

Ellerston India 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 [^]	-1.37%	7.67%	-9.35%	-6.51%	3.93%	3.29%
Benchmark*	0.36%	9.51%	-10.09%	-6.17%	3.00%	2.68%
Alpha	-1.73%	-1.84%	0.74%	-0.34%	0.93%	0.61%

Source: Ellerston Capital

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

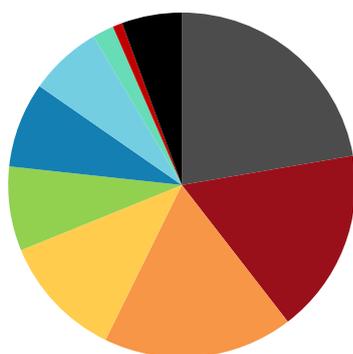
* MSCI India Net Return Index (AUD)

PORTFOLIO CHARACTERISTICS

HOLDINGS

Top 10 holdings	Sector	%
Reliance Industries Ltd	Energy	17.0%
Infosys Ltd	Information Technology	10.7%
Housing Development Finance Corp Ltd	Financials	8.3%
Tata Consultancy Services Ltd	Information Technology	6.6%
ICICI Bank Ltd	Financials	5.9%
Hindustan Unilever Ltd	Consumer Staples	5.5%
Maruti Suzuki India Ltd	Consumer Discretionary	4.9%
Sun Pharmaceutical Industries Ltd	Health Care	4.1%
Britannia Industries Ltd	Consumer Staples	3.5%
UltraTech Cement Limited	Materials	3.0%

Sector Allocation



- Financials, 22.3%
- Information Technology, 17.3%
- Energy, 17.7%
- Consumer Staples, 11.6%
- Health care, 7.9%
- Materials, 8.0%
- Consumer Discretionary, 6.8%
- Communication Services, 2.0%
- Utilities, 0.9%
- Cash, 5.6%

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	\$1.0259
Net Asset Value	\$1.0233
Redemption Price	\$1.0207
Liquidity	Daily
No Stocks	27
Management Fee	1.10%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

Ellerston India Fund was down 1.37% (net) in August versus the MSCI India Index, which was up 0.36%. Calendar year to date in 2020, EIF is down 8.83%, but has outperformed the benchmark by 0.99% (net).

The Indian market performance in August was driven primarily by laggards and recovery plays, with Materials, Real Estate and Banks the standout sectors. As regular readers will know, we have been concerned about India's inability to 'flatten the curve' with regards to COVID-19 and have therefore positioned the portfolio in companies that are less negatively impacted by COVID-19. This conservative positioning was a key reason for the underperformance of EIF during August. There however remains a disconnect between the worsening COVID-19 situation/economic reality and the buoyant Indian market. As such, we maintain a cautious stance with regards to portfolio positioning. We have however, added some consumer names such as Maruti Suzuki and Hero Motorcorp over the past month as fundamentals appear to be improving in the auto segment and there is the potential for positive policy announcements to stimulate auto demand in the coming weeks.

On the COVID-19 situation, India now has nearly 4.4m confirmed cases (vs ~1m at the end of June) and has overtaken Brazil to become the second most infected country in the world after the US. Based on our conversations with people on the ground, we don't see a peak in cases in the near term. This means locals will need to live with the virus at least until a vaccine is developed. India as the largest vaccine manufacturer in the world will play a very important role in developing and manufacturing a COVID-19 vaccine. Currently, India has two indigenous vaccines in development: Bharat Biotech's vaccine is about to begin Phase II trials while Cadila Healthcare's (a company that we own in EIF) 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. Despite India's manufacturing prowess in vaccines, we have doubts as to whether a vaccine will be the panacea given the logistical challenges of getting the vaccine to a country with over one billion people. This is on top of other risks that may limit the efficacy of a vaccine such as:

- COVID-19 mutation beyond the original strain that was inoculated under the developed vaccine;
- 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;
- Affordability of a vaccine for a country where the average income per capital is <US\$2,000; and
- 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).

Despite the worsening COVID-19 situation and the lack of a vaccine, lockdown restrictions continue to be relaxed around the country. The Government has clearly shifted its focus away from containing the virus towards reviving the economy. 1QFY21 GDP contracted by a staggering 23.9%yoy and forecasts for FY2021 is for GDP to contract ~5.8%yoy. This economic reality check has put pressure firmly on the Government to do more to support the economy. As such, there is growing expectation that the Government will announce another stimulus package in the coming weeks. We however do not expect the size of the stimulus to be large given fiscal headroom remains limited. Fiscal stimulus will most likely be targeted to households and sectors, such as auto, that have been hardest hit by the pandemic.

Finally on Fund performance, Financials and Energy were our largest contributors to alpha during the month. Whilst Materials, Consumer Staples and Consumer Discretionary were the key detractors. At a stock level, Maruti Suzuki, ICIC Bank and not owning HCL Tech were the biggest alpha contributors in August. Meanwhile, Infosys, UltraTech Cement and not owning Zee Entertainment and Tata Motors were the 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.

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

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Should investors have any questions or queries regarding the Fund,
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