Ellerston Equity Income KIS Fund

Ellerston Capital

Monthly Report as at 31 August 2025

APIR Code: ECL7259AU | ARSN 662 683 123

Concentrated portfolio of 30-40 Australian listed securities that display stable and growing dividend streams.

Looks beyond traditional "income sectors" (e.g., banks and telecoms), recognising "cyclical sectors" are now experiencing structural shifts towards the provision of more reliable income.

Aims to provide investors with returns and income growth greater than the Benchmark over rolling five-year periods.

Performance Summary

Performance	1 Month*	3 Months	CYTD	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^^
Income pre-franking[1]	0.0%	5.5%	5.2%	8.8%	10.4%	8.4%
Capital[1]	5.1%	11.3%	4.5%	-0.8%	-0.6%	0.5%
Fund Net Return^	5.1%	16.8%	9.7%	8.0%	9.9%	8.9%
Benchmark**	3.1%	7.0%	12.3%	13.0%	12.3%	9.7%
Alpha (pre-franking credits)	2.0%	9.8%	-2.6%	-5.0%	-2.4%	-0.8%

[1]Indicative and preliminary in nature. Subject to change pending potential distribution calculations.
^The net return figure is calculated after fees & expenses, assuming all distributions are reinvested.
**The 1-month Income pre-franking figures in Jan, Feb, Apr, May, July, Aug, Oct and Nov include accrued but not distributed income, as the Fund only distributes quarterly where available.*
*** S&P/ASX 200 Accumulation Index. ^^Inception date is 1 May 2019. Past performance is not a reliable indication of future performance.*

Key Information

Portfolio Manager	Chris Kourtis
Investment Objective	To provide investors with returns and income growth greater than the Benchmark over rolling five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-40
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
Distribution Frequency	Quarterly (where available)
Management Fee	0.70% p.a.
Performance Fee[1]	10.00%
Buy/Sell Spread	0.25% / 0.25%
Platform Availability	HUB24, Netwealth, Praemium
Lonsec Rating[2] SQM Rating[2]	Recommended Superior / 4.25 Stars

[1]Of the investment return above the Benchmark, after recovering any underperformance in past periods.
[2]Lonsec Rating assigned 15 November 2024. SQM Rating assigned 11 October 2024.

The Team

Chris Kourtis
Director & Portfolio Manager

41 years of industry experience.

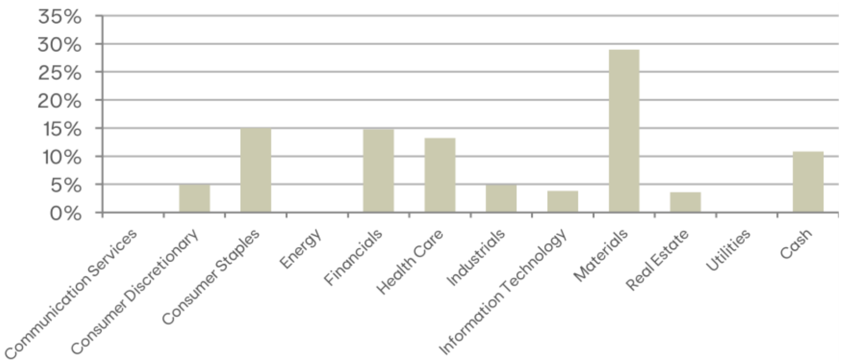
Stephen Giubin
Senior Investment Analyst

38 years of industry experience.

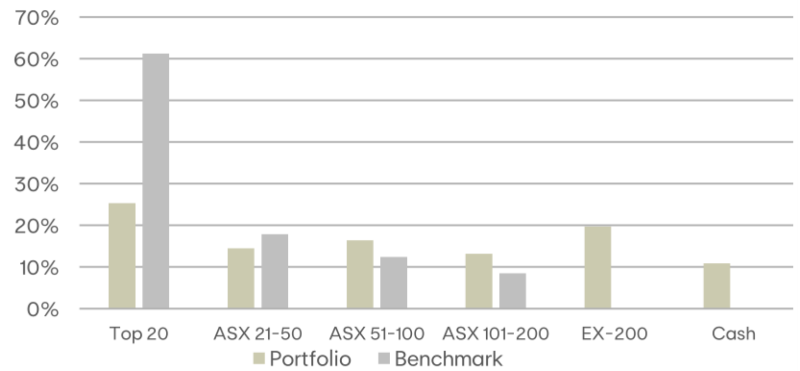
FY26(e) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	**6.1**	**4.1**
Dividend Yield (%)	4.9	3.1
Price/Earnings (x)	14.9	20.1

Source: Ellerston Capital.

Sector Allocation



Exposure by Market Capitalisation



Source: Ellerston Capital.

