Ellerston Capital

Ellerston Asia Growth Fund

Performance Report | August 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net^	-1.66%	3.47%	2.51%	0.99%	5.60%	8.70%
Benchmark*	-2.42%	1.78%	-1.54%	-1.86%	4.01%	9.11%
Alpha	0.76%	1.69%	4.05%	2.85%	1.59%	-0.41%

Source: Ellerston Capital

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

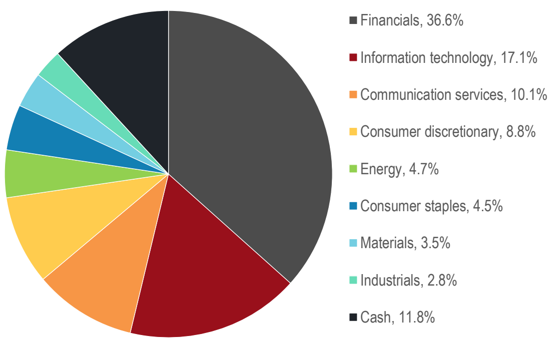
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

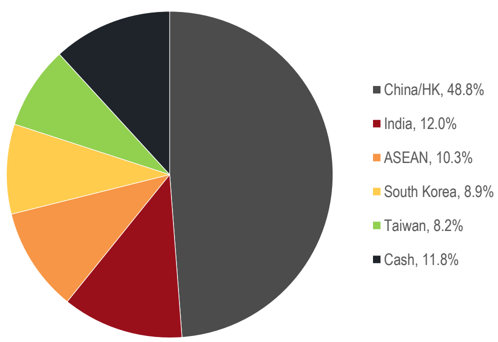
HOLDINGS

Top 10 holdings	Sector	%
Tencent Holdings Ltd	Communication Services	8.7%
TSMC	Information Technology	6.3%
Samsung Electronics	Information Technology	5.8%
Alibaba Group Holding Ltd	Consumer Discretionary	5.4%
Ping An Insurance	Financials	5.1%
China Construction Bank Corp	Financials	4.9%
Bank Rakyat	Financials	3.9%
AIA Group Limited	Financials	3.9%
ICICI Bank Limited	Financials	3.8%
Hindustan Unilever Limited	Consumer Staples	3.2%

SECTOR ALLOCATION



GEOGRPAHIC EXPOSURE



Source: Ellerston Capital

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
Portfolio Manager	Mary Manning
Application Price	$1.0381
Net Asset Value	$1.0355
Redemption Price	$1.0329
Liquidity	Daily
No Stocks	30
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

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COMMENTARY

The Ellerston Asia Growth Fund (EAGF) performed well in July. The Fund was up 0.44% during the month and outperformed the benchmark by 0.83% (gross). Calendar year to date in 2019, the Fund is up 14.31% and has outperformed the benchmark by 5.00% (gross).

There were 3 factors driving Asian equity market returns in July, the trade war, dovish expectations for the Fed decision on July 31 and quarterly and 1H earnings.

The trade war arguably took a turn for the worse in late July and early August. US representatives met with their Chinese counterparts in Shanghai at the end of July but no specific resolutions were discussed and the only thing to come out of the meeting was the "Rip Off" tweet from Trump and a commitment to have another meeting in September. Then in early August Trump announced he would go ahead with the 10% tariffs on the final $300 billion of goods and labelled China a currency manipulator.

Both of these actions shows considerably policy tensions within the Trump administration itself. According to the Wall Street Journal, most of Trump's economic advisors (Mnuchin, Lighthizer, Kudlow) opposed the tariffs on the additional $300 billion and only ultra-China hawk Peter Navarro supported it. This internal debate may have led to the partial reversal of the tariff decision in mid-August. Trump has now announced that the tariffs on about half of the $300 billion has been delayed from September until mid-December so that American consumer companies can get through the holiday season. This policy whiplash is increasingly frustrating for market participants.

Currency manipulation is another area of flip flop. Even though Trump promised to label China a currency manipulator on "Day 1" of his Presidency, he refrained from doing so in the last few years because there is scant evidence that this is the case. In fact, China only meets 2 of the 4 criteria set out by the US Treasury Department for currency manipulation and the IMF issued a recent report stating that the value of the Chinese yuan (CNY) was roughly in line with economic fundamentals. The CNY has traded through the important psychological level of 7.0 but we do not anticipate a sharp depreciation from here.

In recent weeks Trump has communicated on multiple occasions that a deal with China may not happen before the US Presidential election in 2020. According to Trump, China may prefer to deal with "Elizabeth Warren or Sleepy Joe Biden" rather than continue to negotiation with Team Trump. Our base case is that the probability of a resolution, or partial resolution, in the trade conflict will increase going into the Presidential election as Trump will want a trade win to tout on the campaign trail. Alternatively, if polls are showing that someone other than Trump may be in the Whitehouse next term, China may opt to delay any serious negotiations and start afresh with a new administration. In the meantime, as these volatile trade and geopolitical scenarios play out, we remain primarily positioned in domestic demand countries and sectors.

During July there was a lot of speculation regarding: (1) whether the FOMC would cut rates by 25 basis points or 50 basis points at the July meeting; and (2) whether the cut would be a "one and done" recalibration or the start of an easing cycle. On July 31 the Fed cut by only 25 bps (our base case) and Chairman Powell's language suggested that this move was to address downside risks rather than initiate an aggressive easing cycle. Versus more dovish expectations, this is an incremental negative for Emerging Markets, including Asia.

In terms of earnings, the season thus far has been mixed. Samsung and SK Hynix provided guidance that suggests the NAND cycle is bottoming and DRAM may not be far behind. We increased positioned in both stocks during the month. Chinese insurers pre-announced strong growth which has been a positive for China Life in particular. Singapore banks reported decent earnings but the stocks did not react positively given the macro outlook for Singapore is unexciting. We reduced our exposure to Singapore banks after meeting with management teams on the ground in early July.

The worst performing market in terms of earnings this month was India. With a few notable large cap exceptions (ICICI, Infosys, Asian Paints) most earnings were in-line to disappointing. Following a research trip to India in early July we paired back India exposure on this concern. India was the worst performing market in July down over 5%.

Korea and Hong Kong were the biggest county contributors to performance in July. Hong Kong continued to be plagued by protests, some of which have turned violent. We are typically underweight Hong Kong because few of the large cap stocks there meet our stringent growth criteria. This ongoing positioning benefited the portfolio in July and early August as the frequency and severity of the protests increased. The largest country detractor from performance in July was China.

Stock wise, Ayala Corp, Bank Rakyat and TSMC were the largest contributors to alpha while Hong Kong Exchange and L&T were the biggest detractors. Cash at the end of July was approximately 11.8%.

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

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

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/

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