

Ellerston Equity Income KIS Fund

Monthly Report as at end of September 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	FYTD	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Income pre-franking ¹	3.3%	3.6%	5.1%	9.4%	8.9%	9.6%	8.4%
Capital ¹	-2.7%	7.9%	11.0%	-12.2%	-3.4%	-5.8%	-1.8%
Fund Net Return [^]	0.6%	11.6%	16.1%	-2.9%	5.5%	3.8%	6.6%
Benchmark ^{**}	-2.4%	1.3%	5.4%	2.7%	11.4%	7.7%	8.5%
Alpha (pre-franking credits)	3.0%	10.3%	10.7%	-5.6%	-5.9%	-3.9%	-1.9%

¹Indicative 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	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

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

²Lonsec Rating reassigned 21 October 2025.

The Team



Chris Kourtis
Director & Portfolio Manager

42 years of industry experience.



Stephen Giubin
Senior Investment Analyst

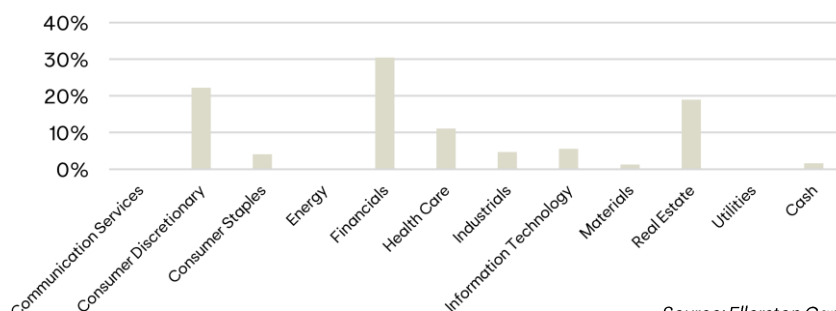
39 years of industry experience.

Key Portfolio Metrics

FY2027(e)	Fund	Benchmark
Grossed Up Dividend Yield (%)	7.6	4.8
Dividend Yield (%)	6.1	3.6
Price/Earnings (x)	14.8	17.6

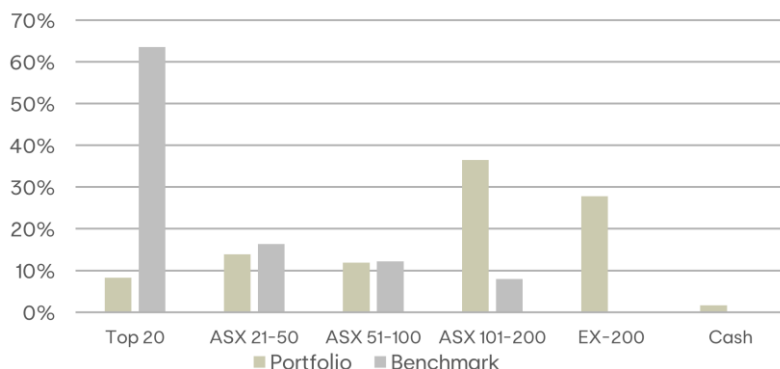
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Exposure by Market Capitalisation



Source: Ellerston Capital.