Top 5 Holdings*

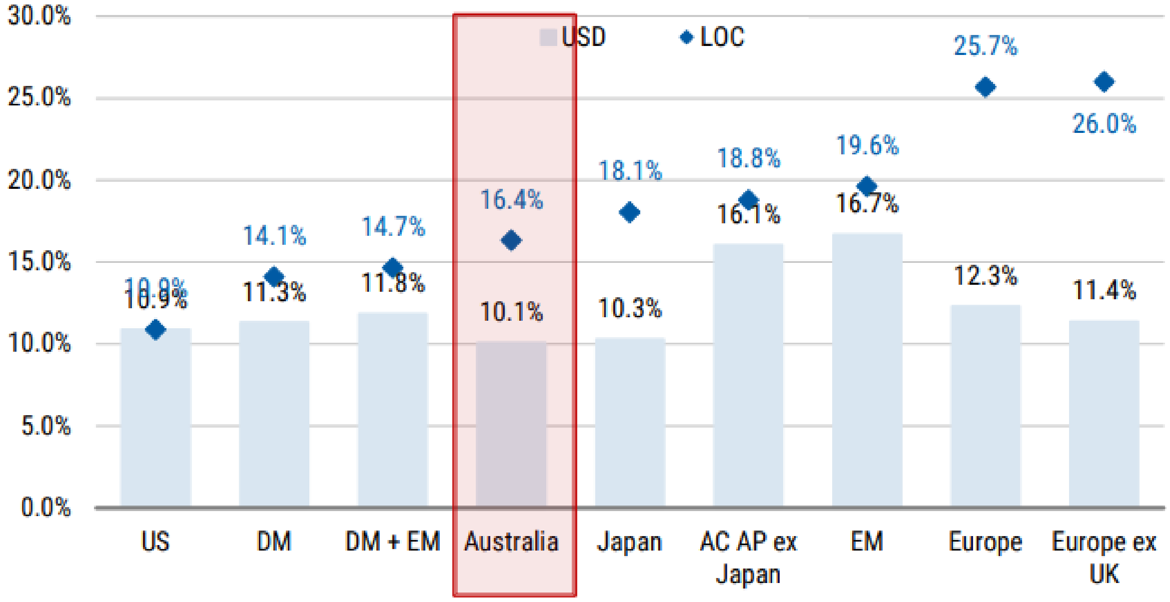
BHP
CSL
Fortescue
Liberty Financial Group
Treasury Wine Estates

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

MARKET OVERVIEW

August saw global equity markets continue their upward trend, dominated by tariff deals, the US reporting season and prospects of a rate cut by the FOMC in September. The MSCI World Index rose 2.1%, whilst the MSCI Emerging Markets Index lagged at +1.3%. The S&P 500 delivered a solid +2.0% return in local currency terms, closing at another monthly all-time high. On the MSCI World Index, Materials (+6.2%) outperformed and Health Care (+4.6%) also topped the global sector performance tables, with Utilities (-1.2%) being the major laggard. Closer to home, the S&P/ASX200 index returned +3.1% for the month of August and the best sectors locally were Materials (+9.2%), Consumer Discretionary (+7.6%) and Utilities (+5.3%).

MSCI Global Country/Regional Indices Performance for August CYTD



Source: Morgan Stanley.

USA

The Fed Chair Powell signalled more definitively than expected, that the FOMC could lower its benchmark federal-funds rate by 25 basis points at its next meeting, September 16-17. This was surprising for two reasons. First, the macroeconomic situation remains complicated, with two key forces tugging the Fed in opposite directions. On the one hand, the labour market is clearly softening. Job growth has slowed sharply according to the Labor Department's latest estimates, and on the other hand, inflation continues to run too hot for the Fed's liking. However, Powell said, "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance". As always, the Fed will remain data dependent, with the equity market responding positively to the dovish tone. In the upshot, the small cap Russell 2000 Index materially topped the tables, finishing up 7.1%, followed by the Dow Jones Industrial Average (+3.4%), the S&P 500 (+2.0%), with the NASDAQ Composite index closing up only +1.6%, unusually at the back of the queue. The best performing sectors were Materials (+5.8%), Health Care (+5.4%) and Energy (+3.6%). Conversely, the worst performers were Utilities (-1.6%), followed by Industrials (+0.0%) and Information Technology (+0.3%).

Europe

Euro-zone stocks again underperformed their global peers, but maintained leadership CYTD, with MSCI Europe posting an impressive +12.6% return (led by Germany and Spain). This compares to the MSCI World +11.0% and the S&P500 +10.8% in local currency terms. For August, the Euro STOXX50 Index was up by 0.6% and among the major exchanges, France's CAC 40 fell 0.9%, Germany's DAX was 0.7% lower and the FTSE 100 rose 1.2%. Spain's IBEX 35 was up 3.8% and has posted a stellar performance of +32.8% for the CYTD.

