Ellerston Capital

Ellerston Asia Growth Fund

Performance Report | November 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net^	0.17	7.79	16.89	13.87	7.07	11.06
Benchmark*	2.91	9.50	18.42	12.22	5.38	10.86
Alpha	-2.74	-1.71	-1.52	1.65	1.68	0.20

Source: Ellerston Capital

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

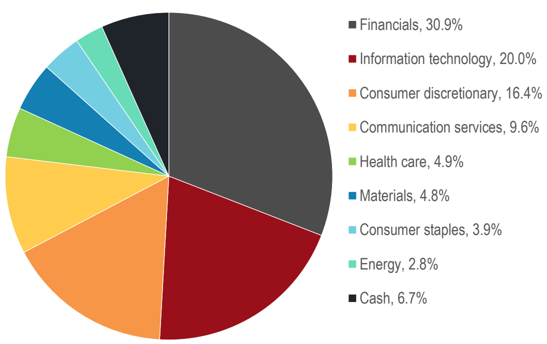
*MSCI Asia ex Japan (non-accumulation) (AUD)

PORTFOLIO CHARACTERISTICS

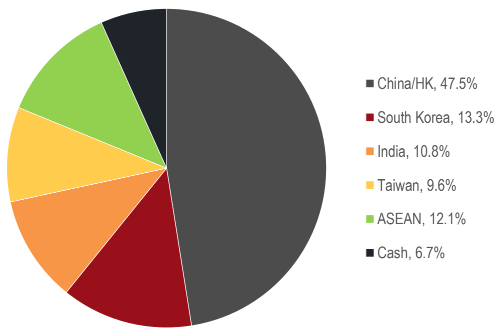
HOLDINGS

Top 10 holdings	Sector	%
Samsung Electronics	Information Technology	7.9%
Alibaba Group Holding Ltd	Consumer Discretionary	7.6%
Tencent Holdings Ltd	Communication Services	7.6%
TSMC	Information Technology	7.6%
China Merchants Bank Co.	Financials	4.5%
Hong Kong Exchanges & Clearing Ltd	Financials	4.3%
Ping An Insurance	Financials	3.3%
DBS Group Holdings Ltd	Financials	3.2%
Reliance Industries Ltd	Energy	2.8%
United Overseas Bank Ltd	Financials	2.3%

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	$1.1851
Net Asset Value	$1.1821
Redemption Price	$1.1791
Liquidity	Daily
No Stocks	43
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

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ELLERSTON CAPITAL

COMMENTARY

November was a difficult month characterized with little movement at the Index level but extreme volatility at the factor, sector and stock level. The Ellerston Asia Growth Fund (EAGF) was up 0.17% (net) for the month versus the benchmark which was up 2.91%. Calendar year to date in 2020, EAGF is up 10.35% and has outperformed the benchmark by 0.77% (net).

MARKET OUTLOOK

The main events that drove markets and EAGF's performance in November were the US election, the cancellation of the Ant Group IPO, increased regulatory risk for the Chinese internet sector, the announcement of positive vaccine results and sector/factor/country rotation.

The US Election

Given the timing of the US election, the results were covered in the October newsletter. There have been a few Asia related developments in the final days of the Trump presidency. First of all, the Trump administration has drafted a list of 89 Chinese firms with alleged military ties and intends to restrict them from accessing a range of goods and technologies from the US. This list comes after the US Commerce Department expanded its definition of "military end user" and the list now may include obvious names such as Aviation Industry Corporation of China (AVIC) but some surprising names like CNOOC and SMIC. Given our strict ESG criteria, we do not own any of the companies that are known to be on the list. However, we are mindful that Trump has no incentive to act rationally in the last few weeks of his presidency and in an extreme instance could further expand the list to include Chinese banks and/or Chinese internet companies.

Secondly, in late November Congress unanimously passed a bill that could ultimately de-list Chinese companies from US stock exchanges. The Holding Foreign Companies Accountable Act was already passed by the Senate earlier this year and the bill has now gone to Trump who is expected to sign it into law before leaving office in January 2021. Under this measure, Chinese companies listed as ADRs would have 3 years to comply with increased auditing and inspections before any de-listings would occur. Chinese officials have said that they believe they can clear up these accounting and auditing issues once the Biden administration begins, but that remains to be seen. There is an additional risk that the SEC pursues a timeline faster than the 3 years mentioned in the bill. We are underweight ADRs as a group and have increased our position in Hong Kong Exchange as it will be the natural beneficiary of dual and re-listings.

With respect to Biden, our view remains that he will have a more multi-lateral approach to foreign policy, including foreign policy towards China. We do not anticipate a large scale rolling back of the trade or investment policies implemented by Trump as anti-China sentiment is bipartisan.

