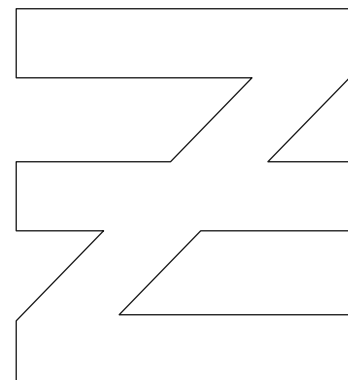


Ellerston India Fund



Monthly Newsletter, May 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 themes 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	Fredy Hoh
Application Price	\$1.2526
Net Asset Value	\$1.2495
Redemption Price	\$1.2464
Liquidity	Daily
No Stocks	31
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 above the benchmark, 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) [^]
1 Month	5.1%	1.8%	6.9%	-0.7%	6.2%	8.4%	6.1%
FYTD21	47.6%	-12.7%	34.9%	-5.4%	29.5%	40.1%	28.2%
1 Year	57.0%	-18.8%	38.2%	-5.4%	32.8%	44.2%	31.5%
3 Years (cumulative)	56.7%	-15.5%	41.3%	-5.5%	35.8%	36.5%	30.5%
Since Inception^{^^} (cumulative)	78.1%	-28.9%	49.2%	-5.7%	43.5%	43.8%	36.0%
Since Inception (p.a.)^{^^}	15.2%	-8.0%	10.3%	-1.4%	9.2%	9.3%	7.8%

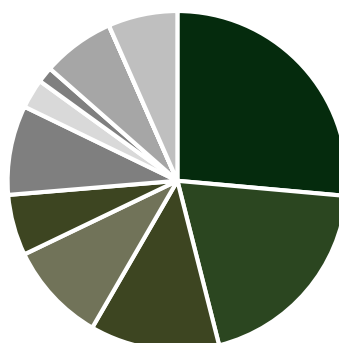
[^] The net return figure is calculated after fees, expenses and taxes. Past performance is not a reliable indication of future performance
^{*} MSCI India Net Return Index (AUD) ⁺ References to tax refer to capital gains tax applicable in India

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries Limited	Energy	11.82%
Infosys Limited	Information Technology	10.55%
HDFC	Financials	7.84%
ICICI Bank Limited	Financials	6.51%
Tata Consultancy Services Limited	Information Technology	5.82%
JSW Steel Limited	Materials	3.89%
Bajaj Finance Limited	Financials	3.49%
Hindustan Unilever Limited	Consumer Staples	3.24%
Axis Bank Limited	Financials	3.08%
UltraTech Cement Limited	Materials	3.08%

Sector



- Financials, 26.4%
- Information Technology, 19.6%
- Energy, 12.3%
- Materials, 9.5%
- Consumer Staples, 5.8%
- Consumer Discretionary, 8.5%
- Communication Services, 2.8%
- Industrials, 1.5%
- Health care, 6.9%
- Cash, 6.6%

Source: Ellerston Capital.

Fund update: Portfolio Manager Mary Manning resigned from Ellerston Capital in June and is replaced by Deputy Portfolio Manager Fredy Hoh. Ellerston Capital would like to thank Dr Manning for her valuable contribution to the Fund since its inception and wishes her all the best in her future endeavours.

The Ellerston India Fund (EIF) was up 6.12% versus the MSCI India Index which was up 8.45% and now trading at all time highs. Calendar year to date in 2021, EIF is up 6.47% versus the MSCI India Index return of 12.81%. As highlighted in the performance summary table, the FX and tax impacts on the portfolio performance continues to be material.

The key focus for investors during the month was the ongoing COVID second wave. Daily cases, although still high in absolute terms, have fallen significantly to around 115,000 from ~350,000 last month. Daily deaths have also fallen to under 3,000. We are somewhat sceptical of the pace of improvement and in particular the accuracy of testing and reporting. Nonetheless, feedback from the ground is people have been more diligent in following lockdown rules and restrictions, improved their hygiene practices and are more willing to get vaccinated. On the vaccine front, the daily vaccinations have risen to 3.3m (vs 2.7m in April) taking the total shots delivered to ~230m. The Government is aiming to vaccinate the entire adult population of 950m people by the end of CY21.

Despite the improvements in COVID numbers in India, we continue to be surprised by how willing the market has been to look through the economic and financial impacts of this second wave. The feedback we are hearing and seeing on the ground is that economic activity has slowed in recent weeks as a result of the lockdowns/restrictions in key regions across India. For instance, passenger vehicle sales fell 65% month-on-month in May. Meanwhile, paint sales in May were at ~40% of normal levels. The Reserve Bank of India (RBI) confirmed this slowdown in economic activity by lowering its FY22 GDP growth forecast down from 10.5% to 9.5% during the month. However, rather than assess the financial impacts on businesses this time around, investors have instead embraced the "it's not as bad as the first wave" narrative. So while earnings forecasts for some companies are being trimmed, share prices continue to rise. As such, there have been significant expansion of valuation multiples. This in our view is not sustainable and leaves the market susceptible to a correction. A catalyst for a sell-off could be a resurgence in COVID cases, prolonged recovery from this second wave or broad-based profit downgrades by corporates. None of these catalysts are currently being priced in at all by the market. We therefore continue to be positioned relatively defensively with a preference for exporters. Cash at the end of the month was at 6.6%.

Another factor that may have helped market sentiment over the past month was the solid corporate earnings season. Revenues and earnings grew at 20% and 35% yoy respectively in 4QFY21. Materials, Energy and Industrials were the standout sectors driven by improved economic activity and higher commodity prices during the March 2021 quarter. But we take these positive results with a grain of salt given the backward looking nature of these earnings. Whilst outlook comments were cautiously optimistic, it may still be too early for companies to provide an accurate assessment of the COVID impacts.

On the policy front the RBI kept its policy rate unchanged at 4% during the month and committed to remaining accommodative for as long as it's necessary to revive and sustain economic growth. The RBI also announced a number of special liquidity measures for troubled sectors aimed at alleviating financial stress. We expect monetary policy to remain supportive, but fiscal policy on the other hand is expected to be constrained as the Government's deficit target is forecast to reduce to 6.8% in FY22 from 9.2% in FY21.

Turning to performance, Financials was the largest contributor during the month. Conversely, Materials, Energy and Consumer Staples were the largest detractors. At a stock level, Astra, State Bank of India and Reliance were the biggest contributors. Specifically on Reliance, decade high polymer spreads drove expectations of potential earnings upgrades and increased the likelihood that the company would announce a strategic stake sale of its oil-to-chemicals business as early as next month's AGM. Meanwhile, JSW Steel, IndiaMart and Info Edge were the biggest drags.

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

Kind regards,
Fredy Hoh

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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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