Asia

China's economic momentum has slowed in the third quarter due to persistently weak domestic demand and the continuously cooling property market. Policymakers have ramped up consumer subsidies, but a prolonged property slump is still crimping spending, with real estate a key store of household wealth. China's policies are marginally shifting toward anti-involution and promoting consumption, but further action at the local level is needed. As these policy shifts continue to take effect, issues such as low nominal GDP growth are likely to ease. In trade, US and China kicked the can up the road, extending their trade truce for another 90 days to keep the tariff pause in place until 10 November. This has lowered the temperature by temporarily slashing US tariffs on Chinese imports to 30 percent, while Chinese levies on US exports fell to 10 percent.

Asian equity markets reacted positively. China's SSE rallied (+8.7%), with its stock market doing much better than the real economy, followed by Japan's Nikkei (+4.1%), the Hang Seng (+1.3%), India's SENSEX (-1.5%) and Korea's KOSPI being the laggard at -1.8%.

Commodities

Commodities were much stronger during the month. The iron ore benchmark price remained resilient and finishing 5% higher at US$104/tonne, coking coal edged up 6% to US$185/tonne and thermal coal fell 5% to US$110/tonne. Key base metal prices strengthened, with nickel up 4% and both aluminium and copper squeezing 3% higher. Spodumene prices continued to rip after July's 15% hike, with another 23% move in August. Rare earths NdPr prices were also stronger, rising a further 14%. Gold was 5% higher at US$3448/oz (A$5272/oz), in line with the weaker US greenback. The worst performer was oil, as the eight OPEC+ countries tapered voluntary cuts, opted instead to phase in the remaining 547 kb/d of their 2.2 mb/d production cut in September. Brent crude ended the month down 6% to $67/barrel.

Bonds

The US 10-year bond yield finished 14bp lower to 4.23%. This was against a backdrop of Jerome Powell's comments at Jackson Hole. This year's speech marked Powell's softest stance at Jackson Hole since 2021, with dovish labour market commentary dominating, while inflation concerns slipped back to neutral, increasing the likelihood of a rate cut in September. The Australian 10-year bond yield edged 2bp higher to 4.28% and the A$ was 2% higher at US$0.65, in line with the slightly weaker US dollar.

Australia

As expected, the RBA board decided to lower the cash rate target by 25 basis points to 3.60%. The board noted that inflation has fallen substantially since peaking in 2022, as higher interest rates have been effectively bringing aggregate demand and potential supply closer towards balance. RBA forecasts suggest that underlying inflation will continue to moderate to around the midpoint of their 2–3% target range, with the cash rate assumed to follow a gradual easing path.

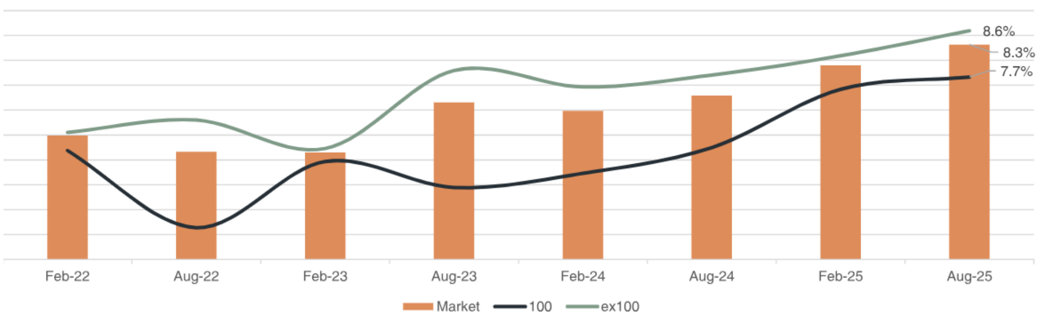
Australian equities outperformed developed global peers, with the S&P/ASX 200 Accumulation Index rising 3.1%. Materials (+9.2%) was the best performing sector, driven by a powerful rally in mining stocks, with Pilbara Minerals (+52.6%), Vault Minerals (+46.6%) and Westgold Resources (+34.4%). Index heavyweight BHP (+10.0%) also helped drive the sector along, with Lynas (+32.5%), and Mineral Resources (+30.8%) also strongly outperforming. Consumer Discretionary was the next best performer, with bombed out IDP Education rebounding off recent lows (+57.9%) and Eagers Automotive (WDS +40.9%), followed by Utilities (+5.3%) with Origin Energy (+10.7%) driving the sector outperformance.

Health Care was the worst performing sector (-1.0%), dragged down by CSL (-21.4%, more detail in our misses section), followed by Information Technology (-1.7%) and the Consumer Staples sector (+0.1%).

In August, the top stocks that made a positive contribution to the Index's return were all leaders, namely BHP (+76bp), Westpac (+62bp), NAB (+44bp), ANZ (+33bp), and Wesfarmers (+26bp). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-105bp), CBA (-32bp), James Hardie (-22bp), WiseTech (-12bp) and Woolworths (-12bp). The ASX Small Ordinaries pipped the ASX200 by an impressive 5.3%, delivering a total return of 8.4%, with the Small Resources doing the heavy lifting, returning +13.7% compared to the Small Industrials, which returned 6.4%, still materially outperforming the ASX200.

