Ellerston Equity Income KIS Fund

Monthly Report as at end of August 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	FYTD	1 year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)
Income pre-franking[1]	0.0%	1.3%	0.0%	6.2%	8.3%	8.9%	8.1%
Capital[1]	8.8%	16.7%	10.9%	-12.8%	-3.6%	-5.7%	-1.5%
Fund Net Return^	8.8%	18.0%	10.9%	-6.6%	4.7%	3.2%	6.6%
Benchmark**	1.5%	4.5%	3.8%	4.4%	11.2%	7.8%	9.0%
Alpha (pre-franking credits)	7.3%	13.5%	7.1%	-11.0%	-6.5%	-4.6%	-2.4%

[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.*

Key Information

Portfolio Manager	Chris Kourtis
Investment Objective	Aims 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.

The Team

Chris Kourtis
Director & Portfolio Manager

42 years of industry experience.

Stephen Giubin
Senior Investment Analyst

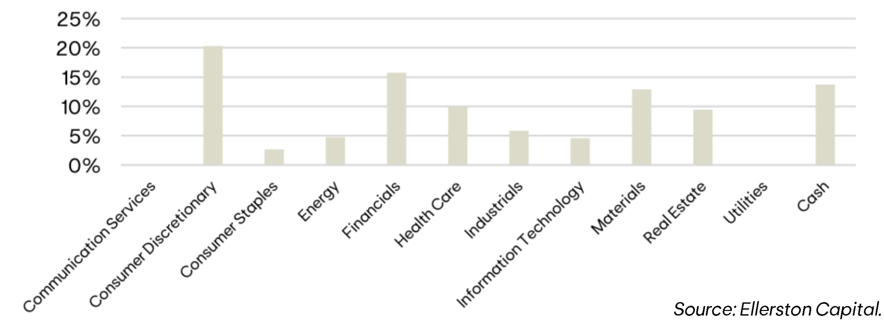
39 years of industry experience.

Key Portfolio Metrics

FY2027(e)	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.2	4.6
Dividend Yield (%)	5.6	3.5
Price/Earnings (x)	14.7	18.3

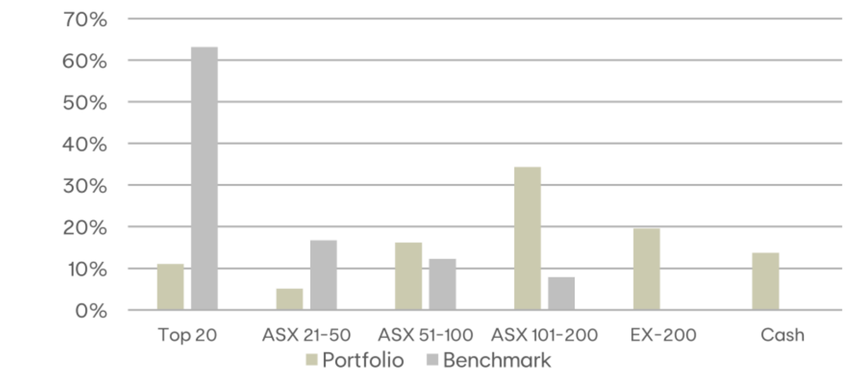
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Exposure by Market Capitalisation



Source: Ellerston Capital.

