

Ellerston Asia Growth Fund

Performance Report | November 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net [^]	2.44%	6.03%	9.71%	17.95%	3.82%	10.11%
Benchmark*	2.05%	5.78%	7.66%	13.60%	2.12%	10.40%
Alpha	0.39%	0.25%	2.05%	4.35%	1.70%	-0.29%

Source: Ellerston Capital

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

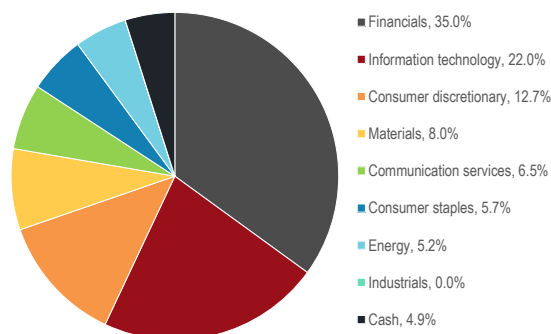
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

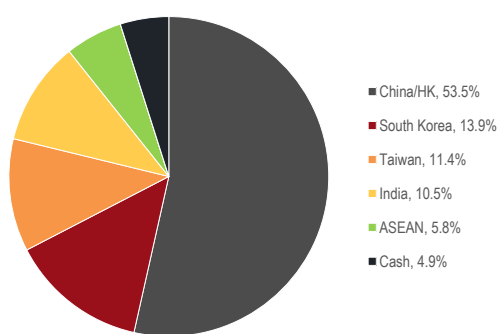
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding Ltd	Consumer Discretionary	8.6%
TSMC	Information Technology	8.2%
Samsung Electronics	Information Technology	7.8%
Tencent Holdings Ltd	Communication Services	5.2%
ICICI Bank Limited	Financials	5.0%
China Construction Bank Corp	Financials	5.0%
Ping An Insurance	Financials	4.8%
China Life Insurance Co. Ltd.	Financials	4.1%
DBS Group Holdings Ltd	Financials	3.9%
Hong Kong Exchanges & Clearing Ltd	Financials	3.7%

SECTOR ALLOCATION



GEOGRAPHIC 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	\$1.1006
Net Asset Value	\$1.0979
Redemption Price	\$1.0952
Liquidity	Daily
No Stocks	33
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

November was another good month for the Ellerston Asia Growth Fund (EAGF). The fund was up 2.44% (net) during the month outperforming the benchmark by 39bps (net). Calendar year to date in 2019, the fund is up 18.51% and has outperformed the benchmark by 12.83%.

In this update, we highlight 6 main drivers of equity markets in Asia for 2020: (1) the trade war; (2) Hong Kong protests; (3) global growth and the US dollar; (4) Indian growth; (5) rotation and (6) 5G.

Trade Talks

The trade talks have made limited tangible progress since the end of October. The December 15th deadline for the imposition of the next round of tariffs is fast approaching and there is still no meeting scheduled between Presidents Trump and Xi. Our base case remains that Phase 1 of the deal does get signed, but there is now a possibility that the December tariffs get delayed and the deal is signed in early 2020. It remains unclear whether this will be a limited deal involving only agricultural purchase and withholding of the December tariffs, or if it will be more comprehensive deal that includes roll backs of existing tariffs. Obviously the latter is China's strong preference.

Hong Kong Protests

Another critical issue in Asia for 2020 is the protests in Hong Kong. The District Council elections held during November showed a significant swing towards pro-democracy candidates and voter turnout was much higher than in previous elections. This is a positive sign because it shows that while universal suffrage is not in place, citizens still have a constructive, non-violent mechanism to make their voices heard. Since the elections, the protests in Hong Kong have continued but they have been less violent and less disruptive. We do not see a near term solution to the current problems in Hong Kong and remain significantly underweight Hong Kong as a market.

Global Growth and US Dollar

The best macroeconomic environment for Emerging Markets, including Asia, is a Goldilocks situation where global growth is strong but not too strong such that the US Federal Reserve starts to raise interest rates. Historically, there has been a strong inverse correlation between a strong US dollar and flows into Emerging Markets, and this relationship held like clockwork during 2017-18. We do see the possibility of a Goldilocks scenario playing out in 2020 and are positioned for flows into EM and a stable USD.

India Growth

GDP growth has decelerated significantly in the last 18 months with the last quarterly GDP print at only 4.5% versus over 7% last year. The structural reforms undertaken in Modi's first term, namely demonetization and GST implementation, are hurting the informal economy and this is having significant spill over effects into the economy as a whole. The policy response to the slowdown has been very disappointing with few demand stimulus announcements from the Ministry of Finance, and the RBI on hold as of the last meeting. In the coming months we expect news on a personal tax cut, government divestitures and the RBI to improve the transmission mechanism that was one of the road blocks which prevented a cut at the December meeting.

Rotation

Growth has outperformed value by a wide margin since the end of the GFC. In recent months there has been some rotation into cheaper, more cyclical stocks causing some commentators to predict a resurrection of value investing as a strategy. We have a very different interpretation of what is going on terms of rotation, namely that investors are buying cyclical growth (materials, industrials, etc) because this is the time in the global cycle to do so. Note that this implies that investors are still buying growth, just a different kind (i.e. cyclical growth over structural growth). Cyclical stocks may have lower valuations, but they have for many years now, so investors are not rotating into these stocks simply because they have suddenly realised that they are inexpensive. The bottom line is that investors want growth, be it cyclical or structural.

EAGF is a growth fund with a defined process to identify growth stocks. We can invest in low PE stocks and in cyclicals, but they have to meet our growth criteria and score a 5 or above in our Conviction Scorecard. In the last 6 months, we have added POSCO and Angang Steel to the portfolio, re-entered SK Hynix and increased our position in Samsung Electronics. These growth stocks have more cyclical characteristics than Hindustan Unilever or Alibaba. Financials remain the largest overweight in the portfolio and we have rotated out of India and ASEAN into North Asia (primarily tech). The portfolio's median EPS growth rate is currently 18% and the median PE is 17x for a PEG of <1x. We are comfortable with this positioning going into 2020.

5G

5G represents the next major advancement in mobile communications and characterised by higher download speeds (1-10Gbps) and low latency (<1ms). By the end of 2020, over 20% of the world's countries will have launched 5G related services. China holds the most number of 5G patents in the world, followed closely by South Korea. Together these countries make up almost 60% of global 5G patents. At a company level, 4 of the top 5G patent holders are Asian (Huawei, Samsung, LG Electronics and ZTE) and they account for over 50% of global 5G patents. EAGF has exposure to the 5G thematic via Samsung, TSMC, King Yuan, Mediatek, Hynix and Largan. This is an important driver for the TMT sector in 2020 because 5G will transition from being a thematic to being an important earnings driver.

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

We wish all our investors and readers a Happy Holidays and all the best in 2020.

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

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Should investors have any questions or queries regarding the Fund,

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