Myer, which were moderately increased.

We also added two new stocks, IAG which we have held before and suffered an extreme move to the downside after it delivered a credible result. IAG's 1H25 result beat expectations, with cash NPAT coming in 6% above consensus forecasts, largely driven by lower claims costs, with both underlying claims and natural perils costs especially lower than expected. FY25 guidance was tweaked at the margin, with top-line growth softer, while the insurance margin outlook was strengthened. IAG reiterated that it sees moderating premium rate growth, which is a continuation of recent trends. Also not helping, political threats to intervene in insurance pricing from the opposition leader (which weighed on the shares post result), the more cautious guidance disappointed against elevated expectations going into the result. With that, the stock quickly de-rated from a PER of 20x to 16.9x for FY25(f), leaving the shares at a 10% discount to the ASX100. We viewed the sell-off as overdone.

The other stock addition is financial services and digital payments business Block Inc.(XYZ) for the first time, after its 30%+ fall during the month. The shares have now slumped from their recent high of \$150.69 achieved on 31<sup>st</sup> January 2025. XYZ, which is growing its revenue base and EBITDA very strongly, is now trading on a much more attractive PER of 14.8x FY25(F) and 10.6x FY26(F), its cheapest valuation ever, which has got our attention (please see the write up in the Market Misses commentary).

### NEW STOCKS ADDED

- Insurance Australia Group
- Block Inc. (XYZ)

### STOCKS EXITED

- Domino's Pizza Enterprises

### INCREASED

- Challenger
- GrainCorp
- IRESS
- Myer

### DECREASED

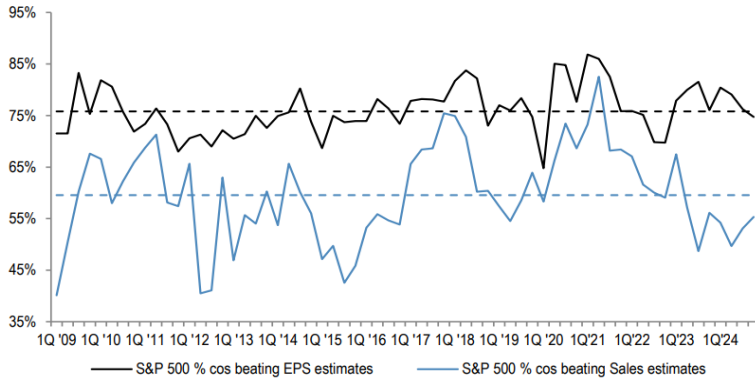
- Ampol



## FUND STRATEGY AND OUTLOOK

With the US Q4 earnings season behind us and the bulk of companies having just reported, the usual beats were delivered. EPS growth came in better than initially expected, at +13% yoy on Sales growth of +5% yoy.

### % of S&P500 Companies beating quarterly EPS and Sales estimates



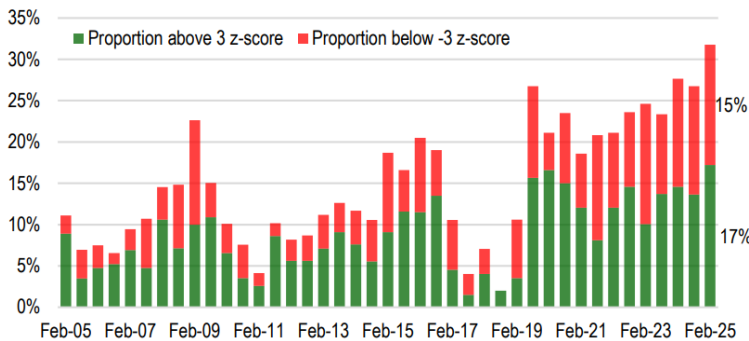
### S&P500 Earnings

% of Companies Reported	91%
% of Companies beating EPS	75%
EPS %yoy	13%
% of Companies beating Sales	55%
Sales %yoy	5%

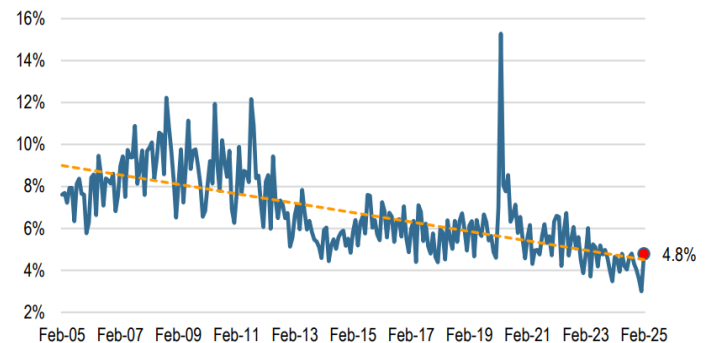
J.P. Morgan

Locally, the past month marked the most volatile reporting season in over two decades, with more stocks than ever moving up or down by more than three standard deviations. There were a host of extreme moves, such as IAG, APE, QBE, IRESS and NAB which seemed to be disconnected from their underlying results. A key factor contributing to increased volatility and divergence has been the decline in market turnover relative to market cap. This has had the effect of creating liquidity mismatches and price dislocations. Another aspect of the earnings season was the large bifurcation within sectors as in the case of CBA vs NAB and IAG vs QBE.

