Ellerston Capital

Ellerston Asia Growth Fund

Performance Report | December 18

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a)
GROSS	-0.39%	-6.51%	-7.62%	-7.21%	6.82%
NET^	-0.47%	-6.75%	-8.08%	-8.16%	5.71%
BENCHMARK*	0.69%	-6.43%	-6.86%	-7.09%	8.76%

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

Asian markets grinded lower for most of 2018 with the Shanghai Composite falling approximately 25% and all other markets finishing in the red except India. The Ellerston Asian Growth Fund (EAGF) finished the year down 7.21% gross versus our benchmark which was down 7.09%. In December, the fund was down 0.39% gross while the benchmark was up 0.69%.

Asian markets peaked in January 2018 and have been correcting for almost 12 months. Given both the magnitude and duration of this correction, we believe an attractive long term buying opportunity is emerging. Valuations at very compelling levels with the Hang Seng China Enterprise Index (HSCEI) at less than 8x PE and MSCI Asia ex Japan at less than 12x PE.

There are two important catalysts that could lead to a market reversal in 2019. The most important upcoming catalyst is a potential resolution in the US-Sino trade war. For over a year now we have highlighted 3 possible scenarios in the trade war: tit for tat escalation, a negotiated outcome and extreme retaliation. Tit for tat escalation played out in 2018 with the US and China imposing various tariffs and counter tariffs on an increasing amount of traded goods. However, the meeting between Trump and Xi at the G20 in November has moved the scenario analysis firmly towards a negotiated outcome.

At the G20, Trump and Xi agreed to hold off on imposing new tariffs for a period of 90 days. The Chinese seem very committed to getting a deal done given the notable stress in the domestic economy and with US markets wobbling and the Democrats controlling the House, Trump appears more amenable to reaching an agreement as well.

A negotiated outcome would be a strong positive for Asian markets, particularly China and technology supply chain stocks. Many stock babies have been thrown out of the trade war bath water and we see a good buying opportunities emerging in select stocks/sectors.

Another potential catalyst for markets in 2019 is a more dovish Fed and a subsequent depreciation of the USD. Emerging markets as an asset class typically underperforms during periods of rising US interest rates and an appreciating USD. Specifically, countries with large current account deficits that rely too much on foreign inflows to fund their growth (i.e. the "Fragile 5") are vulnerable to correction in these conditions. Indeed this occurred in 2018 with EM Indices falling sharply as the USD appreciated.

In Asia, we were zero weight in current account deficit countries like Indonesia and the Philippines for most of 2018. However, financial conditions in the US have tightened considerably and with recent comments by Chairman Powell, US rates are "just below" neutral which suggests that the path of Fed tightening in 2019 could be slower than previously expected. This is being labelled as the "Powell Pause" and the combination of a Powell Pause and a thaw in trade war relations would be very positive for flows back into Emerging Markets. We have recently removed our zero weights and bought stocks in Indonesia and the Philippines to position for this outcome.

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
Application Price	$0.9307
Net Asset Value	$0.9284
Redemption Price	$0.9261
Liquidity	Daily
No Stocks	33
Management Fee	1.00%
Buy/Sell Spread	0.25%
Performance Fee	15%
Firm AUM	Over $5 Billion

During December, the best performing stocks in absolute terms were Hindustan Unilever and ICICI in India and AIA Group in Hong Kong. Some of the largest contributors to alpha during the month were our position in ICICI Bank and not owning SK Hynix. The biggest detractors from alpha were overweight positions in Ping An and Baidu

As stated above, after the 2018 sell off, valuations in Asia are compelling and we have started to add selectively to Chinese internet stocks such as Alibaba and Baidu and increase allocations in ASEAN stocks. We continue to like the long term investment story in India and it remains one of the fund's biggest country overweights. Cash was approximately 8.5% as of December 31, 2018.

