Ellerston Equity Income KIS Fund

Ellerston Capital

Monthly Report as at 31 July 2026

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	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^^
Income pre-franking[1]	0.0%	1.2%	6.0%	7.9%	8.8%	8.1%
Capital[1]	2.0%	3.9%	-15.8%	-7.8%	-6.6%	-2.6%
Fund Net Return^	2.0%	5.1%	-9.8%	0.1%	2.2%	5.5%
Benchmark**	2.3%	4.1%	6.0%	10.4%	8.0%	8.9%
Alpha (pre-franking credits)	-0.3%	1.0%	-15.8%	-10.3%	-5.8%	-3.4%

[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

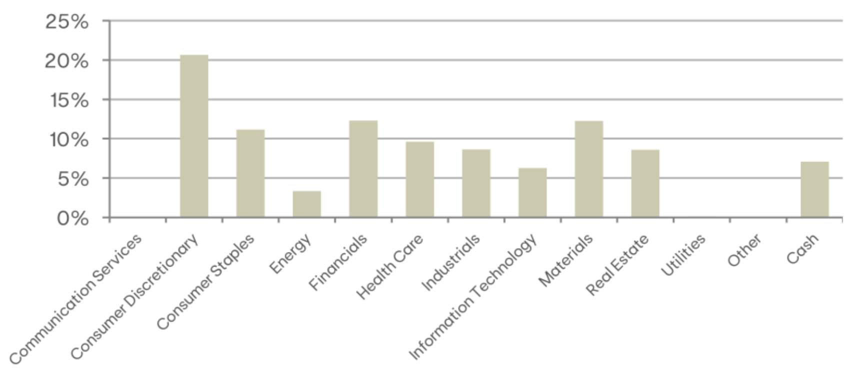
Portfolio Manager	Chris Kourtis
Investment Objective	To provide investors with returns and income growth greater than the Benchmark over rolling five-year periods.
Benchmark	S&P/ASX 200 Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-40
Minimum Investment	Initial investment - $10,000 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	BT Panorama, HUB24, Netwealth, Praemium
Lonsec Rating[2]	Recommended

[1]Of the investment return above the Benchmark, after recovering any underperformance in past periods.
[2]Lonsec Rating reassigned 21 October 2025.

FY27(e) Key Portfolio Metrics	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.5	4.5
Dividend Yield (%)	5.7	3.6
Price/Earnings (x)	12.9	17.6

Source: Ellerston Capital.

Sector Allocation



The Team

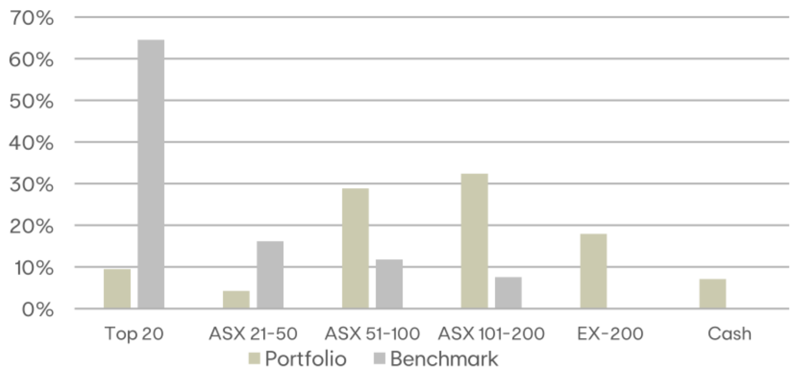
Chris Kourtis
Director & Portfolio Manager

42 years of industry experience.

Stephen Giubin
Senior Investment Analyst

39 years of industry experience.

Exposure by Market Capitalisation



Source: Ellerston Capital.

