

Ellerston Asia Growth Fund

Performance Report | October 18

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a)
GROSS	-8.68%	-10.46%	-13.93%	-8.09%	6.10%
NET [^]	-8.77%	-10.70%	-14.37%	-9.06%	4.99%
BENCHMARK*	-9.03%	-9.19%	-13.72%	-8.70%	7.92%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. The gross return is calculated before fees & expenses. Past performance is not a reliable indication of future performance

*MSCI Asia ex Japan (non-accumulation) (AUD)

COMMENTARY

October was a very difficult month for equity markets globally. The MSCI World Index was down 7.5% and the MSCI Emerging Markets Index was down almost 9%. Closer to home, the ASX 200 dropped 6% during October and the Australian Small Ords Index was down by almost 10%. The Ellerston Asia Growth Fund (EAGF) was down 8.68% (gross) during the month, outperforming the benchmark which was down 9.03%.

In Asia, the worst performing markets were Korea and Taiwan which were down 13.4% and 10.1%, respectively. Some of the ASEAN markets were the best performers with Indonesia and Philippines down only 2.4% and 1.9%, respectively.

India also outperformed regional and global markets down less than 5% during the month. Oil prices fell significantly during the month with WTI reducing from \$73 at the end of September to approximately \$65 currently. This is a positive for the Indian market as the high oil price was weighing on the outlook for the current account and the Indian Rupee.

At a country level, the largest contributors to alpha were our underweight positions in Korea and Taiwan while China was the largest detractor. At a stock level, the largest contributor to alpha was ICICI Bank in India and the largest detractor was Moutai in China.

ICICI was up 16% during the month, bucking the trend of the overall market. ICICI posted very strong quarterly results which showed that non-performing loan (NPL) formation is improving. This is part of our thesis for holding the stock. Moutai reported poor 3Q results with slower top line growth than expected and some supply side issues. We have since sold our Moutai position and rotated into its main competitor, Wuliangye Yibin, which has similarly attractive characteristics but less near term earnings risk.

Given the sharp correction in markets globally during October, many investors are now questioning where markets go from here. Those of you who attended our recent roadshow will know that we have done a lot of analysis on previous corrections and subsequent Asian market performance. We looked at the Asian Crisis (1997-1998), Tech Wreck (2000-2001), SARS (2003), the GFC (2008-2009), Taper Tantrum (2013) and RMB Devaluation (2015-2016).

We found that these corrections fall into 2 buckets: the large, long corrections (Asian Crisis, Tech Wreck and GFC) which typically last 18 months or longer and markets sell off 50% or more; and the smaller, shorter corrections (SARS, Taper Tantrum and RMB Devaluation) which typically last less than 6 months and markets fall only around 20% on average. Asian markets are now down over 20% from their January peak and markets have been correcting for over 9 months.

Our view is that the current correction is not the start of another GFC or Asian Crisis. The duration and magnitude of the current correction, in addition to the valuation levels, suggest that a very attractive buying opportunity is emerging in Asian equities. Furthermore, the analysis of previous corrections shows that once Asian markets

Investment Objective

To outperform the MSCI Asia Ex Japan (non-accumulation) (AUD) benchmark on a net of fees basis, with a focus on capital growth and downside protection.

Investment Strategy

The Fund's investment strategy is to provide access to a high quality portfolio of primarily large cap Asian Companies using the Manager's distinctively high growth, high conviction and benchmark-independent investment approach. The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that offer the best risk/reward.

Key Information

Strategy Inception	4 January 2017
Net Asset Value	\$0.9083
Application Price	\$0.9106
Redemption Price	\$0.9060
Liquidity	Daily
No Stocks	28
Management Fee	1.00%
Buy/Sell Spread	0.25%
Performance Fee	15%
Firm AUM	Over \$5 Billion

bottom, the rebound is very sharp. On average in the 6 corrections mentioned above, Asian markets were up 54% over the following year. Given this outlook, we have increased our exposure to China (Alibaba and Baidu) and the Singapore banks.

Looking forward, we see a few important catalysts on the horizon. Most importantly, there is the G20 meeting at the end of November where Presidents Xi and Trump are scheduled to meet. We think it is unlikely that a trade resolution will be hammered out in one meeting, but in principle agreement on the outstanding trade issues (IP, deficit) and a perceived de-escalation of trade tensions could provide a sentiment boost, particularly for China.

