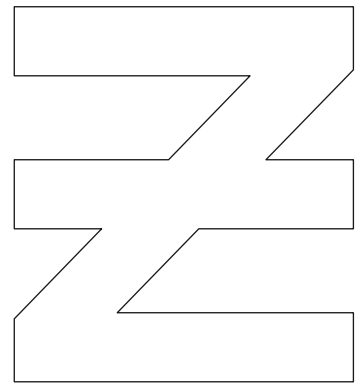


Ellerston India Fund



Monthly Newsletter, February 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	\$1.2675
Net Asset Value	\$1.2643
Redemption Price	\$1.2611
Liquidity	Daily
No Stocks	30
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	-7.5%	-7.6%	-6.8%	-7.1%
FYTD22	6.0%	5.2%	10.0%	4.8%
1 Year	18.2%	17.0%	24.1%	13.9%
3 Years (cumulative)	44.9%	39.8%	48.5%	33.0%
Since Inception^^ (cumulative)	63.4%	54.2%	62.0%	46.3%
Since Inception^^ (p.a.)	10.7%	9.4%	10.5%	8.2%

[^] 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.

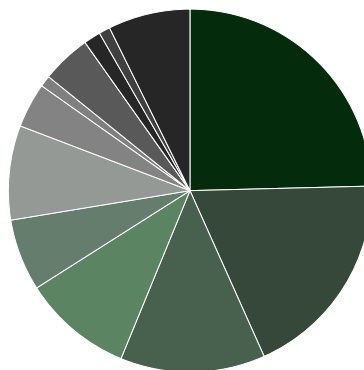
⁺ References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

*Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	12.86%
Infosys Limited	Information Technology	10.02%
ICICI Bank	Financials	8.09%
Housing Development Finance Corporation	Financials	7.64%
Bajaj Finance Limited	Financials	4.29%
Tata Consultancy Services	Information Technology	4.20%
Tech Mahindra	Information Technology	3.47%
Hindustan Unilever Limited	Consumer Staples	3.40%
UltraTech Cement Limited	Materials	2.98%
Bharti Airtel	Communication Services	2.97%



- Financials, 24.6%
- Information Technology, 18.7%
- Energy, 12.9%
- Materials, 9.8%
- Consumer Staples, 6.4%
- Consumer Discretionary, 8.4%
- Communication Services, 4.0%
- Industrials, 1.0%
- Health care, 4.4%
- Real Estate, 1.5%
- Utilities, 1.0%
- Cash, 7.3%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was down 7.05% (net after tax) in February versus the MSCI India Index (MXIN) which was down 6.80%.

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

It was another volatile month for the Indian market primarily driven by Russia's military incursion into Ukraine. This geopolitical event has created an exogenous shock to energy and commodity prices given both countries are major producers of oil, specialty gases, Aluminium, Thermal Coal and Palladium. Oil in particular has risen by ~25% since the end of January. This has meaningful implications for India given the country imports ~82% of its oil requirements. Every US\$10 increase in oil is estimated to result in a 20bps drag to India's GDP growth and lifts inflation by up to 50bps. Higher oil prices could also force the RBI to tighten monetary policy given inflation is already at the top end of the central bank's 2-6% target band (January at 6.0% YoY). This could create further headwinds to economic growth. We note also that higher energy and commodity prices is likely to create margin pressure for many companies. In order to mitigate these risks, EIF has taken a barbell approach to portfolio construction with overweight positions in high quality growth companies with pricing power as well as rate sensitives such as financials. EIF has a very stringent ESG (Environmental, Social and Governance) policy and therefore has no direct exposure to the energy sector other than via conglomerate Reliance Industries.

Despite the offshore geopolitical risks, there were a number of positive developments on the domestic front. Firstly, the BJP party retained power in four of the five key state elections that were conducted over the past month. These elections were seen as a referendum on Prime Minister Modi and his BJP party halfway through his second term. In particular, the victory in Uttar Pradesh, India's most populous state and a bellwether for the rural economy, reaffirms Modi's strong political standing and support for his reformist agenda. As such, we expect further progress on Modi's 'Make in India', 'Housing for All' and privatization policies. EIF has exposure to these reforms through Reliance Industries, Ultratech Cement and Maruti Suzuki.

Secondly, India's 3QFY22 reporting season was solid with revenues growing by ~19% YoY. Margin pressure was seen across a number of industries such as IT, Consumer and Industrials due to cost push inflation from higher raw material prices, higher wages and supply chain related issues. This led to EBITDA growth of ~14% YoY during the quarter. We believe cost pressures will persist for a few more quarters. In this environment companies with the pricing power to pass on higher input costs are likely to do well. EIF holds a number of companies such as Reliance, Infosys, Tech Mahindra and Hindustan Unilever with the ability to protect margins when costs are rising. Our financials holdings should also fare relatively well in an inflationary environment.

Portfolio Performance

Turning to performance, Energy was the biggest alpha contributor to performance during the month, whilst Materials and Utilities were our biggest detractors.

At a company level, Titan and Varun Beverages were the biggest alpha contributors for the fund. Both Titan and Varun Beverages reported strong 3QFY22 results with better than expected revenue growth and margin performances. Conversely, Jubilant Foodworks and Ultratech Cement were the biggest drags on alpha. Jubilant's share price was negatively impacted by a weaker than expected 3QFY22 result where growth slowed to +13% YoY with like-for-like store growth of only +7.5% YoY. Despite soft top-line growth, margins remained resilient (+20bps YoY) and the company continues to provide the best exposure to India's rising fast food penetration stories. Ultratech Cement meanwhile was sold off due to investor concerns over rising input costs. We expect cement companies to put through price increases to offset high raw material prices. The impact on demand from higher prices however will need to be monitored.

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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