

Elston Australian Large Companies Fund – Class A

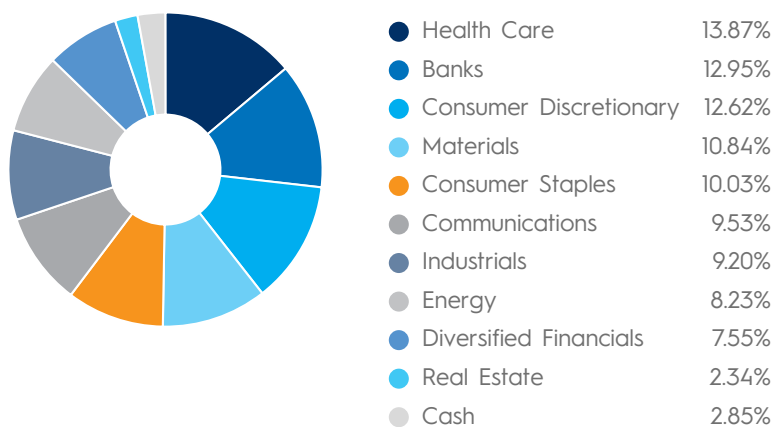


September 2023

Key Information

APIR Code	ETL7541AU	Number of Holdings	20-35
Investment Manager	Elston Asset Management	Minimum Investment Horizon	5 Years
Asset Class	Equity	Management Fee	0.33%
Investment Style	Style Neutral	Performance Fee	16.50%
Benchmark	S&P/ASX 100 Accumulation Index		
Launch Date	03/12/2018		

Sector Allocation Exposure



Top Portfolio Holdings¹

CSL LIMITED	6.06%
ANZ BANKING GROUP LIMITED	5.77%
BHP GROUP LIMITED	5.19%
MACQUARIE GROUP LTD	5.04%
WESTPAC BANKING CORP	4.82%
WOODSIDE ENERGY GROUP LTD	4.26%
TELSTRA CORPORATION	4.20%
THE LOTTERY CORPORATION LIMITED	3.98%
SANTOS LIMITED	3.97%
ENDEAVOUR GROUP LIMITED	3.94%

Platforms Availability²

HUB24
Macquarie Wrap
Netwealth
Praemium

Investment Objective

The portfolio aims to outperform the S&P/ASX 100 Accumulation Index by 2.0% p.a. (after fees) over rolling five-year periods.

Investment Strategy¹

This is an actively managed portfolio of predominantly ASX listed businesses. The strategy's investment universe is all businesses within the S&P/ASX 100 index (at the time of investment), with a maximum of 25% of the portfolio invested in companies outside the S&P/ASX 50 index. The portfolio holds between 20 and 35 holdings and can hold up to 10 per cent in cash; however, the portfolio is expected to be fully invested a majority of the time.

Designed for Investors Who

The portfolio is designed for investors seeking:

- long term capital growth above inflation;
- tax effective income growth;
- a non-index weighted portfolio construction; and,
- a minimum investment timeframe of five years.

Investment Philosophy

The Elston Asset Management investment philosophy incorporates the following values:

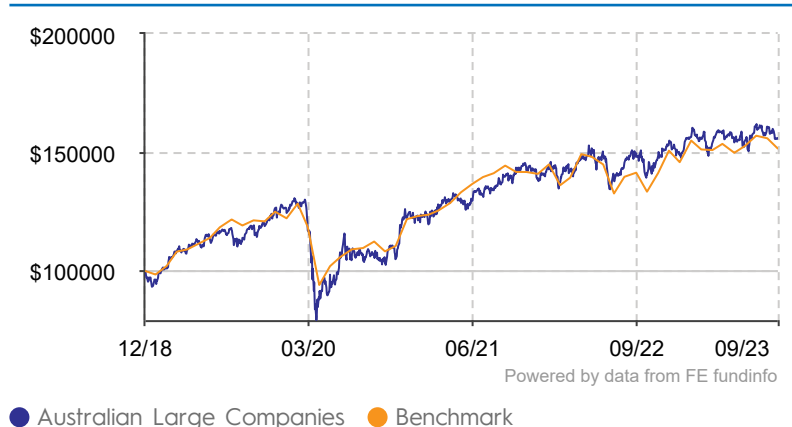
- Avoid permanent loss of capital
- Long term focus
- Value and growth
- Genuine diversity
- Liquidity
- After tax management