The August reporting season has been one of the most volatile seasons on record in terms of post result moves. From an EPS perspective, the strongest sectors post Results were Financials (40% beats | 0% misses) and Information Technology (37% beats | 11% misses). For outlooks, it was the same, the strongest sectors were Information Technology (38% upgrades | 13% downgrades) and Financials (23% upgrades | 14% downgrades).

Standard deviation of Result day relative returns: Market, S&P ASX 100 and ex100



Source: Barrenjoey Research

COMPANY SPECIFIC NEWS

The Market Hits

IDP Education (IEL +57.9%)

IEL reported FY25 earnings in line with market estimates at adjusted EBIT of $119m and gave guidance for FY26 adjusted EBIT of $115-125m, higher than consensus of $114m, with the company continuing to assume challenging market conditions (volumes down 20-30%) and $25m reduction in the cost base (better outcome than expectations of a $14m reduction). Operating cash conversion was strong at 143% with net debt at $166m versus consensus of $204m, resulting in leverage falling to 1.4x ND/EBITDA, way below IEL's covenant of 3x, putting debt concerns to bed. The stock price reaction of a 30% uplift on the day was stellar, to say the least, but was helped by short covering given, 15% of IEL's stock was shorted.

Pilbara Minerals (PLS +52.6%)

Higher cost lithium producer PLS had a strong tailwind of rising spodumene prices in July by 15%, with a further 23% rise this month. Despite PLS already having released FY26 guidance and disclosing its balance sheet position, the company did provide a nugget in the form of disclosing that it had sold a 5kt cargo for more than US$1,050/t SC6-equivalent (~10% above spot). This added further weight to the argument echoed by other key Australian spodumene producers such as Mineral Resources (MIN), that Chinese converters remain very anxious around security of supply. Given PLS's high operating leverage, investors bid the stock up, squeezing the shorts in the stock. That elevated cargo pricing nugget also added an extra 9% on the day to PLS's already stellar monthly performance, which also rubbed off on MIN, up an impressive 30.8% in August, hot on the heels of a 32.6% return in the month of July.

Codan (CDA +47.4%)

CDA develops reliable electronics solutions for government, corporate, NGO and consumer markets across the globe, with its technologies including Metal Detection and Communications. CDA delivered strong beats at the top line and bottom, with revenue and NPAT +5% and +4% better than consensus, respectively. CDA's FY26 guidance was for an impressive Communications revenue growth of 15-20%. When coupled with ongoing growth in its core Metal Detection business, this resulted in double digit earnings revisions for FY26/27/28 by sell-side analysts, which saw the stock rise 11% and then strengthen further post the upgrades.

Vault Minerals (VAU +46.6%)

Vault Minerals had up until this month, lagged its gold peers this year by ~12%, but a combination of a major global stockbroker initiating on VAU, flagging it as the value play in the gold sector was enough to turn sentiment. The company's surprise announcement of a 10% share buyback also helped, which saw VAU not only outperform the gold sector in August, but also for the CYTD.

Lynas Rare Earths (LYC +32.5%)

The announcement in July that the US Department of Defence had entered into a 10-year agreement with MP Materials, establishing an NdPr floor price commitment of US$110/kg, compared to China spot prices at half that price, certainly caught all investors by surprise. This major industry transforming development, supported LYC's rare earths strategy of advocating for independent pricing mechanisms not linked to the Asian Metals Index and saw LYC rise 22%. This month, LYC further benefitted from the 14% rise in the spot NdPr price, propelling its share price intra month to a 14-year high. LYC took the opportunity to raise $750m of new equity at $13.25/share, a 10% discount to its last close of $14.73, a case of making hay while the sun shines. The company said the proceeds would be used to "help accelerate Lynas's growth via its Towards 2030 strategy".

The Market Misses

James Hardie Industries (JHX -24.5%)

In what was the standout miss for the month, James Hardie delivered a weak Q126 result and issued new FY26 guidance which shocked, coming in materially below market. A rapid reversal in market conditions and inventory indigestion both combined to see the group sharply reduce its FY26 guidance. Material (20%-25%) FY26 EBITDA downgrades to consensus estimates ensued, to a new range of US$1.05-1.15bn (from ~$1.4bn). The actual extent of the downward revision was confounding and left investors scratching their heads, given: (1) 9 month inclusion of the recently acquired AZEK earnings contribution; (2) the change in business segment reporting (previously not disclosed); (3) no reconciliation to either segment changes or previous guidance and (4) certain disclosure changes (e.g. for fibre cement volumes).

JHX announced in March this year its controversial strategic "company transforming" $14 billion acquisition of AZEK, a US outdoor decking and pergolas business, lifting its exposure to the American market. The deal was only recently consummated, with the subsequent post-merger optimism wearing off just a month after the merger was completed, raising serious continuous disclosure questions and hence, the prospect of future class actions. Given elevated gearing, balance sheet concerns were also brought to the fore in the result, sparking immediate fears that if demand conditions continued to weaken in the US, JHX could be forced to recapitalise its balance sheet by way of a highly dilutive equity raise, at much lower prices than those currently prevailing.

