# Ellerston Asia Growth Fund

Monthly Newsletter, June 2022

**Investment Objective**

To outperform the MSCI Asia Ex Japan (non-accumulation) (AUD) benchmark on a net of fees basis, with a focus on capital growth and downside protection.

**Investment Strategy**

The Fund's investment strategy is to provide access to a high quality portfolio of primarily large cap Asian Companies using the Manager's distinctively high growth, high conviction and benchmark independent investment approach.

The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that offer the best risk/reward.

**Key Information**

| | |
|---|---|
| Strategy Inception^^ | 4 January 2017 |
| Portfolio Manager | Fredy Hoh |
| Application Price | $0.8623 |
| Net Asset Value | $0.8601 |
| Redemption Price | $0.8579 |
| Liquidity | Daily |
| No Stocks | 31 |
| Management Fee | 1.00% |
| Performance Fee | 15% |
| Buy/Sell Spread | 0.25%/0.25% |

## PERFORMANCE SUMMARY

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years (p.a.) | 3 Years (p.a.) | Since Inception ^^ (p.a.) |
|---|---|---|---|---|---|---|---|
| Net^ | 0.14% | -2.78% | -14.17% | -22.85% | -2.19% | 0.20% | 4.49% |
| Benchmark* | -0.96% | -1.54% | -12.51% | -19.85% | 0.39% | 0.70% | 5.26% |
| Alpha | 1.10% | -1.24% | -1.66% | -3.00% | -2.59% | -0.51% | -0.77% |

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
* MSCI Asia ex Japan (non-accumulation) (AUD)

## Commentary

Ellerston Asia Growth Fund (EAGF) was up 0.14% (net) in June versus the MSCI Asia ex Japan Index which was down 0.96%.

June was another tough month for global equity markets with investor concerns focused on the impact that high inflation and rising interest rates will have on global growth. Asia fared better than most other regions, with the MXASJ down 5.1% in USD terms compared to the S&P 500 and the ASX 200 which were down 8.3% and 8.8% respectively. The relatively outperformance of Asia was due to China/HK as an improving macro outlook helped sentiment.

## China Recovery

China/HK was the best performing region in June with the CSI300 and Hang Seng Index up 9.6% and 2.0% respectively. The positive market performances were driven by further evidence of improvement in China's COVID situation, policy easing and softening of private sector regulations.

Over the past two months, we have observed a significant shift in the political focus away from containing COVID towards restoring economic growth. We believe the Government is motivated to ensure a 'healthy' economy leading into the 20th Party Congress in October/November 2022. This means additional accommodative policies are likely to be announced in the coming months. The supportive policy environment along with cost cutting measures undertaken by corporates over the past year bode well for earnings growth in the coming quarters. This is in contrast to most developed countries around the world, where the policy environment is tightening and earnings growth faces near term headwinds. Valuations in China/HK meanwhile are still depressed (HSI and CSI300 PE multiples currently at 10x/13x respectively) and investor skepticism remain high. We view this as an ideal backdrop to invest in good businesses trading at attractive valuations. As such, we have further increased our China/HK weight throughout June. Specifically, we have added exposure to companies operating in the domestic consumption, innovation and factory automation areas.

The biggest risk to our increased conviction on China's outlook remains its zero-COVID policy. Our base case is for the government to persevere with zero-COVID until the Party Congress and then a gradual transition to 'living with COVID' in late 2022 and 1H2023. We have already seen an incremental softening of this policy with the Government reducing the quarantine time for inbound travelers from 14 days to 7 days. We however view the successful development of a domestic mRNA vaccine as an important catalyst to enable a formal change in policy. There are currently seven domestic mRNA candidates that are undergoing clinical trials, including one (Walvax) that is in stage 3. It is hoped that at least one of these candidates will prove to be effective against current and future COVID variants. In the meantime, the government will continue with its current pandemic management strategy which is predicated on regular testing and keeping COVID cases within a 'closed loop'. A step-up in the frequency and timeliness of COVID testing should allow the government to avoid a repeat of the harsh lockdowns that impacted cities such as Shanghai and Shenzhen recently. As such, we believe the worst in terms of economic and corporate disruptions from the virus is likely behind us.

