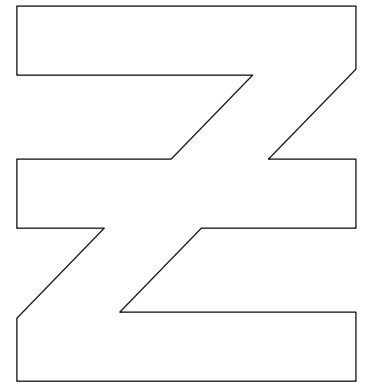


Ellerston Asia Growth Fund



Monthly Newsletter, January 2022

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	\$1.0087
Net Asset Value	\$1.0062
Redemption Price	\$1.0037
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 [^]	0.41%	0.16%	-4.68%	-7.21%	3.86%	8.77%	8.15%
Benchmark*	-0.03%	0.42%	-2.78%	-4.99%	5.12%	7.33%	8.51%
Alpha	0.44%	-0.26%	-1.90%	-2.21%	-1.26%	1.44%	-0.36%

[^] 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 0.41% (net) in January versus the MSCI Asia ex Japan Index which was down 0.03%.

January was a major risk off month for global financial markets driven by further re-pricing of US interest rate expectations. Developed markets performed relatively worse than emerging markets, with US, Japan and Europe all down around 5% for the month. We expect markets to remain volatile leading into a potential US Federal Reserve (Fed) rate hike in March. The EAGF portfolio consists of high conviction, high quality companies based on extensive bottom-up research. The portfolio weighted average PE of EAGF is currently ~20x and the weighted average earnings growth is ~18% for a PEG ratio of 1.1x. We believe these characteristics should allow the portfolio to perform resiliently in volatile markets. EAGF is also currently sitting on 9% cash, which we will selectively deploy if opportunities arise amidst the volatility.

Global Volatility

Market concerns in January focused on not only the pace of rate hikes, but also on the possibility of the Fed shrinking its balance. The market is now pricing in the end of tapering by March 2022, almost 5 interest rate hikes in 2022 and the start of Fed balance sheet reduction before the end of the year. The prospects of a Fed balance sheet run-off has caused the most market consternation because it signals the end of the 'easy money' regime of the past two years. Compounding investor nervousness is the fact that there is a lack of historical precedents of US interest rates rising concurrently with central bank balance sheet runoff outside of the 2018 episode. Equity markets held up well during this period, but the concern this time around is that a policy mistake from an overly aggressive Fed may cause economic growth to stall or even lead to a recession. This is a risk that investors are starting to prepare for by reducing exposure to long duration, expensive growth stocks.

As we have written about previously, EAGF has taken a barbell approach to portfolio construction with overweight positions in high quality growth companies within the tech and consumer sectors as well as rate sensitives such as financials. It is also important to remind our investors that the focus for EAGF remains steadfastly on the fundamentals of the companies that we own. This focus on business fundamentals allows us to objectively assess the long term prospects of our investments and will allow us to better navigate the 'noise' that often causes market volatility. Indeed, the latest reporting season has been a good one for our portfolio companies such as TSMC, Mediatek, Reliance, ICICI Bank and China Merchants Bank.

Divergent Monetary Policies

Whilst many of the world's central banks are heading towards monetary tightening, China on the other hand is entering an easing cycle. Indeed, there were further easing measures announced during the month with the PBOC cutting its policy rates by 10bps. This followed a 50bps cut in the Reserve Requirement Ratio (RRR) and a 5bps cut on the 1 year policy rate in December 2021. We expect further easing measures from the PBOC in the coming months as China continues to grapple with self-imposed COVID related disruptions, deleveraging in the property sector and the high base effect of +12.7% yoy economic growth in 1H2021.

Loosening financial conditions, progressive moderation of China's COVID zero policy throughout the year and a more benign regulatory environment provides a supportive backdrop for Chinese equities in 2022. We have therefore increased our weight towards China over the past month.

Portfolio Performance Summary

South Korea and Singapore were the largest contributors to alpha during January. Whilst, India was the largest detractor. At a sector level, Healthcare and Consumer Staples were the biggest contributors to performance. Meanwhile, Real Estate and Communication Services were the worst performers.