Kind regards,

Mary Manning - Portfolio Manager

PORTFOLIO CHARACTERISTICS

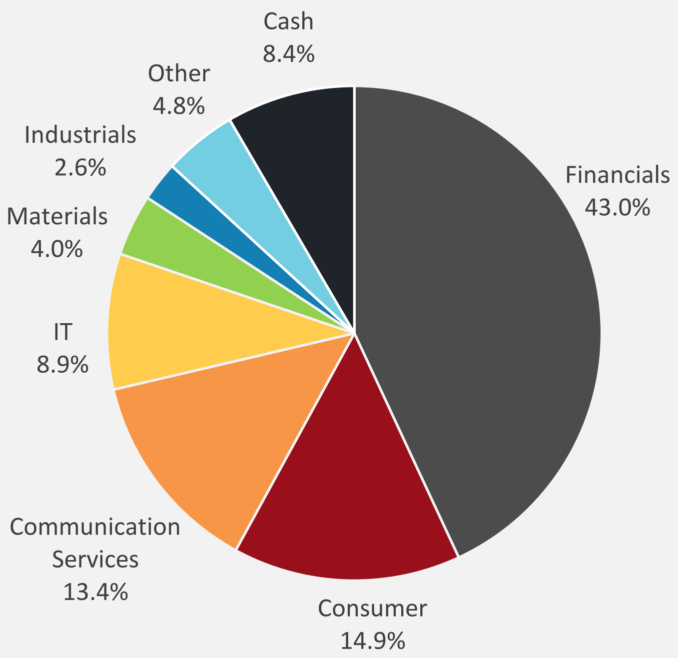
TOP HOLDINGS

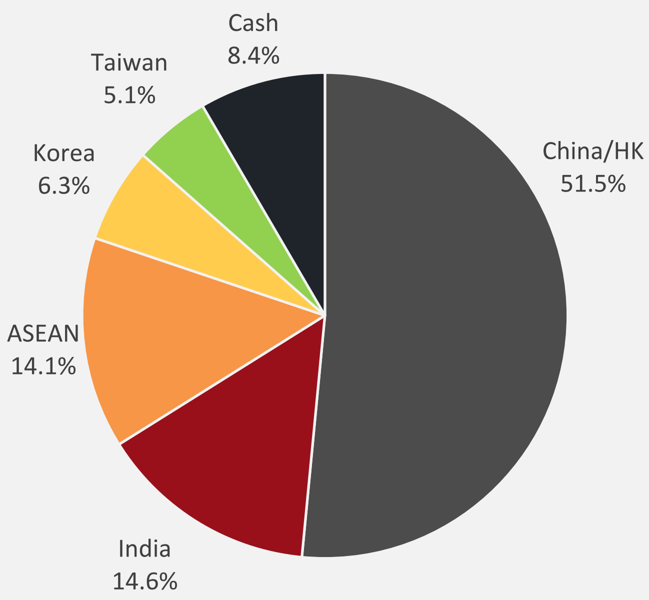
Top 10 holdings	Sector	%
TENCENT HOLDINGS	COMMUNICATION SERVICES	9.8
PING AN INSURANCE GROUP	FINANCIALS	6.3
HONG KONG EXCHANGES & CLEARING	FINANCIALS	5.1
ALIBABA GROUP HOLDING	CONSUMER DISCRETIONARY	4.7
ICICI BANK LIMITED	FINANCIALS	4.2
TSMC	INFORMATION TECHNOLOGY	4.1
DBS GROUP HOLDINGS	FINANCIALS	4.1
CHINA CONSTRUCTION BANK	FINANCIALS	4.1
OCBC BANK	FINANCIALS	4.0
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	3.8

Source Ellerston Capital

SECTOR & GEOGRAPHIC ALLOCATIONS

SECTOR ALLOCATION	GEOGRAPHIC EXPOSURE





Source Ellerston Capital

For further information, please contact:

INSTITUTIONAL CONTACT
Melinda Carter
0439 173 040
mcarter@ellerstoncapital.com

RETAIL CONTACT
Sam Stobart
0423 292 299
sstobart@ellerstoncapital.com

SYDNEY OFFICE
Level 11, 179 Elizabeth Street,
Sydney NSW 2000

MELBOURNE OFFICE
Level 4, 75-77 Flinders Lane,
Melbourne VIC, 3000

Ph: +61 2 9021 7797
E: info@ellerstoncapital.com