ELLERSTON CAPITAL

Ellerston Asia Growth Fund

Performance Report | June 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net^	3.17%	3.40%	-2.61%	5.16%	6.78%	8.51%
Benchmark*	4.00%	2.95%	-3.76%	1.33%	4.95%	8.14%
Alpha	-0.83%	0.45%	1.15%	3.83%	1.83%	0.37%

Source: Ellerston Capital

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

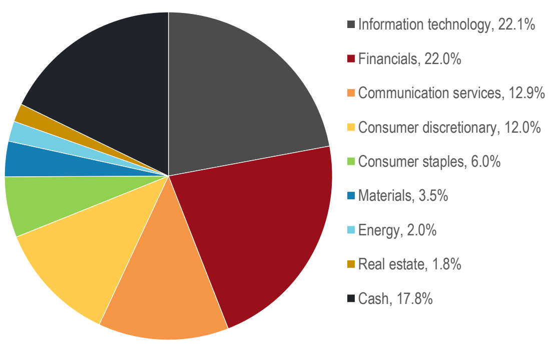
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

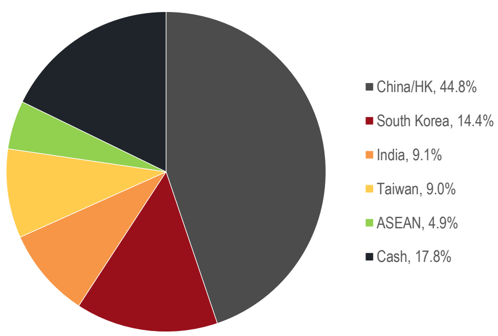
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding Ltd	Consumer Discretionary	9.8%
Tencent Holdings Ltd	Communication Services	8.1%
Samsung Electronics	Information Technology	7.0%
TSMC	Information Technology	7.0%
Hong Kong Exchanges & Clearing Ltd	Financials	5.5%
Ping An Insurance	Financials	4.7%
POSCO	Materials	3.5%
Hindustan Unilever Ltd	Consumer Staples	3.0%
SK Hynix Inc	Information Technology	3.0%
Baidu Inc.	Communication Services	2.9%

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	$1.0933
Net Asset Value	$1.0906
Redemption Price	$1.0879
Liquidity	Daily
No Stocks	29
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

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COMMENTARY

June saw a continuation of the global market rally that began in March 2020. Ellerston Asia Growth Fund (EAGF) was up 3.17% during June but underperformed the benchmark by 0.83% (net), primarily due to our elevated cash position (18%). Year to date in calendar 2020, EAGF is down 2.61% but has outperformed the benchmark by 1.15% (net) and has significantly outperformed the ASX 200 which is down 10.42%. For the financial year ending June 2020, EAGF is up 5.16% outperforming the benchmark by 3.83% (net).

A number of our investments have posted significant up moves in the period from late March to June month end: Meituan is up over 110% during this time frame, Reliance Industries is up 95%, Mediatek is up 88% and JD and Hong Kong Exchange are both up approximately 56%. All of these stocks have continued to rally in July.

We are disciplined investors and therefore have trimmed positions and taken profits in a number of stocks where valuations are stretched and/or where technical indicators are severely overbought. This disciplined approach has resulted in a considerable booked gains for the Fund.

MARKET OUTLOOK

At the risk of sounding like a broken record, we remain concerned about the apparent disconnect between the market movements and underlying economic fundamentals in a COVID-19 world. Liquidity remains king but at some point, there needs to be a reconciliation between stock prices and underlying earnings. We remain cautious, and are pleased that our performance has been above benchmark CYTD despite relatively high levels of cash.

The outlook for Asian markets in the second half of 2020 is a function of a number of key factors: (1) Ongoing first waves of COVID-19 and the emergence of second waves in some countries; (2) US-China relations and the imposition of the National Security Law in Hong Kong; and (3) China's A share rally.

COVID-19 – First and Second Waves In previous monthly newsletters we have highlighted a second wave of COVID-19 as a major risk to investor sentiment. Sadly, many major economies in the world are still struggling to contain the first wave, namely the US, Brazil and India which together account for 5.5 million cases and 225,000 deaths. In Asia, in addition to India, we remain concerned about the ongoing first wave of COVID-19 cases in Indonesia and Philippines. We currently have no investments in either of these countries and are very defensively positioned in India. Elsewhere in Asia there have been scares of second waves (Beijing, Japan and some cities in Korea) but these, thankfully, have been quickly contained. Given the FIFO (First In First Out) nature of COVID-19, we continue to favour North Asia over ASEAN and India.

