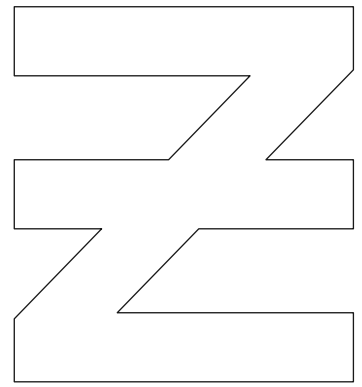


Ellerston India Fund



Monthly Newsletter, November 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	\$1.3445
Net Asset Value	\$1.3411
Redemption Price	\$1.3377
Liquidity	Daily
No Stocks	32
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+	Net Before Tax*	MSCI India Net Pre Tax	Net After Tax^
1 Month	2.8%	2.7%	2.7%	3.2%
FYTD22	12.9%	12.3%	14.7%	11.2%
1 Year	34.2%	32.8%	39.3%	27.4%
3 Years (cumulative)	54.3%	48.6%	55.6%	40.7%
Since Inception^^ (cumulative)	73.8%	64.5%	68.8%	55.2%
Since Inception^^ (p.a.)	12.8%	11.5%	12.1%	10.1%

^ The net return figure is calculated after fees, expenses and taxes. Past performance is not a reliable indication of future performance. All returns shown in AUD.

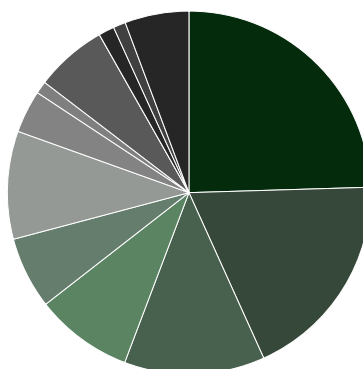
+References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

*Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	12.49%
Infosys Limited	Information Technology	8.52%
Housing Development Finance Corp	Financials	8.38%
ICICI Bank	Financials	7.55%
Bajaj Finance	Financials	4.16%
Tech Mahindra	Information Technology	3.57%
Hindustan Unilever	Consumer Staples	3.52%
UltraTech Cement	Materials	3.27%
Tata Consultancy Services	Information Technology	3.10%
State Bank of India	Financials	2.56%



- Financials, 24.5%
- Information Technology, 18.7%
- Energy, 12.5%
- Materials, 8.7%
- Consumer Staples, 6.4%
- Consumer Discretionary, 9.6%
- Communication Services, 3.8%
- Industrials, 1.1%
- Health care, 6.4%
- Real Estate, 1.4%
- Utilities, 1.1%
- Cash, 5.7%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was up 3.15% (net after tax) in November versus the MSCI India Index (MXIN) which was up 2.72%. We note that the Indian market was down 2.74% during the month in local currency terms, but a stronger Indian Rupee against the Australian Dollar (AUD) meant that the AUD was a tailwind for absolute returns.

The Indian market experienced the biggest pull back since March 2020 driven by global risk-off due to the emergence of a new COVID variant and an unexpectedly hawkish pivot by the US Federal Reserve (Fed) as well as a disappointing listing of India's largest IPO. We discuss these factors in detail below.

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 India, which has recorded 49 cases thus far. 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. India has fully vaccinated ~38% of its eligible population, so it remains vulnerable to a resurgence in COVID cases. The Indian government however appears committed to its 'living with COVID' policy. As such, we expect any restrictions to contain another COVID outbreak to be localized and short lived.

Hawkish US Fed Pivot

Another catalyst for the pullback in Indian market during the month was the US Fed Chairman Jerome Powell's comments that inflation should no longer be considered 'transitory'. This caused global financial markets to price in the prospects of a faster pace of tapering and an interest rate hike by as early as 2Q2022. A more aggressive pace of monetary tightening by the Fed could put upward pressure on the USD and lead to outflows from Emerging Markets as an asset class, including India. This in turn could force the Reserve Bank of India (RBI) to also lift interest rates in order to stabilize the INR. We've previously highlighted the prospects of an RBI tightening over the next 6-9 months as a trigger for an Indian equity market correction. The hawkish Fed pivot in November has increased this risk. As such, we have taken a barbell approach to portfolio positioning by holding high quality, low beta growth stocks within the tech, healthcare and consumer staples sectors as well as rate sensitives such as financials.

India IPOs

Last month we discussed the strength of India's IPO pipeline, which is running at multi decade highs. November saw the high profile listing of Paytm, which at US\$2.5bn was India's largest ever IPO. Paytm however has disappointed materially since listing, down 35% from the IPO price. As regular readers would know, we have a disciplined and selective approach to IPOs and all deals that we invest in must meet the same investment criteria as other portfolio companies. The Paytm IPO is an example of this discipline in practice as we passed on this deal due to concerns about the lack of business focus, high cash burn and regulation. Further, the IPO was priced at 25x forward price to sales which made it one of the most expensive financial companies in the world and therefore did not provide the appropriate margin of safety as an investment. Despite the Paytm disappointment, we remain excited by India's IPO pipeline and will look to participate if these upcoming opportunities provide attractive risk/reward.

Portfolio Performance

Turning to performance, Consumer Discretionary and Materials were the biggest contributors to performance during the month, whilst Financials and Energy were our biggest detractors.

At a stock level, Tech Mahindra and Max Healthcare were the biggest alpha contributors for the Fund. Tech Mahindra performed well following an analyst day that implied potential upside to the company's FY22 revenue growth and new deal wins outlook. Max Healthcare meanwhile reported a solid 2QFY22 result with revenues and EBITDA growing 52%YoY and 135YoY due to improved profitability per bed and higher occupancy. Conversely, ICICI Bank and not owning Apollo Hospitals were the biggest drags on alpha. ICICI Bank saw profit taking after the strong post result performance last month. Apollo Hospitals rose 33% last month on strong 2QFY22 earnings and speculation of new strategic investors in its retail pharmacy chain.

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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