

# Ellerston India 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 <sup>^</sup>	1.30%	5.26%	1.35%	13.69%	9.03%	9.16%
Benchmark*	1.28%	6.51%	0.51%	14.25%	7.53%	8.67%
Alpha	0.02%	-1.25%	0.84%	-0.56%	1.50%	0.49%

Source: Ellerston Capital

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

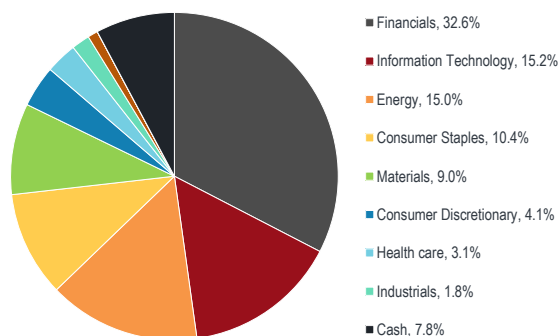
\* MSCI India Net Return Index (AUD)

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

Top 10 holdings	Sector	%
Reliance Industries Ltd	Energy	15.0%
Housing Development Finance Corp Ltd	Financials	8.8%
Hindustan Unilever Ltd	Consumer Staples	7.4%
Tata Consultancy Services Ltd	Information Technology	7.2%
Infosys Ltd	Information Technology	6.4%
ICICI Bank Ltd	Financials	6.0%
Axis Bank Ltd	Financials	5.8%
HDFC Bank Ltd	Financials	5.5%
Bajaj Finance Ltd	Financials	3.5%
Sun Pharmaceutical Industries Ltd	Health Care	3.1%

### 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

<b>Strategy Inception</b>	4 May 2017
<b>Portfolio Manager</b>	Mary Manning
<b>Application Price</b>	\$1.1703
<b>Net Asset Value</b>	\$1.1674
<b>Redemption Price</b>	\$1.1645
<b>Liquidity</b>	Daily
<b>No Stocks</b>	23
<b>Management Fee</b>	1.10%
<b>Performance Fee</b>	15%
<b>Buy/Sell Spread</b>	0.25%/0.25%

## COMMENTARY

The Ellerston India Fund (EIF) was up 1.30% (net) in November versus the benchmark which was up 1.28%. Calendar year to date in 2019, EIF is up 10.25%.

The NIFTY hit all-time highs during November despite a backdrop of slowing economic growth. The GDP print released during the month came in at a very weak 4.5% growth. This marked the sixth consecutive quarterly slowdown for the Indian economy. The fact that the market still finished up suggests that investors are pricing in further supportive policy action from either the Government or the Reserve Bank of India (RBI) in the coming months. In early December however, the RBI surprised the market by keeping the benchmark interest rate on hold at 5.15%. This has put pressure firmly on the Government to pursue expansionary fiscal policies when it delivers its Budget in February 2020. We would like to see policies that boost consumer confidence or consumer spending such as a personal income tax cut. The Government could fund this by privatising Air India and selling down its stakes in Bharat Petroleum, Container Corp and GAIL. From the RBI, we would like to see action on the NBFC issue and improvements to the monetary transmission mechanism so that future rate cuts are more effective.

Another factor supporting the market during the month was the better than expected reporting season for Indian companies driven primarily by the recent corporate tax cut. Whilst profit after tax for the market grew 8.3% yoy in 2QFY2020, revenues actually declined 2.5% yoy. So we would categorise the quality of earnings growth as low. Nonetheless, the EIF portfolio performed well during the reporting season with more earnings beats than misses.

A sector move worth highlighting during the month was in the Indian telecoms. We wrote in [October](#) about the ramifications of the Supreme Court ruling that would see Vodafone Idea and Bharti Airtel pay a combined total of A\$8.5 billion in accrued charges relating to the Department of Telecommunications (DOT) definition of Adjusted Gross Revenues (AGR). Perhaps understanding that the AGR payments could threaten the survival of Vodafone in particular, the DOT granted all telecom operators a 2 year moratorium on spectrum fee charges in order to ease their financial burdens. Further, the telecom companies all announced during the month plans to hike prices from December 2019. The reduced regulatory burden along with more rational competitive behaviour saw the share prices for both Vodafone and Bharti rise 59% and 19% respectively during the month. Reliance was also up ~6% in November and the company remains a core part of our portfolio.

In terms of portfolio performance, Energy and Consumer Discretionary were the two largest contributors to alpha during the month. While Communication Services and in particular, not owning Bharti Airtel, was the biggest detractor. The largest contributors to alpha were Reliance, ICICI Bank and HDFC Bank and the largest detractors were Bharti Airtel and Hindustan Unilever. Cash at the end of November was 7.8%.

Finally, Ellerston Senior Analyst Eric Fong was on the ground in India during November and his key takeaway was that the slowdown in the economy will be here to stay for the next 1-2 quarters and the best investment opportunities continue to be in the high quality market leaders. This is consistent with our current portfolio positioning with Reliance, HDFC, Hindustan Unilever and Tata Consultancy Services our biggest weights.

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

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

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Should investors have any questions or queries regarding the fund,  
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