Kind regards,



Mary Manning
Portfolio Manager

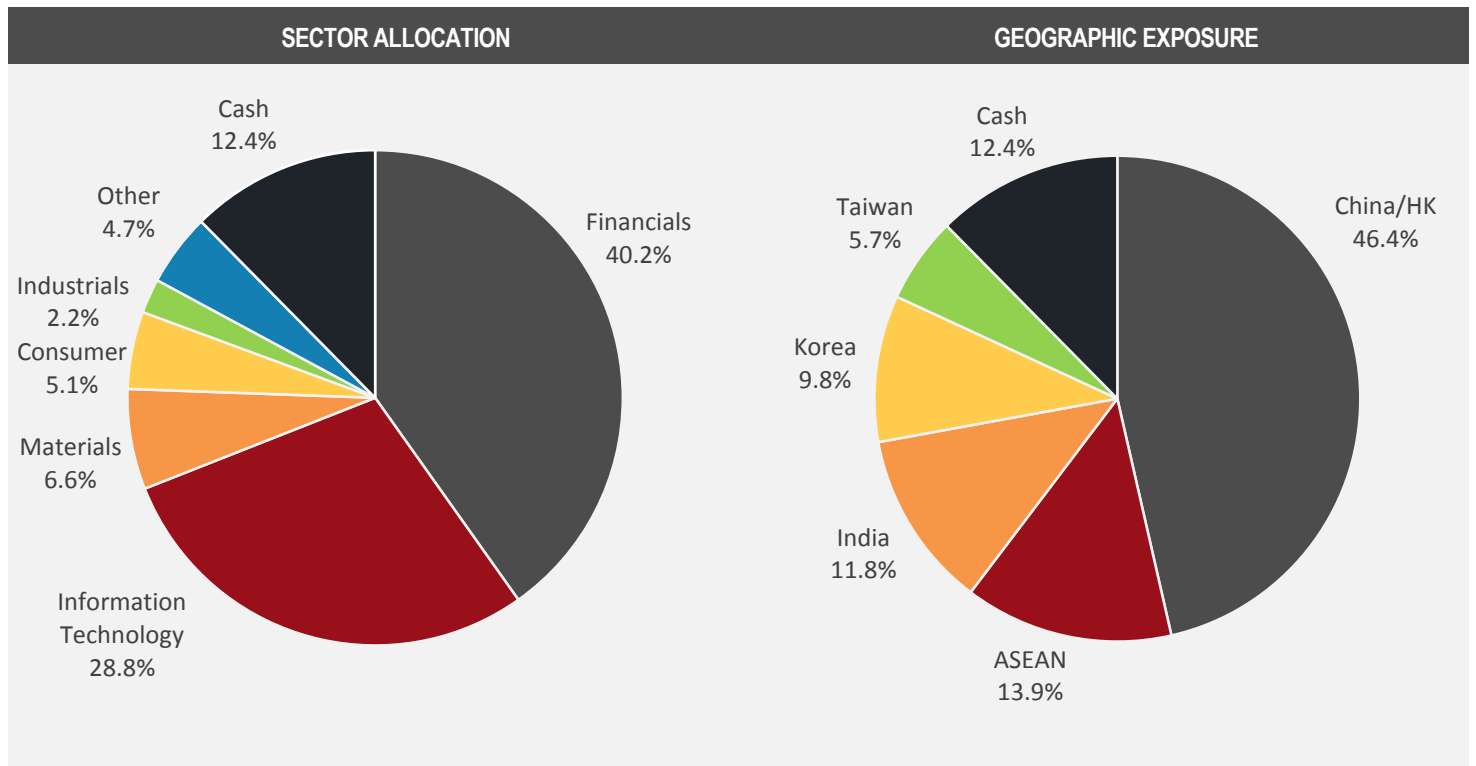
PORTFOLIO CHARACTERISTICS

ELLERSTON ASIA GROWTH FUND TOP HOLDINGS

Top 10 holdings	Sector	%
PING AN INSURANCE GROUP	FINANCIALS	6.9
TENCENT HOLDINGS	INFORMATION TECHNOLOGY	6.8
ALIBABA GROUP HOLDING	INFORMATION TECHNOLOGY	6.5
TSMC	INFORMATION TECHNOLOGY	5.7
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	5.2
DBS GROUP HOLDINGS	FINANCIALS	4.1
CHINA CONSTRUCTION BANK	FINANCIALS	4.0
ICICI BANK LIMITED	FINANCIALS	4.0
HONG KONG EXCHANGES	FINANCIALS	3.9
CHINA MERCHANTS BANK	FINANCIALS	3.6

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SECTOR & GEOGRAPHIC ALLOCATIONS



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