Top 5 Holdings*

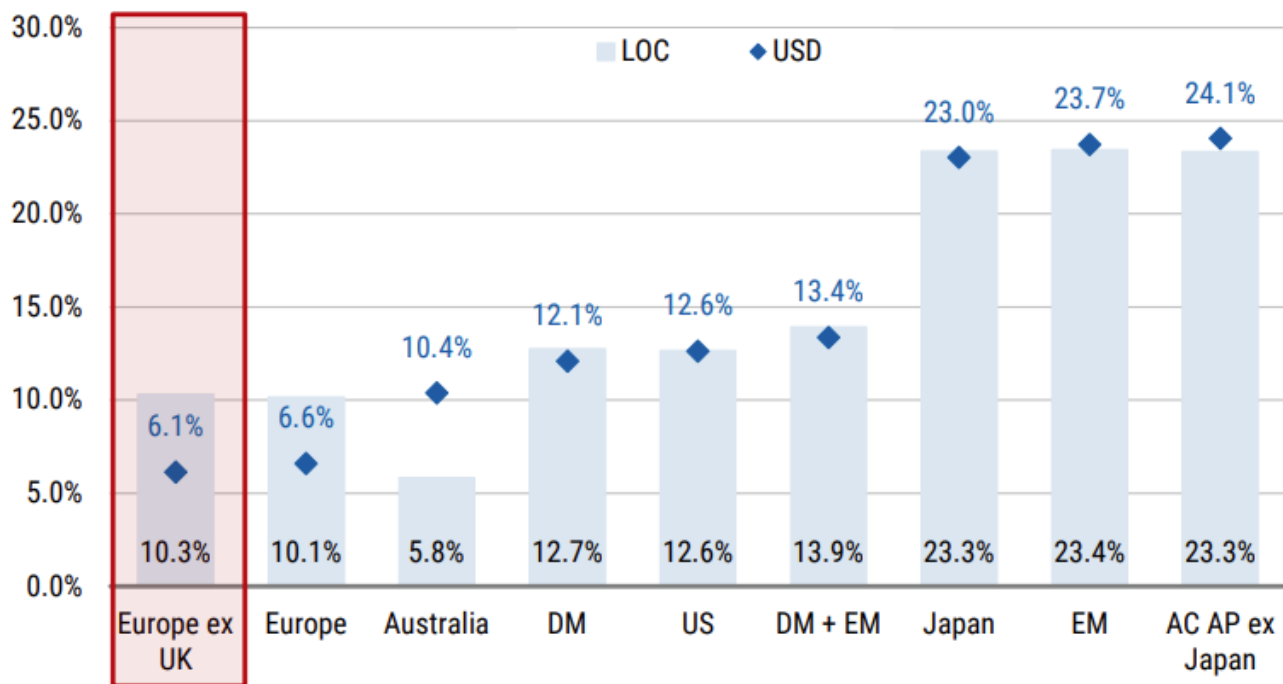
Bapcor
Dexus
Insurance Australia Group
Lendlease Group
Liberty Financial Group

* In alphabetical order.
Source: Ellerston Capital.

MARKET OVERVIEW

The global bond market sell-off took centre stage in the month of September, with oil prices squeezing higher as the US-Iran conflict not only dragged on but seemingly escalated, with no resolution in sight. Further weighing on equity markets, renewed inflation concerns swayed the US Federal Reserve to change tack and raise the federal funds rate, its first hike since early 2023. The headwinds from higher domestic and global yields pressured valuations, although US equity markets were somewhat cushioned by the AI capex juggernaut and Tech driven earnings. MSCI Emerging Market Indices fell by -0.4%, marginally better than the Developed Markets Index which retreated by -0.8%, with the MSCI AC World Index finishing down -0.7% in local currency terms. The S&P 500 fared relatively better, down -0.3%, with Information Technology (+4.5%), the standout. Within the MSCI World Index, Information Technology (+4.5%) also saw the largest upside move, followed by Communication Services (+3.6%). Materials (-6.1%), was the major underperformer, followed by Consumer Discretionary (-5.9%). Closer to home, the S&P/ASX200 Accumulation Index lagged its developed market peers with a -2.4% loss. Health Care (+4.4%, led by CSL) and Energy (+0.6%) were the only positive sectors, with the worst performers being Information Technology (-10.6%) and Materials (-5.9%).

