

Ellerston India Fund

Monthly Newsletter, August 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 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	\$1.3633
Net Asset Value	\$1.3599
Redemption Price	\$1.3565
Liquidity	Daily
No Stocks	28
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)

** 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	8.4%	2.6%	10.9%	-1.1%	9.9%	11.6%	9.8%
FYTD22	9.4%	4.9%	14.3%	-1.4%	12.9%	14.9%	12.7%
1 Year	48.3%	0.5%	48.8%	-6.0%	42.9%	55.0%	41.3%
3 Years (cumulative)	56.6%	-8.5%	48.1%	-6.9%	41.2%	44.2%	35.7%
Since Inception^^ (cumulative)	99.0%	-25.4%	73.6%	-7.1%	66.5%	69.2%	57.4%
Since Inception^^ (p.a.)	17.2%		13.6%		12.5%	12.9%	11.0%

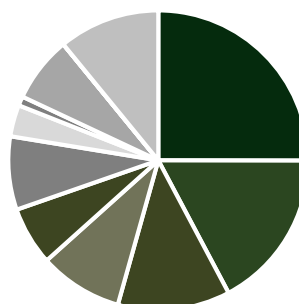
[^] The net return figure is calculated after fees, expenses and taxes. Past performance is not a reliable indication of future performance
^{*} MSCI India Net Return Index (AUD) + References to tax refer to capital gains tax applicable in India

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Infosys	Information Technology	12.90%
Reliance Industries	Energy	11.66%
ICICI Bank	Financials	7.88%
Housing Development Finance Corp	Financials	7.85%
Tata Consultancy Services	Information Technology	5.17%
Bajaj Finance	Financials	4.04%
UltraTech Cement	Materials	3.66%
Hindustan Unilever	Consumer Staples	3.38%
Maruti Suzuki India	Consumer Discretionary	3.12%
Axis Bank	Financials	3.05%

Sector



- Financials, 25.0%
- Information Technology, 17.2%
- Energy, 12.1%
- Materials, 9.0%
- Consumer Staples, 6.3%
- Consumer Discretionary, 7.9%
- Communication Services, 3.4%
- Industrials, 1.0%
- Health care, 7.1%
- Cash, 10.9%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was up 9.77% (net) in August versus the MSCI India Index (MXIN) which was up 11.58%. We note that the Indian market was up 8.8% for the month in local currency terms, but a strengthening Indian Rupee against the Australian Dollar (AUD) meant that the AUD was a tailwind for absolute returns. As highlighted in the performance summary table, the FX and tax impacts on the portfolio performance continues to be material.

The Indian market recorded its strongest month in over a year driven by positive local and foreign inflows and further improvement in the country's COVID-19 situation. The MXIN has now rallied for a seventh consecutive month, making it the best performing country in the region over the past year. The market is trading at an all-time high forward PE of 23.5x and forward PB of 3.4x. It is also overbought at a technical level. Given both valuations and technicals look stretched, we took the opportunity to lock in some profits during the month and currently sit on 10.9% cash.

On flows, it is worth noting that the melt up in August coincided with a return of foreign investors into the market after being net sellers for the past 6 months. We believe the increase in foreign interest during the month was likely triggered by the regulatory crackdown in China, which forced regional fund managers to look elsewhere for 'safer' investment returns. We are not convinced that foreign inflows are sustainable given lofty market valuations and the emergence of earnings risks, particularly with regards to margins within a number of large cap sectors such as IT services and consumer.

Whilst foreign investors have taken a cautious view on India throughout most of this year, local investors on the other hand have been very bullish. Feedback from on the ground is that local fund managers continue to put new money to work as long as they are confident there will be no further COVID-19 related disruptions. Indeed, the COVID-19 situation in India showed signs of further improvement during August. Daily reported cases has stabilized at 40,000 cases. Meanwhile, the daily fatality rate has fallen to ~300 per day vs the peak of ~4,000 back in May. Vaccination rates have accelerated to 7m doses per day (vs 5.5m last month) and ~13% of the population is now fully vaccinated. The improved vaccine penetration and India's more relaxed approach to dealing with COVID-19 has meant that recovery from the recent second wave has been faster than expected. The August PMI of 52.3 confirms that the economy remains in expansionary territory. The upcoming festive season is the next checkpoint in assessing the country's economic recovery. Anecdotes suggest that businesses are gearing up for a bumper season. This bodes well for some of the consumer businesses in our portfolio such as Reliance, Info Edge, Jubilant and Varun Beverages.

Turning to performance, Healthcare and Financials were the biggest contributors to performance during the month. Whilst Utilities and Materials were our biggest detractors. At a stock level, Bajaj Finance, HDFC and Dr Lal Pathlabs were the biggest alpha contributors. Meanwhile, JSW Steel, Coromandel and not owning Adani Transmission and Adani Gas were the biggest drag on alpha. We note however, that the Adani Group of companies remains under investigation by the regulator (SEBI) for potential compliance breaches.

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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