Top 5 Holdings*

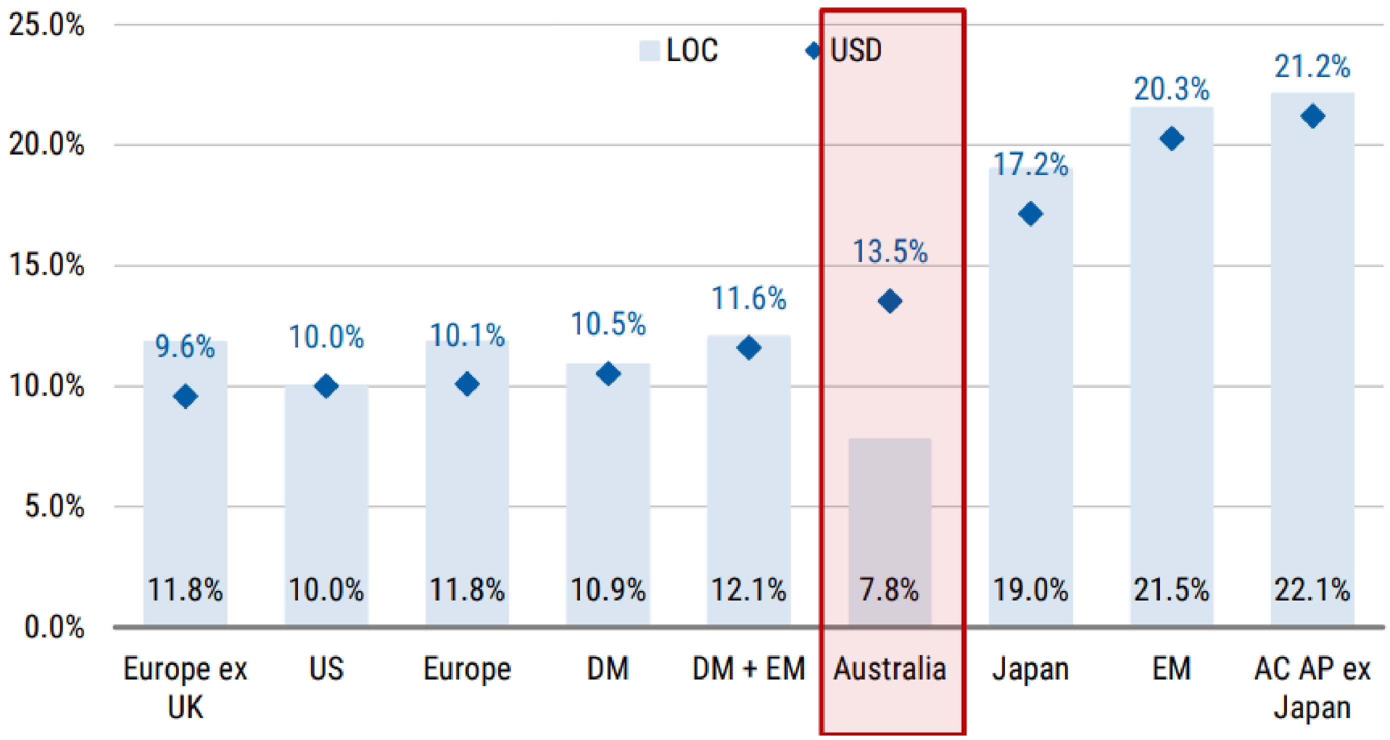
Cleanaway Waste Management
Domino's Pizza Enterprises
IRESS
Liberty Financial Group
Treasury Wine Estates

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

MARKET OVERVIEW

Global equities continued to be driven by the seesawing conflict in the Middle East and evolving scepticism towards AI companies' ability to earn sufficient returns on their colossal, invested capital. AI stocks were the major losers in July, as reflected by the 13.3% fall in the US Momentum index and the 22.2% plunge in the Korean equity market. The MSCI Emerging Markets Index declined by -4.3%, trailing the Developed Markets Index which rose by 0.2% and the MSCI AC World Index which finished down a modest -0.3% in local currency terms. The S&P 500 fared marginally worse, down -0.1%. Within the MSCI World Index, Energy (+12.2%) saw the largest upside move, followed by Financials (+6.0%). Not surprisingly, Information Technology (-4.2%), was the major underperformer, followed by Utilities (-1.8%). Closer to home, the S&P/ASX200 Accumulation Index bucked the trend and etched out a solid +2.3% gain, with Energy (+12.2%), Financials (+5.8%) and Health Care (+2.3%) driving returns, outpacing Information Technology (-2.8%), Industrials (-1.4%) and Utilities (-1.0%).

MSCI Global Country/Regional Indices Performance for the July CYTD



Source: Morgan Stanley

USA

As expected, the FOMC left rates unchanged, holding the fed funds rate target range at 3.5 to 3.75% during their fifth meeting on 28/29 July. However, with three governors voting to tighten policy, it was one of the strongest FOMC dissents and featured some of the widest dot-plot spreads, with Chairman Kevin Warsh absenting. Warsh is considering reducing the number of regularly scheduled FOMC meetings from the current eight per year, with the new Fed Chair is embarking on a fundamental review of its organisational management. Five internal task forces have already been established to examine key areas, including communications strategy, data analysis and balance sheet management, with the review of meeting frequency positioned as part of this effort.

With the US reporting season in full flight, towards month end, Amazon jumped 15.3% when it reported 2Q26 earnings growth of 15.9% on an AWS-led beat, capping off a very solid week in which Amazon, Microsoft and Alphabet added close to US$1.5 trillion in combined value. Apple on the other hand, fell 7.4% despite reporting record June-quarter revenue, as guidance citing memory-chip supply constraints overshadowed the revenue beat, with Alphabet rallying +6.7% on Google Cloud's return to profitability and a new Gemini

Robotics launch, pleasing investors. Midway through reporting season, shares of International Business Machines (IBM) cratered after the company released preliminary Q2 results a week ahead of expectations, showing both profit and revenue numbers missing analysts' lofty consensus expectations. The stock tumbled 25.5%, its biggest one-day drop on record. The sell-off essentially wiped out the rocket ride that investors had enjoyed in late May, when the stock spiked +46.3% from May 20 to the June 2nd record close of $329.23, after the announcement that the Trump Administration was making an investment.

With 62.5% of the S&P 500's market cap having reported, 2Q expectations are for revenues to grow 13.5% and EPS 27.7%. Earnings to date are beating estimates by 6.9% on aggregate, with 79% of companies topping projections.