MSCI Global Country/Regional Indices Performance for the September CYTD



Source: Morgan Stanley

USA

The FOMC unanimously raised rates by 25bps to 3.75 - 4.00%, the first-rate hike since January 2023. Federal Reserve Chair Kevin Warsh did not indicate whether the move signalled a long-term policy pivot, saying the decision "removed a dose of accommodation", suggesting that he did not see policy as restrictive. Warsh commented that inflation was "too high" and also stated that he would steer clear of forward guidance, indicating the committee would continue to evaluate economic developments. However, the FOMC dot plot remained hawkish, with 16 of 18 participants signalling at least one more 25 bps rate hike in 2026 (up from only 6 in June), with two more meetings this year.

In the reporting season wash up, the NASDAQ Composite index finished +1.9% higher, trailed by the S&P 500 (-0.3%), the financials heavy Dow Jones Industrial Average Index (-4.1%) and small cap Russell 2000 Index (-5.3%). The best performing sectors on Wall

Street were Information Technology (+4.5%), Communication Services (+4.3%) and Health Care (-0.9%). Conversely, the worst performers were Financials (-7.2%), Materials (-6.7%) and Real Estate (-6.1%).

Europe

As expected, the Governing Council unanimously raised the three key ECB interest rates by 25bp, with the deposit facility rate at 2.50%. ECB chief Christine Lagarde pointed out that "we see higher inflation ahead but no signs yet that it is becoming embedded" and "do not see evidence at this stage of energy prices feeding into higher wages." The ECB "sees a measured response as appropriate to keep inflation in check". Euro-zone markets did worse than their global peers in September, with the Euro STOXX50 Index down -2.3%. Among the major exchanges, the FTSE 100 fell -2.0%, Germany's DAX was -4.0% lower and France's CAC was the laggard at -4.2%, given significant political uncertainty and anticipated budgetary concerns.

Asia

The State Council in China held a meeting on policy, chaired by Prime Minister Li Qiang, stating counter cyclical policy supports should be stepped up in light of "the emerged problems existing in the economy now" in order to achieve the annual economic targets. The recent China-US presidential meeting resulted in warm rhetoric and fewer tangibles than expected, but enough for China to maintain the broad stability achieved in the bilateral relationship. The two presidents agreed to meet two more times by year end. Four meetings in a year would be the most ever.

During the month, the Bank of Japan raised its benchmark short-term interest rate by 25bp to 1.25% after a 7-2 vote, with rates reaching a 31 year high and South Korea held its benchmark base rate at 3.0%, following back-to-back rate hikes in July and August 2026.

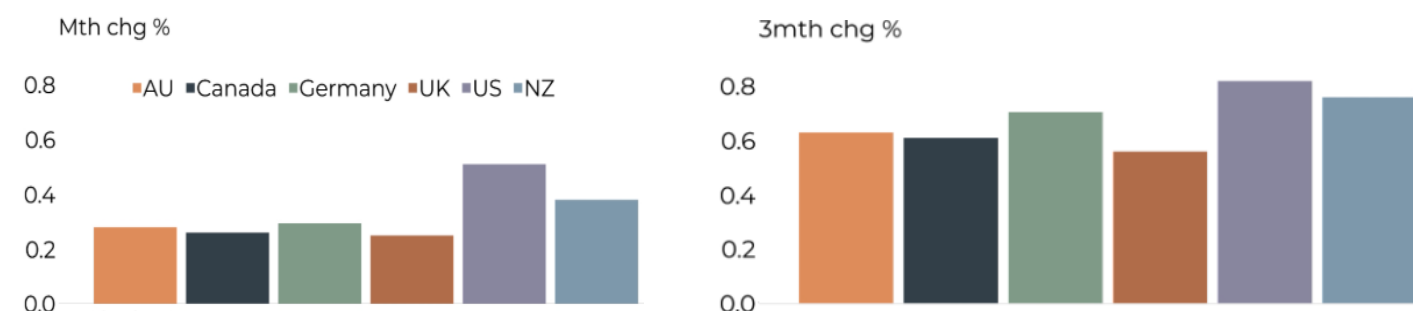
In the upshot, Japan's Nikkei rose +1.3% and South Korea's KOSPI recovered a further 0.3% in September (after being +3.4% in August) and following the -22% decline in July. This leaves the KOSPI still ~ 25% below its June highs. The Hang Seng closed down -3.3%, followed by China's SSE Composite which fell -3.6% and India's Sensex was the laggard, at -5.8 % (given its high reliance on imported energy, with higher oil prices weighing on sentiment).

