# Ellerston Asia Growth Fund

Monthly Newsletter, April 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 | $1.2541 |
| Net Asset Value | $1.2510 |
| Redemption Price | $1.2479 |
| Liquidity | Daily |
| No Stocks | 39 |
| Management Fee | 1.00% p.a. |
| Performance Fee | 15% |
| Buy/Sell Spread | 0.25% on application /0.25% on redemption |

## PERFORMANCE SUMMARY

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years (p.a.) | 3 Years (p.a.) | Since Inception^^ (p.a.) |
|---|---|---|---|---|---|---|---|
| Net^ | 1.52% | -0.58% | 6.01% | 22.16% | 11.36% | 7.72% | 11.39% |
| Benchmark* | 0.98% | 0.23% | 9.83% | 22.88% | 9.21% | 6.24% | 11.43% |
| Alpha | 0.53% | -0.81% | -3.82% | -0.72% | 2.15% | 1.48% | -0.04% |

^ 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)

The Ellerston Asia Growth Fund (EAGF) was up 1.52% (net) during April, outperforming the benchmark which was up 0.98%. Financial year to date in 2021, EAGF is up 19.91%.

The discussion below covers cyclicals outperformance, COVID-19 resurgence, particularly in India, and China Net Zero investment conclusions.

## CYCLICALS OUTPERFORMANCE

Cyclicals continued to perform well in April, often at the expense of growth stocks. Commodity linked cyclicals performed well on higher underlying prices while interest rate sensitive stocks also performed well despite the US 10 year falling from its high of 1.74% at the end of March to its current level of 1.58%. Our positioning in Materials companies is typically minimal given our strict ESG criteria, but we remain significantly overweight financials as a way to balance the portfolio during periods of rotation. This worked well in April and our positioning in banks was a major source of alpha generation for the Fund.

We continue to believe that a taper tantrum is a distinct possibility in the next 12 months as the US economy gains strength in both absolute and relative terms. Given this outlook and the implications for the USD, Ellerston Asia remains underweight countries with high current account deficits and volatile currencies. We have zero exposure to Indonesia, Malaysia, Thailand and the Philippines and are underweight India.

## COVID-19 RESURGENCE IN ASIA

April witnessed a resurgence of COVID-19 cases in a number of Asian countries including Taiwan, Korea, Thailand and, most notably, India. India has now surpassed 20 million cumulative infections, the number of daily cases continues to remain above 350,000 and daily death consistently above 3,000. As a result, India's underdeveloped healthcare infrastructure has become severely constrained with shortages of oxygen, hospital beds, ICU facilities and essential workers. Vaccinations have dropped off as a result of the surge in cases as people prefer to remain at home and are wary of medical infrastructure that is already overwhelmed.

Prime Minister Modi is now under intense criticism for his mishandling of the second wave of COVID-19. There were a number of key state elections in early May and Modi continued to allow and support large political rallies despite the possibility of them becoming super-spreader events. He has also refused to impose a nation-wide lockdown due to the adverse economic implications and has instead handed off lockdown decisions to the state level. As a result, the rules remain a patchwork of restrictions in effect for different time frames. Modi's party, the BJP, was defeated in the West Bengal election in early May and his approval ratings have plummeted. This raises concerns about Modi's chances for securing a third term in 2024.

Surprisingly, however, Indian markets have held up incredibly well in the face of this growing public health crisis. The NIFTY sold off less than 1% during April and still only ~3% from its all-time high. Feedback from on the ground is that local fund managers continue to hold stocks and put new money to work as long as they are confident there will be no national lock down and as long as the case load in Mumbai is under control. We think this is very short sighted. Our base case is that things will get worse before they get better and that a nationwide lock down is still a possibility. As such, in early May we meaningfully reduced our exposure to India and many of the stocks we do still own are exporters that benefit from a lower Indian Rupee (e.g. Infosys, Dr Reddy's).

## CHINA NET ZERO AND THE VIRTUAL CLIMATE SUMMITT

At our monthly webinar in December 2020 we mentioned that we were doing a deep dive analysis on China Net Zero, China's plan to become carbon neutral by 2060 and have peak CO2 emissions by 2030. This plan is obviously going to create a lot of opportunities for businesses within China and around the world. We divided the investment opportunities into three buckets: renewables, Electric Vehicles (EVs) and EV supply chain. After months of analysing these sub-sectors, we arrived at four main conclusions:

1) EVs and the EV supply chain are the best ways to play the China Net Zero thematic while renewables is the least attractive. While both wind and solar will have a very important role to play in shifting China's energy mix, these sectors have considerable business risk (unsustainable and unreliable government subsidies for example) and other ESG related risks that offset the positive environmental impact (governance and supply chain exposure to Xinjiang, for example).

