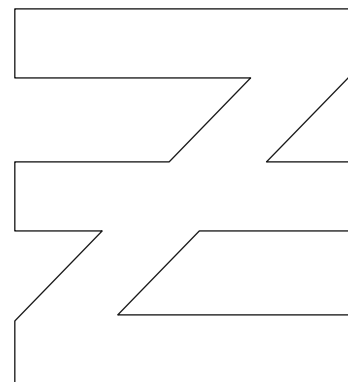


Ellerston India Fund



Performance Report, March 2021

Investment Objective

To outperform the MSCI India Net Return Index (AUD) with a focus on risk management and capital preservation.

Investment Strategy

The Funds 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	\$1.2030
Net Asset Value	\$1.2000
Redemption Price	\$1.1970
Liquidity	Daily
No Stocks	30
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, after recovering any underperformance in past periods

Performance Summary

Period	Gross (INR)	FX Impact	Gross (AUD)	Total Tax	Gross After Tax (AUD)	MSCI India Net Pre Tax AUD*	Net After Tax (AUD)^
Mar-21	1.9%	2.0%	3.9%	-2.2%	1.8%	4.0%	1.7%
FYTD21	39.6%	-10.6%	29.1%	-4.9%	24.2%	32.2%	23.1%
1 Year	65.2%	-28.8%	36.5%	-3.3%	33.1%	41.7%	31.7%
2 Years	31.6%	-15.3%	16.3%	-5.0%	11.3%	13.7%	8.3%
3 Years	54.0%	-16.4%	37.7%	-5.0%	32.7%	31.1%	27.4%
ITD^^	68.5%	-25.7%	42.8%	-5.3%	37.5%	35.7%	30.6%

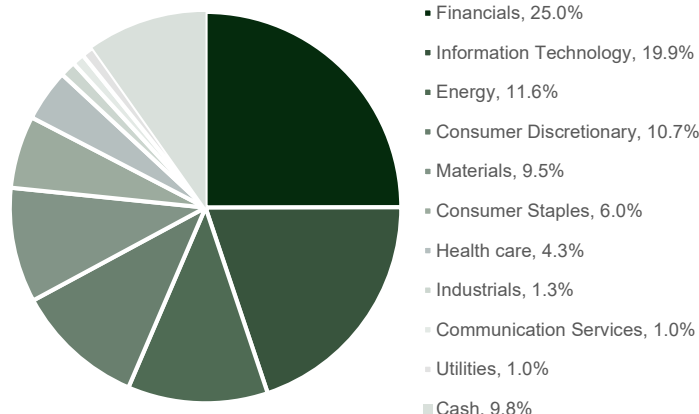
^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
* MSCI India Net Return Index (AUD)

Portfolio Characteristics

Top 10 Holdings

Reliance Industries Ltd	Energy	11.1%
Infosys Ltd	Information Technology	10.5%
Housing Development Finance Corp Ltd	Financials	7.8%
Tata Consultancy Services Ltd	Information Technology	5.9%
ICICI Bank Ltd	Financials	5.8%
UltraTech Cement Ltd	Materials	4.2%
Maruti Suzuki India Ltd	Consumer Discretionary	4.0%
Hindustan Unilever Ltd	Consumer Staples	3.4%
Bajaj Finance Ltd	Financials	3.2%
JSW Steel Ltd	Materials	3.1%

Sector Allocation



Source: Ellerston Capital.

Performance

The Ellerston India Fund (EIF) was up 1.7% in March versus the MSCI India Index which was up 4.0%. Financial Year to date, EIF is up 23.1% versus the MXIN at +32.20%. However, there is a tax and benchmark issue with respect to EIF which investors need to be aware of as it is significantly distorting relative returns.

Tax Discussion and Impact on Relative Returns

India has a capital gains tax between 10.4% and 17.9% (including applicable surcharge and cess) depending on the time frame over which the investment has been held. Tax must be paid upon exiting investments but best practice accounting standards is to accrue taxes that will have to be paid in the future based on underlying movements in the portfolio, even if these positions are not realized during a given month.

On the advice of our tax advisors in Australia and India, Ellerston India accrues for the full potential future tax liability in the portfolio on a monthly basis. As such, our monthly returns reflect a number of movements: the underlying portfolio return in INR, FX movements in the AUD/INR cross rate, taxes paid on investments realized during the month and the full tax accrual for monthly movements in the retained portfolio.

We have improved disclosure in this regard, as you will see in the table on the prior page, so that investors can see the impact of each of the movements outlined above. Please bear this in mind when comparing relative performance as our returns are stated on a post-tax basis while the benchmark is pre-tax.

We realise this is complicated, so if you have any questions about the accounting treatment or the impact on performance, please feel free to contact us at info@ellerstoncapital.com.

Commentary

The strong market performance during the month occurred despite a rise in COVID-19 cases. Daily cases have been steadily rising and are now back above 200,000, with the last reported number at more than 260,000 daily cases. Based on our conversations with people on the ground, we believe the rise in cases is a result of a combination of factors that includes a drop in mask wearing, social distancing and the detection of mutant virus strains which are potentially more infectious. We also note that social gatherings like weddings, packed sporting events and political rallies in the run up to state elections have likely contributed to a surge in cases in the past few weeks.

As a result, the country has officially entered a second wave with the state of Maharashtra back into partial lockdown and other cities such as Delhi implementing night curfews until the end of April. These restrictions are likely to disrupt India's economic recovery and put additional pressure on the country's fiscal deficit. This, in turn, could result in higher yields and thereby increase the cost of borrowing for both the Government and corporates. Market estimates suggest that the lockdown impact on GDP growth could be in the range of 0.25-0.5% for FY22. We cautioned in last month's newsletter that the Indian market was not appropriately reflecting COVID-19 related risks and this continues to be the case.

It appears much of the market optimism relates to the success in rolling out the vaccine. So far, almost 90 million people (or ~6% of the population) have received their first dose. This represents an acceleration in the rate of vaccinations from the prior month when 30 million people had received their first shot. But there are reports emerging that India's vaccine manufacturing facilities are struggling to keep up with both local and international demand and that vaccine supplies are running low. A failure to ramp up, or even maintain, the current run rate of vaccinations could impact the market's optimism on the vaccine rollout. We also note that just 0.85% of the Indian population is fully vaccinated (i.e. received both shots) which is well short of the 60-70% of the population that requires a vaccine in order to reach herd immunity. With the market still trading at near all-time highs, we remain overweight relatively defensive names such as Infosys and Dr Lal Pathlabs and hold 9.8% cash

Policymakers are taking a 'wait and see' approach with regards to the worsening COVID-19 situation. Indeed, the RBI kept policy rates unchanged at its most recent meeting in early April. Nonetheless, we expect policy to remain accommodative in order to help support India's economic recovery.

Another catalyst that could determine the market direction in the coming weeks is the 4QFY21 reporting season. We expect earnings growth to be strong, particularly for cyclicals such as Materials and Financials due to healthy demand improvements, positive operating leverage and also base effects. Outlook commentary will be important in the context of rising COVID-19 cases and intermittent lock downs in key states. Confirmation of a slowing in the earnings growth momentum in 1QFY22 would be viewed negatively by the market.

Turning to portfolio performance, Information Technology, Healthcare and Materials were the largest sector contributors to alpha during the month while Consumer Staples and Financials were the biggest detractors. At a stock level, JSW Steel, Ultratech Cement and Infosys contributed the most to alpha while Indiamart and State Bank of India were the biggest detractors.

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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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