Commodities

In September, the ongoing Iran war continued to impact commodities, with oil prices range bound between US\$95 and US\$109 per barrel. Brent closed +14% higher at US\$104/bbl and LNG prices rallied a further +13%. As a consequence, together with higher US bond yields, precious metals and base metals generally came off the boil. Base metals weakened, with copper hitting an intra-month all-time at US\$6.71/lb, but ended flat at US\$6.56/lb. Aluminium (-3%), zinc (-4%) and Nickel (-6%) were all down. Spodumene prices reversed sharply to close down -28% to US\$1665/t due to Chinese maintenance issues turning, less demand for storage batteries and expectations of a restart of lepidolite mining capacity in Jiangxi. The bulks were mixed. Iron ore fell -7% to US\$93/t, coking coal edged up +1% to US\$272/t and thermal coal finished +3% higher at US\$147/t. Due to spiking bond yields and a stronger US dollar, bullion prices fell -6% to US\$4156/oz (A\$5963/oz).

Bonds

An almighty global sell-off in Treasuries dominated September, across the US bond curve, with the 10-year rising by +54bp, a 5 year high and the 30 year bond at its highest since 2002, at 5.63%. The sell-off was one which few escaped, 10-year yields rose ~20-30bp in Germany, NZ, Canada and the UK, with Japan up ~10bp. China was the outlier, with yields flat. Australian bond yields rose in sympathy, starting with the 25bp official cash rate hike to 4.60% (a 15 year high), to the 10-year bond yield which closed at an 11 year high. The chart below highlights the movements in 10-year bond yields across major markets during September and in the last quarter.



Source: Barrenjoey Research

The A\$ nudged 2% lower to \$0.69, with a US dollar rising in line with higher moves in US interest rates.

Australia

As expected, at its 29 September meeting, in a unanimous decision, the RBA raised the cash rate for the fourth time this year by 25bp to 4.60%, the highest level in 15 years. The Board's statement maintained a hawkish tone, in line with recent RBA comments, with a focus on addressing upside inflation risks and leaving the door open to further hikes, noting it will "do what it considers necessary to bring inflation sustainably back to target, including increasing the cash rate target further if needed". Governor Bullock gave the impression the RBA would not be overly sensitive to upcoming CPI data as this data was "backward-looking information". Ironically

the August CPI came out the following day which saw the Trimmed Mean held at 3.6% yoy for a third month. The RBA will no doubt analyse the pending September employment data and the CPI quarterly, which is more reliable than the monthly data, to determine whether there is a Melbourne Cup interest rate hike.

In September, the S&P/ASX 200 Accumulation index broke its five-month winning streak, falling -2.4%, marginally below major peer global indices, in local currency terms, as weaker Resources and higher bond yields weighed on performance. Market leadership stayed with Health Care, driving index performance, aided by Energy, while Information Technology was the worst performer and Materials was the biggest detractor. Lithium stocks were particularly hit hard, with Elevra Lithium -31.5%, Vulcan Energy Resources -31.0% and PLS Group -27.8%. Small caps returned -2.3%, with the Small Industrials down at -1.3% and the Small Resources returning a sanguine -4.4%.

The ASX Top 20 fell -1.7%, again outperforming the broader market and doing better.

Health Care (+4.4%) was the best performing sector during the month, powered by Ansell (+11.0%), Ramsay Health Care (+9.6%), CSL (+8.8%) and Cochlear (+5.2%). Energy (+0.6%, led by Ampol) was the only other sector in the black, whilst Information Technology (-10.6%) fared poorly, followed by Materials (-5.9%) and Utilities (-3.1%).

