

Ellerston Asia Growth Fund

Performance Report | May 19

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET [^]	-6.19%	-0.93%	7.51%	-4.02%	4.08%	8.10%
BENCHMARK*	-7.49%	-3.26%	5.52%	-5.23%	3.39%	9.29%
ALPHA	1.30%	2.33%	1.99%	1.21%	0.69%	-1.19%

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

May was a difficult month for both Global and Asian markets. The Ellerston Asia Growth Fund (EAGF) was down -6.19% during May, but outperformed the benchmark by 1.30%. Year to date in 2019, the fund is up 8.02% and has outperformed the benchmark by 3.22%.

The selloff in Asian and Global markets was primarily a function of a deterioration in trade war relations. For over a year now we have been outlining 3 scenarios for the trade war: tit for tat escalation, negotiated outcome and extreme retaliation. In early May, Trump sent out a series of tweets reversing the trajectory that was trending strongly to the negotiated outcome scenario. The subsequent Huawei ban has served to further exacerbate the situation. As a result, it appears that there is now a fourth scenario to consider – prolonged standoff.

There are a number of important dates in June which may determine whether the trade situation reverts to a negotiated outcome or moves to prolonged standoff or extreme retaliation. A best case near term outcome is that Trump and Xi meet at the G20 in Osaka in June 28-29 and arrive at a hand shake agreement to resume talks. Note this is similar to what occurred at the last G20 meeting in Buenos Aires in November 2018.

The United States Trade Representative (USTR) is currently seeking public comments on the \$300 billion product list slated for additional tariffs and will hold a public hearing on this issue on June 17. Comments can be submitted up to seven days after the hearing so the earliest the tariffs can take effect is June 24 (i.e. before the G20). If these tariffs are implemented prior to Osaka, it is possible that Trump and Xi would not meet in Japan and the probability of a negotiated outcome would reduce sharply.

In this case, the trade situation could take 2 paths. First, China could adopt a prolonged standoff approach where they simply wait for 2020 where either Trump gets desperate to do a trade deal as the US Presidential election approaches, or it appears that Trump will not get a second term and China waits to negotiate with whomever replaces him as President. China does have the upper hand in this respect. The lack of a political business cycle in China means they can play the long game rather than a 4 year game.

Alternative, or perhaps simultaneously, China and the US could engage in more extreme retaliation measures such as product bans, travel bans, selling US Treasuries, weaponization of currencies, to name a few. Indeed some of these measures are already happening and could escalate after the G20 if the tone of the meeting is confrontational.

The EAGF portfolio is currently positioned for this uncertainty. We are underweight China having taken significant profits in April and do not hold any stocks that are part of the Huawei supply chain other than TSMC. The portfolio is heavily focused on domestic demand countries (India) and domestic demand sectors (financials, consumer, and internet).

One bright spot during the month was the Indian election. As mentioned previously, our base case was always that Modi would be returned as Prime Minister and the BJP/NDA would have a majority of seats, however the

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 \$1.0054

Net Asset Value \$1.0029

Redemption Price \$1.0004

Liquidity Daily

No Stocks 26

Management Fee 1.00%

Buy/Sell Spread 0.25%

Performance Fee 15%

Firm AUM Over \$5 Billion

BJP far exceeded expectations winning 303 seats and securing a majority without the help of any coalition partners. This is a very strong positive for the Indian equity markets and gives Modi's government a clear mandate to continue structural reform in India. The Reserve Bank of India cut interest rates on June 6, adding further stimulus to the economy.

Moving on to performance, during May our underweight positioning in Korea and Taiwan and our overweight in India were the largest country contributors to alpha. At a stock level, large overweight positions in L&T and ICICI in India and a zero weight in SK Hynix were the largest contributors to alpha while the Singapore banks, OCBC and DBS, were the largest detractors.

Cash at the end of May was approximately 15% reflecting our cautious outlook on trade talks and the IT supply chain.

As always, if you have any questions regarding the outlook for Asia or the portfolio, please feel free to contact us at info@ellerstoncapital.com.

Kind regards,



Mary Manning - Portfolio Manager

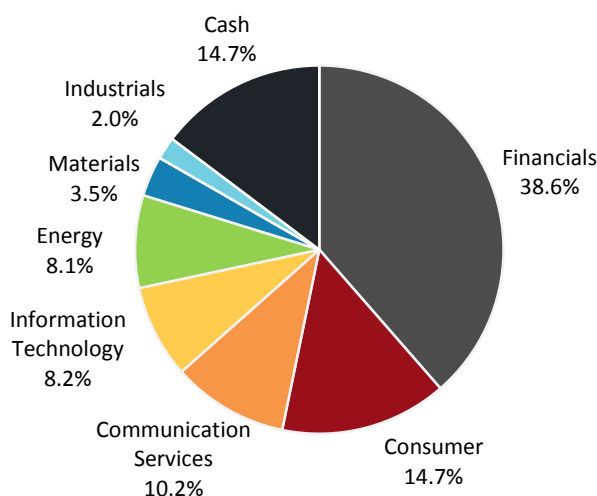
PORTFOLIO CHARACTERISTICS

ELLERSTON ASIA GROWTH FUND TOP HOLDINGS

Top 10 holdings	Sector	%
TENCENT HOLDINGS LTD.	COMMUNICATION SERVICES	6.9
PING AN INSURANCE	FINANCIALS	5.3
RELIANCE INDUSTRIES	ENERGY	5.2
TSMC	INFORMATION TECHNOLOGY	5.2
HONG KONG EXCHANGES & CLEARING LTD.	FINANCIALS	5.0
OCBC LIMITED	FINANCIALS	4.7
DBS GROUP HOLDINGS LTD	FINANCIALS	4.7
ALIBABA GROUP HOLDING LTD.	CONSUMER DISCRETIONARY	4.5
CHINA CONSTRUCTION BANK CORPORATION	FINANCIALS	3.9
BANK RAKYAT	FINANCIALS	3.9

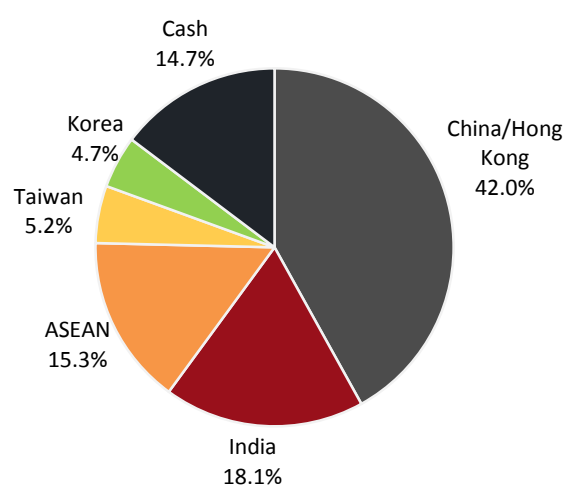
Source: Ellerston Capital

SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC EXPOSURE



Source: Ellerston Capital

Should investors have any questions or queries regarding the fund,
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