

# Ellerston India 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 <sup>^</sup> | 4.21%   | 9.43%    | 17.05%   | -5.25% | 6.23%         | 4.46%                  |
| Benchmark*       | 3.82%   | 10.42%   | 18.37%   | -5.39% | 5.23%         | 3.74%                  |
| Alpha            | 0.39%   | -0.99%   | -1.32%   | 0.14%  | 1.00%         | 0.72%                  |

Source: Ellerston Capital

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

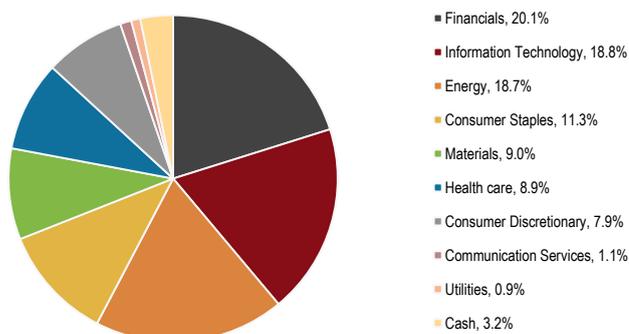
\* MSCI India Net Return Index (AUD)

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

| Top 10 holdings                      | Sector                 | %     |
|--------------------------------------|------------------------|-------|
| Reliance Industries Ltd              | Energy                 | 18.0% |
| Infosys Ltd                          | Information Technology | 10.6% |
| Housing Development Finance Corp Ltd | Financials             | 7.7%  |
| Tata Consultancy Services Ltd        | Information Technology | 7.2%  |
| ICICI Bank Ltd                       | Financials             | 5.2%  |
| Hindustan Unilever Ltd               | Consumer Staples       | 5.2%  |
| Maruti Suzuki India Ltd              | Consumer Discretionary | 4.7%  |
| Sun Pharmaceutical Industries Ltd    | Health Care            | 3.7%  |
| Britannia Industries Ltd             | Consumer Staples       | 3.5%  |
| UltraTech Cement Ltd                 | Materials              | 3.1%  |

### 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

|                           |              |
|---------------------------|--------------|
| <b>Strategy Inception</b> | 4 May 2017   |
| <b>Portfolio Manager</b>  | Mary Manning |
| <b>Application Price</b>  | \$1.0691     |
| <b>Net Asset Value</b>    | \$1.0664     |
| <b>Redemption Price</b>   | \$1.0637     |
| <b>Liquidity</b>          | Daily        |
| <b>No Stocks</b>          | 30           |
| <b>Management Fee</b>     | 1.10%        |
| <b>Performance Fee</b>    | 15%          |
| <b>Buy/Sell Spread</b>    | 0.25%/0.25%  |

## COMMENTARY

The Ellerston India Fund (EIF) was up 4.21% in September versus the MSCI India Index, which was up 3.82%. We note that the Indian market was up 0.8% for the month in local currency terms, but a strengthening Indian Rupee against the Australian Dollar (AUD) meant the AUD was a tailwind for absolute returns. Calendar year to date in 2020, EIF is down 4.99%, but has outperformed the benchmark by 1.38% net.

As regular readers will know, we have been concerned about the disconnect between economic reality in India and the performance of the equity markets over the past couple of months. In our view, the market had been pricing in an improvement in the COVID situation in India despite rising daily cases. Indeed, the Indian market is up 12% over the past 3 months and is the best performing market in Asia over this period. We are pleased to report that the COVID situation in India has finally started to improve over the past month, with the number of daily cases in India trending down since the middle of September. Daily cases are now averaging ~60,000 vs ~96,000 at the peak. We would like to see this downward trend persist but remain wary of a potential resurgence in cases (i.e. 2nd wave) as we have seen in other countries around the world.

On the economic front, India continues to reopen its economy in phases, with schools and cinemas allowed to reopen over the past week. Economic activity continues to improve with manufacturing PMI rising to 56.8 in September vs 52.0 in August. This was the highest print since January 2012. Other economic measures such as electricity consumption (+6%yoy in September) and new vehicle registrations (-10%yoy) are either up or trending higher. We also note that the economic revival has been broad-based across both rural and urban areas. The upcoming festive season in India is the next checkpoint in assessing the country's economic recovery. Based on feedback so far, businesses are gearing up for a bumper season. Ecommerce players like Amazon and Flipkart have reportedly signed leases for additional warehouse space across the country in anticipation of a record festive season driven by strong online shopping penetration. A surge in online retail activity bodes well for some of our portfolio businesses such as Reliance, Info Edge and IndiaMart.

On the policy front, there were a couple of notable events during the month worth highlighting. Firstly, the Reserve Bank of India (RBI) left the repo rate unchanged at 4% at its October Board meeting. Given the improving economic activity across the country, we believe the RBI will likely take a 'wait and see' approach with regards to monetary policy. Secondly, India's equity markets regulatory SEBI announced during the month proposed changes to the way domestic fund managers classify their funds. The net effect of these changes could see a significant rebalancing of domestic portfolios in favour of small and mid-cap stocks. Indeed, the NIFTY small cap and mid cap indices outperformed the large cap index by 3% and 5% respectively during September. In response to these proposed rule changes, we increased our mid cap exposure within EIF during the month by adding Aarti Industries, IndiaMart and Varun Beverages.

Turning to portfolio performance, Energy and Communication Services were our largest contributors to alpha during the month. While, IT and Financials were the key laggards. At a stock level, Infosys, TCS and Dr Reddy's were our largest alpha generators in September. Meanwhile, Sun Pharma, State Bank of India and ICICI Bank were our biggest detractors.

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](mailto: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 [linkmarket@linkmarketservices.com.au](mailto:linkmarket@linkmarketservices.com.au)

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