

# Ellerston Asia Growth Fund

Performance Report | January 20

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net <sup>^</sup>	1.04%	6.81%	8.72%	19.30%	4.07%	11.03%
Benchmark*	0.31%	4.83%	6.03%	11.89%	1.82%	10.77%
Alpha	0.73%	1.98%	2.69%	7.41%	2.25%	0.26%

Source: Ellerston Capital

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

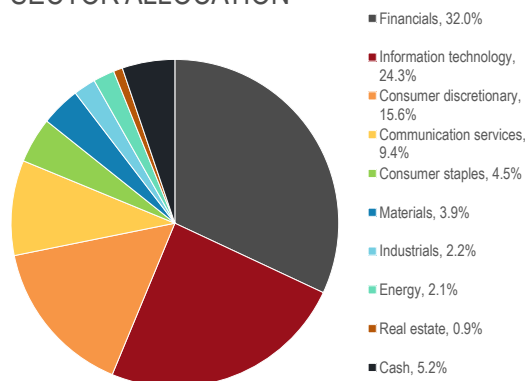
\*MSCI Asia ex Japan (non-accumulation) (AUD)

## PORTFOLIO CHARACTERISTICS

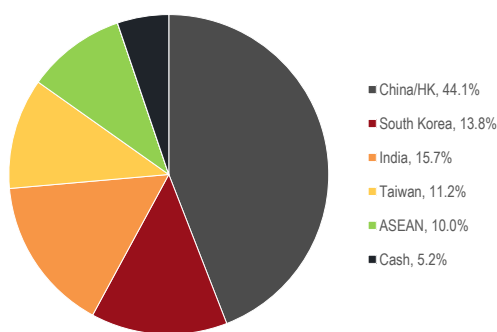
### HOLDINGS

Top 10 holdings	Sector	%
TSMC	Information Technology	8.2%
Tencent Holdings Ltd	Communication Services	8.1%
Samsung Electronics	Information Technology	8.0%
Alibaba Group Holding Ltd	Consumer Discretionary	6.8%
Hong Kong Exchanges & Clearing Ltd	Financials	4.2%
China Life Insurance Co. Ltd.	Financials	4.0%
SK Hynix Inc	Information Technology	3.9%
DBS Group Holdings Ltd	Financials	3.7%
Bank Rakyat	Financials	3.1%
ICICI Bank Ltd	Financials	3.1%

### 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	\$1.1343
Net Asset Value	\$1.1315
Redemption Price	\$1.1287
Liquidity	Daily
No Stocks	34
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

## COMMENTARY

January was the best of times and the worst of times. The first three weeks of January saw a significant advance in Asian markets buoyed by the signing of Phase I of the trade deal, Goldilocks conditions for US macro and positioning at the start of the new calendar year. Then in late January the coronavirus broke out and China embarked on the largest quarantine in human history putting over 50 million people in Wuhan and surrounding areas into lock down. For investors, the situation was complicated by the Chinese New Year holidays which meant that many Asian markets were closed for up to a week just after the virus broke out.

Despite the coronavirus outbreak, Ellerston Asia Growth Fund was up 1.04% during the month outperforming the benchmark by 0.73% (net). Financial year to date, the Fund is up 9.10% outperforming the benchmark by 3.49%.

The market reaction since then has been remarkably resilient with the S&P 500 still near all-time highs and Asian markets down less than 5% since the late January highs. Part of this resilience stems from analysing market movements during SARS. During that pandemic, markets fell over 10% from the peak but then quickly rebounded and investors “looked through” bad quarterly earnings and “bought the dip.” This sentiment seems to have informed the response to coronavirus.

Our approach has been more measured and is one of the reasons we generated positive alpha in January. First, we divided the portfolio into categories: directly negatively impacted by the virus (only one stock), indirectly negatively impacted, potentially positively impacted, high beta China stocks (which would fall sharply regardless of earnings impact) and technically overbought. We took profits in the directly impacted, high beta China and technically overbought names and rotated primarily into cash and stocks that could potentially benefit from quarantine-like conditions. These include online games (Tencent, Netease) and e-commerce (JD, Alibaba), all of which we already owned in the portfolio. We also increased positioning in Korean technology stocks (Samsung, SK Hynix) as the supply chains of these companies are less likely to be disrupted versus Chinese, American or Taiwanese counterparts.

The epidemiological outcomes of the coronavirus are yet to be determined. On the positive side, early data suggests that growth in cases outside Hubei province is controlled. On the negative side, there remains a tail risk that so-called “super spreaders” carry the virus to other countries where health systems are not as robust or to countries where lock down and quarantine measures are much more difficult to enact than in China. We see this as a low, but not zero, probability.

In this sort of environment, namely one characterized by high volatility and high uncertainty, it pays to be a large cap focused fund like the Ellerston Asia Growth Fund. We have a very liquid portfolio (average market cap of over \$160 billion) and can adjust to major changes in the environment in an efficient manner.

Elsewhere in Asia, the Indian Finance Minister Nirmala Sitharaman delivered another lacklustre budget with some personal tax cuts, but no major announcements on infrastructure, real estate or support for the real estate or non-bank financial company (NBFC) sectors. The market sold off very sharply (down 2.5%) on the budget but rebounded partially a few days later when the Reserve Bank of India (RBI) delivered a dovish statement on interest rates accompanied by a “mini-budget” which did provide support for beleaguered sub-sectors of the financial sector. Overall, the policy environment in India remains disappointing. Investors, including us, are concerned that it may take longer than anticipated for the economy to return to 7%+ growth.

In terms of stock contribution in January, Proya Cosmetics, Hindustan Unilever and HK Exchanges were the top contributors to alpha while China Life and Anhui Conch were the biggest detractors. Portfolio positioning sector wise is overweight technology and financials. Cash at the end of January was 5.2%.

As always, if you have any questions regarding any aspect of EAGF or the portfolio, please feel free to contact us at [investorrelations@ellerstoncapital.com](mailto:investorrelations@ellerstoncapital.com).

Kind regards,  
Mary Manning  
Portfolio Manager

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

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