At a company level, DBS, China Mengniu and TSMC were the main alpha generators for the portfolio. DBS's share price was helped by the repricing of US interest expectations, which has seen the US 10-year bond yield move from 1.51% at the end of December to 1.95% currently. DBS is one of the most rate sensitive banks in Asia with each 25bps move in the US funds rate equating to ~6% earnings uplift. Meanwhile, Mengniu was boosted by recent management comments re-iterating 'low teens' revenue growth and margin expansion in 2022. Finally, TSMC reported an impressive earnings result with the company guiding to 'mid to high 20%' revenue growth in 2022, which was above market expectations. Management also upgraded long term revenue growth guidance to 15-20% CAGR (vs +10-15% CAGR previously) and gross profit margin guidance to '53% or higher' (vs above 50% previously).

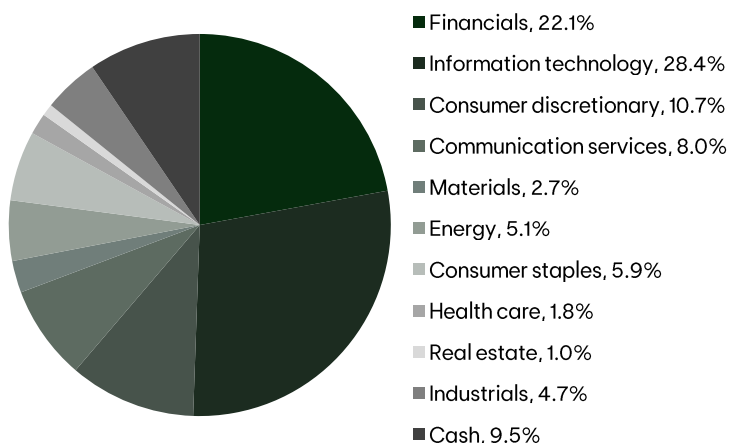
Tech Mahindra and Techtronic were the biggest drags on performance. Tech Mahindra was sold off after the company announced a number of minor acquisitions to bolster its digital engineering and fintech offerings. Although these acquisitions are likely to be EPS accretive, it nonetheless led to concerns over integration risk. We remain positive on the structural demand environment for outsourced IT services and believe Tech Mahindra to be one of the biggest beneficiaries of this thematic particularly given its exposure to the 5G investment cycle. Meanwhile, the share price weakness in Techtronic, reflected investor concerns that higher US interest rates will slow the housing market and therefore demand for power tools.

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

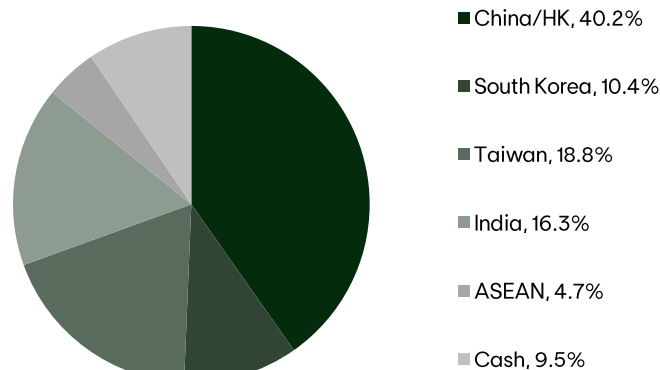
PORTFOLIO CHARACTERISTICS

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

TOP 10 HOLDINGS

Company	Sector	Weight
TSMC	Taiwan	11.98%
Samsung Electronics Co.	Korea	7.20%
Tencent Holdings	China	6.62%
Reliance Industries	India	5.12%
DBS Group Holdings	Singapore	4.74%
China Mengniu Dairy Co.	China	3.61%
Alibaba Group Holdings	China	3.49%
MediaTek Inc.	Taiwan	2.98%
AIA Group Limited	Hong Kong	2.91%
ICICI Bank Limited	India	2.61%

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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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