Another main feature of a Biden presidency-elect is the trajectory of the USD. Thus far Biden's win has been USD negative with the Dollar Index (DXY) falling 3.5% since the beginning of November and the USD falling 2.5% against the CNY. Historically, a weak USD has been a strong positive for flows into Emerging Markets and flows in the last month have been consistent with this pattern.

China Internet and Regulatory Risk

The cancellation of the Ant Group IPO in early November was covered in the October newsletter, but further regulatory risk for the mega cap Chinese tech companies has emerged since then. Specifically, China's regulators have issued draft anti-monopoly rules that are aimed at curbing anti-competitive practices in the internet space. These rules are still in the draft and consultation phase and are therefore lacking in detail. However, our preliminary view is that the outcome of more aggressive anti-trust regulation will favour internet disruptors (PDD, Bytedance, Meituan) at the expense of internet eco-system stocks (Alibaba, Tencent). For this reason, and due to the implications of the cancellation of Ant, we have reduced our Alibaba position and Samsung and TSMC are now our preferred technology exposures in Asia.

Vaccine News

During November there were a number of significant advances on the vaccine front including higher than expected efficacy (~95%) in Phase III trials of the Pfizer-BioNTech and Moderna vaccines and moderate efficacy (70%) for the Oxford-AstraZeneca vaccine. In early December the UK became the first country in the world to approve the Pfizer-BioNTech vaccine for widespread use, ordering 40 million doses and initiating its inoculation program on December 2nd. Similarly, in the US, Biden has promised that his administration will oversee 100 million vaccinations in his first 100 days as President.

While the development of multiple effective vaccines and their deployment is undeniably positive from both a public health and a market perspective, our enthusiasm is tempered in terms of the near term impact on economies in Asia, particularly low income economies with underdeveloped health care infrastructure.

We do have some exposure to vaccine related plays as we think this is a better risk/reward than owning re-opening plays like airlines and other travel related stocks. These include Shanghai Fosun Pharma in China and Dr Reddy's and Sun Pharma in India.

The Great Rotation

Much of the volatility in markets in November was a result of rotation. Market commentators typically point to rotation from growth to value, but this is a simplistic way of communicating what occurred during the month. In reality, there were 7 different kinds of rotation that occurred during November (see table below), with implications at the country, sector and stock level.

Catalyst	Rotation From	Rotation To
US Election	Blue Sweep Plays	Divided Govt Plays
Vaccine Results	Stay at Home Plays	Re-Opening Plays
Vaccine Results	Countries with COVID under control	Countries in 1st/2nd/3rd wave of COVID
US Election & Vaccine Results	Growth	Value
China Internet Regulation*	Mega Cap Eco-System Plays	Non-Mega Cap Challengers
Weak USD and Commodity Prices	Good ESG	Bad ESG
All of the Above	Leaders	Laggards

Source: Ellerston Capital

It was these rotational factors that contributed to EAGF's underperformance during November. The Ellerston Asia Growth Fund is a growth fund so the speed and magnitude of the factor rotation hurt relative performance.

Our country allocation strategy for the last 6-9 months had been to favour North Asian countries which have COVID largely under control (China, Korea, Taiwan) and to have very little exposure to ASEAN and India where COVID remained an issue and the policy response was lacking. Of course, with the vaccine results the relative performance of these markets reversed sharply as COVID-infected countries will be greater beneficiaries of a vaccine roll out.

A weak USD is generally good for flows into Emerging Markets and for commodity prices. While the former is a positive for Asian equities, the strength of the AUD has had a negative impact on absolute returns. High commodity prices are also not ideal for the EAGF strategy as many of the mining and materials companies that benefit from higher commodity prices do not meet our ESG criteria.

To address some of the above, we had added significantly to financials in the lead up to the US election, and by early November we were approximately 10% overweight financials. However, we remain underweight other value sectors like materials and industrials.

Where to from here with respect to rotation? It is our view that much of the rotation in November was actually just repositioning from extreme levels with hedge funds covering shorts in unattractive sectors (see moves in European banks and asset heavy industrials and materials globally) and long only investors taking profits in technology stocks that have delivered exceptional returns in the last few years. We do not expect many more days with factor rotation as violent as November 9th where the MSCI World Value Index outperformed the World Growth Index by almost 500bps in one day.

Using the 2016/17 Trump bump as a reference, it is possible that factor/country/stock rotation will continue for a few months but we do not think that global investors are committed to owning low quality, low growth, highly indebted, high beta, poor ESG, value stocks in the longer term. We remain staunchly committed to our growth strategy.

PERFORMANCE

In November, Singapore and Indonesia were the largest country contributors to alpha while Hong Kong and China were the largest detractors. Financials was the largest sector contributor to alpha while Consumer Discretionary was the largest detractor. China Merchants Bank was the largest single stock contributor to alpha while Alibaba was the largest detractor.

As always, if you have any questions regarding any aspect of Ellerston Asia or our 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

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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