Ellerston Asia Growth Fund

Monthly Newsletter, November 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	Fredy Hoh
Application Price	$1.0254
Net Asset Value	$1.0228
Redemption Price	$1.0202
Liquidity	Daily
No Stocks	33
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception^^ (p.a.)
Net^	1.81%	-3.11%	-5.73%	0.40%	6.92%	10.48%	8.80%
Benchmark*	1.77%	-4.03%	-4.70%	2.51%	7.25%	9.33%	9.11%
Alpha	0.04%	0.93%	-1.03%	-2.11%	-0.33%	1.15%	-0.31%

^ 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)

Commentary

Ellerston Asia Growth Fund (EAGF) was up 1.81% (net) in November versus the MSCI Asia ex Japan Index which was up 1.77%.

Despite the positive market performance, November was a volatile month for financial markets caused by continued weakness in the Chinese internet sector, the emergence of a new COVID variant and an unexpectedly hawkish US Federal Reserve (Fed). We discuss these factors in detail below.

China Internet Reporting Season

November saw regulatory announcements largely take a backseat to the September quarter earnings results from the China internet companies. Overall, it was a disappointing reporting season, particular for the ecommerce names. This was driven by a confluence of factors such as a slowing domestic economy, increased competition and headwinds from new regulations. The weak fundamental backdrop and ongoing regulatory overhang will continue to test investor patience. We however believe these negatives are largely priced into the share prices for companies such as Alibaba and Tencent, both of which are trading at trough multiples.

We remain constructive on the long term prospects for the China internet sector given the important role that it will play in helping to innovate and upgrade the domestic economy. The companies most equipped to innovate are those with significant intellectual capital, strong balance sheets and cash flows such as the large internet firms. Importantly, these companies are committed to staying onside with the government. As such, we continue to take a patient approach with regards to our internet investments.

In the meantime, we see incremental policy easing and a slowdown in regulatory announcements in 2022 as potential near term positive catalysts that are not being priced in by the market. Indeed, the People's Bank of China (PBOC) announced on December 7 that it will cut the reserve requirement ratio (RRR) for Chinese banks by 50bps. Furthermore, the Politburo meeting in early December implied a potential shift in focus from regulation towards supporting economic growth in 2022. Finally, the potential resumption of IPO, M&A and online games approval activity would be strong signals of a more dovish regulatory environment. These factors could see a more supportive demand and regulatory backdrop for the Chinese internet companies. It would also be supportive for the other consumer focused names in our portfolio such as Li Ning, Moutai and Mengniu Dairy.

New COVID Variant

The discovery of the Omicron COVID variant in South Africa triggered a sharp sell-off in global markets in late November. The virus has since spread to at least 50 countries including the US, Western Europe, Australia, China, India and South Korea. There is still considerable uncertainty around this new variant. But preliminary anecdotes suggest that Omicron is more infectious, yet less deadly than previous mutations. If these anecdotes hold true, Omicron follows the path of previous pandemics such as the Spanish Flu of getting less lethal over time. Furthermore, findings out of the UK and Israel suggests booster vaccine shots provide a material level of protection against Omicron. These factors suggest that the risks from this new strain are likely to be manageable and less severe than previous ones. As such, we continue to be overweight countries that have adopted a 'living with COVID' policy and are therefore less likely to be disrupted by lockdown restrictions.

Hawkish US Fed Pivot

Another catalyst for the sharp correction in global markets during the month was the US Fed Chairman Jerome Powell's comments that inflation should no longer be considered 'transitory'. This caused financial markets to price in the prospects of a faster pace of tapering and an interest rate hike by as early as 2Q2022. Unprofitable and expensive tech names were hit the hardest amidst the subsequent sell-off.

We have written previously about the risk of a 'mini-tantrum' during this monetary policy transition phase. This is a reality that is starting to play out. We therefore expect further volatility in the months ahead. As such, we continue to be positioned defensively with an overweight in Financials and high quality consumer staples and technology companies that are beneficiaries of secular growth trends.

Portfolio Performance Summary

China and Taiwan were the largest contributors to alpha during November. Whilst, India and Singapore were the largest detractors. At a sector level, Consumer Discretionary and Information Technology were the biggest contributors to performance. Meanwhile, Financials and Communications Services were the worst performers.

At a stock level, Kwiechow Moutai, CATL and Unimicron were the main alpha generators for the portfolio. Moutai was boosted by expectations of an imminent price hike. Meanwhile, CATL reported strong 3Q21 numbers with revenues and net profit up 131%YoY and 130%YoY respectively. Finally, Unimicron announced a record high monthly sales number that confirmed it's one of the biggest beneficiaries of the supply shortage situation in the IC substrate market.

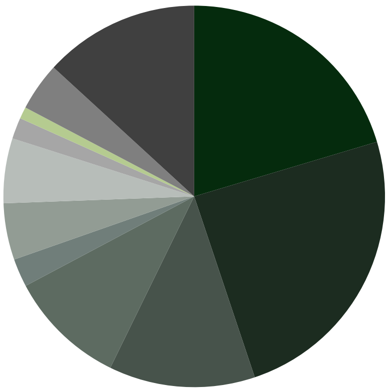
Conversely, Mengniu Dairy, Alibaba and DGB Financial Group were the biggest drags on performance. Mengniu was sold off on China consumption slowdown concerns. The weakness in Alibaba reflected a weak 2QFY22 earnings result which saw revenues grow at the slowest pace in six quarters. The company also downgraded FY22 revenue growth guidance from +30%YoY to +20-23%YoY. Finally, the weakness in DGB Financial was in-line with a broad sell-off across the KOSPI..

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

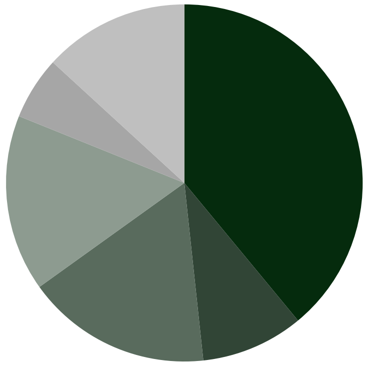
PORTFOLIO CHARACTERISTICS

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

TOP 10 HOLDINGS

Company	Sector	Weight
TSMC	Taiwan	10.95%
Tencent Holdings	China	5.96%
Samsung Electronics Co.	Korea	5.30%
Reliance Industries	India	4.80%
Alibaba Group Holding	China	4.46%
DBS Group Holdings	Singapore	3.88%
China Mengniu Dairy Co.	China	3.20%
MediaTek Inc.	Taiwan	2.73%
AIA Group Limited	Hong Kong	2.71%
JD.com	China	2.66%

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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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