

Ellerston Asia Growth Fund

Performance Report | May 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net [^]	-1.25%	-7.23%	-2.59%	6.87%	5.00%	7.74%
Benchmark*	-2.77%	-8.49%	-5.24%	2.02%	2.93%	7.11%
Alpha	1.52%	1.26%	2.65%	4.85%	2.07%	0.63%

Source: Ellerston Capital

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

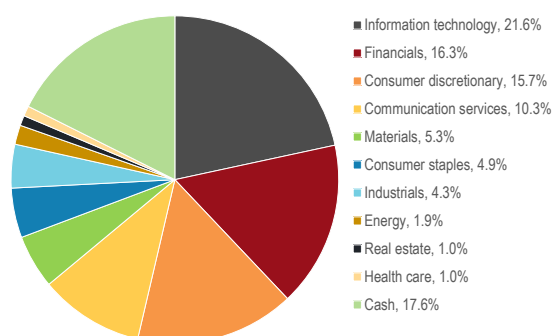
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

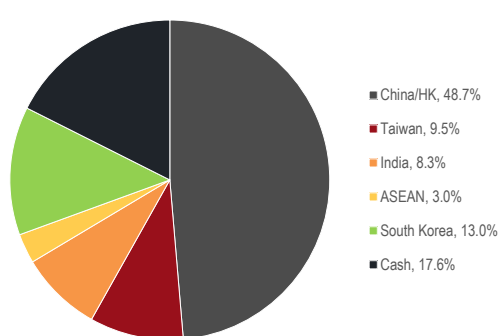
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding Ltd	Consumer Discretionary	10.1%
Samsung Electronics	Information Technology	8.1%
Tencent Holdings Ltd	Communication Services	7.3%
TSMC	Information Technology	6.8%
Hong Kong Exchanges & Clearing Ltd	Financials	5.0%
Ping An Insurance	Financials	3.8%
Anhui Conch Cement Company Ltd	Materials	3.4%
Larsen & Toubro Ltd	Industrials	3.2%
China Merchants Bank Co.	Financials	3.1%
Hindustan Unilever Ltd	Consumer Staples	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	\$1.0597
Net Asset Value	\$1.0571
Redemption Price	\$1.0545
Liquidity	Daily
No Stocks	30
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

May saw a continuation of the global market rally that started on March 23, 2020. Since then both the S&P 500 and the MSCI World Index are up over 30% and the NASDAQ is near its all-time high. The Ellerston Asia Growth Fund (EAGF) was down 1.3% during May and outperformed the benchmark by 1.5% (net). This outperformance was despite high cash levels and sector rotation out of growth (our strategy) into value. In the last 1 year, EAGF has outperformed the benchmark by 4.9% (net). The strong appreciation of Australian Dollar during the month was a headwind for absolute returns.

MARKET OUTLOOK

Similar to the commentary last month, our view is that equities have rallied too far too fast and that markets have become disconnected from the underlying economies both in developed markets (DM) and Emerging Markets (EM). Obviously, there are two ways this disconnect can be rectified: markets can correct and play “catch down” with economic fundamentals, or market trade sideways while fundamentals “catch up”. We think the former is more likely.

Deterioration of US-China Relations One major risk that the market continues to brush aside is the ongoing deterioration of US-Sino relations. While Phase I of the trade deal is still nominally in place, it will be difficult to meet the milestones set out in this agreement and there is little scope for moving ahead with Phase II. The situation in Hong Kong has definitely deteriorated with Beijing’s move to implement the draft National Security Law and the US beginning to rescind aspects of Hong Kong’s special status. Hong Kong protests on this matter to date have not reached the level of participation seen last year in response to the Extradition Bill, possibly because of COVID-19 and social distancing norms and possibly because the political and personal risk to protesters has increased given the nature of the proposed National Security Law.

Finally, the most pressing area of US-Sino tensions for market participants is Chinese stocks that are listed as American Depositary Receipts (ADRs). Some of China’s largest companies (Alibaba, Baidu, Pinduoduo) have ADR listings. In late May the US Senate passed the Holding Foreign Companies Accountable Act, which prohibits a company from being listed in the US if it has failed to comply with the Public Company Accounting Oversight Board’s (PCAOB) audits for three years in a row. This bill is now in the House and is generally seen as a mechanism for the SEC and the Trump Administration to target Chinese ADRs.

ADR listed Chinese companies are acutely aware of this risk and as a result there has been a surge of ADRs seeking a secondary listing in Hong Kong. Alibaba did so in 2019, and NetEase and JD have followed. Baidu and others are expected to pursue a similar path. The main beneficiary of this trend is Hong Kong Exchange, a stock that has been in the portfolio since inception in 2015 and is now one of our largest overweights.

One final point on US-China tensions is that investors must consider the extent to which US-China relations may be used as a campaign tool in the US Presidential election. During May, both sides put out ads berating the other over China policies and/or ties with the country. If polls shows that talking tough on China is a vote winner, we can certainly expect increased anti-China rhetoric going into November.

Given the concerns outlined above, we remain very underweight Hong Kong as a market and our China portfolio is primarily domestic demand stocks. From a portfolio management point of view, we have transitioned some of our Alibaba holding from the ADR to the Hong Kong listing and expect to transition NetEase and JD overtime as well.

Rotation to Value Another thematic that was prevalent in May was factor rotation from growth to value. As our investors know, Ellerston Asia is a growth fund and we only invest in stocks that meet our growth criteria. This strategy doesn’t change to suit different market conditions as we strongly believe that growth, particularly structural growth, is a more sustainable long term strategy for generating both absolute and relative returns.

As mentioned above, the rotation to value did not damage performance in May as we outperformed the benchmark by 1.5%. We do note however that many of the high profile, go-to growth stocks in our portfolio were looking stretched both in terms of valuation and technicals. Meituan (up 41% CYTD), JD (up 44% CYTD) and Naver (up 25% CYTD) are in this category and we have trimmed positions and taken profits in these stocks.

On the flip side, there are stocks that meet our growth criteria but have relatively low PE multiples and have significantly lagged the market since the March low. Examples include Baidu (14x 2021 PE) and Ping An (8x 2021 PE). We have initiated/increased positions in these stocks which provides some insurance against a prolonged rotation to value without compromising the dedication to our high growth strategy.

PERFORMANCE

In May, China was the largest country contributor to alpha while Korea was the largest detractor. Consumer Discretionary and Financials were the largest sector contributors to alpha while Consumer Staples and Materials were the largest detractors. Meituan and JD were the largest single stock contributors to alpha while Anhui Conch was the largest detractor.

As always, if you have any questions regarding any aspect of EAGF or the portfolio, please feel free to contact us at info@ellerstoncapital.com. We are hosting an update conference call on June 18 at 10am AEST for investors for which you can [register](#) here.

Kind regards,

Mary Manning

All holding enquiries should be directed to our registrar, [Link Market Services](https://linkmarketservices.com.au) 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](mailto:info@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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