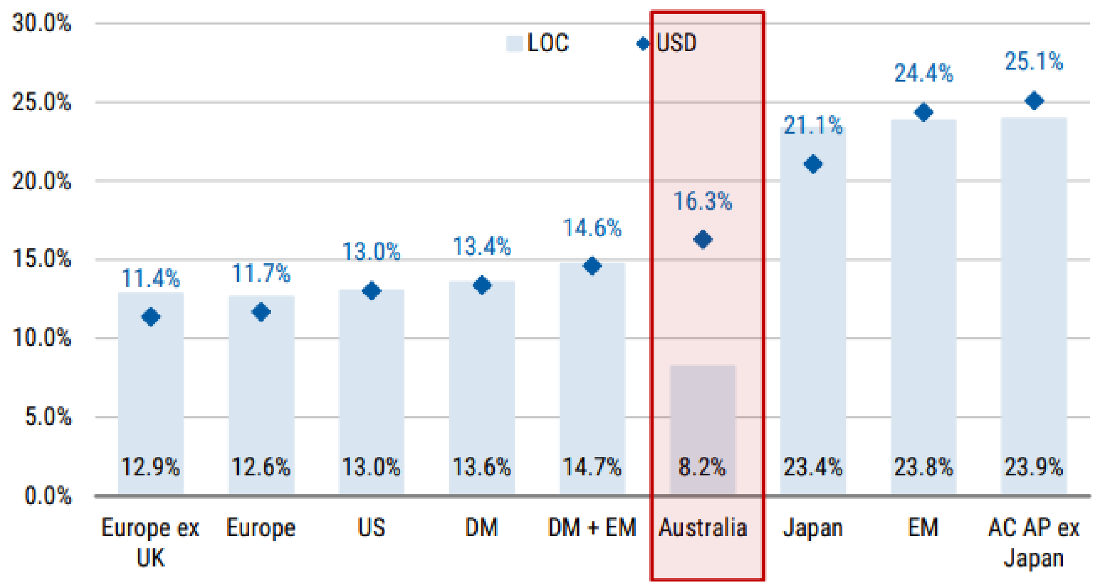
Top 5 Holdings*
Cleanaway Waste Management
Domino's Pizza Enterprises
Lendlease Group
Liberty Financial Group
Northern Star Resources

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

MARKET OVERVIEW

August reversed July's trend in global equities, with the ongoing war in Iran having less impact on financial markets compared to previous months. The MSCI Emerging Markets Index rose by +1.9%, trailing the Developed Markets Index which rose by +2.3% and the MSCI AC World Index which finished up 2.4% in local currency terms. The S&P 500 fared better, up 2.7%, with Energy (+7.0%) leading the charge. Within the MSCI World Index, Materials (+9.1%) saw the largest upside move, followed by Information Technology (+6.1%). Utilities (-3.5%), was the major underperformer, followed by Real Estate (-2.2%). Closer to home, the S&P/ASX200 Accumulation Index lagged its developed peers with a +1.5% gain. Health Care (+18.8%), Materials (+12.2%) and Utilities (+7.4%) drove returns, outpacing the domestic economy focused Consumer Discretionary (-7.9%), Real Estate (-6.6%) and Financials (-5.4%), dominated by mortgage banks.

MSCI Global Country/Regional Indices Performance for the August CYTD



Source: Morgan Stanley

USA

There was no FOMC meeting in August, but Federal Reserve chairman Kevin Warsh surprised investors with his Jackson Hole symposium speech signalling greater concern over inflation risks which prompted a sharp increase in short-term U.S. Treasury yields and a more modest rise in longer-term bond yields. Warsh's suggestion that the Fed might have more "work to do" to fight inflation suddenly put a September interest-rate hike on the agenda. Interest-rate futures showed that traders currently see a ~60% chance of a Fed rate rise at its next meeting on the 15-16 September.

With 95% of the S&P 500 market cap having reported, 2Q26 earnings are showing revenues growing +15.7% and EPS +34.6%, much higher than expected. The major cohorts driving EPS growth YoY are as follows: TECH+ 53.4%, Financials +21.2%, Non-Cyclicals +11.7%, Cyclicals ex-Energy +18.7% and Energy +143.1%. The big 6 TECH+ companies are outgrowing the rest of the market as a group (with EPS growth 34.0% vs. 34.6%), though forecasts vary for each company.

In terms of earnings growth, the best of the big 6 TECH+ companies was clearly Nvidia (NVDA), after it delivered its 15th consecutive quarterly beat with 2Q EPS of $2.22 (vs $2.10 consensus) and revenue up 106% YoY at $96.2bn (vs $92.3bn consensus). Data centre revenue hit a record $89bn (+117% YoY) driven by a more than doubling of Blackwell demand from hyperscalers. Revenue guidance for FY2028 was provided at 70% YoY (vs 45% consensus) implying ~$100bn of upside to current estimates. Gross margin guidance for FY2028 was at 73.5%-74.5% (vs 74.8% consensus) owing to memory cost pressures. Mind snapping numbers and amazing!

In the reporting wash up, the NASDAQ Composite index finished +4.0% higher, trailed by the S&P 500 (+2.7%), the Dow Jones Industrial Average Index (+1.5%) and small cap Russell 2000 Index (+1.0%). The best performing sectors on Wall Street were Energy (+7.0%), Information Technology (+6.2%) and Materials (+6.0%). Conversely, the worst performers were Utilities (-4.8%), Industrials (-2.6%) and Real Estate (-1.9%).