The top 5 stocks that made a positive contribution to the Index's return were CSL (+27bp), ANZ (+13bp), Codan (+9bp), Northern Star (+9bp) and Westpac (+7bp). The bottom five stocks detracting from the Index's performance were BHP (-76bp), CBA (-55bp), PLS Group (-17bp), Xero (-16bp) and Transurban Group (-12bp).

FUND PERFORMANCE

In a tough month, the Fund return for the month of September was a positive +0.55%, comparing favourably to the ASX 200 benchmark, which posted a loss of -2.42%.

This brings the Fund return for the 2027 FYTD to a very pleasing +11.56%, comfortably above the benchmark return of +1.33%.

By way of a reminder, ~90% of the portfolio is positioned outside the Top 20, and it appears that the period of Leaders driving ASX200 returns (which has certainly not suited our approach and positioning over the past few years), especially causing maximum pain in the second half of last Financial Year, is behind us. Despite the disappointing returns experienced during that brief 5 month drawdown phase, we remained true to label and were not tempted to simply buy into the Top 20, with the classic cry being heard across the industry, "the benchmark made me do it".

As the move to ETF's and structural shift driving passive flows continues to be more prominent (we do understand that this approach may suit certain benchmark aware investors), this trend has certainly weakened price discovery. Valuations in pockets of the Australian market (especially in Mids and Smalls) have become completely detached from old school fundamentals, with share prices being driven by pod shops and momentum inspired investing, regardless of historical valuation metrics. This is opening significant mis-pricing anomalies and dispersion, as well as huge intraday volatility. Against this backdrop, our strategy is starting to bear fruit. We are seeing incredible bargains in the Ex-Top 20 pool that we are currently fishing in and a pickup in M&A interest in areas where the equity market investors are not recognising value.

September featured a raft of M&A activity including: **Ingenia Group** (7 September), after receiving an unsolicited, conditional, non-binding indicative proposal from **Warburg Pincus**, representing a value of ~\$2.9 billion. **IDP Education** (9 September), received an unsolicited, confidential and non-binding \$700m proposal from **Blackstone** to acquire 100% of IDP via a scheme of arrangement. **Eagers Automotive** (10 September), entered into a non-binding agreement to acquire a 50% interest in **Zagame Automotive Group** (undisclosed). **Northern Star** (14 September), received an indicative proposal from South Africa's **Gold Fields** to acquire 100% of Northern Star via a scheme of arrangement, with a stock and cash \$38.7bn bid. **Macmahon Holdings** (18 September), acquiring **Aspect Engineering Solutions** for \$75m. **Healius** (25 September), entered into a binding agreement to sell its Agilex Biolabs business to **Novotech Health** for an enterprise value of \$160m (\$155m in cash net to HLS), well over half of its current market capitalisation.

The Health Care sector (+4.4%, led by CSL which rose +8.8% and Ramsay Health Care) was the largest contributor to the Index's return and together with Energy (+0.6%), these were the only two sectors with a positive return, whilst Information Technology (-10.6%) and Materials (-5.9%) fared worst.

Month of September Attribution

The factors driving the Fund's September performance were holding overweight positions in Bapcor (+27.2%, continuing to rally after its strong +55.0% return in August), CSL (+8.8%), Soul Patts (+7.4%), Premier Investments (+5.1%) and not owning any BHP (-6.2%, as iron ore prices pulled back). The major negative contributors for the month were Lend Lease (-9.5%, as the broader property sector sold off) and Generation Development Group (-13.2%).

