

Ellerston Asia Growth Fund

Performance Report | August 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net [^]	0.09%	8.45%	0.61%	12.01%	7.70%	9.59%
Benchmark*	0.26%	8.14%	-1.04%	8.40%	5.45%	8.91%
Alpha	-0.17%	0.31%	1.65%	3.61%	2.25%	0.68%

Source: Ellerston Capital

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

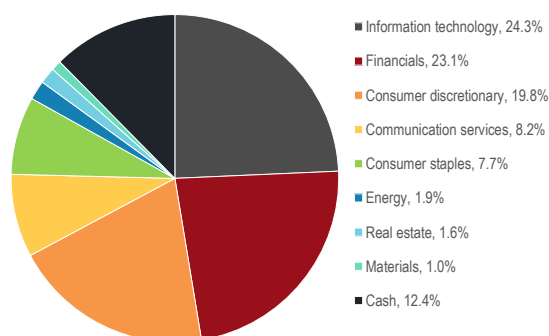
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

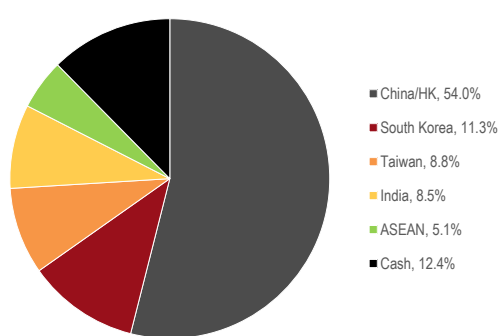
HOLDINGS

Top 10 holdings	Sector	%
Alibaba Group Holding Ltd	Consumer Discretionary	14.0%
TSMC	Information Technology	8.0%
Samsung Electronics	Information Technology	7.4%
Tencent Holdings Ltd	Communication Services	7.1%
Hong Kong Exchanges & Clearing Ltd	Financials	5.4%
Ping An Insurance	Financials	4.9%
DBS Group Holdings Ltd	Financials	3.1%
Hindustan Unilever Ltd	Consumer Staples	2.7%
China Merchants Bank Co.	Financials	2.6%
JD.com Inc	Consumer Discretionary	2.5%

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	\$1.0994
Net Asset Value	\$1.0967
Redemption Price	\$1.0940
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 0.09% (net) during August versus the benchmark which was up 0.26%. Year to date in calendar 2020, EAGF is up 2.38% and has outperformed the benchmark by 2.30% (net).

MARKET OUTLOOK

As regular readers will know, we have been concerned about the apparent disconnect between the market movements and underlying economic fundamentals since the sharp rebound in March and April 2020. This disconnect is more pronounced in Developed Markets (DM) than in Asia, but Asia would not be immune to a market correction in the US.

Cash levels at the end of August (12.4%) appear to have gone down versus previous months, but this was primarily a timing issue related to Hang Seng Index inclusion on September 4th for some of our larger positions. As of the first week of September, cash was back in the high teens level.

COVID-19

The majority of Asian countries now appear to have both the epidemic and the economic impact of lock downs under control. India remains the major outlier in this respect with daily new cases consistently over 70,000 and total cases of approximately 4.3 million. India has already surpassed Brazil in terms of total COVID-19 cases and the current trajectory puts India on track to surpass the roughly 6 million cases in the US. Despite the COVID-19 situation, the attitude on the ground in India appears to be one of learning to live with the virus. Economic activity in India is quickly returning to pre-COVID-19 levels in many parts of the country.

Investors are watching the development of vaccines very closely and break throughs or setbacks in vaccine trials are increasingly impacting daily market direction. According to the WHO, there are currently 34 COVID-19 vaccine candidates in clinical evaluation, 9 of which have entered Phase III trials.

China is one of the frontrunners in the COVID-19 vaccine race given it was the first country to detect and experience the outbreak. China accounts for 4 of the 9 vaccine candidates which have entered Phase III trials. One vaccine developed by biotech firm CanSino has already been cleared for use by the Chinese military. However, China has become a victim of its own success. It has successfully contained the outbreak, there are less domestic patients available for trials so some trials have been shifted abroad.

India, as the largest vaccine manufacturer in the world, will undoubtedly play a very important role in manufacturing successful vaccines post-clinical trials. Currently, India has two indigenous vaccines in development: Bharat Biotech's vaccine is about to begin Phase II trials while Cadila Healthcare's vaccine is already in Phase II. In addition, the world's largest vaccine manufacturer, the Serum Institute of India, has entered into an agreement to produce one billion doses of the Oxford/AstraZeneca vaccine.

While the development of a COVID-19 vaccine is clearly positive from both epidemiological and economic perspectives, it is not a panacea. We sense that investors may be overestimating the immediate term benefits while ignoring some of the risks. These risks include:

- COVID-19 mutates and the vaccines developed thus far only inoculate the existing strains;
- Side effects from the vaccine emerge that were not been detected given the rush to complete clinical trials;
- Risky, transmissible social behaviours increase once a vaccine is approved even if large portions of the population are not yet inoculated;
- Significant constraints exist with respect to vaccine supply chains, particularly in developing countries;
- Affordability of the vaccine is an issue, particularly in developing countries;
- There are moral, ethical and political challenges in implementing vaccinations to a herd immunity level (i.e. see the Morrison government's backtrack on mandatory vaccinations).

Given all the above, we see the advancement of vaccine candidates as a strong positive conceptually, but acknowledge that effective vaccine development is only the first step on a long road to eradicating, or at least effectively controlling, the spread of COVID-19 worldwide.

US-China Relations and the US Election

As highlighted in previous monthly newsletters, the deterioration of US-China relations is an important risk that is not priced to current markets. The ban of TikTok and WeChat come into effect in September and investors will get more details on what the Executive Order specifically refers to with respect to the banning of "transactions." We have trimmed our Tencent position to approximately 7.14% given this uncertainty and will reassess once the details on the ban are released.

Our expectation is that many of the anti-China policies touted by the Trump administration will escalate going into the November Presidential election. China aside, we feel strongly that election related risks are not adequately priced into the US and global markets. Given the high proportion of mail in votes expected due to COVID-19, the outcome of the election may not be immediately known with some commentators putting the final result tally as late as December 2020. In addition, if the results are contested and/or if Trump loses but refuses to leave office, the transfer of power in January 2021 could be messy. Finally, a contested election could exacerbate the level of civil unrest already occurring in some major American cities. With the S&P 500 currently near all-time highs, it does not appear that these election related uncertainties are being priced in. This is one of the reasons we remain high cash.

PERFORMANCE

In August, China and Malaysia (zero weight) were the largest country contributors to alpha while Korea was the largest detractor. Consumer Discretionary and Financials were the largest sector contributors to alpha while IT was the largest detractor. Alibaba and JD were the largest single stock contributors to alpha while Samsung Electronics and Mediatek were the largest detractors.

As always, if you have any questions regarding any aspect of the EAGF portfolio, please feel free to contact us at info@ellerstoncapital.com. If you were unable to join our latest investor update, you can view the recording [here](#).

Kind regards,

Mary Manning

All holding enquiries should be directed to our registrar, [Link Market Services](https://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](#) on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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