International Business Machines Corporation (IBM.NYS)

Source: FactSet

Expected EPS Growth YoY:

TECH+: 48.9%

Financials: 18.5%

Non-Cyclicals: -2.7%

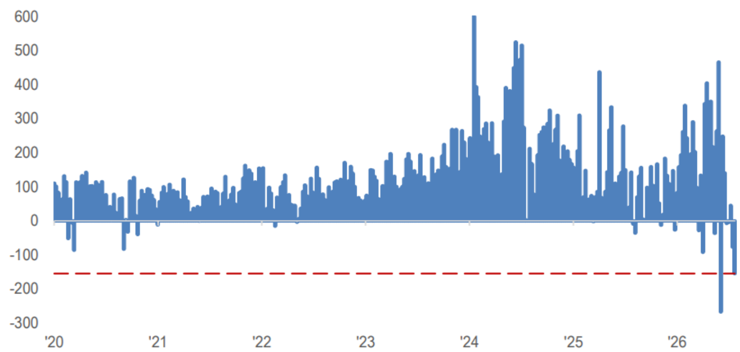
Cyclicals ex-Energy: 16.2%

Energy: 125.4%

Source: UBS

In the wash up the Dow Jones Industrial Average finished +0.4% higher, trailed by the S&P 500 (-0.1%), the small cap Russell 2000 Index (-3.0%) and the NASDAQ Composite index (-3.2%). The best performing sectors on Wall Street were Energy (+12.6%), Financials (+6.2%) and Real Estate (+2.5%). Conversely, the worst performers were Information Technology (-3.4%), Industrials (-3.0%) and Utilities (-2.2%). Noticeably, Retail investors have been cutting their Tech exposures as momentum unwound, especially in microchips and memory names.

Weekly Outflows out of Tech ETFs were the second highest on record



Source: JP Morgan

Europe

As widely anticipated, the ECB unanimously left its policy rates on hold, leaving the deposit facility rate at 2.25%. The BoE also left the Bank Rate on hold at 3.75%, with another hawkish dissent tightening the vote to 6-3. Euro-zone markets did marginally better than their global peers in July, with the Euro STOXX50 Index up +0.6%. Among the major exchanges, Germany's DAX rose +2.5% and France's CAC was +1.3% higher. The FTSE 100 finished up +3.6%, its best monthly performance since February, helped by the ~10% composition of energy stocks, the likes of BP and Shell in its benchmark, both expected to report strong earnings.

Asia

China's Politburo meeting on 30 July turned incrementally supportive given "difficulties and challenges". After growth slowed to 4.3% in 2Q, policymakers decided to do a bit more to spur growth back to this year's "4.5-5% target", but they showed no intention to do a lot more. On monetary policy, the July meeting maintained its commitment to a "moderately accommodative" stance, while calling for the "comprehensive use and timely adjustment of policy tools". Observers still expect monetary policy to remain accommodative to facilitate government bond issuance and support growth. That said, it seems the PBoC may not be in any hurry to deliver policy rate or RRR relief given still ample liquidity, while the protection of banks' net interest margin suggests room for a rate cut is limited.

The BoJ left its policy rate unchanged at 1.0%, with Takata the sole dissenter, voting in favour of a rate hike. South Korea's central bank hiked its benchmark policy rates, raising them for the first time since January 2023 as inflation in the country crept up, but in line with expectations.

The Hang Seng rose +13.5%, its best performance since September 2024 due to large mainland inflows, hopeful of further stimulus from Beijing. Fresh buying of major tech heavyweights like Lenovo, Alibaba, Baidu and IPO's such as Zhongji Innolight (the largest producer of optical transceivers in the world, making it a critical part of digital equipment and infrastructure, including AI data centres) improved overall sentiment. India's Sensex was up +2.3%, followed by China's SSE down -6.4% and Japan's Nikkei was -8.1% lower. South Korea's KOSPI closed -22.2% down (the worst month since October 2008) but was down -34% before a sharp rally on the last day of the month. AI stock wobbles that were triggered by routine fundamental concerns (around monetization and competition) and rotational flows were amplified by leveraged ETFs and intense hedge fund positioning unwinds (the $20bn Situation Awareness margin-call debacle).

Commodities

In early July, oil topped $100 a barrel for the first time in two months after Iran-backed Houthi militants attacked Saudi Arabian tankers in the Red Sea, escalating the Middle East conflict and threatening deeper supply disruptions. The Yemen-based Houthis fired at the vessels to enforce their blockade of Saudi ports. The attacks opened a new front in the conflict. Targeting the Red Sea imperilled the critical detour route that the Saudis have used to keep oil barrels flowing amid Hormuz disruption. Washington and Tehran have both played down the prospect of peace talks, with the US resuming their military strikes, raising the possibility of prolonged hostilities that could further tighten oil markets. Oil then pulled back off its highs on hopes Trump would follow the path of diplomacy, but in the wash out, Brent closed the month higher at US$88/bbl , LNG prices rose by +34% and European crack spreads surged to their highest level on record. Iron Ore edged down -4% to US$95/t, coking coal dropped -12% to US$215/t and thermal coal finished +2% higher at US$132/t. Base metals were generally stronger, copper rose +4%, Aluminium was up +5% and Nickel finished up +6%. Spodumene prices continued to slide -9% to US$1975/t and the bullion price, given the climate in the Persian Gulf, only rose +1% to US$4046/oz (A$5764/oz).

Bonds

Global bond yields rose alongside higher oil prices with larger rises in yields for European economies, obviously more reliant on energy imports. Long dated bond yields rose more than short term yields, steepening yield curves. The US 10-year bond yield rose 27bp to 4.74%, while the 2-year bond yield increased by 10bp. Of more interest, the 30-year Treasury-notes spiked to 5.25%, levels not seen for 19 years.... In sympathy, Australian 10-year bond yield finished 19bp higher at 4.93%, mitigated by weaker inflation data. The A$ nudged 1% higher to $0.70, in line with a weaker US dollar, as investors pushed back the timing of a domestic interest rate rise.