### ASX 200 On result day stock move Greater than 3σ



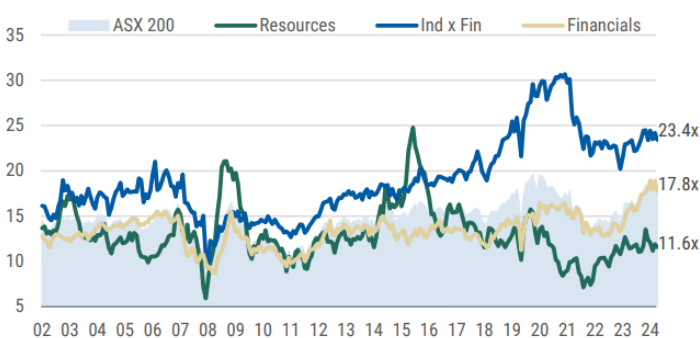
### ASX 200 Monthly Turnover to Market Cap Ratio



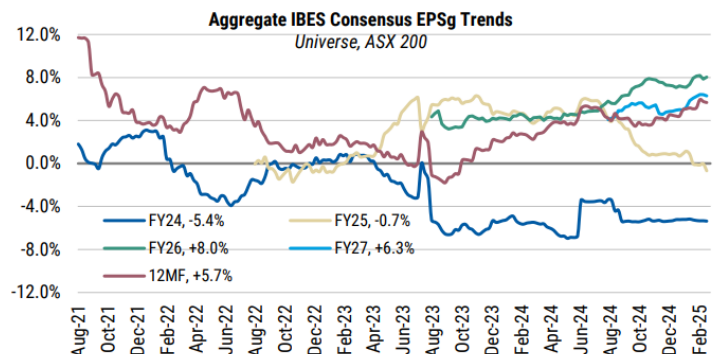
Source: J.P. Morgan

In terms of Valuations, the domestic market 12MF P/E currently stands at 17.5x in February, trading near two standard deviations above the long-term average (14.7x since 1992). The largest P/E de-rate was within Banks, 1P/E turn lower to 18.0x, though still well above historical averages of 12.4x. Post the results season, despite a positive beat ratio, January's uptick in earnings have rolled over and now sit below FY24. This has pushed out the expected earnings rebound to FY26, with expectations of 8% growth.

### The 12M forward PE of the Industrials ex-Financials at 23.4x



### Annual Consensus EPS Growth Trends FY24-27



Source: Morgan Stanley

It has been only 6 weeks since Donald Trump's inauguration, yet it feels like 6 months. The "lite tariff" expectations have been shattered after a one month delay. The US administration's imposition of 25% tariffs on Mexico and 25% on non-energy imports from Canada, a 10% tariff on Canadian energy imports, as well as an additional 10% tariff on Chinese goods imports are now a reality. This will no doubt be countered with retribution on both sides and will be a handbrake on economic growth in the short term. The future economic implications will be dependent on the length of time that these policies are implemented.

Market's do not appreciate uncertainty and today is possibly the most uncertain world geopolitically, economically and in terms of polices since the 1930s. What is certain, is that the US Federal Reserve is on hold for the time being and is expected to make no changes at its 18-19 March meeting. However, the new administration's flying by the seat of their pants on again, off again impact of the new tariffs and fast moving policy changes will keep the waters muddied. No one has a clue which way the Fed will pivot as we move forward. Will it be inflation, slowing growth or both, i.e. stagflation.

In the meantime, expect heightened volatility, which will throw up mis-pricing investment opportunities.

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, Block Inc., Insurance Australia Group, IPH, James Hardie, Liberty Group, Premier Investments, Seek, 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, 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

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.

<b>STRATEGY FUNDS UNDER MANAGEMENT</b>	\$620,237,855
<b>FUNDS UNDER MANAGEMENT – ASF UNIT TRUST</b>	\$18,425,628
<b>APPLICATION PRICE</b>	\$0.8370
<b>REDEMPTION PRICE</b>	\$0.8328
<b>NUMBER OF STOCKS</b>	24
<b>INCEPTION DATE</b>	31-March-09

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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](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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