Ellerston Asia Growth Fund

Performance Report | June 19

PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET^	4.85%	0.95%	13.26%	4.10%	7.60%	9.88%
BENCHMARK*	4.72%	-0.43%	9.74%	2.22%	6.80%	11.00%
ALPHA	0.13%	1.38%	3.52%	1.88%	0.80%	-1.12%

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

June was a strong month for both global and Asian equity markets. Ellerston Asia Growth Fund (EAGF) was up 4.85% during June and outperformed the benchmark by 0.13%. Calendar year to date in 2019, the Fund is up 13.26% and has outperformed the benchmark by 3.52%.

There were 2 factors driving Asian equity market returns in June, the G20 meeting between Trump and Xi in Osaka and an increasingly dovish Fed.

With respect to the trade war, the Osaka meeting yielded a truce scenario similar to what occurred following the G20 meeting in Buenos Aires in November last year. However, unlike the November 2018 truce which imposed a 90 day moratorium on new tariffs, this truce does not provide a definitive timeline. There are currently no specific meetings scheduled between Chinese and American trade negotiators and China has reiterated that it will not agree to a resolution without the withdrawal of existing tariffs. This outcome seems unlikely in the near term.

More importantly, the market appears to be getting tired of the Trump trade war negotiation cycle characterized by: truce, negotiation, tweets, breakdown, truce. Since Buenos Aires, China and the US have gone through 11 rounds of trade talks with no resolution. This time, Asian markets rallied for only 1 or 2 days on the back of a favourable G20 outcome. Our base case is now prolonged standoff, where the two countries go back and forth on trade with no resolution until closer to the US Presidential election.

EAI remains overweight domestic demand sectors (financials, consumer, internet) and domestic demand countries (India, Indonesia) in an effort to protect the portfolio from trade war volatility.

During late June and early July, I travelled to India to get a feel for what is happening on the ground post-election. My time in Mumbai and Pune highlighted concerns that the macro outlook for India is slowing on the margin. The last quarterly GDP growth figure in India was only 5.8%, versus an annual forecast of over 7%. This figure may be a quarterly blip due to elections, monsoons (or lack thereof) and other one off factors, however the situation deserves close attention.

The Reserve Bank of India cut interest rates by 25bps on June 6 and most of the banks and economists I met with are forecasting another 50bps cut in FY20. On July 5th the new Finance Minister delivered her maiden budget. It was reasonably hawkish with the deficit to GDP target maintained at 3.3% versus expectations that the government would loosen the purse strings to reignite growth. Macro aside, the outlook at the stock level remains strong for our core holding, especially the private sector banks like ICICI and Axis and high quality non-bank financials like HDFC. Consumer staples appear better positioned than discretionary, particularly autos which are in for a rough ride between now and April 2020 when new emissions norms are enforced.

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	$1.0541
Net Asset Value	$1.0515
Redemption Price	$1.0489
Liquidity	Daily
No Stocks	27
Management Fee	1.00%
Buy/Sell Spread	0.25% / 0.25%
Performance Fee	15%
Firm AUM	Over $5 Billion

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With respect to performance, Singapore was the largest contributor to alpha during the month on account of our large positions in DBS and OCBC. Korea was the biggest detractor from alpha. Financials were the largest contributor to alpha and consumer discretionary was the largest detractor.

Stock wise, Hong Kong Exchange and OCBC were the largest contributors to alpha while Reliance and Jubilant Foodworks were the biggest detractors. Jubilant is no longer in the portfolio. Cash at the end of June was approximately 14.8%.

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

Kind regards,

Mary Manning - Portfolio Manager

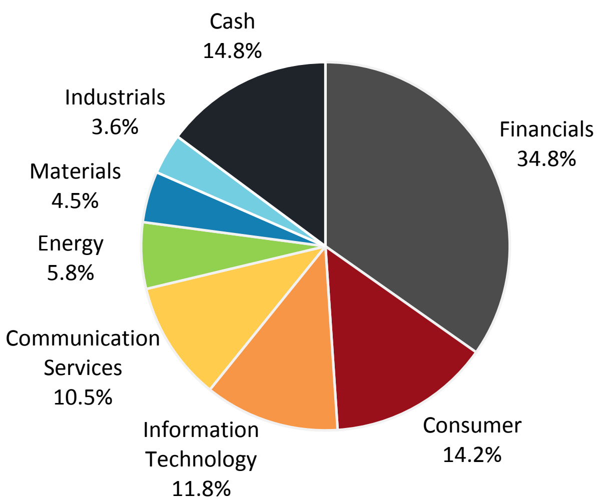
PORTFOLIO CHARACTERISTICS

ELLERSTON ASIA GROWTH FUND TOP HOLDINGS

Top 10 holdings	Sector	%
TENCENT HOLDINGS LTD	COMMUNICATION SERVICES	7.3
SAMSUNG ELECTRONICS	INFORMATION TECHNOLOGY	6.2
HONG KONG EXCHANGES & CLEARING LTD	FINANCIALS	5.7
ALIBABA GROUP HOLDING LTD	CONSUMER DISCRETIONARY	5.4
PING AN INSURANCE	FINANCIALS	5.1
OCBC LTD	FINANCIALS	4.7
TSMC	INFORMATION TECHNOLOGY	4.7
DBS GROUP HOLDINGS LTD	FINANCIALS	4.7
CHINA CONSTRUCTION BANK CORPORATION	FINANCIALS	3.9
BANK RAKYAT	FINANCIALS	3.8

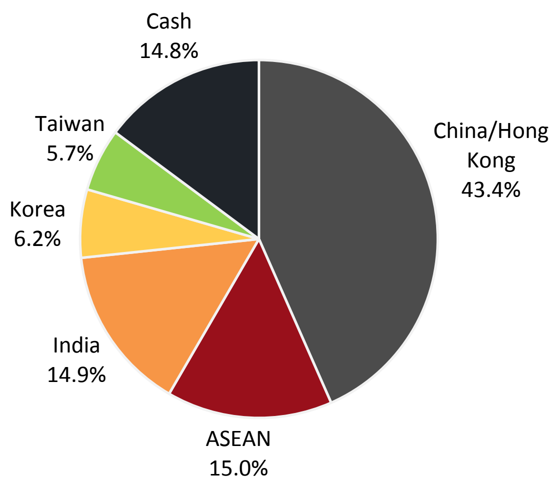
Source: Ellerston Capital

SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC EXPOSURE



Source: Ellerston Capital

Should investors have any questions or queries regarding the fund,

please contact our Investor Relations team on 02 9021 7797 or info@ellerstoncapital.com

or visit us at https://ellerstoncapital.com/

All holding enquiries should be directed to our registrar, Link Market Services on 1800 992 149 or ellerston@linkmarketservices.com.au

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