

Ellerston Asia Growth Fund

Performance Report | September 18

PERFORMANCE SUMMARY

| | 1 Month | 3 Months | 6 Months | 1 Year | Since Inception (p.a) |
|------------------|---------|----------|----------|--------|-----------------------|
| GROSS | -3.02% | -1.18% | -3.32% | 8.12% | 12.07% |
| NET [^] | -3.10% | -1.43% | -3.81% | 7.00% | 10.89% |
| BENCHMARK* | -1.66% | -0.45% | -3.04% | 7.52% | 14.33% |

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

September was another difficult month for Asian equities. Ellerston Asia Growth Fund (EAGF) was down -3.02% (gross) versus the benchmark which was down -1.66%.

The worst performing market in September was India. India had performed very well in July and August rising approximately 9% in those two months alone. However, it gave all of this back in September with the SENSEX falling over 6% in INR terms and approximately 9% in AUD terms.

There were 2 main drivers of the correction in India. First, YES Bank (not owned for ESG reasons) which is a top 20 weight in the MSCI India index, fell 48% during the month on concerns about the CEO's tenure and the accounting policies of the bank. At the same time, an unlisted non-bank financial, IL&FS, missed payments on its debt and the government effectively took control of the failed company. Together these events caused stress in the financial sector which spilled over into the entire market.

Secondly, the Indian Rupee (INR) and the oil price reached a tipping point during the month. India imports the majority of its oil so WTI at approximately \$74 and Brent at \$84 has significant negative implications for India's current account deficit (CAD). As such, the INR weakened above the 72 level (vs the USD) which was previously seen as a level where the Reserve Bank of India (RBI) would support the currency. The subsequent decision by the RBI in early October to leave rates on hold rather than raise by the expected 25bps further signalled a tolerance for a weaker currency. We have been consistently overweight India but took some profits in stocks like Reliance Industries, which was up approximately 30% in July and August alone, as well as HDFC, which reached an all-time high at the end of July.

China's A share market also deserves mention. As the trade war has escalated, the Shanghai Composite (SHCOMP) has fallen sharply and is now down over 20% (in AUD terms) from its January high. Note that the S&P 500 (also in AUD terms) is near an all-time high. We think that this divergence is unjustified given the trade war will hurt both countries and that the SHCOMP is a more domestic demand stock oriented market than the S&P 500.

Valuation wise, the SHCOMP and the Hang Seng Index are now trading at less than 10x forward PE versus the S&P 500 at 16x. There is a significant buying opportunity emerging in China but our view is that valuation alone will not be enough to turn the market around. There needs to be a catalyst. The upcoming mid-term elections in the US or a meeting between Trump and Xi at the G20 summit in Buenos Aires in late November are possibilities.

Within China we have added some old economy exposure via cement and steel stocks as it is likely that Chinese policy makers will use fiscal stimulus and infrastructure build as policy tools if the trade war starts to have a material impact on growth. We have also reduced our exposure to the technology supply chain in the event that there is escalation under Section 301 and the allegations of Chinese cyberespionage (i.e. Super Micro Chip hack) lead to retaliation against Chinese tech.

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.

Significant event notice

The PDS was updated with amendments to reflect RG148 requirements to classify underlying platform investors to have access to Ellerston complaints scheme

Key Information

| | |
|--------------------|------------------|
| Strategy Inception | 4 January 2017 |
| Net Asset Value | \$0.9956 |
| Application Price | \$0.9981 |
| Redemption Price | \$0.9931 |
| Liquidity | Daily |
| No Stocks | 31 |
| Management Fee | 1.00% |
| Buy/Sell Spread | 0.25% |
| Performance Fee | 15% |
| Firm AUM | Over \$5 Billion |

In terms of country performance, India was the biggest drag on both absolute and relative performance in September while Singapore was the largest positive contributor. In terms of stock performance, Ping An, Moutai and China Merchants Bank were the largest contributors to alpha generation while the decision not to own YES Bank was also a major contributor. The largest detractors from performance in September were Maruti Suzuki, Sino Biopharm and Anta. We no longer hold Sino Biopharm.

Major changes to the portfolio during the month were the decision to pare back India exposure, and therefore exposure to the weakening INR. To offset this, we added exposure to ASEAN, primarily the Singapore banks and Thailand.