## Portfolio Performance Summary

South Korea and China were the largest contributors to alpha during the month. Whilst, Taiwan and India were the largest detractors. At a sector level, Consumer Discretionary and Financials were the biggest contributors to performance. Meanwhile, Information Technology was the worst performer.

At a company level, our China A-Share positions were the main alpha generators for the portfolio and in particular China Tourism Duty Free, Kweichow Moutai and Beijing Oriental Yuhong. The share price performances of these companies during the month reflected optimism around a post COVID recovery in travel, consumption, construction activity.

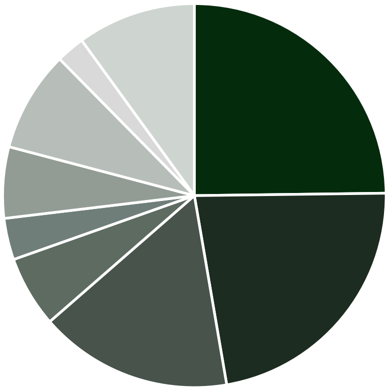
TSMC, Samsung Electronics and Unimicron were the biggest drags on relative performance. All three companies were negatively impacted by concerns that a slowdown in global growth would translate into reduced demand for technology related products/applications and therefore semiconductor consumption. While we acknowledge that demand for certain products such as PC, notebooks and smartphones is slowing down from the elevated demand levels over the past two years, shipments for these products will likely settle at above pre-COVID levels. For instance, PC/notebook shipments which account for ~20% of overall semiconductor demand, are forecast to remain at ~300m units per annum driven by the shift towards hybrid (home/office) work and learning and changes in entertainment habits. This should result in a secular shortening of the replacement cycle from ~5 years and keep PC/notebook shipments above the pre-COVID levels of ~260m units per annum. Further, the structural drivers of semiconductor demand are now much broader than in the past and now include servers/datacenters, automotive and industrial related applications. These drivers will lead to much greater chip consumption in the years to come. We therefore remain very positive on the long term outlook for the semiconductor industry. We believe industry leaders such as TSMC, Samsung and Unimicron will play pivotal roles in enabling the continued advancement of the semiconductor industry and their current valuations already reflect a potential cyclical downturn ahead. TSMC currently trades on 13x forward PE, whilst Samsung and Unimicron both trade on 8x PE. All three companies are net cash and free cash flow positive.

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

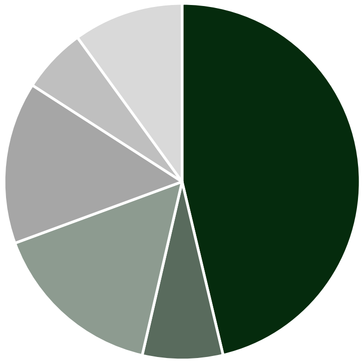
## PORTFOLIO CHARACTERISTICS

### SECTOR ALLOCATION




Source: Ellerston Capital.

### GEOGRAPHIC ALLOCATION




Source: Ellerston Capital.

### TOP 10 HOLDINGS

| Company | Country | Weight |
|---|---|---|
| TSMC | Taiwan | 9.6% |
| Reliance Industries | India | 6.0% |
| Tencent Holdings | China | 6.0% |
| Samsung Electronics | Korea | 5.5% |
| Alibaba Group | China | 5.2% |
| AIA Group | Hong Kong | 4.7% |
| China Mengniu Dairy | China | 4.4% |
| DBS Group | Singapore | 4.0% |
| ICICI Bank | India | 3.3% |
| Kweichow Moutai | China | 2.8% |

## Regulatory Guide (RG240) Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**

Please refer to details on page one.

- **Any changes to key service providers including any change in related party status**

There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**

Please refer to details on page one.

- **Any material changes to the Fund's risk profile and strategy**

There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund**

Please refer to details on page one; there have been no changes to the primary investment personnel responsible for managing the Fund.

Contact Us

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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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