Australia

There was no RBA meeting in July, with the next meeting scheduled for August 10-11. On 23 July, the June unemployment rate was posted, which remained at 4.4%. With +76k increase in the workforce, the labour market looks surprisingly resilient in the face of slowing growth, rising inflation and three earlier interest rates hikes. A week later, the June quarter CPI trimmed mean inflation data of 0.8% qoq and 3.6% yoy was a friendlier print, coming in on the softer side of market expectations and more importantly, that of the RBA, which stood at +1.0% qoq. The subdued CPI data somewhat mitigates concern around accelerating core inflation in the prior two months. This should be enough to remove the likelihood of further RBA rate hikes, given growing evidence of a slowing housing market, which Governor Michelle Bullock acknowledged in her speech.

The S&P/ASX 200 Accumulation return of 2.3% outperformed peer major global indices in local currency terms, propelled by the Top 20 and driven by the Big 4 banks. The domestic market continued to grind higher, thanks to the performance of the ASX200 Industrials (+2.7%), driven by the +5.8% rise in Financials, offsetting the ASX200 Resources (+1.0%). For the CYTD the All Industrials, which were in negative territory, are clawing their way back to now be up +1.7% vs the All Resources which have rallied +13.6%. Energy (+12.2%) was the best performing sector, powered by refining and convenience companies Viva Energy (+37.7%) and Ampol (34.0%, generating record refining margins), as well as oil and gas producers Karoon Energy (+19.6%) and Woodside Energy (+16.8%). Financials (+5.8%) and Health Care (+2.3%) also drove the gains domestically, whilst Information Technology (-2.8%) was the worst performing sector, followed by Industrials (-1.4%) and Utilities (-1.0%) also fared poorly.

In July, the top 5 stocks that made a positive contribution to the Index's return were all four major banks CBA (+82bp), NAB (+40bp), Westpac (+35bp) and ANZ (+22bp). Collectively the BIG 4 delivered +179bp, followed by Woodside Energy which contributed +34bp. The bottom five stocks detracting from the Index's performance were Lynas Rare Earths (-14bp), Goodman Group (-11bp), PLS Group (-10bp), Pro Medicus (-9bp) and Liontown (-6bp). The ASX Small Ordinaries materially underperformed the ASX200, posting a disappointing return of -3.2%, with Small Industrials down -2.9% and the Small Resources returning -3.7%.

FUND PERFORMANCE

In July, against the backdrop of heightened global equity market volatility and performance once again concentrated domestically in Large Caps (+3.7% for the ASX20), the Fund delivered a return of +1.96%, slightly behind the +2.26% return for the ASX200 Accumulation Index.

For perspective during the month, the Small Ordinaries returned -3.17% and the Midcap 50 Total Return was +0.63%. It's been a similar story for the Rolling Year to 31 July 2026, where the Top 20 returned +12.02%, massively outperforming both Midcaps and Smalls, which returned +2.3% and +1.8% respectively. Our portfolio remains skewed to the Mid Cap and Small Cap segments.

Energy (+12.2%), Financials (+5.8%) and Health Care (+2.3%) were the best performing sectors for this month, whilst Information Technology (-2.8%) fared worst. The Industrials (-1.4%) and Utilities (-1.0%) sectors also lagged. The major contributors to this month's ASX200 Benchmark return were Financials (+198bp, led by the Big 4 banks, which powered ahead +7.6%), Energy (+50bp) and Health Care (+12bp).

Month of July Attribution

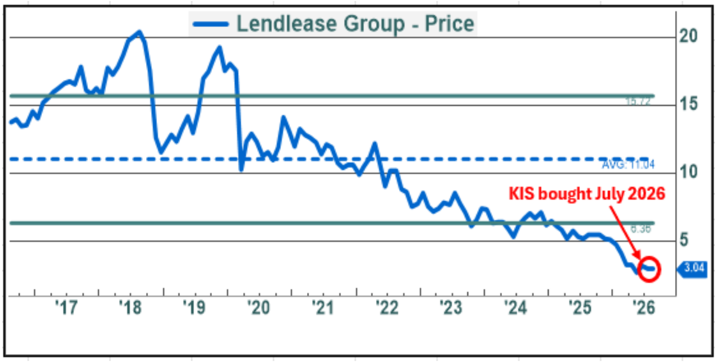
The factors driving the Fund's July performance were holding overweight positions in Perpetual (+22.3%, after receiving a takeover proposal at $22.50 cash per share by Swedish private equity firm EQT AB), Domino's Pizza (+18.8%, which reiterated its profit guidance and announced a positive update to investors), IRESS (+10.4%), and not owning Goodman Group (-4.7%). The major negative contributor for the month was the position in Myer Holdings which dropped -31.1%, after the company's FY26 trading update showed sales of $4,089m which missed VA consensus by 1.3%, driven by a 2H26 sales slowdown in both Myer Retail and Apparel Brands on challenging macroeconomic conditions and a soft consumer backdrop. The other drag was overweight positions in Centuria Capital (-24.1%), Premier Investments (-8.4%) and not holding any banks (+7.6%).