Europe

As expected, the ECB unanimously left its policy rates on hold, leaving the deposit facility rate at 2.25%, but higher German inflation boosts the case for an interest rate hike in September. The BoE also left the Bank Rate on hold at 3.75% for a fifth time, keeping them at the lowest since February. Euro-zone markets did marginally worse than their global peers in August, with the Euro STOXX50 Index up +1.0%. Among the major exchanges, Germany's DAX rose +2.5%, FTSE 100 was +0.2% higher and France's CAC was the laggard at -2.1%.

Asia

In China, fiscal spending accelerated from July, but since its last Politburo meeting, the Deputy Finance Minister made it clear that there would be incremental fiscal loosening later this year. The Ministry reinforced that the government will "promptly roll out practical and effective incremental policy measures" in the second half of the year, including new policy measures to enhance fiscal-financial coordination. This was the first time authorities made it clear that policy supports in 2H will not simply be playing catch up, with three new measures: expanding the scope of interest subsidies, expanding the range of participating financial institutions and lastly, raising the subsidy ceilings. These measures are aimed at supporting a recovery in corporate and household borrowing demand. Having said that, their effectiveness will ultimately depend on business willingness to invest and households' propensity to consume. Larger interest subsidies would have a stronger impact.

During the month, Japan spent $96.5bn to support the Yen, which was historic, but the US role in signalling its willingness to support the Yen was more symbolic, with Washington's involvement more likely aimed at limiting volatility in US financial markets. The timing of US support coincided with increased volatility in US interest rates. Investors in Japan are pricing in a high probability of a 0.25% increase to 1.25% at its next meeting on 17-18 September, co-incidentally, the same dates as the US FOMC meeting.

In the upshot, China's SSE rose +4.0%, followed by South Korea's KOSPI which rallied +3.4% and Japan's Nikkei finished +3.1% higher. The Hang Seng closed down-1.0% and India's Sensex was the laggard, at -1.3 % (given its high reliance on imported energy, with higher oil prices weighing on sentiment).

Commodities

In August, the impact of the ongoing Iran war on commodities was mixed. Oil prices were range bound between US$80 and US$95 per barrel, with Brent closing +3% higher at US$91/bbl. As a consequence, precious metals, base metals and bulk commodities followed suit. LNG prices were +6% higher, Iron Ore rose 5% to US$100/t, Coking Coal surged +25% to US$269/t due to China supply issues (caused by accidents and safety inspections) and Thermal Coal finished +7% higher at US$142/t. Base metals were generally higher, with Copper +4% higher, Aluminium up +1% and Nickel finished down -2%. Spodumene prices reversed trend to close +17% to US$2315/t due to uncertainty around maintenance issues and the restart of of lepidolite mines in Jiangxi. Bullion prices re-accelerated in August, with shifting US Fed rate expectations, renewed ETF inflows and strong central bank buying all helping to push gold up +10% to US$4437/oz (A$6190/oz).

Bonds

The sell off in global bond yields has gathered momentum, with Japan's 10-year yield hitting 3% for the first time since 1996, yields backing up to their highest in 15 years in Germany and their highest since 2008 in the UK. The US 10-year bond yield only rose 1bp to 4.75%, however the 30-year treasury yield of ~5.25% closed near its highest level in 19 years. With upward pressure on longer-term bond yields, the US Treasury is concerned that long-term borrowing costs will increase further. As a result, Treasury have doubled long-term bond buyback programs from a maximum of $2 billion to at least $4 billion per operation, in an attempt to calm the long end of the curve and to provide increased market liquidity. So far this action doesn't seem to be working. Australian bond yields rose more than most other jurisdictions, increasing by 9-16bp across the curve. The short end rose the most, a consequence of a more hawkish RBA and higher domestic inflation data. The Australian 10-year bond yield finished 15bp higher at 5.08%. The A$ nudged 2% higher to $0.72, in line with a weaker US dollar and investor's expectation of the higher probability of an RBA interest rate rise in September.

Australia

The RBA's 11 August meeting held the cash rate steady at 4.35%, as widely expected and it was again a unanimous decision of 9-0. Employment in July retraced by -16k mom, less than expected although it was after a big beat of +80k in June. However later in the month, the headline CPI increase of 1.0% mom in July, with a print of 3.5% yoy, was above market expectations. In underlying terms, the RBA's focused trimmed mean increased by 0.5% mom in July and the 3.6% yoy print was also above expectations. The hot inflation data point offset the earlier soft employment numbers and has increased the likelihood of a rate hike at the 28-29 September RBA meeting. The RBA will be closely weighing the all-important housing market, which continues to materially soften.

