

Ellerston Asia Growth Fund

Performance Report | September 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net [^]	2.28%	7.51%	11.17%	13.35%	8.51%	10.03%
Benchmark*	1.45%	5.49%	8.61%	8.53%	5.67%	9.13%
Alpha	0.83%	2.02%	2.56%	4.82%	2.84%	0.90%

Source: Ellerston Capital

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

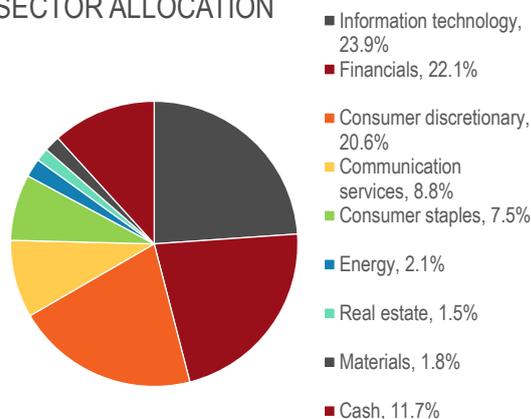
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

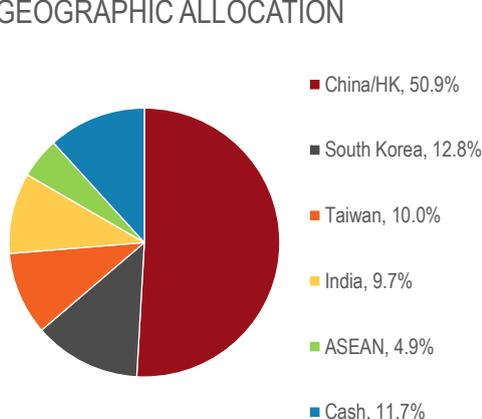
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding	Consumer Discretionary	13.1%
TSMC	Information Technology	9.1%
Samsung Electronics	Information Technology	8.9%
Tencent Holdings	Communication Services	7.8%
Hong Kong Exchanges & Clearing	Financials	5.1%
Ping An Insurance	Financials	4.8%
DBS Group Holdings	Financials	2.9%
Hindustan Unilever	Consumer Staples	2.6%
China Merchants Bank Co	Financials	2.6%
Reliance Industries	Energy	2.1%

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



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	\$1.1245
Net Asset Value	\$1.1217
Redemption Price	\$1.1189
Liquidity	Daily
No Stocks	34
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

The Ellerston Asia Growth Fund (EAGF) was up 2.28% (net) during September versus the benchmark which was up 1.45%. Year to date in calendar 2020, EAGF is up 4.71% and has outperformed the benchmark by 3.18% (net).

MARKET OUTLOOK

COVID-19 UPDATE

The majority of Asian countries now appear to have both the epidemic and the economic impact of lock downs under control. Even in India, which was previously a major outlier in this respect, cases have started to trend down. The Indian market has responded very strongly to this improvement with MSCI India rising over 15% since the beginning of July 2020. We have been slightly overweight India during September but are hesitant to increase our allocation as there is still considerable earnings uncertainty. In addition, after the recent rally, the market is expensive versus Emerging Market peers.

Two additional aspects of COVID-19 that we continue to watch closely are the emergence of second waves in Europe and the development and distribution of a vaccine. In Asia, we maintain our preference for North Asia over ASEAN and India for COVID-19 related and other reasons.

THE US ELECTION

The upcoming Presidential election in the US, and its aftermath, could introduce significant volatility into the US and global markets. We were somewhat surprised at the market reaction to Trump testing positive for COVID-19. While markets sold down first day, they staged a strong comeback in subsequent trading sessions. The rationale for this move is that Trump's diagnosis and ongoing mishandling of COVID-19 has increased the probability of a clean Biden win. This in turn has increased the probability of further expansionary fiscal measures to support the US economy.

There is some validity to this rationale and the Ellerston Asia team has done extensive scenario analysis to ensure that we are positioned correctly going into November. Our scenarios include: Blue Wave (Biden wins, Democrats take both the House and the Senate); Red Wave (Trump wins and Republicans take both the House and the Senate); Split cases (Trump wins but Democrats have the House and/or Senate or Biden wins but Republicans have the House and/or Senate); and a negative tail risk case.