FUND ACTIVITY

In July, we exited ASX and Brambles and reduced the holding in A2 Milk. With the proceeds, the Fund's exposure to the gold sector was further strengthened, namely via Evolution Mining and Northern Star, but we also introduced Westgold Resources (WGX) for the first time. WGX is an undervalued gold producer in Western Australia evolving into a 6mtpa four-hub processing-control business that produced 387koz in FY26 and should deliver 20% more over the next 2 years. The company has a treasury balance (mainly cash, bullion and investments) of $939m, plus an undrawn $600m debt facility to underpin management's plans to execute its growth strategy from a position of financial strength. The stock trades at an undemanding EV/EBITDA of 3x, a steep discount to peers trading at a sector median of 7.5x, despite strong organic growth prospects, free cashflow generation and a clear strategy to lower costs and lift margins.

We reintroduced Ampol Ltd, a stock previously owned, whereby we expect new capital management initiatives (special dividends), given elevated cashflow generation from record refining margins and most importantly, Ampol's completion of its EG Australia acquisition which will be highly EPS accretive. Another stock introduced to the portfolio for the first time is turnaround story Lend Lease, refer to our brief investment thesis written up below.

Lendlease (LLC)



Source: FactSet

LLC has for a period embarked on a major, yet painful business simplification journey, writing down and exiting its overseas construction and development businesses (UK, US and Europe) to focus on its Australian operations, coupled with a global investment management (IM) business ($48.7bn of FUM). We believe it's a classic turnaround situation, whereby the bulk of the de-risking is complete and as a much leaner company, it is way past peak balance sheet distress. As its ~$3.6bn of mainly non-core Capital Release Unit funds are progressively divested, this will reduce balance sheet leverage (a major source of contention for investors). As this capital is more sensibly re-deployed under a re-invigorated board and new management team, this should drive stronger underlying earnings.

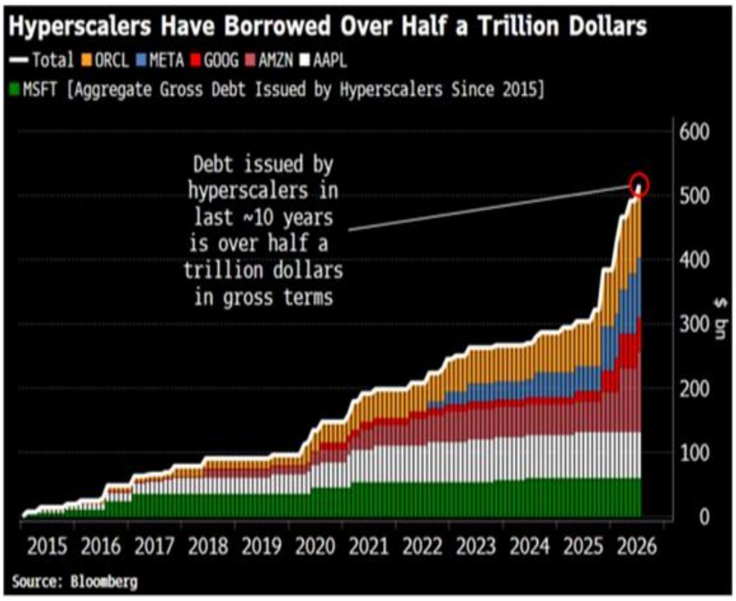
Towards month end, LLC announced a $1.1b mandate modernization partnership with PGGM in Japan to acquire warehouses and offices, with the fund targeting Tokyo and Osaka. LLC will be coinvesting a minority 5% of the equity and we see this announcement as a positive, showing that the Asian platform still has growth prospects. Asia is $12bn (~25%) of LLC external AUM of $48.7bn, delivering the highest margin for its Investment Management business at ~65% margin vs the platform average of ~40%. As a result of years and years of mis-steps and poor capital allocation, LLC continues to trade at a massive discount to its property peers and to its $5.85 underlying NTA. When coupled with an undemanding PE of 10.2x on FY27 consensus earnings, we see the current share price as an attractive entry point. Earnings should in fact inflect from here, with management guiding to stronger Investments, Development and Construction earnings in H2 FY26 and into FY27 (off a relatively simpler, Australia-focused base). There also exists the strong prospect of capital management, as the company has flagged a A$500m buyback conditional on gearing normalising toward management's target, yet pushed out leverage ratio. This is another key catalyst once final asset sales are complete (made easier with the adoption of a more conservative provisioning approach where management have assumed a 70% discount on the residential disposal book), alongside a running dividend yield of 4.0%.