Kind regards,



Mary Manning
Portfolio Manager

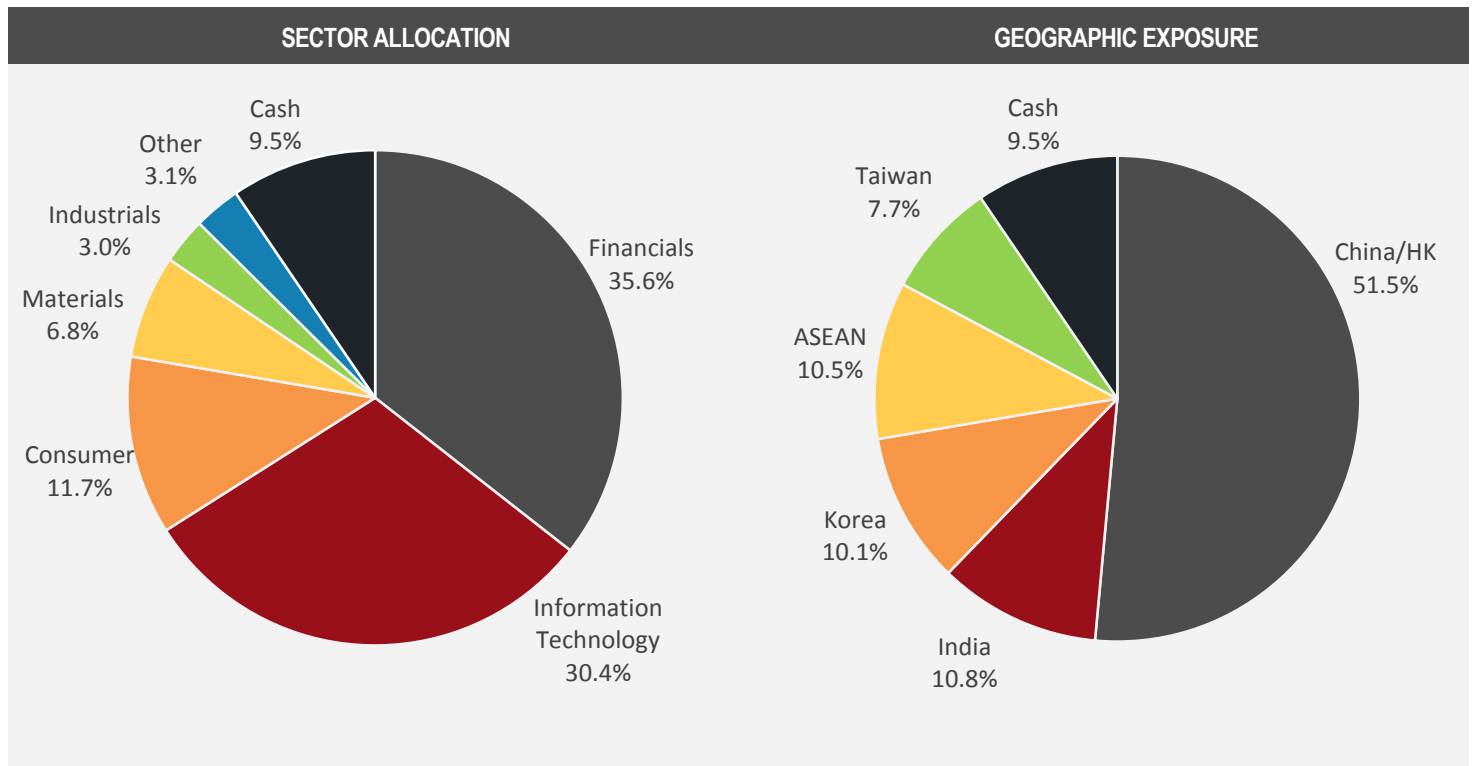
PORTFOLIO CHARACTERISTICS

ELLERSTON ASIA GROWTH FUND TOP HOLDINGS

| Top 10 holdings | Sector | % |
|-------------------------|------------------------|-----|
| TENCENT HOLDINGS | INFORMATION TECHNOLOGY | 7.3 |
| PING AN INSURANCE GROUP | FINANCIALS | 6.6 |
| ALIBABA GROUP HOLDING | INFORMATION TECHNOLOGY | 5.8 |
| TSMC | INFORMATION TECHNOLOGY | 5.8 |
| SAMSUNG ELECTRONICS | INFORMATION TECHNOLOGY | 5.3 |
| DBS GROUP HOLDINGS | FINANCIALS | 4.1 |
| CHINA CONSTRUCTION BANK | FINANCIALS | 4.0 |
| HONG KONG EXCHANGES | FINANCIALS | 3.8 |
| CHINA MERCHANTS BANK | FINANCIALS | 3.4 |
| ICICI BANK LIMITED | FINANCIALS | 3.1 |

Source Ellerston Capital

SECTOR & GEOGRAPHIC ALLOCATIONS



Source Ellerston Capital

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