The greatest surprise to investors was the extent of channel destocking, with the magnitude of volume declines clearly a function of its overweight position in the US southern/sunbelt geographic and high exposure to new single family housing starts. What became apparent was (1) no primary demand growth (PDG); (2) confirmation that the prolonged US construction downturn amid the broader economic uncertainty was negatively impacting its business (low US housing turnover), coupled with affordability concerns; (3) contrary to previous management statements, not a hope on earth that the A$14bn paper and debt funded AZEK deal would be EPS accretive in its first full fiscal year post close (i.e. FY27); (3) management stressed a priority to preserve its balance sheet and pay down debt (committed to < 2x leverage within two years post deal completion); (4) this priority resulting in zero probability of an on-market buyback near term (JHX's previous intention was to undertake a US$500m buyback in the first 12 months of deal completion).

Staggeringly, the new combined EBITDA guidance was broadly in line with the prior standalone JHX EBITDA for FY26e issued in May, with both AZEK and the underlying JHX core NAM Fibre Cement business clearly softening, highlighting rapid deterioration. Investors had AZEK's overall contribution at US$320m for FY26e (guidance now set at US$250-265m) and JHX ~US$1.1bn (guidance now implying US$800-885m). The upshot was a complete train smash, with NPAT downgrades by the street in the order of 30-45% for this former market darling through FY26-28, with management and the Board's credibility completely shot to pieces.

Inghams Group (ING -21.7%)

ING provided a soft FY25 result, with misses versus consensus at the revenue, EBITDA and NPAT lines, reflecting challenging market conditions, with core poultry volumes down 1.4%. Momentum had stalled in the Australian business, with pricing and cost pressures flagged. Notably, soft 4Q25 earnings (despite replacing the majority of lost Woolworths volume), led to the outlook for a decline in FY26, with management calling out that earnings would be significantly weighted to 2H26 as it works through a lower exit rate. ING officially joined the 2H club! EBITDA was guided at $215-230m, 11% below consensus at the mid-point, driven by a shift to a lower margin mix, a decline in wholesale pricing and a deterioration in retail demand. Whilst the impact on the FY26 NPAT was a ~16% downgrade, ING fell 20% on the day of the result.

CSL (CSL -21.4%)

CSL delivered a low quality FY25 result which was +2.0% ahead of consensus, driven by lower interest and tax, but compositionally, Behring was a miss. FY26 NPATA guidance was broadly in line (including FX), albeit there were question marks pertaining to the outlook given FY26 NPATA guidance of 7-10% in constant currency (CC). Adjusting for US Medicare Part D changes, this equated to 10-13% CC, in line with consensus, adding to confusion. Negative sentiment post result largely focused on how CSL communicated future gross margins targets, lower Immunoglobulin (Ig) growth (explained by two tender losses in the UK and Mexico), as well as the Medicare Part D changes. The tender losses were described by management as "non-regrettable" i.e. they were low margin Ig multi-year contracts taken over by Grifols, which itself was in dire straits and needed the cashflow. The head of the Behring business quantified the loss of these contracts as removing ~3.5% of top line growth that would otherwise have been achieved in FY26. That said, CSL management were confident Ig sales in FY26 would be in the mid-single digits, despite the loss of tenders.

The magnitude of the share price sell-off for this Top 20 leader was nothing short of extraordinary, in large part motivated by the surprise intention to demerge Seqirus, CSL's vaccine and flu business acquired a decade ago. This strategic transformation move struggled to garner immediate shareholder support, despite management arguing that a demerger would allow better capital allocation and facilitate a faster cost-out. For perspective, CSL shares had rallied +13% in the lead up to the result, reversing by 17%

after the announcement. Looking ahead, guidance is for adjusted double-digit earnings growth in the medium term, albeit helped by a new cost-out strategy and reinvestment in revenue growth initiatives.

Overall, it left investors scratching their heads that a such a high-quality global company should sell off and de-rate so violently post result. CSL is trading at a historically low PE of 20x and has a sound and de-levered balance sheet. The Board has reintroduced a multi-year $ 750m buyback commencing in 2026 and the business is expected to deliver a low double digit 3-year EPS compound growth rate.