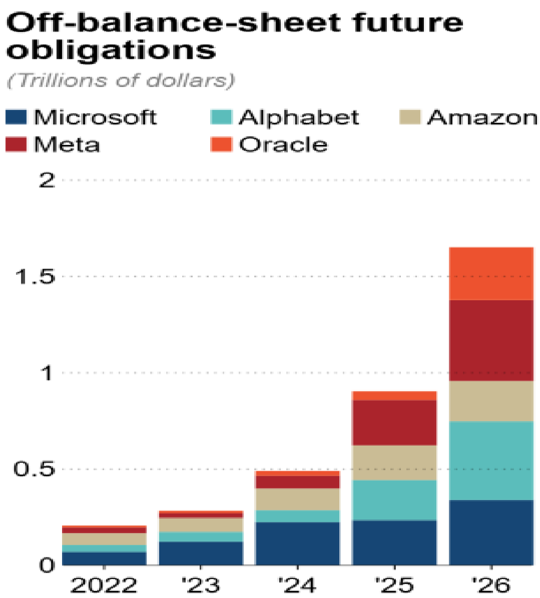
FUND STRATEGY AND OUTLOOK

As more central banks have embarked on a hiking cycle over the past 3 months, with the RBNZ the most recent to start tightening, global interest rates continue to be shaped by an ongoing debate around the Fed's/Warsh's future policy moves. Investors also continue to weigh the strength of AI-driven capex against signs that underlying inflation pressures appear to be moderating. Whilst some market participants see a path toward further tightening, softer inflation readings and questions around labour market momentum have kept investors scratching their heads.

AI capex and expected TECH+ driven earnings growth remain key support themes for equities, yet as an observation, hyperscalers borrowings have accumulated to over a trillion dollars in the past few years. More interesting, off-balance sheet debt continues to balloon as under US accounting rules, GPUs and servers under long-term contracts that have not yet been delivered, plus lease agreements for data centres that are not yet operational, can be treated as off-balance-sheet items.

We also note free cashflow for the major players have turned negative, with Alphabet's quarterly free cash flow turning negative for the first time.

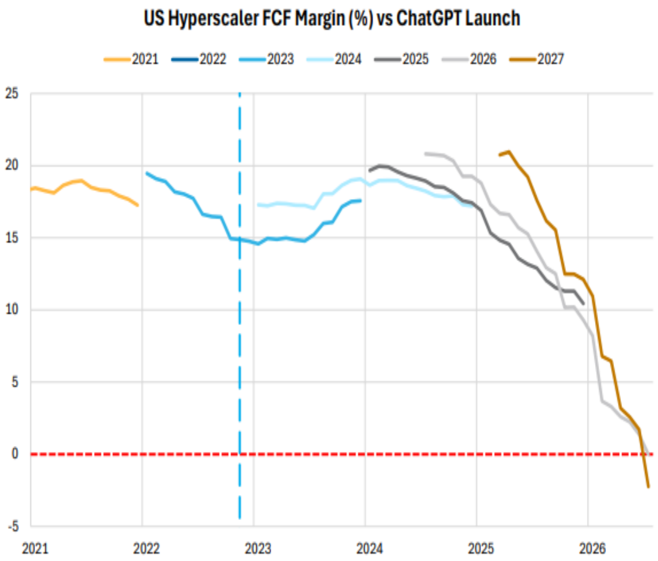




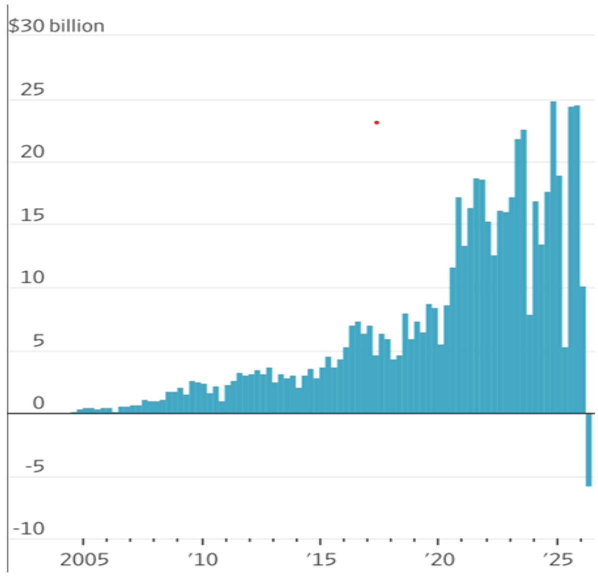
Source: Evans & Partners

Hyperscaler FCF forecast is now negative Includes:

AMZN, GOOG, META, MSFT and ORCL



Alphabet (GOOG) Qtrly free cash flow since its IPO



Source: Macquarie Research

In terms of market conditions, we also point out that many leading IPO's are now trading well under water, Spacex, which was priced at US$135 and raised $US86bn in the largest stock-market listing of all time, being front and centre. Its AI splurge and $18.4bn Q2 capex spend vs $2.8bn pcp certainly put a dampener on its debut quarterly earnings release whereby revenue of $7.8bn beat Street estimates of $6.8bn....

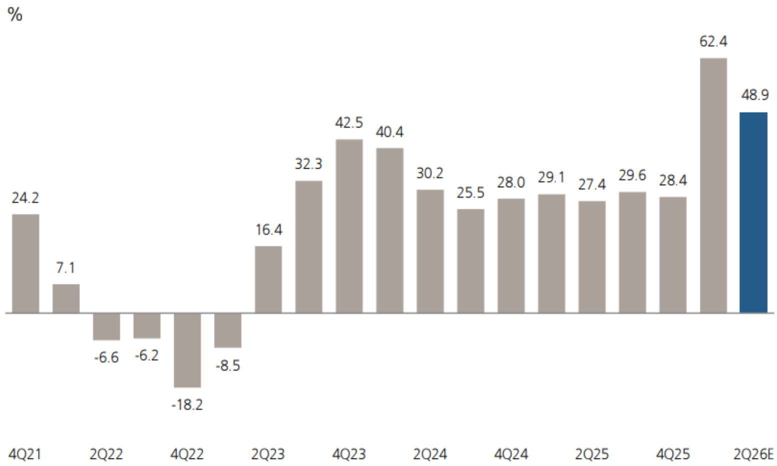
We are still not sure what to make of all of the above observations, but it can't be good and the music plays on.......

