Ellerston Capital

Ellerston Asia Growth Fund

Performance Report | October 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net^	2.41%	1.79%	0.46%	18.25%	3.70%	9.49%
Benchmark*	2.29%	1.15%	-2.41%	13.71%	1.89%	9.93%
Alpha	0.12%	0.64%	2.87%	4.54%	1.81%	-0.44%

Source: Ellerston Capital

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

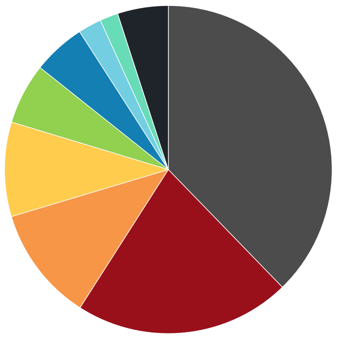
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

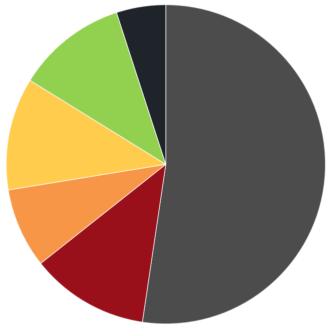
HOLDINGS

Top 10 holdings	Sector	%
TSMC	Information Technology	8.1%
Tencent Holdings Ltd	Communication Services	8.1%
Samsung Electronics	Information Technology	8.0%
Alibaba Group Holding Ltd	Consumer Discretionary	7.6%
China Construction Bank Corp	Financials	5.0%
Ping An Insurance	Financials	4.9%
ICICI Bank Limited	Financials	4.6%
China Life Insurance Co. Ltd.	Financials	4.2%
DBS Group Holdings Ltd	Financials	4.0%
Hong Kong Exchanges & Clearing Ltd	Financials	3.7%

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	$1.0745
Net Asset Value	$1.0718
Redemption Price	$1.0691
Liquidity	Daily
No Stocks	31
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

Ellerston Capital Limited
ABN 34 110 397 674
AFSL 283 000

Level 11
179 Elizabeth Street
Sydney NSW 2000

Ph: +61 2 9021 7797
Fax: +61 2 9261 0528

info@ellerstoncapital.com
www.ellerstoncapital.com

APIR Code: ECL1411AU

ELLERSTON CAPITAL

COMMENTARY

October was a good month. The Ellerston Asia Growth Fund (EAGF) was up 2.41% during the month outperforming the benchmark by 12bps (net). Calendar year to date in 2019, the fund is up 15.69% and has outperformed the benchmark by 5.13% (net).

On the trade war, since mid-2019 we have had the view that a partial trade deal will be reached before Christmas. In August, I presented on a panel at the Portfolio Construction Conference where this positive perspective was definitely the minority view. However, in the last few months this view has become consensus and markets have rallied in anticipation of an agreement between Presidents Trump and Xi. Phase 1 of the trade deal could take one of two forms:

(1) Limited Deal: China commits to higher agricultural purchases and the US agrees not to impose the tranche of tariffs slated to take effect on December 15. This outcome is largely already priced into Asian markets.

(2) Roll Back Deal: This scenario consists of the limited deal described above plus commitments from China to open up protected sectors of the economy, crack down on opioids and keep its currency relatively stable. In return, the US would agree to roll back some of the tariffs that are already in place – most likely the September tranche. This outcome is not fully priced in and would therefore be a positive for Asian markets.

Notably, we do not put a high probability on an immediate transition to negotiations on Phase 2 of a trade deal. Phase 2 would consist of a comprehensive deal that addresses core issues like IP protection, forced technology transfer and Chinese subsidies to state owned firms. These are non-negotiables as far as China is concerned and a win from Phase 1 may be enough to help Trump with farmers in key states. Therefore, while both sides are highly incentivized to get Phase 1 signed, neither side is highly incentivized to make Phase 2 happen quickly.

The other critical issue in Asia at the moment is the Hong Kong protests. In early November, protests escalated dangerously. Carrie Lam gave an address urging calm but did not provide any concrete steps to de-escalate tensions. We remain very underweight Hong Kong as a market. Unlike the trade war situation, where there is a clear path to resolution if both sides can agree and negotiate, we do not see any such path in the Hong Kong situation. The best case outcome is that protesters tire and peter out similar to what happened with Occupy Central but given the recent violence, this appears increasingly less likely.

In technology, Deputy Portfolio Manager Fredy Hoh travelled to Korea and Taiwan and came away with the distinct impression that 5G has moved from being a long term thematic to an actual earnings driver in 2020. We see 5G impacting a number of different subsectors in Asia: (1) infrastructure and testing; (2) telecom providers; (3) smartphones; and (4) supply chain. Companies in the EAGF portfolio that benefit from the transition to 5G include TSMC, Samsung, Hynix, King Yuan, Mediatek and Largan.

With respect to performance during October, India was the largest contributor to alpha from a country perspective while Financials was the largest sector contributor. In terms of stock performance, China Life Insurance and ICICI Bank were the largest contributors to alpha, while Tencent was the largest detractor.

Tencent is one of the highest weights in EAGF at approximately 8.1%. Since May of 2018, the stock has been range bound between $320 and $380. This is disappointing for a stock that has over 20% annual EPS growth. Our detailed fundamental analysis and due diligence on the ground suggests that Tencent has been a victim of flows: passive EM flows are minimal (Tencent is the largest weight in MSCI Emerging Markets), investors switch from Tencent to Meituan (the latter of which is now profitable and meets the investment criteria of more managers) and Alibaba and JD continue to poste very strong results in e-commerce. However, the fundamental outlook for Tencent remains strong and given its underperformance, valuation is now very attractive. Tencent is trading at 24x 2020 PE, which is more than 1 standard deviation below its long term average.

Cash at the end of October was 4.85%.

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/

SYDNEY OFFICE

Level 11, 179 Elizabeth Street,
Sydney NSW 2000

MELBOURNE OFFICE

Level 4, 75-77 Flinders Lane,
Melbourne VIC, 3000