Reece (REH -17.9%)

Despite having pre-guided a softer print in late June, plumbing materials business REH reported FY25 results at the low end of its EBIT guidance range, with FY26 market expectations too high going into REH's result. However, management's negative assessment of market conditions and competitive intensity were surprising frank and brutal. Structural competitive issues in US Waterworks were unrelenting, with the macro environment expected to deteriorate further before any signs of a cyclical improvement surface. Even the more protected jewel in the crown ANZ business saw margin contraction, particularly hampered by inefficiency and productivity issues in Victoria. In perhaps the most talked about post result conference call of this year's earnings season, CEO Peter Wilson laid bare the strain he was under, describing the past 12 months as "one of the most challenging years in our history". He warned that the US housing market, which accounts for more than half of the company's revenue, would remain weaker for longer than expected. There's more to it, as it became increasingly clear that REH had bought a lemon in Morsco Inc for $1.9bn back in 2018. Five years on, a business that Morsco had previously acquired, Fortiline Waterworks (one of the largest wholesale distributors of underground water, sewer and storm utility products), was underperforming. Fortiline's founder had departed and with the help of VC funding, launched a new competing business, STAline, which has grown to be the market's cost leader. This was negatively impacting WW's business and REH's US WW President having only been relieved of his position last month, added to the upheaval. Competitive Waterworks' pressures look to continue multi-year, raising further questions around REH's broader US push. The ANZ business was also under pressure given soft construction activity, where the market was hoping for a bounce, spurred by interest rate cuts. However, REH poured cold water on that, not expecting EBIT margins to get back to double digits any time soon. At the operating level, its industry-leading EBITDA margins fell a sizeable 180bps. Costs in managing two bolt-ons, wage inflation and continued investment in the business were cited on the conference call. More significantly, these investments were made and have to date, failed to deliver the expected productivity gains, frustrating management. REH were transparent and made it clear that they were in a perfect storm with no quick turnaround. Investors got the message and sold this former market darling's stock down 16% on the day of the result.

Domino's Pizza Enterprises (DMP -17.5%)

The DMP result broadly matched recently downgraded EBIT and NPAT guidance, with ANZ delivering the highest franchisee EBITDA in three years. This saw EBIT up 5.2%, however the release signalled a weaker than expected start to FY26. The final dividend was cut to 21.5cps (35% payout ratio), which was below consensus of 48cps, due to elevated gearing levels, supporting deleverage and reinvestment after the recent unexpected management changes. The sting in the tail was the FY26 trading update which underwhelmed, fuelling the debate as to whether sales declines were structural or cyclical. First 7 weeks trading saw same store sales declining -0.9% vs. 1H26 consensus of +2.1% in ANZ; +2.0% in Europe; and +2.5% in Asia. Early FY26 comments by region cited "strong growth" in Germany, Benelux and Malaysia, but "weaker performance" in ANZ, Japan and France, where the company's largest offshore markets continued to be challenged. In Japan, DMP was trying to reduce discount focused marketing and deliver more on everyday value and in France, the business was trying to reduce menu complexity and focus more on value messaging. Both strategies seem to be having mixed success. The balance sheet was also put in the spotlight as at close of FY25, with leverage of 2.57x (approaching covenants at <3x), rising from 2.35x in FY24. The company is now targeting a leverage ratio of <2.0x. Regarding the outlook, no guidance was provided, further unsettling investors. Management is progressing on a group-wide cost efficiency program, with the final quantum of savings to be confirmed later, but with much of the benefits to be reinvested. Management also expected new store opening trends to improve as unit economics improved, commenting that "new store openings will only be pursued where new stores are expected to be sustainably profitable and deliver a meaningful return on investment to franchise partners". The upshot was a 22.0% slump in the shares on the day of the release.

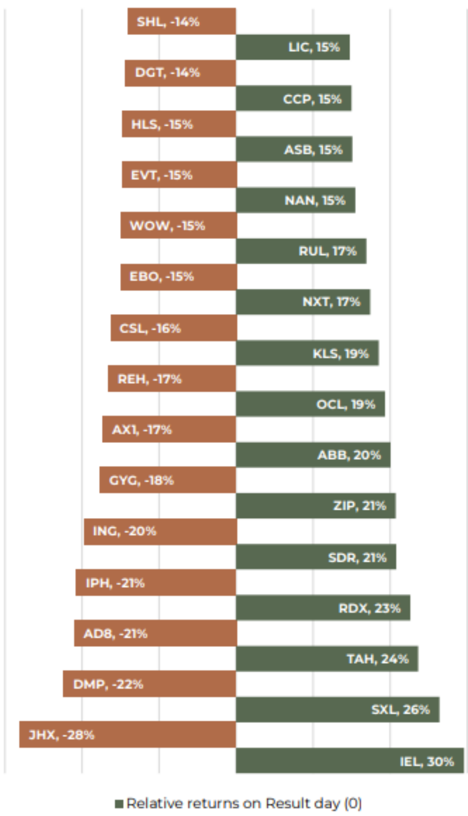
FUND PERFORMANCE

Flirting with an all-time high of 9,000 points for the ASX200 and with the Australian market through the most volatile reporting season in terms of post result moves since the collection of data, pleasingly, we got through the month relatively unscathed. The only main exception was our holding in CSL, which underwhelmed.

The Fund delivered a solid return of +5.10%, outperforming the ASX200 Accumulation benchmark of 3.10%. This brings the return for the 2026 FYTD to a satisfactory 15.43%, well ahead of the benchmark return of 5.53%.

