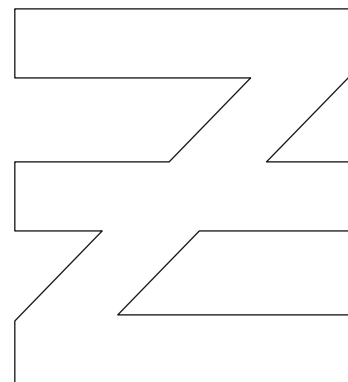


Ellerston India Fund



Performance Report, February 2021

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 | \$1.1830 |
| Net Asset Value | \$1.1800 |
| Redemption Price | \$1.1771 |
| Liquidity | Daily |
| No Stocks | 27 |
| Management Fee | 1.10% p.a |
| Performance Fee | 15% ** |
| Buy/Sell Spread | 0.25% on application 0.25% on redemption |
| Minimum Investment | \$10,000 |
| Minimum Additional Investment | \$10,000 |
| Distribution Frequency | Half Yearly (June & December) |
| APIR Code | ECL0339AU |

** Of the investment return over the benchmark return, after recovering any underperformance in past periods

Performance Summary

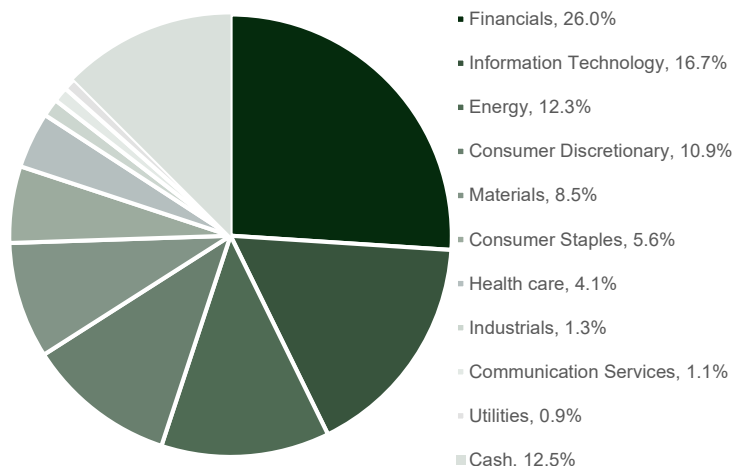
| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year (p.a.) | Since Inception (p.a.) ^{^^} |
|------------------|---------|----------|----------|--------|---------------|--------------------------------------|
| Net [^] | 2.81% | 5.40% | 15.31% | 4.54% | 7.24% | 6.75% |
| Benchmark* | 4.28% | 7.79% | 19.57% | 7.51% | 7.29% | 7.21% |
| Alpha | -1.47% | -2.39% | -4.26% | -2.97% | -0.05% | -0.46% |

[^] 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 Top 10 Holdings

| | | |
|--------------------------------------|------------------------|-------|
| Reliance Industries Ltd | Energy | 11.7% |
| Infosys Ltd | Information Technology | 9.8% |
| Housing Development Finance Corp Ltd | Financials | 8.0% |
| ICICI Bank Ltd | Financials | 6.0% |
| Tata Consultancy Services Ltd | Information Technology | 5.5% |
| Maruti Suzuki India Ltd | Consumer Discretionary | 4.0% |
| UltraTech Cement Ltd | Materials | 3.9% |
| Bajaj Finance Ltd | Financials | 3.4% |
| Axis Bank Ltd | Financials | 3.1% |
| Hindustan Unilever Ltd | Consumer Staples | 3.0% |

Sector Allocation



Source: Ellerston Capital.

Commentary

The Indian market returned to positive territory in February with the MSCI India Net Return Index (AUD) up 4.28% during the month, versus the Ellerston India Fund (the "Fund") which was up 2.81%. The AUD appreciated by approximately 2.8% vs the Indian Rupee (INR) during the month, which was a headwind for absolute returns.

The key driver of the strong market performance was the pro-cyclical budget handed down by the Indian Government in early February. We highlighted in the January newsletter that the budget would see a 35% increase in spending over FY21-22 and result in a fiscal deficit of 6.8% FY22. This announcement drove strong share price performances for pro-growth sectors such as Financials and Materials. Further helping the market optimism during the month was the positive 3QFY21 GDP print (+0.4% yoy growth) and progress on the COVID-19 vaccine rollout.

On the vaccine specifically, almost 30 million people (or ~2% of the population) have received their first dose. Despite the positive momentum on vaccinations, we note that daily COVID-19 cases have increased from ~11,000 to ~20,000 due to localised spreads in tier two (2) and three (3) cities. This is something we will continue to monitor closely as a second wave of infections would clearly be negative for financial markets.

Aside from COVID-19 related risks, there are two other near term risks that are worth highlighting. First, the rising oil price is something that could dampen recent optimism surrounding the budget. India is a net importer of oil and it is estimated that the country's oil import bill could be US\$22bn higher than budget estimates if crude remains at current levels. This would result in a much more onerous budget deficit and put further downside pressure on the currency, both of which have historically been negative for Indian equity markets.

A second risk for India's fiscal situation and financial markets is rising global bond yields. India's 10 year bond yield rose 33bps to 6.23% during February, in response to rising global inflation expectations. Persistently higher yields will increase the cost of borrowing for both the Indian government and corporates. It will also be negative for equity valuations. We do not believe that the Indian market is appropriately reflecting these risks, with the Bombay Stock Exchange (Sensex) still trading at a near all-time high PE multiple of 29x for the current FY and 22x for next FY. As such, we took some profits during the month and cash at the end of February was 12.5%.

Turning to portfolio performance, Communication Services and Financials were the largest contributors to alpha during the month, while Utilities and Materials were the key laggards. At a stock level, Ultratech Cement, State Bank of India and Astral Poly Technik were our largest alpha generators in February while Mahindra and Mahindra, Maruti Suzuki and Reliance and not owning Hindalco and NTPC were our biggest detractors.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Melbourne

Level 4, 75-77 Flinders Lane,
Melbourne, VIC 3000
+612 9021 7701
info@ellerstoncapital.com

Find out more

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 ellerstoncapital.com

All holding enquiries should be directed to our register, Link Market Services on **1800 992 149** or ellerston@linkmarketservices.com.au

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