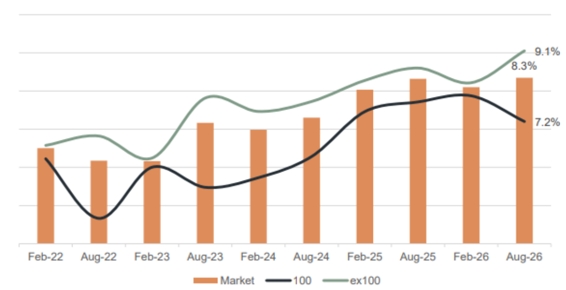
In August, the S&P/ASX 200 Accumulation index extended its winning streak to a fifth consecutive month but lagged major peer global indices in local currency terms. The S&P/ASX 200 achieved a record high of 9,272 on 6 August, before easing back to finish at 9,076 with a total return of +1.5%. Investor focus was on the FY26 earnings results, which generated outsized stock-level moves across large and mid-cap stocks. Market leadership rotated sharply, with Resources and Health Care driving index performance, while Financials reversed July's strength to become the biggest detractor. Small and mid-caps outperformed, returning 5.2% and 5.8% respectively, while the ASX top 20 fell 0.6%, and within this a rotation away from large-cap Banks toward Resources, a recovery in Health Care and selective growth names.

The domestic equity market continued to grind higher, thanks to the performance of the ASX200 Resources (+11.4%), driven by the +28.9% rise in Gold Stocks, offsetting the ASX200 Industrials (-2.3%). For the CYTD the All Industrials, still remain in negative territory at -0.6% vs the ASX200 Resources which have rallied +26.5 %. Health Care (+18.8%) was the best performing sector during the month, powered by CSL (+39.4%), Ramsay Health Care (+15.7%), Mesoblast (+15.1%), Cochlear (+11.7%) and ResMed (+11.2%). Materials (+12.2%, led by BHP) and Utilities (+7.4%) also drove the gains domestically, whilst the interest rate sensitive Consumer Discretionary sector (-7.9%) fared poorly, followed by Real Estate (-6.6%) and Financials (-5.4%).

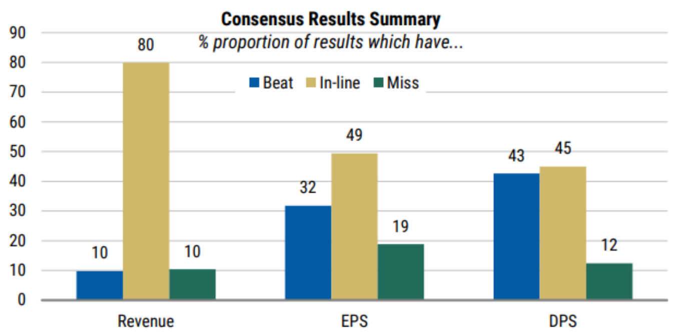
The top 5 stocks that made a positive contribution to the Index's return were BHP (+109bp), CSL (+85bp), Evolution Mining (+26bp), Northern Star (+18bp) and PLS Group (+14bp). Collectively these five stocks delivered +253bp. The bottom five stocks detracting from the Index's performance were CBA (-89bp), Wesfarmers (-41bp), Westpac (-40bp), NAB (-30bp) and Goodman Group (-15bp). The ASX Small Ordinaries materially outperformed the ASX200, posting a strong return of +5.2%, thanks to the Small Resources which delivered a whopping +17.5%, with the Small Industrials returning a sanguine +0.2%.

The FY26 reporting season was once again characterized by heightened announcement-day volatility. The below chart highlights that over the past 10 reporting seasons, lower volatility of the ASX 100 (in black) than the ASX ex100 was as expected, however it also reveals that volatility of the broader market (in orange) is now at extreme levels . From a risk-reward perspective, revenue beats generated an average return of +3.8%, while revenue and EPS misses were severely penalised by -5.7% and -3.7%, respectively. Revenue outcomes were largely in-line with expectations (80%). EPS outcomes were more constructive, with 32% of companies beating consensus expectations versus 19% missing. Dividend outcomes were stronger still, with 43% of DPS results ahead of expectations and only 12% below.