The media have termed this reporting season's out-sized moves as the 'quant-quake', due in part to the confluence of heightened passive funds' activity, historically high valuations - with many stocks priced for perfection and modest overall earnings growth. Another explanation for the extraordinary moves is the notion of 'falling velocity', where fewer active market participants today are setting share prices. This is especially prevalent in Australian large caps, leading to a shallower price discovery process and more volatility (again, a function of more money in passive funds hands). The downside moves after reporting results in Woolies, James Hardie, Reece, Sonic Healthcare, CSL, IPH, AGL, Ramsay, Inghams and Guzman (just to mention a few) were nothing short of mind snapping. Conversely, the upside moves in Eagers Automotive, IDP Education, Kelsian, Tabcorp, ZIP, Siteminder, Lovisa etc, left many observers scratching their heads.

Top / Bottom Relative returns on Result Day



Source: Barrenjoey Research.

Against the backdrop of relatively subdued offshore markets which continue to flirt with all-time highs, domestic equities also squeezed higher, finishing up 3.1% for the month, lifting the CYTD25 total return for the ASX to +12.3%. In August, the Materials (+9.2%), Consumer Discretionary (+7.6%) and Utilities (+5.3%) sectors were the best performers (BHP was the largest contributor at 76bp to the 310bp benchmark return), whilst the Health Care (-13.2%), Information Technology (-1.7%) and Consumer Staples (+0.1%) sectors fared the worst (CSL was the largest detractor at -105bps to the 310bp benchmark return). The major contributors to August's benchmark return were Materials (+167bp), Financials (+125bp) and Consumer Discretionary (+59bp). Conversely, the only detractors were Health Care (-126bp) and Information Technology (-6bp).

Month of August Attribution

For August, the main positive contributors to the Fund's performance were overweight positions in IRESS (+11.2%), IGO (+17.8%), Liberty Financial (+13.0%), Healius (+11.7%) and not owning any CBA (-2.8%). This month's detractors included overweight positions in CSL (-21.4%), which despite an in-line FY25 result, poor guidance messaging referred to in more detail in our misses section and the intention to spin off their vaccine business Seqirus definitely perplexed investors. CSL shares were sold down heavily, resulting in a negative contribution of 111bp to the Fund's performance. Not owning Westpac (+14.2%) and NAB (+10.0%) also detracted from performance. Our sizeable holding in Liberty Financial which delivered an impressive result with another surprise special dividend, mostly compensated for no WBC and NAB.

FUND ACTIVITY

The Fund was again highly active, taking advantage of extraordinary price volatility exhibited in a number of portfolio stocks. We took profits in IGO, IRESS, Premier Investments, Perpetual, Iluka and Mineral Resources, following their strong price recoveries in the month of August. The release of additional funds were deployed in topping up Amcor, BHP, CSL, Deterra, GWA and Treasury Wine Estates. The bulk of the proceeds were rotated into new positions in Fortescue, Soul Pattinson and Woolworths (introduced post result and share price slide). WOW has now lagged the ASX200 by ~40% in the past 2 years and is at a significant discount rating to Coles. The new stocks added are all ones we know well and have invested in before.

FUND STRATEGY AND OUTLOOK

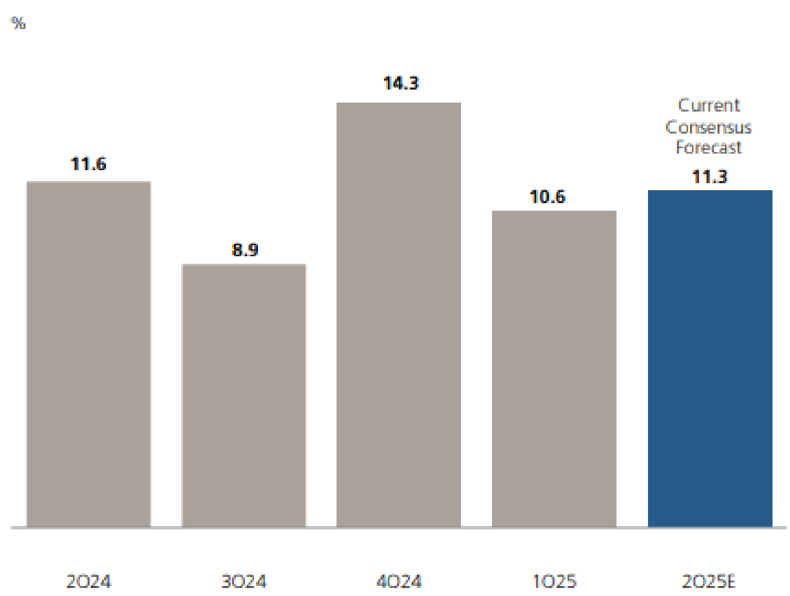
Globally, the month kicked off focusing on US tariffs, with a number of deals signed by US trading partners, but towards month end, the focus had shifted to the Fed, the prospect of a September rate cut and changes to the composition of the FOMC Board. Fed Chair Powell surprisingly signalled more definitively, that the FOMC could lower its benchmark federal-funds rate by 25 basis points at its next meeting, September 16-17.