FUND ACTIVITY

In September, we took the opportunity to trim stocks that have materially outperformed recently in order to lock in profits, namely Cleanaway, Domino's Pizza, Evolution, Northern Star and we also totally exited Ampol Ltd. on the back of unprecedented and eye watering refining margins boosting profitability, driving up the share price to full value. We rotated and redeployed those funds by adding a number of new defensive stocks to the portfolio, namely the Lottery Corp, GPT, IAG (which actually benefits from higher

interest rates), Transurban Group and Sigma Pharmaceuticals. These stocks have sold off sharply during the month, mainly on the back of higher bond yield concerns and we now believe they represent excellent longer term value.

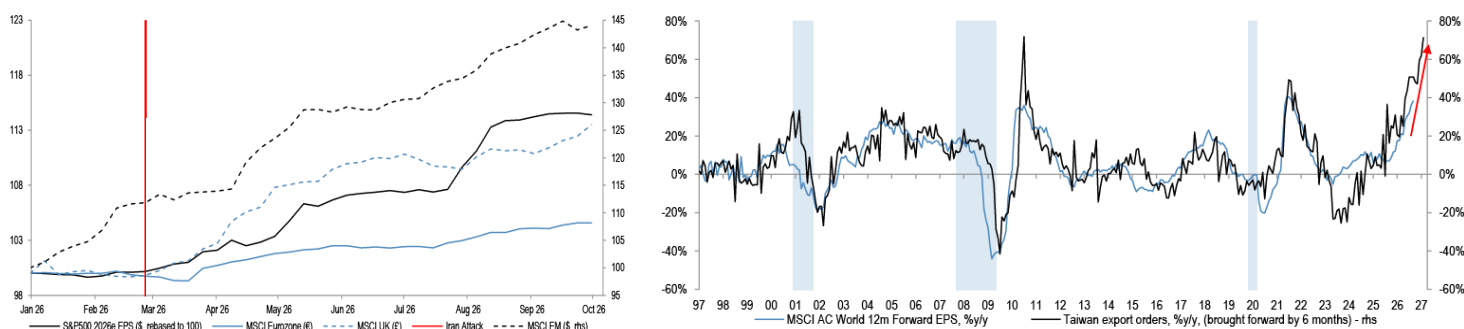
FUND STRATEGY AND OUTLOOK

Seven months in, the duration and extent of the shock from the Middle East conflict mean inflation pressures are expected to remain elevated. AI and defence spending continues to support structural growth and markets are repositioning for a higher for longer interest rate environment. For most of the year, global equities had absorbed rising bond yields relatively well, with yields up ~100bp YTD vs equities up circa double digit. This has started to change recently, with risk assets finally succumbing to higher interest rate pressure. Higher rates since June for U.S. Treasuries, mortgages, and corporate debt should help cool off what would otherwise have been a stronger pulse to growth. Major central banks are now placing a greater emphasis on broader financial conditions when describing their stance on monetary policy, as demonstrated by FOMC Chair Kevin Warsh, who characterized the September rate hike as "removing a dose of accommodation so that financial and credit conditions would be more consistent with the Fed's objectives". ECB chief Christine Lagarde framed the Bank's decision in September around its "assessment of financial and monetary conditions". At the recent G20 summit, BoJ Governor Kazuo Ueda explicitly linked its policy rate path to financial conditions, noting that the BOJ aimed to continue raising interest rates, as financial conditions remain accommodative. In Australia, RBA Governor Michele Bullock argued that September's rate rise was what the RBA "needed to make sure we have financial conditions tight enough to bring inflation down".

The 10-year Treasury yields of major developed markets have risen by 60 to 80 basis points in the last quarter alone, with the bulk of the September sell-off suggesting that the fixed interest market is doing much of the work needed to cool the global economy. Fed funds futures, which backed up almost 200bp YTD, have steadied and are not increasing anymore, with more than 3 full additional hikes already priced in the market.

That said, despite higher rates globally, we would expect **continued robust earnings delivery**, with Q3 results kicking off this week in the US. EPS revisions remain in positive territory in most regions.

