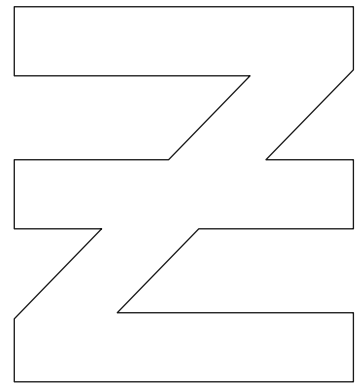


Ellerston India Fund



Monthly Newsletter, May 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	\$1.2032
Net Asset Value	\$1.2002
Redemption Price	\$1.1972
Liquidity	Daily
No. of Stocks	29
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	-6.7%	-6.8%	-6.7%	-6.5%
FYTD22	0.5%	-0.5%	6.8%	-0.5%
1 Year	3.3%	2.2%	9.4%	2.1%
3 Years (cumulative)	22.1%	17.7%	27.5%	12.3%
Since Inception ^^ (cumulative)	55.2%	46.1%	57.3%	38.9%
Since Inception ^^ (p.a.)	9.0%	7.7%	9.3%	6.7%

[^] 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.

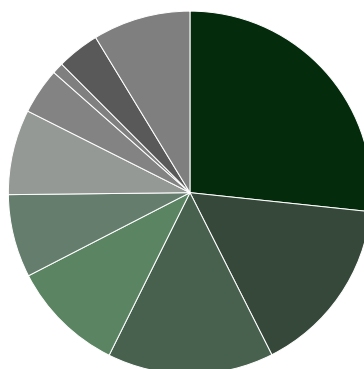
⁺ References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

^{*} Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	14.8%
Infosys	Information Technology	8.8%
ICICI Bank	Financials	8.5%
Housing Development Finance	Financials	7.0%
Bajaj Finance	Financials	3.8%
Hindustan Unilever	Consumer Staples	3.8%
Tata Consultancy Services	Information Technology	3.6%
Maruti Suzuki India	Consumer Discretionary	3.3%
Bharti Airtel	Communication Services	3.1%
State Bank of India	Financials	2.8%



- Financials, 26.7%
- Information Technology, 15.9%
- Energy, 14.8%
- Materials, 10.1%
- Consumer Staples, 7.4%
- Consumer Discretionary, 7.6%
- Communication Services, 4.1%
- Industrials, 1.0%
- Health care, 3.8%
- Cash, 8.7%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was down 6.46% (net after tax) in May versus the MSCI India Index (MXIN) which was down 6.70%.

The Indian market pulled back in May due to concerns over elevated inflation and rising interest rates. Indeed, CPI inflation rose to an 8 year high of 7.8% in April followed by 7.0% in May. Both readings were above the central bank's 2-6% target band. In response, the Reserve Bank of India (RBI) lifted its policy rate by 40bps in May and a further 50bps to 4.90% in June. The Indian government has also announced fiscal measures to curb inflationary pressures such as cuts in excise duty on petrol and diesel, removing the import duties on certain goods like coking coal and plastic products, increasing subsidies for fertilizer products, imposing a 15% export duty on iron and steel products and banning wheat exports. We view these targeted fiscal measures positively given they are aimed at reducing prices in three of the most important areas of the Indian economy, namely food, fuel and construction. Further, the proactive response from policymakers to tackle inflation significantly reduces near term pressure on the currency and therefore a repeat of the 2013 'taper tantrum' episode where the INR depreciated by 20% over 3 months. We acknowledge that the current tightening of financial conditions could be a near term headwind for the Indian economy and equity market, but believe that the structural growth story remains in place. As such, we will use any further market weakness as an opportunity to accumulate high quality structural growth companies trading at attractive valuations.

The impact of rising raw material prices and services inflation was evident in the latest FY22 earnings season. Revenues and earnings grew at 26% and 24% YoY respectively in 4QFY21. Unsurprisingly, Materials and Energy were the standout sectors driven by higher commodity prices. Reopening beneficiaries such as Consumer and Financials companies also performed well. For FY22, corporate India reported 19% YoY earnings growth which was broadly in-line with street expectation. We however note that, earnings upgrade momentum has slowed into FY23, with consensus earnings estimate lowered marginally to reflect margin headwinds. We believe these cost pressures are likely to persist for a few more quarters. Meanwhile, the Ellerston India portfolio is geared towards companies with pricing power and ability to protect margins such as Reliance Industries, Hindustan Unilever and Maruti Suzuki. Our Financials holdings should also fare relatively well in an inflationary environment.

In light of the macro risks outlined above, foreign institutional investors (FII) were again net sellers in the market during May to the tune of ~US\$6bn. FII ownership in India is now reaching 19% which is a multi-year low. Domestic mutual funds (DMFs) on the other hand continue to support the market, with a further US\$4bn of inflows in May. DMFs have been net buyers of the market for 15 consecutive months. The Indian market continues to reap the structural benefits from Prime Minister Modi's demonetization policy in 2016, which forced many households to 'bank' and invest the cash that was previously sitting at home. But with equities still accounting for only 5% of Indian household assets, we believe domestic inflows will be an ongoing tailwind for the market.

Portfolio Performance

Turning to May performance, Utilities and Financials were the biggest contributors to relative performance, whilst Consumer Discretionary and Property were our biggest detractors.

At company level, ICICI Bank and HDFC Bank and not owning Adani Green and Adani Transmission were the key alpha contributors. HDFC bank hosted its annual analyst meet which was upbeat on its growth guidance and allayed any concerns related to the HDFC/HDFC Bank merger. ICICI Bank reported a good quarter and projected strong loan and profit growth and improving core ROE.

Conversely, JSW Steel and Sobha were the key detractors. JSW Steel and the entire steel sector was sold off following the Indian Government's surprise decision to impose a 15% export duty on steel products. This export duty will effectively bring domestic steel prices down by ~10% and will negatively impact spreads and profitability. This represents a material change to our investment thesis. As such, we exited our JSW Steel position during the month. Sobha's share price weakness during the month was driven by weaker than expected FY22 results. Whilst we are structurally positive on the outlook for the Indian real estate market, we have been disappointed with the execution of the company in capitalizing on the current upcycle. Our post results conversation with the new management team did not provide comfort that the conservative corporate strategy will change. We therefore exited our Sobha position during the month.

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

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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.

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity of the Ellerston India Fund ARSN 618 549 796 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement and Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.