In the meantime, the earnings picture in the US looks rosy, supported by the AI boom and so too Europe and Japan are not far behind.

Q2 '26 Results Snapshot	US	Europe	Eurozone	Japan
% Companies Reported	57%	52%	49%	21%
% Companies Beating EPS	86%	59%	59%	70%
EPS % yoy	20%	22%	18%	59%
% Companies Beating Sales	70%	62%	60%	62%
Sales % yoy	12%	10%	7%	11%

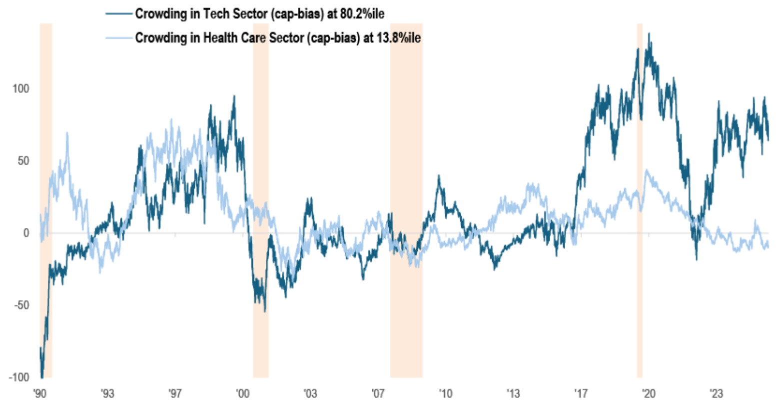
Source: JP Morgan

Tech+ EPS Growth



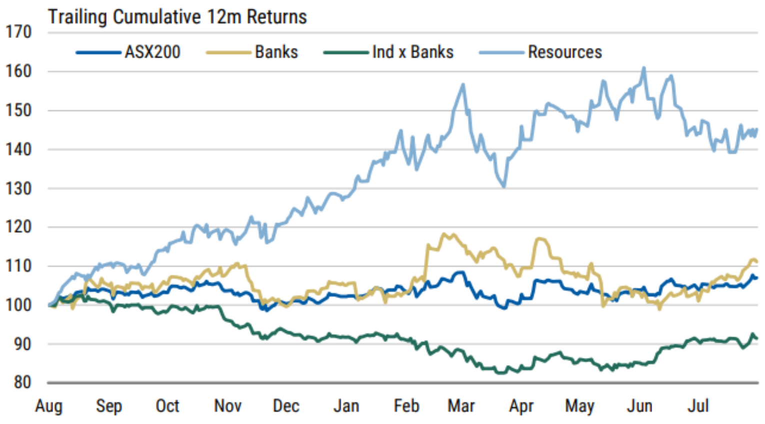
Source: UBS

Even the Health Care sector is at an inflection point, with US Health Care's earnings growth expected to re-bound materially from ~ -1% in 2026 to +22% in 2027, making it one of the largest contributors to next year's S&P 500 earnings growth outside of Technology. Several factors are potentially supportive of the sector. Namely upside in 3Q on midterm seasonality, low positioning and flow, Health Care typically outperforms during midterm years, especially in 3Q (data since 1990) and ETF flows have turned positive, suggesting a broader appetite for the sector remains intact.



Source: JP Morgan

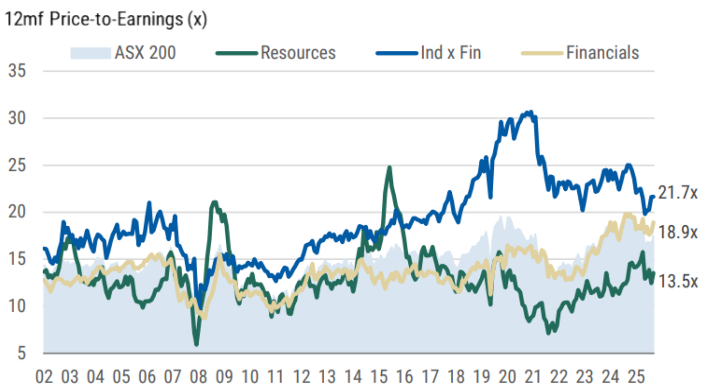
Domestically, the Australian earnings cycle has been left behind, highlighting the ASX's structural underweight to global growth, Tech leadership and continued dependence on the Big 4 banks (with no growth), Big 4 resources stocks and the less cyclical yield-sensitive industrials. **In the last 12 months, the ASX200 Resources delivered a massive return of +45.1%, towering over the ASX200 Industrials return of -3.7% and Banks at +9.9%.**



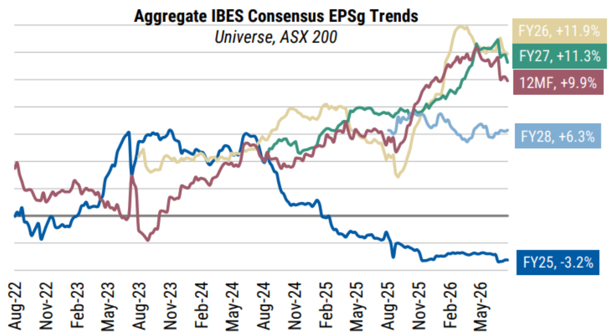
Source: Morgan Stanley.