Lead indicators of earnings remain in uptrend mode... Q3 and Q4 reporting seasons are likely to reinforce this trend



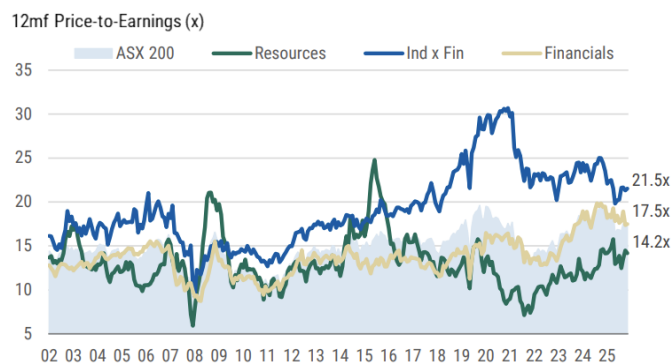
Source: JPMorgan Global Strategy

However, domestically, Australia's earnings continue to lag major peers, given the ASX's structural underweight to global growth, Tech leadership and dependence on the Big 4 banks (exhibiting zero/negative growth), Big 4 resources stocks and the less cyclical yield-sensitive industrials. For perspective, this explains why **in the past 12 months, the ASX200 Resources has delivered a massive return of +33.7%, towering over the ASX200 Industrial return of -6.3% and Banks at -3.0%.**

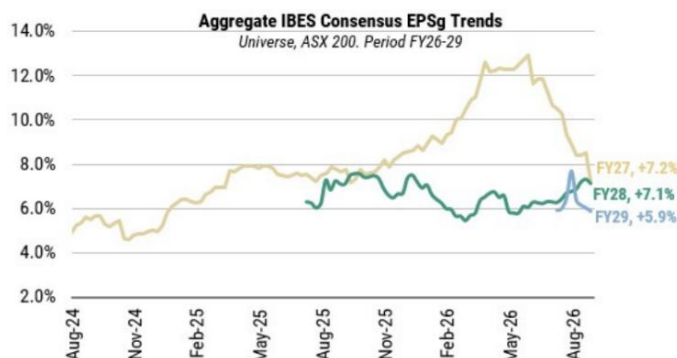
Most of the headwinds facing the domestic banks are well known to investors, given the collapse in mortgage applications, no top line growth, expected rises in BDDs on property de-valuations and consumer credit concerns, highly competitive deposit pricing and new entrants to the market. We maintain that credit growth and bank valuations are at peak levels, given underlying earnings fundamentals are structurally and cyclically challenged, with valuation metrics across the banking sector still looking very stretched, hence we maintain our zero-weight stance. It's only the Index huggers buying the names.

Valuations still leave limited room for error. September's equity market pullback provided some downward adjustment to valuations, but the ASX 200 forward multiple remains elevated at 17.1x. In comparison, FY27 aggregate consensus EPS growth has eased to 7.2%, with 3 month revisions still negative across several key sectors, including Materials, Industrials and Consumer Discretionary. This leaves the market reliant on and vulnerable to earnings delivery at a time when company updates may increasingly reflect the lagged effects of tighter policy. The upcoming AGM season now becomes the next key test for earnings expectations.

The 12M forward PE of the Industrials ex-Financials at 21.5x



Annual Consensus Earnings Growth



Source: Morgan Stanley.

The RBA will no doubt analyse the pending September employment data and the quarterly CPI, which is more reliable than the monthly data, to determine whether there is a Melbourne Cup interest rate hike.

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 misprice them, as the macro dust settles and the market adjusts to the higher cost of capital, M&A activity will start picking up. As mentioned above, we are seeing "green shoots" by Private Equity and corporates trying to, or actually picking up some bargains.

For the 2027 Financial Year, the forecast grossed up Dividend Yield for the Fund now sits at 7.6%, superior to the grossed-up ASX200 Market Dividend Yield of 4.8%.

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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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