

Ellerston India Fund

Performance Report | July 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net [^]	-2.39%	-0.81%	10.02%	5.74%	9.33%	7.99%
Benchmark*	-3.50%	-3.26%	10.11%	3.60%	8.24%	7.30%
Alpha	1.11%	2.45%	-0.09%	2.14%	1.09%	0.69%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

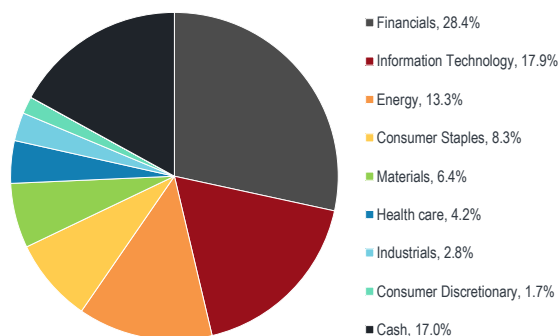
* MSCI India Net Return Index (AUD)

PORTFOLIO CHARACTERISTICS

HOLDINGS

Top 10 holdings	Sector	%
Reliance Industries Limited	Energy	13.3%
Housing Development Finance Corp Ltd	Financials	11.1%
Infosys Limited	Information Technology	10.1%
Tata Consultancy Services Limited	Information Technology	6.4%
Axis Bank Limited	Financials	5.8%
ICICI Bank Limited	Financials	5.5%
Hindustan Unilever Limited	Consumer Staples	4.5%
Dr. Reddy's Laboratories Ltd.	Health Care	3.1%
Larsen & Toubro Ltd.	Industrials	2.8%
Marico Limited	Consumer Staples	2.1%

SECTOR ALLOCATION



Source: Ellerston Capital

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 areas 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
Portfolio Manager	Mary Manning
Application Price	\$1.1093
Net Asset Value	\$1.1065
Redemption Price	\$1.1037
Liquidity	Daily
No Stocks	21
Management Fee	1.10%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%
Fund FUM	\$18.0 Million
Firm FUM	Over \$5 Billion

COMMENTARY

July was a down month in absolute terms for the Indian market (-3.50%) and for the Ellerston India Fund (-2.18%), outperforming the benchmark by 1.31% (gross returns).

The sell-off in India during July was due to 3 factors: weak 1Q earnings, concern over the non-bank financial sector in India, and ongoing risk of macro slow down. Our outperformance was a function of good stock picking and high cash levels.

With respect to earnings, one of my conclusions from my trip to India in late June/early July was that 1Q results were going to be disappointing and that some sectors (autos, non-bank financials) were going to miss expectations significantly. As such, we exited or trimmed positions with earnings risk which resulted in cash increasing from 10.2% at the end of June to approximately 17% at the end of July. Note the average cash level in EIF since inception is approximately 6%. So this level of cash is a significant outlier, but well timed.

Another reason India performed poorly in July was the stress in the non-bank financial sector. India is unique globally in that non-bank financial companies (NBFCs) make up a large portion of the total financial sector. Last year an unlisted NBFC (IF&LS) defaulted on a number of obligations and the government had to step in to provide support. Since then similar signs of stress have emerged in companies like Dewan Housing and Indiabulls. In its latest Financial Stability Report, the Reserve Bank of India (RBI) highlighted that a default of a major NBFC could transmit systemic risk similar to that of a major bank default.

Governor Das also mentioned that the RBI is tracking 50 NBFCs for signs of stress, which is many more than the market thought. This concern caused a number of financials to sell off sharply during the month. EIF has reduced exposure to the NBFC sector.

The final factor causing the Indian market to perform poorly in July was ongoing concern about macro slow down. The last GDP print in India was below 6% which was partially due to one offs like the election and delayed monsoons. However, growth will have to rebound significantly in the coming quarters if India is to make its 7% growth targets. In early August the Reserve Bank cut by 35 bps (seemingly a compromise between 25bps and 50bps) and inflation figures for July were benign at just over 3%, suggesting that more cuts could be on the way. Our base case is for 75bps to 1% of cuts this year to support the resumption of higher growth.

From a sector perspective, Financials and Energy were the worst performing sectors on an absolute basis while only 2 sectors, IT and Health Care, ended the month in positive territory. The strong performance in IT was a function of sector rotation out of weak domestic demand stocks into offshore earners and strong results from Infosys.

For the month of July, not owning Oil & Natural Gas Corp and Coal India were the top contributors to alpha. In fact, the top 34 contributors to alpha were all stocks where we have zero weight. When I worked at Oaktree Capital, founder and Chairman Howard Marks, often used to say “avoid the losers, the winners will take care of themselves.” This adage proved correct in India this month. The top detractors to alpha were Bajaj Finance, Axis Bank and Reliance.

So what does 2Q have in store for investors in India? We do not anticipate a sharp rebound from the July sell off. The macro situation remains somewhat clouded by the outlook for NBFCs and there are no major policy decisions in the coming months.

Given the sharp correction in a number of Indian stocks, we are continually analysing whether new opportunities are emerging at attractive levels. However, at the current time, we anticipate staying relatively high cash until there is more macro visibility.

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

All holding enquiries should be directed to our registrar, [Link Market Services](http://LinkMarketServices.com) on 1800 992 149 or ellerston@linkmarketservices.com.au

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Should investors have any questions or queries regarding the fund, please contact our [Investor Relations team](mailto:InvestorRelations@ellerstoncapital.com) on 02 9021 7797 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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