

Ellerston India 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 [^]	2.54%	6.96%	-13.18%	-12.90%	3.11%	1.88%
Benchmark*	2.96%	7.19%	-15.21%	-15.45%	2.03%	0.84%
Alpha	-0.42%	-0.23%	2.03%	2.55%	1.08%	1.04%

Source: Ellerston Capital

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

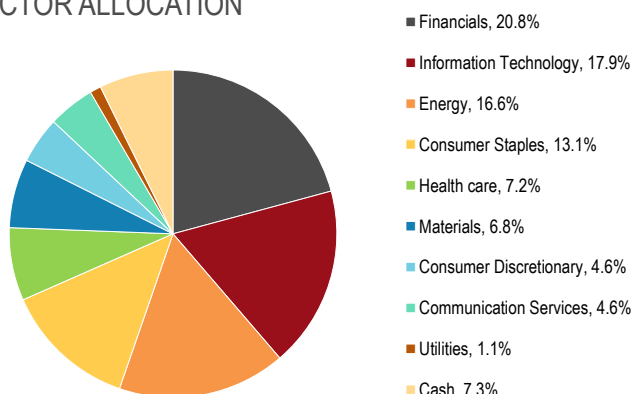
* MSCI India Net Return Index (AUD)

PORTFOLIO CHARACTERISTICS

HOLDINGS

Top 10 holdings	Sector	%
Reliance Industries Ltd	Energy	16.1%
Infosys Ltd	Information Technology	11.0%
Housing Development Finance Corp Ltd	Financials	8.9%
Tata Consultancy Services Ltd	Information Technology	6.8%
Hindustan Unilever Ltd	Consumer Staples	6.3%
ICICI Bank Ltd	Financials	5.9%
Sun Pharmaceutical Industries Ltd	Health Care	5.3%
Maruti Suzuki India Ltd	Consumer Discretionary	4.6%
Bharti Airtel Ltd	Communication Services	4.6%
Britannia Industries Ltd	Consumer Staples	3.8%

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	\$0.9769
Net Asset Value	\$0.9745
Redemption Price	\$0.9721
Liquidity	Daily
No Stocks	23
Management Fee	1.10%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

June was a better month for the Indian market with the MSCI India Index up 2.96%. The Ellerston India Fund (EIF) was up 2.54%, slightly underperforming the benchmark. Calendar year to date in 2020, EIF is down 13.18%, but has outperformed the benchmark by 2.03%.

The Indian market was up despite the border skirmish between China and India and the ongoing COVID-19 pandemic. We believe part of the reason for the strong equity market performance in India despite these negative events is the 'Robinhood effect'. The MSCI India Index is up 43% since the March 2020 lows and during that time retail turnover has increased by more than 70%. The pace of new account openings has more than doubled in the past three months, with over 2 million retail accounts added since March. History has shown that retail flows are highly cyclical and therefore the recent surge is likely to be unsustainable. As such, we remain cautious and focus on the fundamentals, which continues to remain challenged by COVID-19.

On the border dispute that occurred in the Galwan Valley, we believe it is not in India's best interest to engage in any sort of conflict with China, particularly as the country grapples with the economic fallout from COVID-19. Although the situation has since de-escalated in a physical sense, the Indian Government has instead responded with economic sanctions including the banning of Chinese apps such as TikTok and WeChat as well as greater scrutiny on imported goods from China. We note that China accounts for 14% of India's total imports, while India accounts for only 2% of China's exports. As such, India risks shooting itself in the foot economically if it continues with these retaliatory actions. Aside from Cadila, the EIF portfolio does not contain any companies with material exposure to Chinese imports.

On the COVID-19 situation, the number of cases in India has continued to rise since our last monthly update and now stands at over 1 million, which is the third highest globally. The mortality rate remains low at about 2.5% vs ~4% globally, but the inability for India to 'flatten the curve' remains a cause for concern. Much like the US, India has started reopening certain areas even though confirmed cases continue to rise. This has seen a rebound in economic activity indicators, which has given the illusion of a 'V-shaped' recovery and has helped to improve equity market sentiment. For example, India's manufacturing PMI rebounded sharply in June to 47.2 (vs 27.4 in April). Similarly, the services PMI rose to 33.7 (vs 5.4 in April). Our concern is that without proper containment of the virus, the reopening may prove premature and risks stalling the economic recovery or even result in a double-dip in activity. This would see the Indian market give up some of its recent gains.

One bright spot throughout the COVID-19 outbreak has been the performance of the rural sector. Our on-the-ground channels checks continue to show that the rural economy is faring significantly better than the urban economy. The monsoon season, which is vital for India's rural economy, has been progressing well and is 18% ahead of normal in June 2020. On top of this, the Indian Government's spending on the rural sector has increased 69%yoy in the past two months. These factors suggest that the rural economy could see positive growth in the June quarter, whilst the rest of the Indian economy continues to shrink due to the impact of previous lockdowns. We therefore continue to hold companies that have sizeable rural exposure such as Dabur, Hindustan Unilever, Coromandel and companies that are investing to expand their rural coverage such as Britannia and Nestle. Nestle is a new addition to our portfolio.

In terms of contributors to portfolio performance, the sectors that generated alpha during the month were Information Technology, Energy and Consumer Staples. Consumer Discretionary, Financials and Utilities were the key detractors. At a stock level, key contributors to alpha were Coromandel, HDFC Bank, Infosys and Britannia. Detractors included State Bank of India and Indraprastha Gas.

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.

Kind regards,
Mary Manning

All holding enquiries should be directed to our registrar, [Link Market Services](mailto:linkmarket@linkmarketservices.com.au) 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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