2) The structural trend towards EVs in China is unstoppable and exposure to EVs will become a must for Asian investors in the coming years. We currently have a small position in NIO to gain exposure to this thematic. NIO's stock price has fallen significantly in the last few months and this level may represent a good long term buying opportunity.

3) Within the EV supply chain our current preference is for battery plays like LG Chem and CATL rather than other parts of the supply chain. Upstream commodity plays like lithium or cobalt suppliers typically do not meet our ESG criteria and the investible universe EV infrastructure plays in Asia are currently very limited.

4) We think it is too early to conclude with conviction which type of battery design (pouch cell, prismatic, other) will be dominant in the ultimate EV supply chain so Ellerston Asia currently has investments in both LG Chem (pouch design) and CATL (prismatic).

Keeping on theme of China Net Zero and sustainability, in April President Biden hosted a virtual climate summit inviting over 40 world leaders. President Xi attended the virtual summit and the US and China pledged to work together to tackle climate change.

Very early in his new role as US Secretary of State, Antony Blinken said "Our relationship with China will be competitive when it should be, collaborative when it can be, and adversarial when it must be." Climate change is one of the few areas where China and the US appear to be able to collaborate. This delineation between competition, collaboration and confrontation is a welcome change to the Trump administration where almost all issues were put in the confrontation category.

## PERFORMANCE

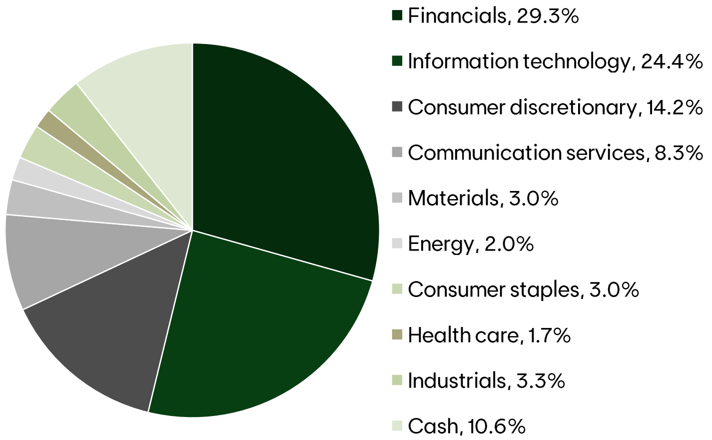
In April, JSW Steel was the best performing stock in the portfolio up approximately 53%. This resulted in Materials being the highest sector contributor to alpha and India being the highest country contributor to alpha. The second highest sector contributor to alpha was Financials by strong performance and overweight positions in the three Singapore banks, DBS, OCBC and UOB. Our position in Ping An was the largest detractor from alpha during the month and we have since trimmed the position.

As always, if you have any questions regarding any aspect of Ellerston Asia or the portfolio, please feel free to contact us at info@ellerstoncapital.com.

Kind regards,

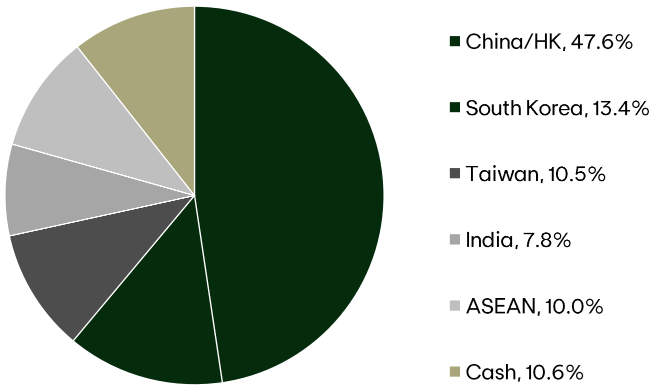
Mary Manning.

## SECTOR ALLOCATION




Source: Ellerston Capital.

## GEOGRAPHIC LOCATION




Source: Ellerston Capital.

## PORTFOLIO CHARACTERSITICS

Top 10 Holdings

| | | |
|---|---|---|
| TSMC | **Information Technology** | **8.5%** |
| Tencent Holdings Ltd | Communication Services | 7.4% |
| Alibaba Group Holding Ltd | Consumer Discretionary | 7.1% |
| Samsung Electronics | Information Technology | 6.1% |
| Hong Kong Exchanges & Clearing Ltd | Financials | 5.0% |
| DBS Group Holdings Ltd | Financials | 3.7% |
| OCBC Ltd | Financials | 3.2% |
| United Overseas Bank | Financials | 3.1% |
| Ping An Insurance | Financials | 2.7% |
| China Construction Bank Corp | Financials | 2.6% |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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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