

Ellerston India Fund

Performance Report | January 19

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a)
GROSS	-4.87%	6.75%	-3.04%	1.92%	5.91%
NET [^]	-5.01%	6.24%	-3.89%	0.46%	4.52%
BENCHMARK*	-5.31%	5.08%	-5.91%	-2.40%	3.62%

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 India Net Return Index (AUD)

COMMENTARY

The Ellerston India Fund (EIF) was down 4.87% gross for the month, outperforming the benchmark by 0.44%. The Indian market was largely flat in local currency terms, but a strengthening Australian dollar (AUD) and a weakening Indian Rupee (INR) meant that the AUD/INR cross rate was a drag on absolute returns. Due to Governor Lowe's dovish commentary and shift to a neutral policy outlook in early February, some of the AUD appreciation has already reversed.

In January, Indian companies generally reported strong quarterly earnings and large cap stocks continued to outperform small and mid-caps.

Domestic investor activity remained strong while foreign institutional investor (FIIs) were net sellers. The US Federal Reserve signalling patience on further interest rate hikes is a strong positive for Emerging Markets as an asset class, including India. We expect FII passive flows, if not active flows, into India to improve throughout 2019.

The federal budget released in early February was definitely a pre-election budget with a focus on supporting rural farmers and middle income groups and continuing the push for infrastructure development. The Indian Finance Minister, Arun Jaitley, has been unwell and is in the US for cancer treatment, so Piyush Goyal was named interim Finance Minister and delivered the budget. Our contacts on the ground do not think that Jaitley will return to his position given his age and health, but Goyal is well respected and will likely be named the permanent Finance Minister in due course.

Consistently benign inflation data indicates the possibility that the Reserve Bank of India (RBI) will shift its monetary policy stance from calibrated tightening at its next meeting in early February. Economists are debating whether this will trend towards loosening bias in the near future. Our base case is that the RBI remains on hold, but we are watching the inflation and liquidity data closely.

From a sector perspective, IT services and Energy are the only sectors that gained ground over the month. The former benefitted from a strong earnings season and a weakening currency providing further earnings tailwinds. The best performing stocks were Infosys (+8.4%) and TCS (+1.1%), both of which are key holdings in our portfolio. The Energy sector also gained ground but solely because of Reliance Industries (+3.7%) which continued to post robust operating performance and rapidly growing profits and returns. Reliance is the largest position in EIF.

Consumer Discretionary was the worst performing sector due to poor results from the auto names. This was on the back of weakening volumes and negative operating leverage. While our auto holdings have detracted from performance in recent months, we believe that volumes are near trough levels and will recover to more normalised levels throughout 2019. This will see a strong rebound in earnings, particularly the higher quality names such as Maruti Suzuki.

Investment Objective

To outperform the MSCI India Net Return Index (AUD) with a focus on risk management and capital preservation.

Investment Strategy

The Fund's investment strategy is to construct a concentrated portfolio with exposure to Indian Companies using the Manager's high growth, high conviction, benchmark independent investment approach. The Fund has identified a number of core themes that will drive returns in the Indian market in the medium term. The focus is on investing in Indian Companies that benefit from these fundamental drivers.

Key Information

Strategy Inception	4 May 2017
Application Price	\$1.0275
Net Asset Value	\$1.0249
Redemption Price	\$1.0223
Liquidity	Daily
No Stocks	23
Management Fee	1.10%
Buy/Sell Spread	0.25%
Performance Fee	15%
Fund Benchmark	MSCI India Net Return Index (AUD)

At the stock level, the most significant contributors to absolute returns were Axis Bank, Infosys and Reliance Industries. The most significant detractor from absolute returns was Eicher Motors.

In terms of alpha, EIF generated significant alpha from not holding a number of stocks that performed poorly including Indiabulls Housing Finance, Zee Entertainment and Godrej Consumer. The largest detractor from alpha was Mahindra & Mahindra.

Looking forward, we continue to watch the polls going into the May 2019 election. Our base case remains a Modi government, although with a reduced majority for the BJP. Sector preferences remain financials, consumer and infrastructure, in that order.

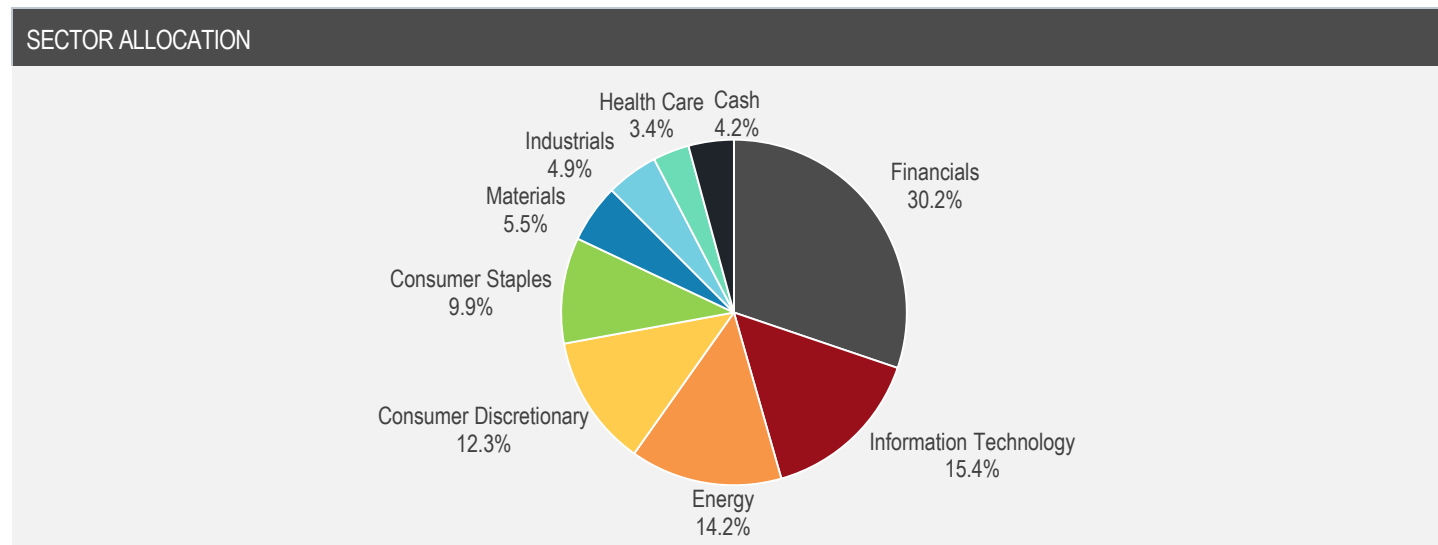
Kind regards,



Mary Manning
Portfolio Manager

PORTFOLIO CHARACTERISTICS

Top 10 holdings	Sector	%
RELIANCE INDUSTRIES	ENERGY	12.2
HDFC	FINANCIALS	10.1
INFOSYS	INFORMATION TECHNOLOGY	8.5
TATA CONSULTANCY SERVICES	INFORMATION TECHNOLOGY	6.9
HINDUSTAN UNILEVER	CONSUMER STAPLES	6.3
ICICI BANK	FINANCIALS	6.3
AXIS BANK	FINANCIALS	5.4
BAJAJ FINANCE	FINANCIALS	5.3
LARSEN & TOUBRO	INDUSTRIALS	4.9
MARUTI SUZUKI	CONSUMER DISCRETIONARY	4.0



Source: Ellerston Capital

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