In terms of global trade, the US Court of Appeals for the Federal Circuit threw a spanner in the works. It ruled against the Trump's administration's use of the International Emergency Economic Powers Act (IEEPA) to impose widespread reciprocal tariffs and the tariffs on imports from Mexico, Canada and China, which were put in place to address fentanyl entering the country. It did not address sectoral tariffs imposed under trade act authorities, but only the tariffs imposed under the IEEPA. Importantly, these accounted for ~75% of the tariffs that the administration imposed. Although there are different options available to challenge the decision, Trump has made it clear the next stop will be the Supreme Court, which will take time and there is no need for trading partners to rush to make deals if the tariffs are upheld to be illegal.

Prior to this ruling, the US and China extended their trade truce for another 90 days to keep the tariff pause in place until 10 November. This has lowered the temperature by temporarily slashing US tariffs on Chinese imports to 30 percent, while Chinese levies on US exports fell to 10 percent.

US 2Q results were strong, with revenues up 6.1% and EPS by 11.3% YoY. The earnings break-down was TECH+ (+ 27.2%) and Financials (+20.4%) being the key drivers, with Non-Cyclicals (+1.6%), Cyclicals ex-Energy (+0.3%) and Energy (-18.5%), a drag on the S&P500 earnings.

S&P 500 EPS Growth



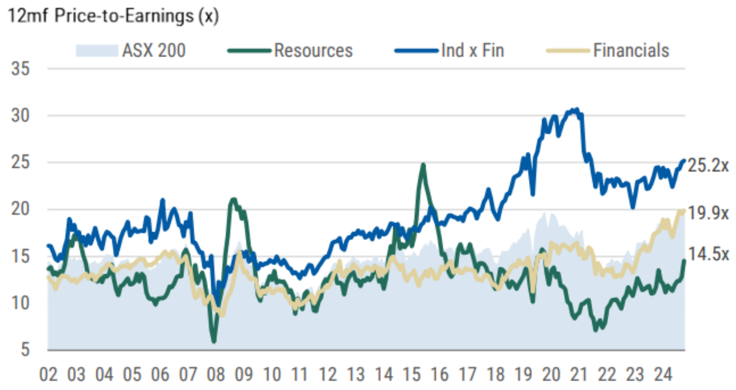
Source: UBS.

Domestically, the RBA made its third 25bp rate cut to 3.6% on 12 August, with and a unanimous board decision. With the debate around whether the RBA was dovish or hawkish, given the volatility in signalling, the RBA seems to be back to a pragmatic, data dependent stance that can reasonably allow for further modest easing. The July CPI trimmed mean, announced post the rate cut, came in at 2.8% YoY. This was higher than the June 2.7% reading, making a 30 September rate cut less likely. Market expectations have moved to a November cut, given there is no October RBA meeting.

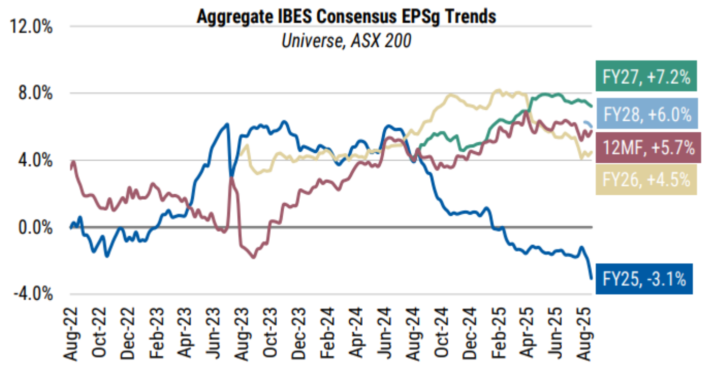
In terms of equity market valuations, multiples remain elevated, as the earnings pulse remains muted post the Reporting Season. The ASX 200 12MF P/E currently stands at 19.9x, a new high and two standard deviations above the long-term average (14.8x since 1992) and well above the 10-year average of 16.1x.

Bottom-up domestic FY25 EPSg finished down 3.1%, the third year in a row of declining earnings. At this juncture, the forecast is for a relatively weak EPSg rebound of +4.5% in FY26, down from +7.2% at the end of December 2024.

The 12M forward PE of the Industrials ex-Financials at 25.2x



Annual Consensus EPS Growth Trends FY25-27



Source: Morgan Stanley.

Apart from the changes articulated in the Activity Section, we continue to hold the line. Interest rates cuts expected soon by the Fed and later domestically, should be particularly supportive of the more cyclical stocks/sectors, which even after the recent rally, have significantly underperformed. As in August, this environment going forward should suit our portfolio positioning.

For the 2026 Financial Year, the forecast grossed up Dividend Yield for the Fund now sits at 6.1%, compared to the grossed-up Market Dividend Yield of 4.1%.

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Find out more:

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

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

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

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