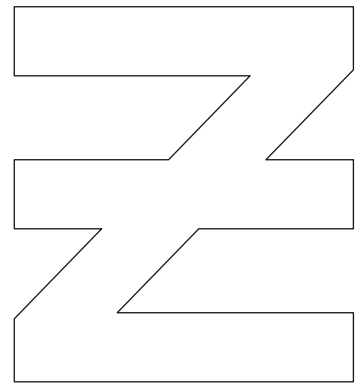


# Ellerston India Fund



## Monthly Newsletter, April 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	\$1.2863
Net Asset Value	\$1.2831
Redemption Price	\$1.2799
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 <sup>+</sup>	Net Before Tax*	MSCI India Net Pre Tax	Net After Tax <sup>^</sup>
1 Month	2.56%	2.47%	3.90%	3.05%
FYTD22	7.66%	6.69%	14.52%	6.38%
1 Year	18.23%	16.96%	27.15%	15.88%
3 Years (cumulative)	34.92%	29.97%	39.18%	23.92%
Since Inception <sup>^^</sup> (cumulative)	65.90%	56.23%	68.60%	48.52%
Since Inception <sup>^^</sup> (p.a.)	10.65%	9.33%	11.01%	8.23%

<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.

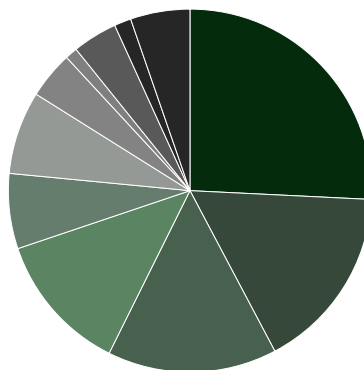
<sup>+</sup> References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

\* Net return figure is calculated after fees and expenses.

### Portfolio Characteristics

#### Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	15.05%
Infosys	Information Technology	9.06%
ICICI Bank	Financials	8.01%
Housing Development Finance	Financials	6.52%
Bajaj Finance	Financials	4.04%
Tata Consultancy Services	Information Technology	3.68%
Hindustan Unilever	Consumer Staples	3.46%
Bharti Airtel	Communication Services	3.16%
Maruti Suzuki India	Consumer Discretionary	3.04%
Tech Mahindra	Information Technology	2.82%



- Financials, 25.8%
- Information Technology, 16.5%
- Energy, 15.1%
- Materials, 12.5%
- Consumer Staples, 6.7%
- Consumer Discretionary, 7.4%
- Communication Services, 4.2%
- Industrials, 1.1%
- Health care, 4.0%
- Real Estate, 1.5%
- Cash, 5.3%

Source: Ellerston Capital.

## Commentary

The Ellerston India Fund (EIF) was up 3.1% (net after tax) in April versus the MSCI India Index (MXIN) which was up 3.9%. We note that the index was down 0.81% in local currency terms for the month, but a stronger Indian Rupee against the Australian Dollar (AUD) meant that the currency was a tailwind for absolute returns. As we have highlighted before to the readers of this newsletter, currency fluctuations as well as tax do impact materially on portfolio performance.

The Indian market consolidated during the month of April as it continues to balance the strong tailwinds of a broad economic rebound with near term concerns over inflation from higher oil and commodities prices and rising global interest rates.

Foreign institutional investors (FII) remained net sellers in the market to the tune of ~US\$3bn during April. FIIs have withdrawn US\$31bn from the Indian secondary market since October 2021 and this represents the longest selling streak on record. FIIs have now turned neutral on India from a positioning point of view, worried about high valuations and the impact rising inflation will have on growth and corporate profit margins. We note that despite the FII selling, the Indian market has managed to stay flat over the past 6 months and outperformed most developed markets. Strong inflows by domestic retail investors into equity mutual funds have absorbed much of the foreign liquidity. We see domestic inflows into the market as an ongoing tailwind given equities account for only 5% of Indian household assets. We view FII selling meanwhile as a cyclical headwind and remain structurally positive on India. As we have written about previously, India is better positioned than in the past to handle external shocks like rising oil prices due to its improved fiscal position, high foreign currency reserves, rising foreign direct inflows (vs foreign portfolio outflows) and capital from government divestments. Furthermore, India's unique geopolitical situation in the current environment could help to cushion near term commodity price impacts. These factors should allow India to record 7%+ GDP growth for FY23, which would be amongst the highest globally and will look increasingly attractive in the context of slowing global growth.

We believe many Indian corporates are also better placed to manage raw material hikes and rising wage inflation due to improved industry structures. Indeed consensus has upgraded earnings for the Indian market by 2% for FY23 since the start of 2022 and MXIN EPS is forecast to grow by 20% in FY23. Nonetheless, we will continue to monitor the impacts from rising inflation and its ripple effect on various sectors. EIF meanwhile, continues to own companies with the pricing power to pass on higher input costs such as Maruti Suzuki, Hindustan Unilever and Reliance. Our Financials and Materials investments should also fare relatively well in an inflationary and rising rate environment.

## Portfolio Performance

Turning to performance, Energy and Healthcare were the biggest contributors to performance during the month, whilst Information Technology and Utilities were our biggest detractors.

At company level, Reliance, Max Healthcare and Varun Beverages were the biggest alpha contributors for the fund. The positive moves in Reliance Industries reflects earnings tailwinds from rising refining margins and tariff hikes in its Jio telecom business. Further, the company's green energy initiatives are starting to be noticed by investors in light of the impacts of the Russia/Ukraine conflict. Max Healthcare is benefiting from the sector rotation towards domestic defensives that are insulated from rising inflation. Finally, Varun Beverages reported strong 1QFY22 results during the month where revenues grew 26% YoY led by 18% volume growth and higher realizations along with 175bps of EBITDA margin improvement. Varun, as a Pan-India distributor of Pepsi Co, is uniquely placed to benefit from the heatwave situation currently engulfing North and Central India (highest recorded temperatures since records began 122 years ago).

Conversely, Infosys, Tech Mahindra and not owning Adani group companies – Adani Green Energy and Adani Transmission were the biggest drags on alpha. The IT sector is seeing high wage inflation, which is leading to a near term margin reset. We believe the current rise in wage inflation is transient and a reflection of elevated IT services demand, with revenues forecast to grow ~15-20% in FY23. As these companies increase their corporate headcount and capability to meet the strong demand, we expect margins to normalize.

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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