

# Ellerston India Fund

Performance Report | June 19

## PERFORMANCE SUMMARY

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET <sup>^</sup>	-1.58%	1.01%	7.06%	14.77%	12.19%	9.52%
BENCHMARK*	-1.54%	1.73%	8.04%	13.65%	12.08%	9.38%
ALPHA	-0.04%	-0.72%	-0.98%	1.12%	0.11%	0.14%

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 portfolio returned -1.58% for the month, in line with the benchmark which declined -1.54%. Indian markets had a weak month as the dust settled from the Indian general election and investors began to focus on slowing macro and the outlook for 1Q earnings.

The Reserve Bank of India (RBI) cut its benchmark rate by 25bp to 5.75% over the month and altered its stance from neutral to accommodative. What was interesting was that the move to lower rates and change the stance was voted unanimously by the Monetary Policy Committee indicating the priority to restore economic growth.

Core inflation fell to a 22 month low supporting expectations of further rate cuts by the RBI. We continue to expect at least two more rate cuts throughout the course of calendar year 2019. The most recent GDP print in India was only 5.8% which is well below the annual growth expectation of approximately 7%. Part of this was due to the election and weak monsoons, but the situation still warrants attention. The monsoon rains (which account for 70% of India's annual rainfall) are late and rainfall remains 30% below long-term averages. This is an important factor for rural sentiment and, if extreme, can cause an increase in inflationary expectations given the impact on food prices.

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. The market sold off on the back of this fiscal prudence.

During late June and early July, I travelled to India to get a feel for what is happening on the ground post-election. Potential macro slow down aside, the outlook at the stock level remains strong for our core holdings, especially the private sector banks like ICICI and Axis and high quality non-bank financials like HDFC and Bajaj Finance. Consumer staples appear better positioned than consumer discretionary, particularly autos which are in for a rough ride between now and April 2020 when new emissions norms are enforced. As such, we have added to financials exposure and significantly reduced investments in autos.

In terms of portfolio performance, key contributors over the month were in the financials space including not owning Yes Bank (+18bp) and Indiabulls Housing Finance (+14bp) as well as our overweight position in Bajaj Finance (+17bp). The month was dominated by news around debt defaults, particularly Dewan Housing which was unable to replay obligations on time and has delayed its 1Q earnings due to irregularities. This impacted sentiment for similar non-bank financials such as Indiabulls Housing Finance. These events also saw increased interest in the higher quality financial stocks such as HDFC and Bajaj Finance.

Key detractors to portfolio performance were our overweight positions in Edelweiss Financial Services (-27bp), Reliance Industries (-20bp) and Maruti Suzuki (-13bp). Edelweiss has been removed from the portfolio. Reliance Industries lost ground over the month after a very strong start to 2019 as the market paired back expectations for refining margins. Maruti Suzuki, along with the rest of the auto sector, continues to struggle due to lack of demand and continued delays in volume recovery.

### 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	\$1.1581
Net Asset Value	\$1.1552
Redemption Price	\$1.1523
Liquidity	Daily
No Stocks	22
Management Fee	1.10%
Buy/Sell Spread	0.25%
Performance Fee	15%
Fund Benchmark	MSCI India Net Return Index (AUD)

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

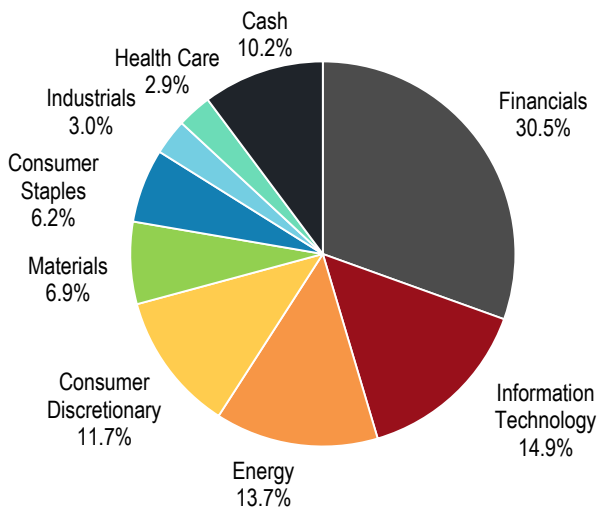
## PORTFOLIO CHARACTERISTICS

### ELLERSTON INDIA FUND TOP HOLDINGS

Top 10 holdings	Sector	%
RELIANCE INDUSTRIES	ENERGY	13.7
HDFC	FINANCIALS	10.6
INFOSYS	INFORMATION TECHNOLOGY	7.3
TATA CONSULTANCY SERVICES	INFORMATION TECHNOLOGY	6.0
AXIS BANK	FINANCIALS	5.6
ICICI BANK	FINANCIALS	5.4
BAJAJ FINANCE	FINANCIALS	4.8
MARUTI SUZUKI INDIA	CONSUMER DISCRETIONARY	4.6
HINDUSTAN UNILEVER LIMITED	CONSUMER STAPLES	4.5
MAHINDRA & MAHINDRA	CONSUMER DISCRETIONARY	3.0

Source: Ellerston Capital

### SECTOR ALLOCATION



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](mailto:ellerston@linkmarketservices.com.au)**

**SYDNEY OFFICE**  
Level 11, 179 Elizabeth Street,  
Sydney NSW 2000

**MELBOURNE OFFICE**  
Level 4, 75-77 Flinders Lane,  
Melbourne VIC, 3000

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