

# Ellerston India Fund

Performance Report | May 19

## PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET <sup>^</sup>	3.25%	12.43%	12.17%	18.71%	11.02%	10.77%
BENCHMARK*	1.81%	13.03%	13.67%	17.05%	10.84%	10.59%
ALPHA	1.43%	-0.60%	-1.50%	1.66%	0.18%	0.18%

Source: Ellerston Capital

<sup>^</sup> 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 returned 3.25% during May, outperforming the benchmark which gained 1.81%. The strong market move in India was a function of a decisive election win by Prime Minister Modi and the BJP and country repositioning in Asia/Emerging Markets given the significantly deterioration in US-Sino trade relations.

Almost 900 million people voted in the India General election, so voting took place over a period of weeks. Exit polls began to be released on Sunday May 19 even though the full election result wasn't announced until May 23. The exit polls suggested a very strong result for Modi and the BJP so we increased our positioning going into the final result on May 23. Modi and the BJP ultimately won 303 seats out of a total of 543 seats (272 seats needed for simple majority). Not only was this result better than expected, but it was also an improvement on the 2014 election which was considered a landslide victory for Modi and the BJP.

The positive impact of the BJP election win on markets is material when we consider numerous headwinds over the month that would have otherwise dampened investor sentiment. Firstly, the MSCI Emerging Markets index was rebalanced over the month resulting in a downward re-weighting of India. Secondly, the 4Q GDP print of 5.8% disappointed the market and brought the full year growth rate to 6.8% versus the previous year at 7.2%. Thirdly, monsoon forecasts continue to be paired back from near-normal to below normal due to persistent weak El Nino conditions.

On the global front, trade talks between the US and China broke down and the negotiations appear to be at an impasse at least until the G20 in Osaka at the end of June. This is a relative positive for India because the Indian equity market is predominantly domestic demand stocks. Therefore India is one of the only large markets in Asia not in the fray of the trade war and many Asia and Emerging Markets funds managers have relocated out of China into India comprised.

Trade tensions have also impacted expectations for global oil demand which resulted in oil declining by 13% in USD terms, despite restrictions on supply from Iran sanctions, oil contamination issues in Russia and continued efforts by OPEC to restrict supply to support pricing. A declining oil price is beneficial to India as it is a net importer of oil to the tune of 4-5 million barrels per day.

June will be an interesting month in India. Modi will need to refocus BJPs efforts from the election to working on policies and reforms to drive economic growth, particularly after a weak GDP growth print in Q419. The cabinet appointments so far are reasonable and provide confidence in the execution capabilities of Modi's second term.

Slowing economic growth and controlled inflation (core inflation at 18 month low) also set the stage for a 25 bps cut in interest rates by the Reserve Bank of India (RBI) on June 6. We expect at least 50-75bp of additional interest rate cuts over the course of 2019.

In terms of contribution to portfolio performance, the largest positive contributors during the month were Edelweiss Financial Services, L&T and Bajaj Finance. We took profits in Edelweiss and L&T after the election.

### 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	\$1.1766
Net Asset Value	\$1.1737
Redemption Price	\$1.1708
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)

Negative contributors included Yes Bank and Tata Steel. Yes Bank reported results that were well below expectations whilst also pushing out the timeframe for a material recovery. As such, we exited our holding. Tata Steel lost ground due to pricing pressure and because the proposed European JV with Thyssen fell through. The long term story for Tata remains intact and we have maintained the position.

We remain very positive on the India market and look forward to another 5 years of investing with a Modi government. As always, if you have any questions regarding any aspect of the Ellerston India Fund or the portfolio, please feel free to contact us at [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com).

Kind regards,



Mary Manning  
Portfolio Manager

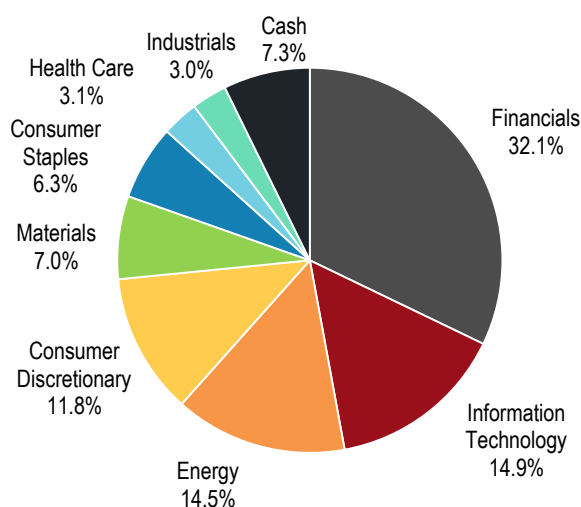
## PORTFOLIO CHARACTERISTICS

### ELLERSTON INDIA FUND TOP HOLDINGS

Top 10 holdings	Sector	%
RELIANCE INDUSTRIES	ENERGY	14.5
HDFC	FINANCIALS	10.5
INFOSYS	INFORMATION TECHNOLOGY	7.4
TATA CONSULTANCY SERVICES	INFORMATION TECHNOLOGY	5.9
AXIS BANK	FINANCIALS	5.6
ICICI BANK	FINANCIALS	5.2
MARUTI SUZUKI INDIA	CONSUMER DISCRETIONARY	4.8
BAJAJ FINANCE	FINANCIALS	4.5
HINDUSTAN UNILEVER LIMITED	CONSUMER STAPLES	4.5
DR REDDY'S LABORATORIES	HEALTH CARE	3.1

Source: Ellerston Capital

### SECTOR ALLOCATION



Source: Ellerston Capital

Should investors have any questions or queries regarding the fund,  
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