

Ellerston Asia Growth Fund

Performance Report | January 19

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	2 Year	Since Inception (p.a)
GROSS	3.66%	6.12%	-4.98%	-8.28%	8.76%	8.40%
NET [^]	3.58%	5.87%	-5.46%	-9.22%	7.63%	7.27%
BENCHMARK*	3.58%	6.53%	-3.26%	-7.35%	10.46%	10.24%

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 started 2019 on a strong note. The Ellerston Asian Growth Fund (EAGF) was up 3.66% gross in January, outperforming the benchmark by 0.08% (gross). This strong absolute performance was despite the AUD appreciating by approximately 3% during the month (from \$0.7049 to \$0.7273).

There were 3 main drivers of the strong January in Asian markets: rising expectations of a resolution in the trade war, the Powell Pause and positioning pre-Chinese New Year and MSCI announcements on China.

With respect to the trade negotiations, there has been a definite improvement in sentiment in recent weeks. At the G20, Trump and Xi agreed to hold off on imposing new tariffs for a period of 90 days, which expires on March 1. Both sides seem very committed to getting a deal done given the notable stress in the domestic economy in China, weak US markets in December and Trump losing significant political capital over the government shut down in January.

Multiple meetings have already occurred between China and the US with progress being made on deficit reduction and Intellectual Property (IP) protection. US representatives are slated to travel to China for further negotiations after Chinese New Year and Trump and Xi are rumoured to be meeting in Vietnam in late February. We have increased our positioning in China on the back of an improving outlook for trade.

The Powell Pause refers to increasingly dovish language from the Federal Reserve and the market moving towards a scenario where the US tightening cycle is possibly over, or at least in its final stages. This is a strong positive for Emerging Markets (EM) as an asset class and Asia constitutes over 70% of EM. Our large cap, high quality portfolio is well suited to capture rotational buying and passive inflows into EM.

The third factor is positioning, particularly in China. On-shore China markets are closed for 5 trading days over the Chinese New Year holidays and Southbound Stock Connect is closed for 7 trading days. In these volatile markets and given the frequency of news flow (i.e. Trump tweets) about the trade negotiations, that is a long time for markets to be closed. As a result, investors positioned in China prior to the holidays. It is important to highlight that at the end of February MSCI will make an announcement about increasing in the A share inclusion factor from 5% to 20%. The actual change, and therefore passive funds flow, will not occur until May/August 2019, but a positive decision would provide a sentiment boost for the Shanghai Composite Index. We have increased our weighting to A shares marginally since the end of November due to valuations, but a positive sentiment boost would be welcomed.

During January, the best performing stocks in the portfolio in absolute terms were Alibaba, Samsung Electronics and China Merchants Bank. The largest contributors to alpha during the month were China Merchants Bank, Ping An Insurance and Tencent. The biggest detractors from alpha were both Indian stocks, Maruti Suzuki and L&T.

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 \$0.9640

Net Asset Value \$0.9616

Redemption Price \$0.9592

Liquidity Daily

No Stocks 35

Management Fee 1.00%

Buy/Sell Spread 0.25%

Performance Fee 15%

Firm AUM Over \$5 Billion

Valuations in Asia are very compelling and at the end of last year we started to add selectively to high quality stocks that had been unfairly punished in the 2018 correction. In January, company commentary showed that the memory cycle for technology stocks like SK Hynix and Samsung Electronics is expected to recover in 2H19. As such, we have initiated a position in Hynix and added to Samsung given their valuations. Hynix was trading at 3x PE when we initiated the position and Samsung was trading at approximately 8x PE when we increased our position. We also added to Alibaba after strong December quarter earnings. Cash was approximately 8% as of December 31, 2018 and had decreased to approximately 2.8% by the end of January.

As always, if you have any questions about EAGF, please feel free to contact us at investorrelations@ellerstoncapital.com.

