

Ellerston India Fund

Performance Report | February 19

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a)
GROSS	1.82%	-0.11%	-4.44%	7.07%	6.68%
NET [^]	1.85%	-0.24%	-5.15%	5.67%	5.36%
BENCHMARK*	2.52%	0.56%	-7.06%	3.21%	4.87%

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 was up 1.82% gross during February, underperforming the benchmark which returned 2.52%. The Indian market was largely flat in local currency terms during February, but the depreciation of the Australian Dollar (AUD) versus the Indian Rupee (INR) resulted in positive returns in AUD terms.

The Indian interim budget was released in early February and was generally in line with expectations. Populist schemes included a rural income distribution scheme for farmers and an exemption of income tax for the lower-middle class. We see this as marginally beneficial to the consumer and rural holdings in the portfolio, but not a game changer. The full budget will be released in June 2019 post the general election.

Subdued inflation resulted in the Reserve Bank of India (RBI) cutting benchmark rates by 0.25% and shifting its policy stance from a tightening bias to a neutral bias. This cut was surprising as the RBI typically changes the policy stance first and then alters the rate at a subsequent meeting, rather than doing them both simultaneous. The RBI meeting was the maiden meeting by the new RBI governor, Shaktikanta Das, who appears to be more dovish than his predecessor.

On the geopolitical front, Pakistan based militants initiated an attack on Central Reserve Police Force (CRPF) personnel in the Jammu and Kashmir district in mid-February and approximately 40 Indians were killed. In response, the Indian Air Force (IAF) bombed the militant camp in late February. The Pakistan Air Force retaliated by targeting Indian military installations and downed an Indian jet in Pakistan occupied Kashmir, which led to the capture of an IAF pilot. The UN and leading nations urged for the de-escalation of tensions which was followed by Pakistan announcing the release of the captured pilot as a gesture of good will and peace.

While these tensions generated a lot of headlines in late February/early March, neither the market nor the INR moved significantly in reaction to the skirmish. Modi's handling of the situation has generally been well received by voters and grey market betting shows that the number of seats expected for the BJP (Modi's party) in the coming election increased from ~200 pre-skirmish to ~250 in the week following. This has led some commentators to liken the situation to 1999/2000 where the government's handling of the Kargil conflict with Pakistan led to a strong win for the BJP alliance (NDA) in the 2000 election. Our base case remains the Modi remains Prime Minister with BJP getting a reduced majority or a minority and forming a coalition government.

In terms of flows, foreign institutional investors reversed the previous month's selling to record inflows of over \$2bn. This is somewhat surprising as anecdotal evidence suggests Asia dedicated managers reduced exposure to India to reallocate to China as a resolution to the trade war seems increasingly likely. Domestic Indian funds continue to be net buyers of equities, although at a decelerated pace versus this time last year.

At the stock level, the key contributors to relative performance include State Bank of India (+14bp), Yes Bank (+14bp) and Vedanta (+11bp). We do not own State Bank of India, preferring the high quality private players nor do we own Vedanta which lost ground due to an underwhelming quarterly result. Yes Bank rebounded strongly

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 thematic drivers 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	\$1.4654
Net Asset Value	\$1.0439
Redemption Price	\$1.0413
Liquidity	Daily
No Stocks	20
Management Fee	1.10%
Buy/Sell Spread	0.25%
Performance Fee	15%
Fund Benchmark	MSCI India Net Return Index (AUD)

over the month after it announced nil divergence from the RBIs risk assessment report for 2018 which removed a key overhand for the company. Despite the strong rebound in Yes Bank, we continue to see material valuation upside going forward.

Key detractors at the stock level were Tech Mahindra (-15bp) and Zee Entertainment (-13bp). Tech Mahindra posted a strong quarterly result and the market is increasingly becoming positive for earnings growth due to almost half its client base being telecommunications companies who are ramping up their spend for 5G. Zee Entertainment has materially underperformed in recent months due to bad press, leverage at the promoter entity and high pledging across group entities. It regained some lost ground in February as management confirmed plans for a strategic sale in early 2019 in order to de-lever at the promoter level.

While the fund underperformed over the month, there were no standout stock specific names. Rather, it was a result of not owning numerous stocks that have rebounded after months of underperformance. We continue to position the portfolio in the higher quality names with strong earnings growth projections, robust balance sheets and well regarded management with a strong execution track record.

Kind regards,

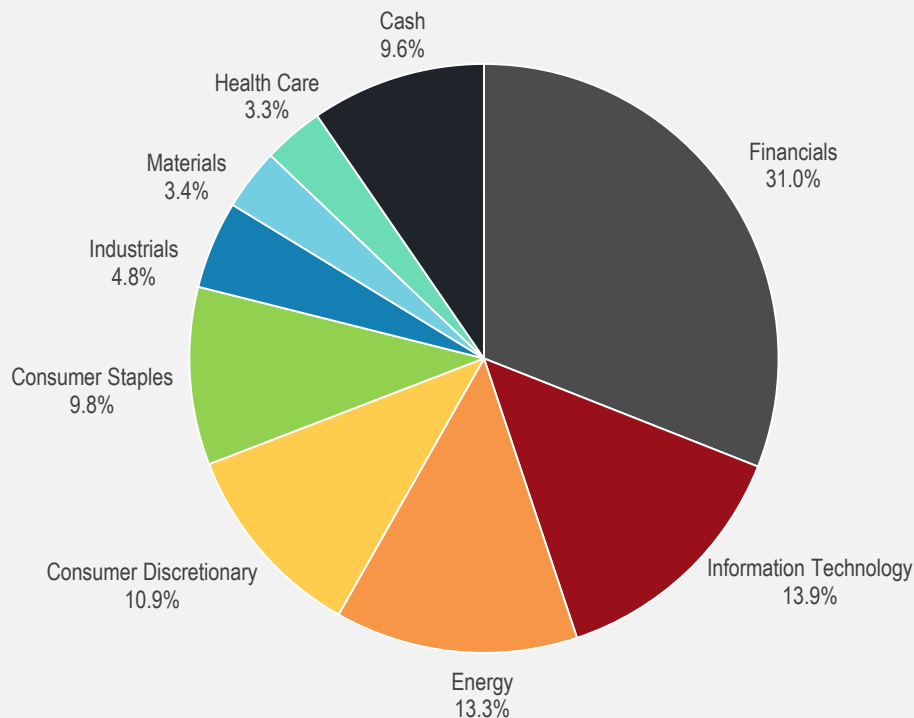


Mary Manning
Portfolio Manager

PORTFOLIO CHARACTERISTICS

Top 10 holdings	Sector	%
RELIANCE INDUSTRIES	ENERGY	13.3
HDFC	FINANCIALS	9.7
INFOSYS	INFORMATION TECHNOLOGY	8.4
HINDUSTAN UNILEVER	CONSUMER STAPLES	6.3
TATA CONSULTANCY SERVICES	INFORMATION TECHNOLOGY	5.5
BAJAJ FINANCE	FINANCIALS	5.5
AXIS BANK	FINANCIALS	5.4
LARSEN & TOUBRO	INDUSTRIALS	4.8
ICICI BANK	FINANCIALS	4.7
MARUTI SUZUKI	CONSUMER DISCRETIONARY	4.2

SECTOR ALLOCATION



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

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