APIR Code: ECL0339AU

# Ellerston India Fund

## Monthly Newsletter, March 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 thematics 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 | $1.2482 |
| Net Asset Value | $1.2451 |
| Redemption Price | $1.2420 |
| Liquidity | Daily |
| No. of Stocks | 31 |
| 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

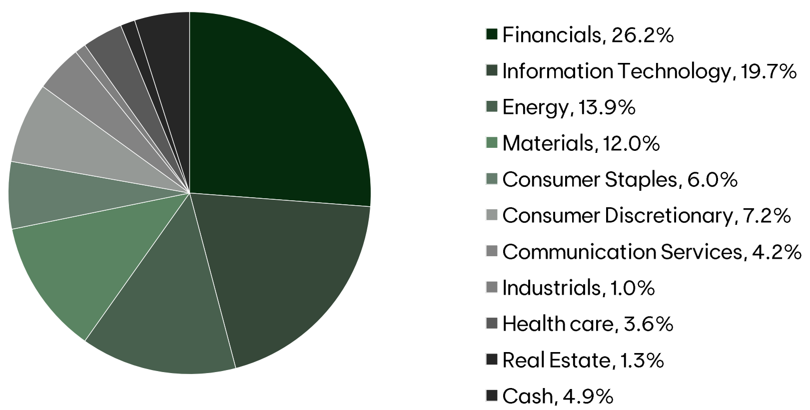
| Period | Gross+ | Net Before Tax* | MSCI India Net Pre Tax | Net After Tax^ |
|---|---|---|---|---|
| 1 Month | -0.9% | -1.0% | 0.2% | -1.5% |
| FYTD22 | 5.0% | 4.2% | 10.2% | 3.2% |
| 1 Year | 13.1% | 11.9% | 19.5% | 10.3% |
| 3 Years (cumulative) | 31.2% | 26.6% | 35.9% | 19.5% |
| Since Inception^^ (cumulative) | 62.2% | 52.9% | 62.3% | 44.1% |
| Since Inception^^ (p.a.) | 10.3% | 9.0% | 10.3% | 7.7% |

^ 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 | 13.94% |
| Infosys Limited | Information Technology | 10.81% |
| ICICI Bank | Financials | 7.72% |
| Housing Development Finance Corporation | Financials | 6.85% |
| Bajaj Finance Limited | Financials | 4.31% |
| Tata Consultancy Services | Information Technology | 4.29% |
| Tech Mahindra | Information Technology | 3.59% |
| Bharti Airtel | Communication Services | 3.18% |
| Hindustan Unilever | Consumer Staples | 3.11% |
| Maruti Suzuki India | Consumer Discretionary | 2.92% |




Source: Ellerston Capital.

## Commentary

The Ellerston India Fund (EIF) was down 1.52% (net after tax) in March versus the MSCI India Index (MXIN) which was up 0.16%. We note that the Indian market was up ~4% for the the month in local currency terms, but a weakening Indian Rupee against the Australian Dollar (AUD) meant that the AUD was a headwind for absolute returns. As highlighted in the performance summary table, tax and currency continue to have a material impact on portfolio performance.

The Indian market rebounded from a couple of volatile months primarily due to a stabilization in commodity prices, most notably oil and the successful containment of the Omicron variant domestically.

As regular readers would know, India is a net importer of oil. As such, the surge in crude prices since the start of 2022 (+30% YTD) is presenting challenges to India's fiscal balance and economic growth. We believe India's economy is more resilient throughout this commodity price shock than previous episodes due to factors such as improved GST collections (+20% YoY over the past 6 months), much higher foreign currency reserves (~US$630bn) and strong foreign direct investments (+US$80bn in the past two years). Potential government privatisations (e.g. LIC) and stake sales (e.g. CONCOR) and procurement of cheap oil (possibly from Russia) could also help the country's fiscal situation.

Inflation nonetheless remains an area to watch because of the potential impact on domestic demand, interest rates and corporate earnings. Indeed, the government has increased both retail fuel and gas prices in late March following recent state elections. This will also help the fiscal balance, though put upward pressure on inflation. The Reserve Bank of India (RBI) kept rates on hold at its latest April meeting. But with inflation (+6.95% YoY in March) already above the top end of the central bank's 2-6% target band, interest rate hikes are possible in the coming months. The prospects of higher interest rates and cost push inflation from raw material prices, higher wages and supply chain related issues are potential near term headwinds for corporate margins and valuations. In this environment companies with the pricing power to pass on higher input costs are likely to outperform. EIF holds a number of companies such as Reliance with the ability to protect and even grow margins when costs are rising. Our Financials and Materials investments should also fare relatively well in an inflationary and rate hiking environment. It is also important to remind our investors that the EIF portfolio consists of high quality companies that we believe to possess the best long term potential based on extensive bottom-up research. This helps us to navigate and 'look-through' any share price volatility that arises from short term headwinds such as cost inflation.

We note that despite the inflationary pressures, India's GDP is still forecast to grow by over 7% in FY23, which is amongst the highest globally. The strong growth outlook despite the inflationary pressures reflects the domestic recovery post the latest COVID wave. India successfully contained the Omicron outbreak within a month and cases are now averaging ~1,000/day vs a peak of ~300,0000/day in mid-January. This has allowed urban activity to bounce back to pre-COVID levels. Furthermore, the recent state election victories by the BJP party will allow the government to refocus on its pro-growth policies such as Make in India and Housing for All. EIF has exposure to these reforms through Reliance Industries, Ultratech Cement and Maruti Suzuki.

### Portfolio Performance

Turning to performance, Energy and Information Technology were the biggest contributors to performance during the month, whilst Consumer Discretionary and Consumer Staples were our biggest detractors.

At a company level, Reliance and JSW Steel were the biggest alpha contributors for the fund. The positive performances from Reliance and JSW Steel were driven by rising refining margins and steel prices respectively due to the impacts of the Russia/Ukraine conflict and global (ex-China) re-opening demand. Conversely, Sobha, Hindalco and not owning Adani Group companies – Total Gas, Adani Enterprises, Adani Ports, Adani Green Energy and Adani Transmission were the biggest drags on alpha. Sobha's share price was negatively impacted by the resignation of its long serving Managing Director – JC Sharma during the month. The Board has already appointed a new Managing Director internally in Jagadish Nangineni and reassured investors that the strategy and growth outlook for the company remains unchanged. Hindalco meanwhile came under profit taking pressure as the aluminum price consolidated after a 46% rally since the start of 2022. Finally, the Adani Group of companies were up between 4-30% during the month on no major news and was therefore a major headwind to our relative performance. The Adani Group companies account for just over 4% of MSCI India and have a tightly held registry. They trade on an average price to sales ratio of 69x and an average PE ratio of 650x and have also experienced prior corporate governance issues.

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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