Potential negative tail risks associated with the US election include: (1) results take a long time to collate given the high proportion of postal votes creating uncertainty for markets in the interim. The results still being undetermined by inauguration day is a possibility; (2) the outcome is known but disputed by whoever loses; (3) Trump loses but refuses to leave office leading to a messy transition to power for Biden; and (4) civil unrest erupts in America as the supporters of whoever loses take to the streets. Our base case is for a Blue Wave, but the tail risks could all add up to a protracted post-election struggle in the courts or the streets or both. This latter outcome is currently not priced into global markets.

From an Asia perspective, we have discussed before that Biden may be better for Asia in the short term (particularly China) as his policies will likely be more rationale and the super hawks in the Trump administration (Pompeo, Lighthizer, Navarro) will no longer be driving the policy agenda with China. Trump could be better for China in the long term as another term as President would accelerate American hegemonic decline and improve China's relative standing as a superpower.

Given that a Blue Wave is our base case, we have done a lot of thinking about what this means for global equities, Asian equities, the USD, China policies, trade, FDI into Asia and sector rotation. EAGF is a growth fund and we do not invest in stocks simply because they are "cheap." We invest in stocks that have structural growth stories. A Biden win however is expected to instigate a sharp rally in cyclicals as expansionary fiscal policies and extremely loose monetary policy combine to ignite both US domestic and global growth. To address this we have marginally increased position sizes in a few more cyclical names and financials (all of which meet our strict growth criteria) so that we can continue to generate positive alpha even if there is a sustained rotation to cyclicals.

US CHINA RELATIONS

There are two perspectives from which to view US-Sino relations: immediate term and longer term. The most pressing issues in the immediate term are Trump's Executive Orders (EO) banning WeChat and TikTok and whispers that his administration is looking to ban the payment apps of Alibaba and Tencent (Alipay and Tenpay, respectively). Both the WeChat and TikTok bans have run into legal issues, which makes it unlikely that the payment app bans will be able to be pushed through prior to the election.

In late September a federal judge issued an injunction against Trump's EO to ban WeChat on the grounds that it raised questions regarding the First Amendment rights of Chinese speaking Americans or Chinese speakers residing in America. There are also issues about whether due process was followed with respect to the ban.

Also in late September, the TikTok ban ran into legal troubles with a judge granting a preliminary injunction (sought by ByteDance) which allows the app to remain on US app stores while the courts debate the legality of the ban, whether TikTok poses a risk to national security and whether the ban threatens the livelihoods of some prolific users.

Regardless of the outcomes of the WeChat and TikTok cases, our view is that Trump will have neither the time nor the inclination to successfully expand the ban to other Chinese assets that have users and/or operations in the US. As such, we have slightly increased our Tencent position size to approximately 8%.

With respect to US China relations in the longer term, Ellerston Asia has long held the geostrategic view that US is in hegemonic decline and China is in ascendancy. This is our base case going forward, however, equity markets are reflecting a long term trajectory that is totally different than our base case.

The US equity market is still priced like a super power (the S&P 500 is trading at 21x forward PE and 3.4x P/B) but America is exhibiting many characteristics of an Emerging Market: there is civil unrest on the streets, a potentially disputed election on the cards (see above), a pandemic has spread out of control, a President ruling by Executive Order, a highly politicised supreme court, debt and deficits are unsustainably high and the currency has depreciated significantly against a basket of its peers.

Meanwhile China is priced like an Emerging Market (CSI 300 is at 14x PE and 1.8x P/B) but is exhibiting many characteristics of a superpower. The exercise of comparing scenarios for the US and China over the long term has increased our conviction in China as a profitable long term investment destination. We have increased our exposure to A shares as a result of this analysis and because they sold off in September and valuations had become more attractive.

PERFORMANCE

In September, Korea and China were the largest country contributors to alpha while Singapore was the largest detractor. IT was the largest sector contributor to alpha while Consumer Discretionary was the largest detractor. Samsung Electronics and Xiaomi were the largest single stock contributors to alpha while Hong Kong Exchange 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](http://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:InvestorRelations@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com
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