Ellerston Capital

Ellerston India Fund

Performance Report | January 21

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net^	-2.20%	4.34%	10.63%	-1.56%	5.12%	6.12%
Benchmark*	-1.77%	7.00%	15.07%	-0.74%	4.72%	6.18%
Alpha	-0.43%	-2.66%	-4.44%	-0.82%	0.40%	-0.06%

Source: Ellerston Capital

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

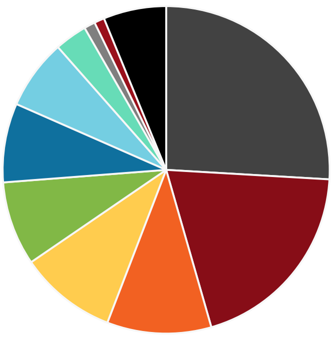
* MSCI India Net Return Index (AUD)

PORTFOLIO CHARACTERISTICS

HOLDINGS

Top 10 holdings	Sector	%
Infosys Ltd	Information Technology	9.9%
Reliance Industries Ltd	Energy	9.1%
Housing Development Finance Corp Ltd	Financials	7.9%
ICICI Bank Ltd	Financials	7.5%
Tata Consultancy Services Ltd	Information Technology	6.2%
Maruti Suzuki India Ltd	Consumer Discretionary	4.4%
UltraTech Cement Ltd	Materials	3.6%
Axis Bank Ltd	Financials	3.5%
Hindustan Unilever Ltd	Consumer Staples	3.4%
JSW Steel Ltd	Materials	2.5%

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 thematics 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	$1.1507
Net Asset Value	$1.1478
Redemption Price	$1.1449
Liquidity	Daily
No Stocks	35
Management Fee	1.10% p.a.
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

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COMMENTARY

The Indian market took a breather in January after seven successive up months. The Ellerston India Fund (the "Fund") was down 2.2% (net) in January versus the benchmark, which was down 1.8%. Financial Year to Date (FYTD) the Fund is up 17.8% and FYTD the AUD has appreciated approximately 8% vs. the Indian Rupee.

The primary driver of the pullback in the market during January was investor caution ahead of the Indian budget which was announced on February 1. Expectations were low going into the announcement, given India's well known fiscal constraints. Despite this, the Government and Finance Minister delivered a pro-growth budget, thus choosing to ignore the risk of a credit rating downgrade. Specifically, the budget announced an aggressive 35% increase in target spending for FY21-22. This will lead to a fiscal deficit target 9.5% for FY21 (vs. consensus of 7%) and 6.8% for FY22 (vs. consensus of 5.5%). Thereafter, the government will look to gradually reduce the fiscal deficit target to 4.5% by FY26.

While we believe the expansive fiscal policy is a step in the right direction and a short term positive for market sentiment, we remain cautious on the potential impact on inflation and interest rates. In addition, some of the assumptions in the budget appear ambitious with a 17% increase in tax collections and a 5x increase in privatisation targets. Regardless, the Indian budget was well received by capital markets, with the MSCI India Index rising over 9% in the six trading sessions immediately following the budget's release. Within the Fund, we have increased our exposure to Financials by adding HDFC Bank and lifting our position in HDFC and ICICI Bank.

The pro-growth fiscal stance adopted by the Government has taken the pressure off the central bank to support the economy. Indeed in early February, the RBI kept the benchmark interest on hold at 4% citing the improved outlook for growth. The RBI is forecasting GDP growth of 10.5% in FY22, which bodes well for corporate earnings growth and domestic consumption. In addition, it is estimated that Indian consumers may have saved up to UDS$200bn while staying at home during the lockdown. These savings, which would have otherwise been spent on travel and weddings for instance, will likely be spent on discretionary purchases going forward. Our portfolio remains well positioned to capture this thematic with an overweight in Autos and retail focused Financials.

Accommodative monetary and fiscal policies have coincided with an improvement in the COVID situation in India. Infection rates continue to trend down with the number of daily confirmed cases at about 11,000, which is half of what we reported in last month's update. We continue to view this data positively but remain vigilant on the prospect of a 2nd wave emerging in the summer months ahead. On the vaccine front, India has vaccinated only ~8m people (or <1% of the population) so far, with logistics proving to be a major challenge. Some estimate that at the current pace, it could take India up to five years to vaccinate about 70% of the population which would qualify as achieving herd immunity.

Based on our conversations with people on the ground, the private sector will need to do more of the heavy lifting in order accelerate the vaccine rollout. Indeed, at least one large India corporate that we have spoken to intends to vaccinate its entire workforce in the coming weeks. Further co-operation from large corporates will be needed to successfully contain the spread of the virus and to support equity market valuations, which remain at close to all-time highs.

On portfolio performance, Information Technology and Consumer Discretionary contributed the most to alpha during the month. Meanwhile, Energy and Financials were the largest detractors. At a stock level, Indiamart, Tata Motors and Tata Consultancy Services were the largest contributors to alpha.

Both Indiamart and Tata Motors deserve specific mention. Indiamart is the largest B2B online classifieds player in India with more than 70% market share. It is often dubbed the "Alibaba of India" despite the fact that it's market cap is still less than $5 billion. The growing B2B e-commerce industry in India coupled with Indiamart's superior market positioning and COVID-accelerated digitization has resulted in strong growth momentum for the company. We initially bought the stock in September 2020 and it has risen 94% since our entry price.

Tata Motors is up 76% since we bought it only a few weeks ago (December 2021) on the back of improved sentiment for consumer discretionary stocks in general and autos specifically. Tata Motors has also been rumored to be in discussion with Tesla to be its Indian partner for electric vehicles (EVs) and there is talk that they are about to reposition Jaguar Land Rover (JLR) as a luxury EV brand in Europe. Given the performance of Tesla and the Chinese EV-related stocks (NIO, X Peng and Li Auto) we are not surprised at the strong performance of Tata Motors as it forays into the EV space.

Maruti Suzuki and JSW Steel were the biggest detractors during the month. Cash at the end of January was 6.2%.

As always, if you have any questions regarding any aspect of the Fund, 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,
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