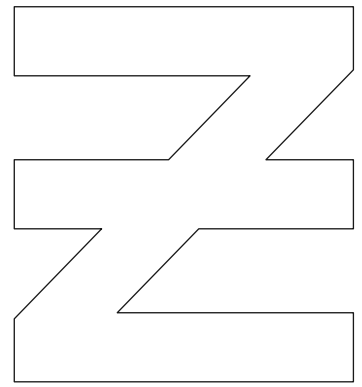


# Ellerston India Fund



## Monthly Newsletter, January 2022

### 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	\$1.3636
Net Asset Value	\$1.3602
Redemption Price	\$1.3568
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 <sup>+</sup>	Net Before Tax <sup>*</sup>	MSCI India Net Pre Tax	Net After Tax <sup>^</sup>
1 Month	-0.1%	-0.2%	1.8%	0.3%
FYTD22	14.5%	13.8%	18.1%	12.8%
1 Year	31.8%	30.4%	38.8%	26.0%
3 Years (cumulative)	58.8%	53.4%	63.3%	45.7%
Since Inception^^ (cumulative)	76.2%	66.4%	73.8%	57.4%
Since Inception^^ (p.a.)	12.7%	11.4%	12.3%	10.0%

<sup>^</sup> 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.

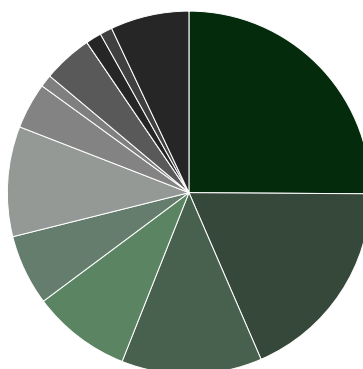
<sup>+</sup>References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

<sup>\*</sup>Net return figure is calculated after fees and expenses.

### Portfolio Characteristics

#### Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	12.54%
Infosys Limited	Information Technology	9.31%
ICICI Bank	Financials	8.28%
Housing Development Finance Corporation	Financials	7.85%
Tata Consultancy Services	Information Technology	4.26%
Bajaj Finance Limited	Financials	4.13%
Tech Mahindra	Information Technology	3.85%
Hindustan Unilever Limited	Consumer Staples	3.43%
UltraTech Cement Limited	Materials	3.15%
Bharti Airtel	Communication Services	3.05%



- Financials, 25.1%
- Information Technology, 18.4%
- Energy, 12.5%
- Materials, 8.8%
- Consumer Staples, 6.3%
- Consumer Discretionary, 9.8%
- Communication Services, 4.1%
- Industrials, 1.1%
- Health care, 4.4%
- Real Estate, 1.4%
- Utilities, 1.1%
- Cash, 7.0%

Source: Ellerston Capital.

## Commentary

The Ellerston India Fund (EIF) was up 0.27% (net after tax) in January versus the MSCI India Index (MXIN) which was up 1.78%.

As highlighted in the performance summary table, tax and currency continue to have a material impact on portfolio performance.

January was a volatile month for the Indian market driven by global concerns over the pace of US monetary tightening and potential armed conflict between Russia and Ukraine. These two events have potential negative implications for Indian equities in the coming months.

Firstly, a more aggressive pace of monetary tightening by the US Federal Reserve (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 lift interest rates in order to stabilize the INR. Indeed, foreign investors net sold US\$4.8bn of Indian equities in January, which was the highest since March 2020. Strong domestic inflows however have continued to support the equity market. The RBI meanwhile kept rates on hold with a dovish bias at its February policy meeting. We believe there will be increased pressure for the RBI to lift rates when the Fed begins its rate hike cycle in March 2022. We are currently overweight financials and in particular banks such as ICICI Bank, HDFC Bank and State Bank of India.

Secondly on geopolitics, an armed conflict over Ukraine could see a surge in oil prices given Russia is the second largest producer of oil in the world. India imports ~82% of its oil requirements. So higher oil prices are negative for the country's current account balance and a potential headwind for economic growth. Further, the inflationary pressures from higher oil prices could increase pressure on the RBI to tighten monetary policy.

Despite the offshore related risks, we remain optimistic on the outlook for Indian equities. The COVID situation across India has improved rapidly. The number of daily reported COVID cases has fallen to ~60,000 in early February from a peak of about 300,000 during January. This follows the course of other countries such as South Africa and the UK where the spread of the latest Omicron variant peaked over very short period of time. Encouragingly, there has not been a noticeable step-up in the case mortality rate over the past month. It therefore appears that COVID is turning endemic, which would minimize the risk of further disruptions to the economy.

Indeed the outlook for the domestic economy remains robust. India is forecast to record the strongest growth in the world over the next two years at 9.2% this fiscal year and 8-8.5% next year. This growth is underpinned by strong fiscal spending, with the government budgeting a 24%yoy increase in capital expenditure in FY23 along with strong growth in exports services and domestic manufacturing. This backdrop creates an attractive environment for investors scouting companies with high earnings growth. EIF is well positioned to capture the strong domestic growth story with overweight positions across the financials, real estate and consumer sectors.

## Portfolio Performance

Turning to performance, Energy and Financials were the biggest contributors to performance during the month, whilst Health Care and Information Technology were our biggest detractors.

At a company level, State Bank of India and ICICI Bank were the biggest alpha contributors for the Fund. Both State Bank of India and ICICI Bank reported strong 3QFY22 results characterized by strong earnings growth and improving asset quality. Conversely, Tech Mahindra and not owning Adani Green Energy and Axis Bank were the biggest drags on alpha. 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.

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](mailto: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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

All holding enquiries should be directed to our register, Link Market Services on **1800 992 149** or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au).

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