Kind regards,



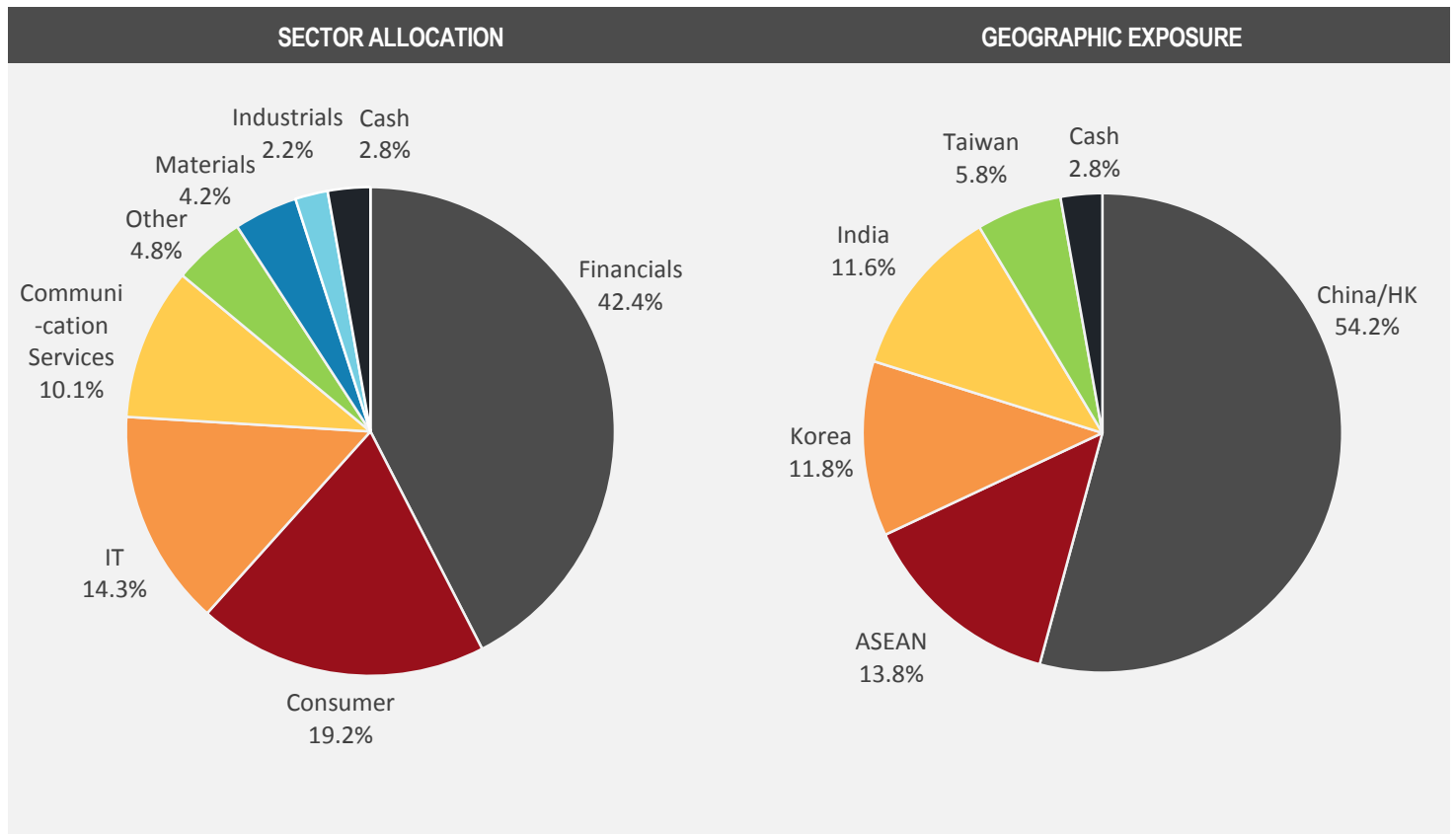
Mary Manning - Portfolio Manager

PORTFOLIO CHARACTERISTICS

TOP HOLDINGS

Top 10 holdings	Sector	%
TENCENT HOLDINGS	COMMUNICATION SERVICES	9.0
ALIBABA GROUP HOLDING	CONSUMER DISCRETIONARY	7.0
PING AN INSURANCE GROUP	FINANCIALS	6.4
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	5.5
HONG KONG EXCHANGES & CLEARING	FINANCIALS	5.1
TSMC	INFORMATION TECHNOLOGY	4.8
CHINA CONSTRUCTION BANK	FINANCIALS	4.1
OCBC BANK	FINANCIALS	3.9
DBS GROUP HOLDINGS	FINANCIALS	3.9
ICICI BANK LIMITED	FINANCIALS	3.9

Source Ellerston Capital

SECTOR & GEOGRAPHIC ALLOCATIONS


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