Standard deviation of Result day relative returns



Source: Barrenjoey*



Source: Morgan Stanley

FUND PERFORMANCE

In a tumultuous reporting season, which delivered outsized and violent share price reactions across large and mid-caps, both to the upside and downside, pleasingly, the Fund came through relatively unscathed.

The Fund return for the month of August was +8.81%, way above the benchmark return of +1.54%.

In fact, it was the highest monthly alpha generation since inception, driven by solid results and across-the-board rallies in many key holdings (which we have previously highlighted), coupled with the weakness in the Banks and no major blow ups in the lineup (fingers burnt, lessons learnt).

This brings the return for the 3 months to +18.04% and return for the new FYTD to a very pleasing +10.95%.

It is also satisfying that the strong alpha was generated despite owning zero shares in BHP, the single largest contributor to the ASX 200 Index return during August.

As a reminder, ~90% of the portfolio is positioned outside the Top 20, and it now appears the period of Leaders driving ASX200 returns (which has certainly not suited our approach and positioning), causing maximum pain in the second half of last Financial Year, has passed.

Despite the drawdown experienced during that brief 5 month phase, we stayed true to label and were not tempted to simply buy the Top 20. As the move to ETF's and structural shift driving passive flows continue to increase (we do understand that this approach may suit certain investors), the trend has weakened price discovery and valuations in pockets of the Australian market have become completely detached from old school fundamentals. This is opening significant mis-pricing anomalies and dispersion, and our strategy is starting to bear fruit. We are seeing incredible bargains in the Ex-Top 20 pool that we are currently fishing in.

Health Care (+18.8%, led by CSL, +39.4%), Materials (+12.2%) and Utilities (+7.4%) were the best performing sectors for this month, whilst the domestic economy focused Consumer Discretionary (-7.9%) fared worst, as did Real Estate (-6.6%) and Financials (-5.4%). The major contributors to this month's ASX200 Benchmark return were Materials (+298bp, powered by BHP and the gold stocks), Health Care (+103bp) and Energy (+17bp).

Month of August Attribution

The factors driving the Fund's August performance were holding overweight positions in Bapcor (+54.5%), Treasury Wine Estates (+11.2%), Cleanaway (+11.1%, after receiving a cash takeover bid from EQT at $3.13), Evolution Mining (+32.0), Domino's Pizza (+12.3%), Liberty Financial Group (+14.4%), CSL (+39.4) and not owning any CBA (-8.4%). The major negative contributor for the month was not owning any BHP (+9.8%).

FUND ACTIVITY

In August, we took profits and trimmed stocks that have materially outperformed, namely Cleanaway, Ramsay Health Care, Treasury Wine Estates and Westgold Resources. We rotated and deployed the funds to strengthen recent additions, namely Ampol, General Development Group and Lendlease Group (now trading at a 40 year low).

FUND STRATEGY AND OUTLOOK

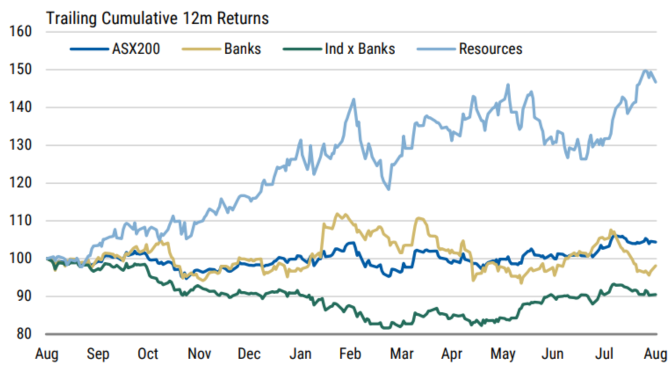
August 28th marked the six-month anniversary of the war in Iran, with a diplomatic solution remaining elusive, despite the incessant "it will be over-soon" headlines. From the moment President Trump told CBS News on March 9th that "I think the war is very complete, pretty much", observers have been hopeful of an imminent end to hostilities. Where we have landed is the US trying to economically outcast Iran with sanctions, but in the meantime, has resumed military strikes, once again elevating oil prices.

