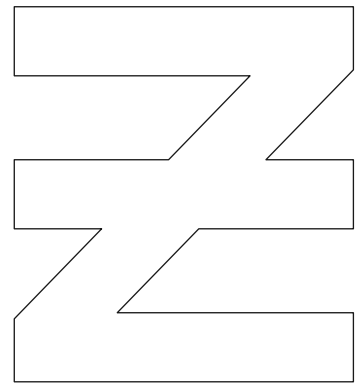


# Ellerston India Fund



## Monthly Newsletter, August 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	\$1.2253
Net Asset Value	\$1.2222
Redemption Price	\$1.2191
Liquidity	Daily
No. of Stocks	26
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 <sup>*</sup>	MSCI India Net Pre Tax	Net After Tax <sup>^</sup>
1 Month	5.0%	4.9%	6.0%	4.5%
FYTD	12.6%	12.4%	14.2%	10.8%
1 Year	-3.1%	-4.1%	3.2%	-3.6%
3 Years (cumulative)	38.6%	34.2%	50.1%	27.4%
Since Inception ^^ (cumulative)	70.9%	60.4%	74.7%	51.8%
Since Inception ^^ (p.a.)	10.6%	9.3%	11.0%	8.1%

<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.

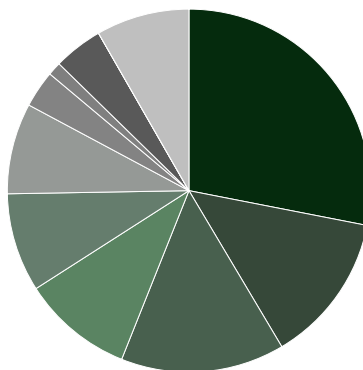
<sup>+</sup> References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

<sup>\*</sup> Net return figure is calculated after fees and expenses.

### Portfolio Characteristics

#### Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	14.6%
ICICI Bank	Financials	9.1%
Infosys	Information Technology	8.4%
Housing Development Finance	Financials	7.2%
Hindustan Unilever	Consumer Staples	4.3%
Maruti Suzuki India	Consumer Discretionary	4.1%
Bajaj Finance	Financials	4.1%
Bharti Airtel	Communication Services	3.3%
Tata Consultancy Services	Information Technology	3.1%
State Bank of India	Financials	2.9%



- Financials, 28.1%
- Information Technology, 13.4%
- Energy, 14.6%
- Materials, 9.9%
- Consumer Staples, 8.8%
- Consumer Discretionary, 8.1%
- Communication Services, 3.3%
- Industrials, 1.2%
- Health care, 4.4%
- Cash, 8.3%

Source: Ellerston Capital.

## Commentary

The Ellerston India Fund (EIF) was up 4.52% (net after tax) in August versus the MSCI India Index (MXIN) which was up 5.97%. Since mid-June, the Indian market is up 20% in local currency and has outperformed MSCI Asia, S&P 500, and the ASX 200 by 23%, 13%, and 12% respectively.

As highlighted in the performance summary table, the accrual of taxes and currency fluctuations continue to have a material impact on portfolio performance.

The return of foreign institutional investors (FIIs) buying over the past two months has provided a welcome boost to the Indian market amidst global growth and inflation concerns. FIIs had been net sellers for nine consecutive months prior to July. We believe that continued evidence of domestic demand resilience despite 140bps of interest rate increases over the past 6 months has been a primary driver of renewed interest by FIIs. Indeed, India recorded a robust 13.5%YoY real GDP growth for the June 2022 quarter. As a result, India has officially overtaken the UK as the 5<sup>th</sup> largest economy. By the end of the next decade, India is expected to be the 3<sup>rd</sup> largest economy overtaking Germany in 2027 and Japan in 2030. We believe India's structural growth story will look increasingly attractive in a world where quality and consistent growth is becoming scarcer and this will help support the Indian market.

During the month there were a number of incrementally positive data points. Firstly, India's monsoon season has ended with cumulative rainfall 5% above LPA (long period average). Meanwhile, India's reservoir level is at 128% of the previous year. Both these factors should support the upcoming winter cropping season and bodes well for the agriculture-exposed names that we own such as UPL.

Another positive to emerge during August was the fact that India's CPI inflation has started to moderate. The July reading came in at 6.71% after hovering above 7% since April. This has increased expectations that the Reserve Bank of India (RBI) will deliver a more benign rate hike cycle despite hiking the repo rate by a further 50bps in August to 5.4%. Interestingly despite raising interest rates again, the RBI maintained its FY23 GDP growth forecast at +7.2%YoY. This highlights the central bank's confidence that inflation can be curtailed without a material slowdown in domestic demand.

Finally, the 1QFY23 result season concluded with some minor downgrades due to margin pressure. Nonetheless, the earnings growth in 1QFY23 for the Indian market came in at ~20%YoY with Financials, Consumer and Industrials being the key standouts. As regular readers would know, EIF has a large weighting towards the Indian Financials and this sector also represents our biggest overweight. Our bank and NBFCs holdings such as ICICI Bank, SBI, HDFC, and HDFC Bank all recorded >15%YoY loan growth with stable NIMs and asset quality. Meanwhile, our consumer-related names such as Hindustan Unilever, Nestle, and Asian Paints also managed to deliver positive volume and top line growth despite raising prices to offset higher raw material costs. Consensus is now forecast ~15% EPS growth for the Indian market in FY2 and the market currently trades a PE of ~23x.

## Portfolio Performance

Turning to August performance, Consumer staples and Communication Services were the biggest contributors to relative performance, whilst Utilities and Industrials were our biggest detractors.

At company level, Varun Beverages, ICICI Bank, and Astral were the key alpha contributors. Varun Beverages re-rated along with the entire Indian Consumer space during the month. The company is the Pan-India distributor of Pepsi Co and has been one of the biggest beneficiaries of the very high temperatures across the country this summer season. ICICI Bank's share price continues to be well supported following its 1QF23 earnings beat where loan growth and core operating profit grew 21% and 19%YoY respectively. Finally, Astral is one of the largest residential pipe manufacturers in India and is benefiting from the housing upcycle that is underway across the country.

Conversely, Infosys, Sun Pharma, and not owning Adani Group companies – Transmission, Enterprises, Power, and Green Energy were the key detractors. Infosys was de-rated due to ongoing concerns over wage inflation and US/EU stagflation risks. Meanwhile, the Indian pharma sector including Sun Pharma reported weak US sales for the trailing three months. Further, Sun Pharma's Mohali facility was inspected by the USFDA in August with more than expected observations and it also received an OAI (Official Action Indicated) for its Halol plant. We however believe these concerns are part of its regular business cycle and are unlikely to be structural. We, therefore, continue to view Sun Pharma as one of the best companies within the Indian generics space. Finally, the Adani Group companies were up between 10-30% during the month due to positive index inclusions/rebalance expectations. We note however that these companies continue to be characterized by low free float, high gearing (average net debt/EBITDA of ~9x) and nose bleed valuations (average P/S and PE of 20x and 230x respectively). They therefore currently do not meet our strict risk/ reward criteria.

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

- **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

### Sydney

Level 11, 179 Elizabeth Street,  
Sydney, NSW 2000  
+612 9021 7701  
[info@ellerstoncapital.com](mailto: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](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).

---

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](http://www.ellerstoncapital.com) or by contacting [info@ellerstoncapital.com](mailto: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.