US-China Relations and Hong Kong National Security Law One major risk that the market continues to brush aside, but where we remain on high alert, is the ongoing deterioration of US-China relations. Beijing's move to implement the National Security Law in Hong Kong has effectively ended One Country Two Systems. US Congress has retaliated by approving a bill that would impose sanctions on groups that undermine Hong Kong's autonomy, on the Chinese Communist Party officials involved in drafting and imposing the new security law, and on financial institutions that have the above entities as customers. The bill is currently under review in the White House. We do not see any direct impact on our Hong Kong/China portfolio from this bill but its passage could dent sentiment.

Recent news reports that Secretary of State Mike Pompeo wants to undermine the Hong Kong dollar peg as part of a retaliatory move highlights a complete lack of understanding within the Trump administration with respect to the role Hong Kong plays in the global financial system. We remain of the view that there is a very low probability of any change to the peg.

There has been some speculation that Trump wants to ban certain Chinese Apps, most notably TikTok, from operating in the US. If this ban was enacted and was extended to other Chinese Apps like WeChat, we do not see a meaningful impact on revenues or profitability for Tencent, as it is almost exclusively a domestic Chinese business. If the US moves to impose restriction on Tencent's investments outside China, that would be a greater cause for concern.

The other area for concern in US-China relations is the potential targeting of Chinese American Deposit Receipts (ADRs). We have moved some of our ADR holdings to Hong Kong as a precaution, and because it is easier to trade these stocks during Australian hours, but Baidu and part of our Alibaba holding are still invested in ADRs. Any change to ADR status would take at least 18 months to 3 years to complete, so there is sufficient time to relocate the remaining investments if necessary.

Finally, it is important to note that many of the anti-China policies touted by the Trump administration may have a limited shelf life given the proximity of the November Presidential election. Given where Trump is currently polling versus Joe Biden, one question many investors have asked in recent weeks is whether a Trump or Biden Presidency is better for China.

The answer is nuanced. Firstly, anti-China sentiment is a bi-partisan vote winner in America right now, so there will not be a significant change in sentiment towards China regardless of who is in the White House. That said, Biden is probably better for China in the near term but a second term for Trump is likely better for China in the long term. Judging by Biden's time as Vice President under President Obama, his foreign policy approach would focus on re-engaging with historical allies and his trade team would not include super-hawks like Peter Navarro and Robert Lighthizer. The latter in particular would be a positive for China market sentiment.

In the long run however, a second term for Trump would be better for China's ascendancy on the global stage as Trump's alienation of traditional allies, withdrawal from multi-lateral organizations and mishandling of global crises could cement the hegemonic decline of America. This is precisely why many people within the Chinese Communist Party want to see Trump returned to the White House in November.

China's A Share Market Rally China's A share market performed strongly in June with the CSI300 up 8% during the month and an additional 15% during the first week of July. Such strong performance can be attributed to a number of factors: (1) robust economic recovery and reopening post-COVID-19; (2) higher earnings certainty in the second half of 2020; (3) improved liquidity both onshore and offshore driving more retail and institutional participation; (4) ongoing capital market and regulatory reform; and (5) a strengthening of the CNY which increases appeal for China A share listed assets.

The 2015 bull run in China A shares lasted for 6 months so this rally could have more to go. Valuation wise, the CSI300 remains reasonably priced, trading on 13.5x forward PE with ~15% earnings growth in 2021. In comparison, S&P500/ASX200 is trading on 19.5x/17.8x forward PE with 14%/6% earnings growth.

PERFORMANCE

In June, Hong Kong was the largest country contributor to alpha while China was the largest detractor. IT was the largest sector contributors to alpha while Health Care (underweight) was the largest detractor. Hong Kong Exchange, Luxshare and Mediatek were the largest single stock contributors to alpha while POSCO 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.

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

Should investors have any questions or queries regarding the Fund,

please contact our Investor Relations team on 02 9021 7701 or info@ellerstoncapital.com

or visit us at https://ellerstoncapital.com/

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