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Growth of \$100,000 since inception³



Performance	YTD	1 Yr	3 Yr	5 Yr	7 Yr	ITD
Australian Large Companies	4.37%	10.99%	14.68%	-	-	9.66%
Benchmark	3.97%	13.66%	11.89%	-	-	9.02%

Snapshot of the Month

- The S&P/ASX 300 Accumulation Index returned -2.9% and the MSCI ACWI Ex Australia NR Index (A\$) -3.8%.
- In fixed income, the Bloomberg AusBond Composite 0-5Yr TR Index returned -0.4% and the Bloomberg Global Aggregate TR Hedged Index -1.8%.
- The A\$ declined -0.3% to \$0.645.
- Within the Australian equities, the strongest sector performers were Energy (+0.4%), Materials (-1.4%) and Financials (-1.4%) while Real Estate (-8.7%), Information Technology (-8.7%) and Health Care (-6.5%) were the weakest performers. Large Caps (S&P/ASX 100) -2.8% outperformed Small Caps (S&P/ASX Small Ordinaries) -4.0%.
- Within the International equities, North America (MSCI North America AUD) -4.3% underperformed Europe (MSCI Europe AUD) -3.6% while Developed Markets (MSCI World AUD) -4.0% underperformed Emerging Markets (MSCI EM AUD) -2.3%.

Portfolio update

After a relatively benign few months, volatility returned in the third quarter of 2023. The outlook for interest rates was (once again) the primary cause, with the U.S. Federal Reserve now guiding that interest rates will likely need to remain higher for longer than previously anticipated. In part, this relates to inflation, which continues to sit well above the Federal Reserve's target. In this regard, recent strength in the oil price has not helped sentiment, although it is worth noting that both headline and core inflation numbers have moderated significantly from their post-COVID highs. More broadly, however, this further reflects expectations that the real interest rate required to keep the economy balanced is probably higher than previously thought, given resilient economic data of late. In addition, concerns around fiscal discipline in the U.S., given another narrowly averted debt ceiling crisis, has exacerbated the upward pressure on interest rates (with many now focused on the magnitude of additional debt needing to be issued in order to fund the increasing U.S. budget deficit).

The impact on financial markets was most pronounced through surging longer term bond yields. The Australian and U.S. Government 10-year bond yields, for instance, closed the quarter just shy of 4.5% and 4.6% respectively, their highest level in more than 12 years. This has implications for share market investors, both in terms of the potential impact on economic growth and corporate profitability that higher rates bring, but also given how investors fundamentally value these assets, with the value of future earnings being worth less in today's dollars, in a higher interest rate environment.

With this, the Australian share market more than erased earlier gains, to close the quarter slightly down. Pleasingly, however, the Australian companies in the portfolio delivered a positive contribution, in aggregate, buoyed by an encouraging annual reporting season. Notably, outperformance was quite broad, with AMP, Carsales.com, Cochlear and Worley delivering strong results, reflecting good momentum in executing their strategy. ANZ and Virgin Money UK also enjoyed a strong quarter, the latter as it passed a key regulatory standard (i.e., a "stress test") and commenced a sizeable buyback of its shares. Treasury Wines saw improved sentiment amid resilient earnings and hopes of positive developments regarding Chinese tariffs levied on Australian wine, while Woodside and Santos benefited from stronger energy prices. By contrast, slower than expected margin recovery in CSL's plasma business weighed on the company's share price, while cost inflation and regulatory issues continue to see poor sentiment toward Endeavour. New portfolio addition, ResMed, also struggled due to weaker margins and concerns over the potential impact on demand from weight loss injection, Ozempic. That said, while these are fierce headwinds, ResMed is a quality business, in our view, which we are buying at a compelling price.

Looking forward, it remains an uncertain investment environment, with investors facing the increased likelihood of a prolonged period of higher interest rates, not to mention elevated geopolitical risk. This potentially sets the scene for further volatility, particularly when coupled with pockets of overvaluation in the Australian share market. Nonetheless, we continue to find attractive investment opportunities and believe that the portfolio is appropriately positioned to achieve its longer-term objective.

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