Equity markets seem more focused on AI and rosy tech driven earnings and with it, massive unprecedented associated capex, but the consumer is still feeling the pinch. As a result, central banks have embarked on a hiking cycle, with our near neighbour, the RBNZ having just raised its official cash rate to 2.75% for a second time in consecutive months. Global interest rates continue to be shaped by the US Federal Reserve, with policy driven by its recently appointed chairman Kevin Warsh. At the Fed's annual Jackson Hole 27-29 August conference held in Kansas, Chairman Warsh made it crystal clear that the Fed continues to target 2% headline PCE inflation. However, he also went on to explain that when forecasting headline inflation, "the job for policymakers is to capture underlying trend inflation - that is, the generalized change in prices in the economy, unaffected by idiosyncratic factors".

Warsh followed with; "We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do" and "on balance, I would be hard-pressed to describe broad financial conditions as restrictive". It suggests that unless inflation decelerates fast, we should expect rate hikes as early as this month. The CPI to be released a few days before the next FOMC meeting on 15-16 September, will prove critical.

FY26 results reflected 'better-than-feared' conditions domestically. Market sentiment hit a lull during May/June, just as the last RBA rate hike landed alongside the Budget's far reaching tax reform. However, July/August trading updates from retailers generally seemed to point to slightly improving sales momentum vs May/June, albeit at subdued levels. JBH was one of the outliers, which saw the largest percentage loss in the sector during August, down -18.3%, after Australia LFL sales fell -1.4% in July, well below consensus expectations for +2.2% in H1 FY27.

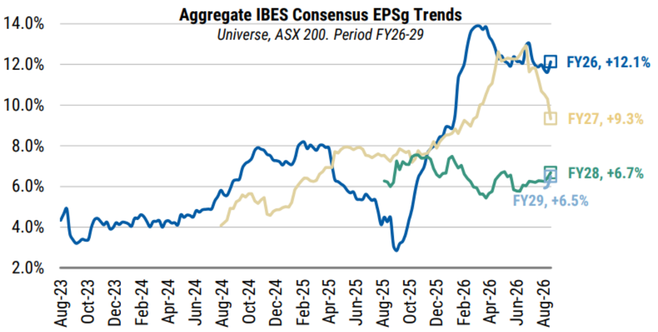
Result day price moves took yet another move higher, with 46% of stocks fluctuating more than +/-5% on earnings day compared to the average of 28%. Once again, the Australian earnings cycle has been left behind, highlighting the ASX's structural underweight to global growth, Tech leadership and continued dependence on the Big 4 banks (exhibiting no growth), Big 4 resources stocks and the less cyclical yield-sensitive industrials. **In the last 12 months, the ASX200 Resources has delivered a massive return of +46.7%, towering over the ASX200 Industrial return of -7.2% and Banks at -1.9%.**



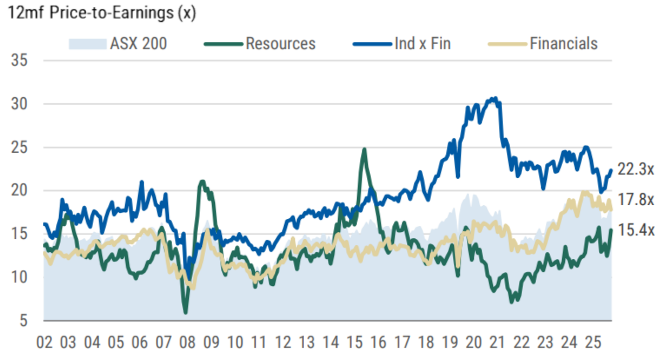
Source: Morgan Stanley.

Domestically, consensus earnings expectations remain pressured, with aggregate FY27 and FY28 EPS forecasts revised down 1.6% and 1.3%, respectively over the month, as the market continues to digest reporting season updates and FX headwinds. As a result, the market multiple has expanded to 17.8x. Resources have re-rated by 1.9 times to 15.4x forward PE, while Banks have modestly de-rated from 19.6x to 18.2x, reaching their lowest valuation level in 18 months.

