Ellerston Asia Growth Fund

Performance Report, March 2021

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	$1.2354
Net Asset Value	$1.2323
Redemption Price	$1.2292
Liquidity	Daily
No Stocks	41
Management Fee	1.00%
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	ECL1411AU

Performance Summary

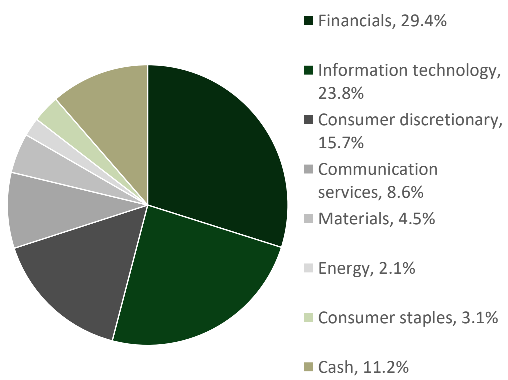
Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception^^ (p.a.)
Net^	-1.73%	2.58%	9.86%	22.14%	8.06%	11.23%
Benchmark*	-1.05%	3.80%	14.06%	23.88%	6.67%	11.41%
Alpha	-0.68%	-1.22%	-4.20%	-1.74%	1.39%	-0.18%

^ 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)

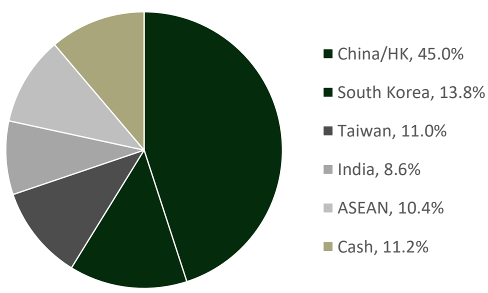
Portfolio Characteristics
Top 10 Holdings

TSMC	Information Technology	8.1%
Alibaba Group Holding Ltd	Consumer Discretionary	8.0%
Samsung Electronics	Information Technology	6.8%
Tencent Holdings Ltd	Communication Services	6.6%
Hong Kong Exchanges & Clearing Ltd	Financials	3.6%
DBS Group Holdings Ltd	Financials	3.5%
United Overseas Bank	Financials	3.5%
OCBC Ltd	Financials	3.4%
Ping An Insurance	Financials	3.0%
China Construction Bank Corp	Financials	2.7%

SECTOR ALLOCATION



GEOGRAPHIC LOCATION



Source: Ellerston Capital.

Ellerston Asia Growth Fund (EAGF) was down -1.73% (net) during March versus the benchmark which was down -1.05%. Financial year to date in 2021, EAGF is up 18.12%.

Markets were volatile in March and lacked clear direction. This is attributed to investors switching between growth and value and switching between the reopening/reclosing plays. The volatility caused by the unwind of Archegos Capital had limited impacts for EAGF, but it did have significant repercussions for many global investors and investment banks.

GROWTH VS VALUE: IS LARGE CAP TECH THE NEW VALUE?

We have previously written about rising US rates and the implications for a taper tantrum 2.0. During March, the yield on the US 10 year rose from 1.4% to 1.75% which fuelled strong price performance in our rate sensitive stocks like Shinhan Financial (up 13.7% during the month) and DBS Bank (up 8.1% during the month).

Near the end of the month, and certainly into early April, there has been some rotation back into growth names in the technology sector. This comes as the US 10 year yield has retreated back to approximately 1.6% and Fed Chairman Powell has made it clear that rates will continue to be low until the US economy is fully recovered, likely sometime in 2023.

These rotations and reversals could drive a less focused investor crazy. We are staunch growth investors and we maintain the view that Asia remains the best structural growth region in the world today. We also believe that investors need to rethink the labels "growth" and "value." In the past, value has simply meant low PE. But is it really value to buy highly indebted, asset heavy, ex growth stocks just because they have a low PE? Our back testing of stocks in Asia shows that 1x PEG ratio is an attractive level to buy stocks across countries and sectors.

Let's take Tencent and Baidu for example. Tencent is trading on 26x forward PE with an earnings CAGR of ~23%, for a PEG ratio of just over 1x. Baidu, the Google of China, is trading on only 18x forward PE with a 20% EPS CAGR for a PEG of less than 1x. By contrast, the MSCI Asia ex Japan Materials Index is trading at 14x forward PE with an earnings CAGR of mid-single digit, for a PEG of over 2x. So which is true "value"? We are sticking with high quality growth companies in Asia.

COVID UPDATE: REOPENING AND RECLOSING PLAYS

The other rotational factor in markets this month was the vacillation between reopening and reclosing plays. It has long been our view that the vaccine roll out globally, and particularly in developing countries, is going to take a lot longer and encounter many more logistical and execution hurdles that previously thought. The fact that there are groups of stocks that are now considered "reclosing" plays suggests that this is indeed the case.

By early April, a number of countries globally have gone back into some sort of lock down. Germany and France are both back into lockdown (the third for France). In Asia, Hong Kong re-entered a short lock down and strict quarantine measures during March and the Indian state of Maharashtra (home to Mumbai) has shut non-essential businesses until April 30.

We have been hesitant to invest in any reopening plays for the reasons stated above. Reclosing plays are to some extent the online businesses we own anyway, so we have not made any specific changes to the portfolio to accommodate the risk of further intermittent lock downs. We continue to watch the COVID situation with vigilance.

IPO PIPELINE

The IPO pipeline in Asia continues to be robust. In the last 6 months we have participated in 4 IPOs: JD Health, Kuaishou, Tuya and Cloopen. Some of these stocks have since exited the portfolio and some are still investments but our average return on these IPOs is over 100%. We have a disciplined approach to IPOs and all deals that we invest in must meet the same investment criteria outlined in our investment process with the same level of deep dive analysis. As such, we have also passed on a number of deals including Linklogis, Coupang, Zhihu, Smart Share Global and Bairong. In the pipeline for the next few weeks is NTL, a technology oriented microfinance player in Thailand, and the US listing of Singapore's GRAB. Tencent backed digital health platform WeDoctor has also filed its listing application with the Hong Kong Stock Exchange.

The pipeline in India is strong although many of the listings are below our target market cap range. The listing of India's InMobi (estimated valuation of ~$12b) in the US is an exception. We remain excited about the Asian IPO pipeline and also maintain our high overweight position in Hong Kong Exchange as a key beneficiary of this trend.

PERFORMANCE

In March, Singapore was by far the largest country contributor to alpha while Taiwan was the largest detractor. Financials was the largest sector contributor to alpha while IT was the largest detractor. JSW Steel, Shinhan Financial Group and the Singapore banks (DBS, OCBC and UOB) were the largest single stock contributors to alpha, while our position in A share Longi Green was the largest detractor. We have since exited our position in Longi Green.

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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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