

Ellerston India 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 [^]	-3.04%	-15.80%	-17.51%	-16.39%	1.00%	1.11%
Benchmark*	-4.11%	-17.89%	-19.55%	-19.14%	-0.22%	-0.09%
Alpha	1.07%	2.09%	2.04%	2.75%	1.22%	1.20%

Source: Ellerston Capital

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

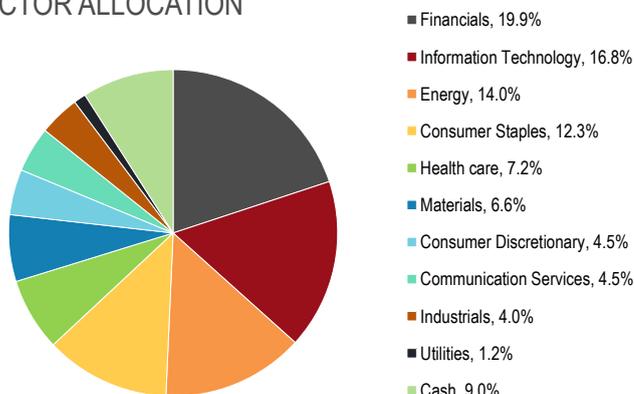
* MSCI India Net Return Index (AUD)

PORTFOLIO CHARACTERISTICS

HOLDINGS

Top 10 holdings	Sector	%
Reliance Industries Ltd	Energy	13.8%
Infosys Ltd	Information Technology	10.4%
Housing Development Finance Corp Ltd	Financials	8.4%
Tata Consultancy Services Ltd	Information Technology	6.5%
Hindustan Unilever Ltd	Consumer Staples	5.9%
ICICI Bank Ltd	Financials	5.6%
Sun Pharmaceutical Industries Ltd	Health Care	5.3%
Britannia Industries Ltd	Consumer Staples	5.3%
Bharti Airtel Ltd	Communication Services	4.5%
Maruti Suzuki India Ltd	Consumer Discretionary	4.5%

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

Strategy Inception	4 May 2017
Portfolio Manager	Mary Manning
Application Price	\$0.9528
Net Asset Value	\$0.9504
Redemption Price	\$0.9480
Liquidity	Daily
No Stocks	22
Management Fee	1.10%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%
Fund FUM	\$17.7 Million
Firm FUM	Over \$5 Billion

COMMENTARY

May was another difficult month for the Indian market with the MSCI India Index falling 4.1%. The Ellerston India Fund (EIF) was down 3.0% outperforming the benchmark by 1.1%. Calendar year to date in 2020, EIF is down 15.3%, but has outperformed the benchmark by 2.3%.

There were two drivers of the Indian market performance during the month. The first was the ongoing COVID-19 outbreak in India. The number of cases in India has continued to rise since our last monthly update and now stands at 333,000, which is the 4th highest globally. Despite a relatively low mortality rate (about 3% vs ~6 globally), the inability for India to 'flatten the curve' remains a cause for concern. Most of the positive cases are located in tier 1 and tier 2 cities and these areas remain in lockdown.

In the coming weeks, positive case rates in the urban areas may start declining and ordinary activity can resume. In the meantime, resumption of economic activity in India has been concentrated in rural and less populated areas. Our channel checks on the ground along with various high frequency indicators (freight volumes, electricity demand, etc) suggest that activity has picked up in these areas over the past few weeks. The recovery in rural activity along with forecasts for a normal monsoon season and a US\$20bn stimulus package targeting rural workers means that India's rural economy will likely fare better than the urban economy in the near term. As such, we continue to prefer companies with rural exposure such as Hindustan Unilever (40% of revenues are rural), Dabur (45% of revenues are rural) and Coromandel.

Other segments that should benefit from the staged reopening of the country include construction and materials. Larsen and Toubro and Ultratech Cement are portfolio stocks that will benefit from this reopening. Meanwhile health and hygiene will remain an important focus for consumers going forward which should support names such as Britannia and Hindustan Unilever.

The second driver of the Indian market during the May was the disappointing policy announcements from the Indian Government and the RBI. On the fiscal side, the stimulus packages which was touted as being worth ~10% of GDP, actually included numerous policies that had previously been announced and failed to address critical demand side problems that continue to plague the Indian economy. Meanwhile on the monetary side, the 40bps cut to the cash rate by the RBI was yet again underwhelming and ineffective given rate cut transmission issues in the non-bank financial sector.

These are further examples in a long line of recent missteps by India's key policymakers. As a result of these policy disappointments, Moody's downgraded India's sovereign credit rating in early June to Baa3 with a 'negative' outlook. India is now on the lowest possible investment grade rating with Moody's, S&P and Fitch and is at risk of slipping into non-investment grade if economic fundamentals do not improve. A downgrade to sub-investment grade would have negative flow on effects to borrowing costs and the INR.

Turning to portfolio performance, Financials and Industrials were our largest contributors to alpha during the month. While IT, Healthcare and Consumer Discretionary were our biggest detractors. At a stock level, Britannia, Ultratech Cement and HDFC were the biggest alpha contributors in May, while Asian Paints, HDFC Bank and Infosys were the biggest detractors.

Finally, it is important to highlight the ongoing corporate activity at Reliance, which is by far the largest holding in the Fund at 13.8%. During May, the company announced a US\$7bn rights issue as well as divesting a further US\$5bn stake in its Jio Platforms business to KKR, General Atlantic and Middle Eastern sovereign wealth funds. Together with previous stake sales to Facebook and other private equity partners, Reliance has raised ~US\$20bn in less than 2 months during a major global pandemic. This is a testament to both the attractiveness of the Jio business as well as the strong desire by Reliance management to reduce the company's debt levels to zero by 2021.

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. We are holding an investor call for Ellerston Asia on June 18 at 10am AEST for which you can [register](#) here. While this discusses all markets in Asia, not just India, all investors are welcome to join.

Kind regards,

Mary Manning

All holding enquiries should be directed to our registrar, Link Market Services 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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