The 12M forward PE of the Industrials ex-Financials at 22.3x



Annual Consensus Earnings Growth

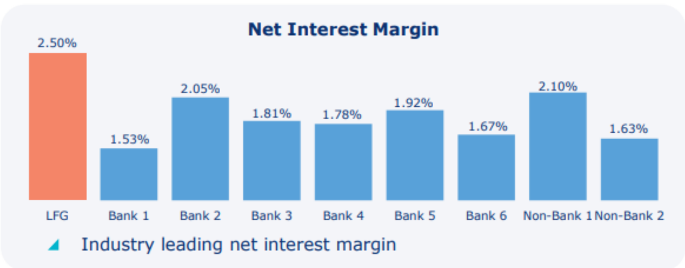


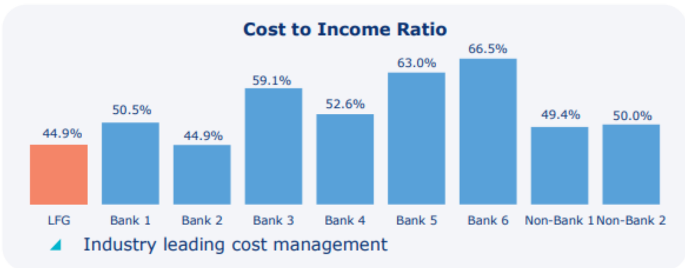
Source: Morgan Stanley.

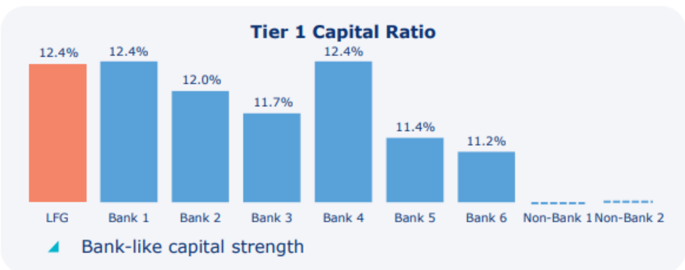
Up till now, key data is showing that the economy remains resilient, supported by a tight labour market that is keeping pressure on CPI inflation. It is likely that the RBA will hike again soon in September, given that the RBA Governor has recently already shifted to a hawkish tone after the hot July 3.6% yoy CPI print. However, the RBA will likely move in step with the US FOMC meeting 13 days before the RBA makes its final decision.

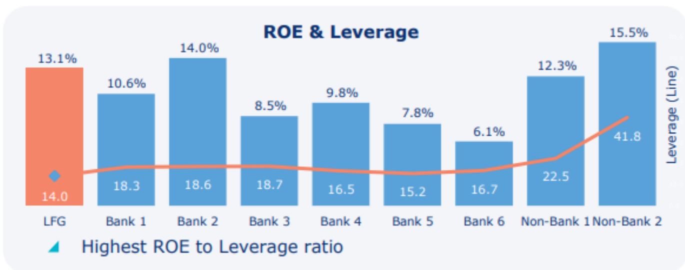
The strong performance of the banks (+7.6%) during July reversed sharply in August (with a 6.7% fall). Most of the headwinds facing the banks are largely well known to investors, given that the collapse in mortgage applications, competitive deposit pricing and flows are unlikely to hit their Balance Sheets until the September quarter. This has already come through during recent 3Q results and CBA's full year results, which explains the fall in August. 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.

We don't own banks, but we do own very well managed and executing Liberty Financial Group (LFG), which being a non-bank financial intermediary, is the only one that has an investment grade rating of BBB (stable outlook) by Standard and Poor's. It has leading peer NIM, CTI and ROA, with bank like capital. Below are its relative value drivers compared to six banks and two other key non-bank competitors. It stands tall amongst all its competitors and has been pumping out superior dividends (quarterly) since it listed nearly six years ago (current forecast dividend yield of 10%). LFG's distributions have grown 40% since FY24 (excluding specials that have been paid), compared to the Big 4 dividends remaining flat.









Apart from the changes in the Activity Section, as per last month, we continue to hold true to our label, Contrarian and Value biased line, favouring the more attractively priced quality growth/defensive stocks in that cohort. As we have commented in detail in previous communiques, we are firmly of the view that many of our key holdings, despite short term headwinds, remain totally mis-priced by the market, have strong medium term earnings turnaround potential with material valuation upside capture. If the market continues to mis-price them, as the geopolitical and macro dust settles, as sure as night follows day, M&A activity should pick up as PE (with $40 bn war chests waiting to be deployed) and corporates look to pick up some bargains.

For the 2027 Financial Year, the forecast grossed up Dividend Yield for the Fund now sits at 7.2%, superior to the grossed-up Market Dividend Yield of 4.6%.

Contact Us

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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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