Domestically, earnings expectations have turned slightly lower with FY26 declining 1.0%, while FY27 and FY28 forecasts were down by 2.5% and 2.3%, respectively. As a result, the market multiple has expanded to 17.5x. Commodity markets and the Resources sector remain the primary earnings driver for the ASX.

The 12M forward PE of the Industrials ex-Financials at 21.7x



Annual Consensus Earnings Growth



Source: Morgan Stanley.

Despite RBA hikes and falling home prices, the economy remains remarkably resilient. Overall, home prices are falling sharply, leading to the RBA and markets worrying about the impact on housing activity and consumption. Lags from RBA rate hikes to the real economy impact via: dwelling prices falling, which translates into weaker consumer sentiment, consumption and housing activity and eventually into the labour market and inflation. However up till now, key data is showing that the economy remains remarkably resilient, supported by a tight labour market that is keeping pressure on CPI inflation. At this juncture, it is possible that the RBA could hike again, but it would more likely be in October if at all, given the RBA Governor has recently already shifted to a dovish tone, by focussing on home prices.

The strong performance of the banks (+7.6%) during July has confounded most participants, including us. Ahead of the reporting season kicking off from 10th of August and without sounding like a broken record, the cyclical and structural pressure on the banks that we have long anticipated has arrived by way of recent negative earnings revisions. Australia's mortgage downturn has without doubt accelerated since our last update, with home loan demand plunging 14 per cent in June, compounded by Federal budget tax changes and higher interest rates that have triggered a sharp housing market retreat. This decline compares to the 10.9 per cent drop recorded in May vs the same month a year ago (data compiled by global credit reporting agency Equifax). Demand for first home-owner mortgages plunged 17 per cent in June - the largest monthly decline in almost four years, after falling 13 per cent in May. We concur with Moody's assertion that "softer house prices will reduce the collateral value of bank loan portfolios and potentially lead to an increase in loan impairment charges". We anticipate further weakness across both investor and owner-occupied lending, as both have very high correlations to house prices. However, despite this fast-deteriorating outlook, thus far the Big 4 Bank's share prices have been strong as the banks have been used by many industry fund asset owners to "park-money". Bad debt estimates for the sector across the street continue to rise through FY26-28e, with FY26e BDD forecasts for ANZ, CBA, NAB and WBC all rising 15-30% since troughing earlier this year. BDD charges clearly still remain low by historical standards, but importantly, what has changed is the supporting buffer. We see coverage as a major risk factor, with industry leader CBA having lost most of its post COVID build up (coverage ratio of 0.60% of GLA in 1H26 is now sitting marginally below its pre-COVID level of 0.62% at the end of 1H19). There is a lower margin for error and CBA's earnings pressure looks more to be a bad debt story, with revenue growth constrained. Furthermore, midway through the month, APRA awarded a new banking license to Revolut (Chaired by veteran banker John McFarlane), a disruptive fintech that has penetrated many FX/banking markets globally (initially focused on FX, but now expanding into broader retail banking services). This is yet another sign of increasing competition in the Australian retail banking market, where competition for deposit gathering is intensifying.

Putting all this in the melting pot, most of these headwinds facing the banks are largely well known to investors and the upcoming results are likely to be more upbeat than during the May results, given the collapse in mortgage applications and flows are unlikely to hit their Balance Sheets until the September quarter. This might explain the rally in July, given broader fund manager's active positioning remains underweight. That said, we maintain that credit growth and bank valuations are at or near peak levels, given underlying earnings fundamentals are structurally and cyclically challenged, with valuation metrics across the banking sector still looking very stretched, hence maintaining our zero-weight stance.

Apart from the changes in the Activity Section, as per last month, we continue to hold our true to label, Contrarian and Value biased line, favouring the more attractively priced quality growth/defensive stocks in that cohort. It is pleasing to see many of the core positions under new management such as Treasury Wines starting to deliver, perform and re-rate. As we have commented previously in detail in the performance section, we are firmly of the view that many of our key holdings, despite short term headwinds, are totally mis-priced by the market, have strong medium term earnings turnaround potential with material valuation upside capture. If the market continues to de-rate and mis-price them, as the geopolitical and macro dust settles, as sure as night follows day, M&A activity should pick up as PE and corporates look to pick up some bargains.

Recent additions to the portfolio, the likes of Ramsay Health and Cleanaway etc. are stocks that we contend are good businesses which have historically been badly run/executed poorly, have misallocated capital or are facing short-term headwinds. These are manageable and fixable over the medium term with changed and more disciplined management - these stocks trade at significant deep discounts to our valuations as previously espoused. Stocks introduced in July, such as Lend Lease (also under new leadership) look incredibly undervalued and set for a re-rating (refer our note in the activity section).

We would expect a strong kick off to global markets in early August given positive US earnings momentum thus far and signs that Middle East tensions are easing, driving oil prices sharply lower (good for lowering inflation expectations), but hold on to your hats - it's going to be a bumpy ride.....

For the 2027 Financial Year, the forecast grossed up Dividend Yield for the Fund now sits at 7.5%, superior to the grossed-up Market Dividend Yield of 4.5%.

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

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