

Ellerston Asia Growth Fund

Performance Report | July 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net [^]	5.02%	6.99%	1.23%	10.05%	8.19%	9.80%
Benchmark*	3.71%	4.88%	-0.50%	5.50%	5.95%	9.05%
Alpha	1.31%	2.11%	1.73%	4.55%	2.24%	0.75%

Source: Ellerston Capital

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

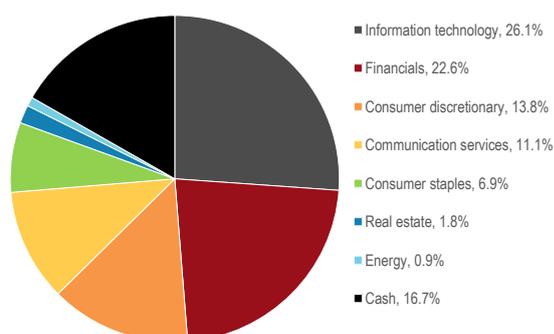
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

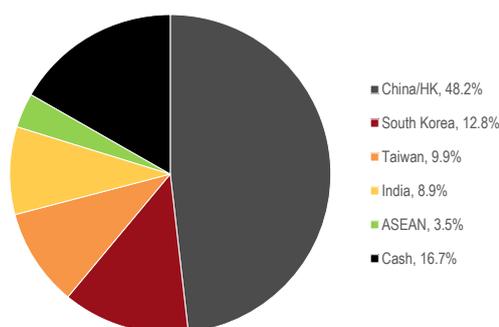
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding Ltd	Consumer Discretionary	10.7%
Tencent Holdings Ltd	Communication Services	8.8%
Samsung Electronics	Information Technology	8.2%
TSMC	Information Technology	8.0%
Ping An Insurance	Financials	6.5%
Hong Kong Exchanges & Clearing Ltd	Financials	5.3%
Hindustan Unilever Ltd	Consumer Staples	2.8%
SK Hynix Inc	Information Technology	2.7%
China Merchants Bank Co.	Financials	2.7%
Infosys Ltd	Information Technology	2.4%

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	\$1.0984
Net Asset Value	\$1.0957
Redemption Price	\$1.0930
Liquidity	Daily
No Stocks	30
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

July performance was a strong start to the new Financial Year. The Ellerston Asia Growth Fund (EAGF) was up 5.02% during July and outperformed the benchmark by 1.31% (net). Year to date in calendar 2020, EAGF is up 2.28% and has outperformed the benchmark by 2.47% (net) and has significantly outperformed the ASX 200 which is down 9.97%.

MARKET OUTLOOK

We remain concerned about the apparent disconnect between the market movements and underlying economic fundamentals. This disconnect is more pronounced in Developed Markets (DM) than in Asia, but Asia would not be immune to an overall market correction. Cash levels remain elevated at 16.7%.

COVID-19

The Asian region has bifurcated into countries that have been successful at containing the virus (and second waves) and those that have not. Taiwan, China and Korea are in the former category while India, Indonesia and the Philippines are in the latter.

The situation in India is particularly disheartening. India now has the third highest number of COVID-19 cases globally, yet our contacts on the ground report that basic protective measures are not being adhered to nor enforced. Given the underdevelopment of the health system in India, efforts to effectively track and trace positive cases have been less successful than in other countries.

In addition, the ability of India, Indonesia and the Philippines to stimulate themselves out of a COVID-19-related economic downturn like the US and Australia, is limited due to high debt/deficit levels and currency considerations. From a country allocation perspective, we retain our strong preference for North Asia over India and ASEAN.

US-China Relations: TikTok, WeChat and Sanctions

In previous monthly newsletters and webinars we have stated that the deterioration of US-China relations is an important risk that the market is not adequately pricing in. Relations deteriorated further in July and early August with President Trump signing an Executive Order to ban Chinese apps TikTok and WeChat, and both China and the US imposed sanctions on officials over Hong Kong.

The Executive Order to ban TikTok and WeChat was not unexpected given the chatter in previous weeks. We vigorously reviewed our Tencent model in anticipation of such an event and concluded that banning of WeChat in the US would have a very minimal impact on Tencent's revenues or profitability. WeChat has over a billion daily active users, while only approximately 19 million of them are in the United States. The issue however is that the Executive Order is very vague and it is unclear what is included in the ban on "transactions" between US entities, WeChat, TikTok and their parent companies, Tencent and ByteDance, respectively. The Secretary of Commerce has 45 days to clarify the ban before it comes into effect in September.

The timing of the ban (prior to a meeting on trade and when Trump is lagging in the polls) and the method (Trump invoked the International Emergency Economic Powers Act (IEEPA)), are classics from the Trump playbook. Numerous times in the last 3 years we've seen Trump threaten something against China prior to a meeting to improve bargaining power on a range of issues. Using emergency powers of potentially questionable legality to make a point and then letting the issue get tied up in court has also been used before (i.e. Huawei's CFO is still in Canada and has not been extradited to the US). TikTok's rebuttal to the ban is telling: "We will pursue all remedies available to us in order to ensure that the rule of law is not discarded and that our company and our users are treated fairly - if not by the administration, then by the US courts."

We have trimmed our Tencent position slightly until there is clarification as to what "transactions" the ban covers and until there is more clarity as to whether the Trump administration plans to go after any of Tencent's non-WeChat assets in the US. Despite the trim, we retain an overweight position versus the benchmark.

Another area of relational deterioration is the sanctioning of US and Chinese officials over the situation in Hong Kong. In early August, the US announced sanctions on Hong Kong Chief Executive Carrie Lam and 10 other officials who have played a role in the drafting and implementation of the Hong Kong National Security Law. China retaliated by imposing sanctions on 11 Americans including Senators Marco Rubio and Ted Cruz. Marco Rubio has been a particularly vocal critic of Chinese ADRs.

Finally, as we've highlighted previously, 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.

PERFORMANCE

In July, Taiwan and Hong Kong were the largest country contributors to alpha while China was the largest detractor. IT and Financials were the largest sector contributors to alpha while Consumer Discretionary and Health Care were the largest detractors. TSMC and Hong Kong Exchange were the largest single stock contributors to alpha while VenusTech 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. We are hosting an update conference call on August 18 at 11am AEST for Ellerston Asia investors, for which you can register [here](#).

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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