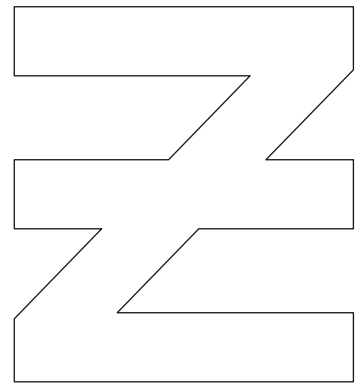


# Ellerston India Fund



## Monthly Newsletter, September 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	\$1.1931
Net Asset Value	\$1.1901
Redemption Price	\$1.1871
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*	MSCI India Net Pre Tax	Net After Tax <sup>^</sup>
1Month	-3.0%	-3.1%	-0.2%	-2.6%
FYTD	9.2%	8.9%	13.9%	7.9%
1 Year	-6.6%	-7.6%	1.2%	-6.2%
3 Years (cumulative)	29.4%	25.1%	45.5%	20.7%
Since Inception^^ (cumulative)	62.7%	52.4%	74.3%	47.8%
Since Inception^^ (p.a.)	9.4%	8.1%	10.8%	7.5%

<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.

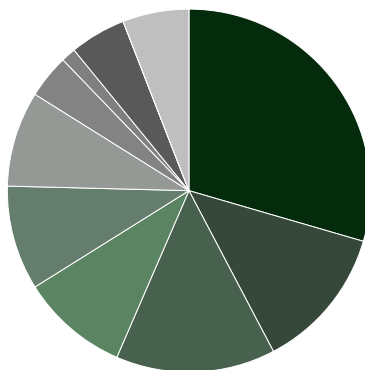
<sup>+</sup>References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

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

### Portfolio Characteristics

#### Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	14.19%
ICICI Bank	Financials	9.51%
Infosys	Information Technology	8.24%
Housing Development Finance	Financials	7.26%
Hindustan Unilever	Consumer Staples	4.73%
Bajaj Finance Ltd	Financials	4.44%
Maruti Suzuki India Ltd	Consumer Discretionary	4.32%
Bharti Airtel Ltd	Communication Services	3.88%
State Bank of India	Financials	3.16%
Varun Beverages Ltd.	Consumer Staples	2.86%



- Financials, 29.5%
- Information Technology, 12.8%
- Energy, 14.2%
- Materials, 9.6%
- Consumer Staples, 9.3%
- Consumer Discretionary, 8.5%
- Communication Services, 3.9%
- Industrials, 1.3%
- Health care, 5.0%
- Cash, 5.9%

Source: Ellerston Capital.

## Commentary

The Ellerston India Fund (EIF) was down 2.6% (net after tax) in September versus the MSCI India Index (MXIN) which was down 0.2%. We note that the index was down 4.1% 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 previously to the readers of this newsletter, currency fluctuations as well as tax do impact materially on portfolio performance. During the month, however, we took steps to address the currency impacts. EIF has been primarily unhedged since inception as it has been cost-prohibitive to do so. As of the start of September, the INR had depreciated against the AUD by 15% over this time. However, hedging costs for the INR have declined meaningfully over the past year as interest rate differentials between India and Australia have recently declined to ten-year lows. As such during September, we implemented a currency hedge for a portion of the portfolio in order to reduce currency-related volatility in EIF returns.

The Indian market saw a pullback in September amidst a rout in global markets driven by renewed concerns that persistently high inflation and rising interest rates, most notably in the US, will lead to a global recession. As we had mentioned in last month's commentary, the Indian market has been a relative outperformer in recent months and was approaching all-time highs and technically overbought. As such, we were not surprised by the 'healthy' correction during the month. The MXIN is currently trading at a forward PE of 23x and remains above its long-term average of 22x.

September saw Foreign Institutional Investors (FII) turned net sellers again after two consecutive months of net buying. Domestic Mutual Funds (DMF) meanwhile have continued to support the market and opportunistically bought the dips towards the latter part of September. We believe the catalyst for FII selling in September was the reacceleration of inflation, with the latest reading coming in at 7.4% (vs 7.0% in August). In response, the Reserve Bank of India (RBI) hiked the repo rate by 50bps to 5.9% in its September meeting. Market expectation is for another 20–60bps of hikes by the end of this year. But we do not expect this to meaningfully derail India's positive growth outlook. Indeed, the RBI has only marginally downgraded its FY23 GDP growth forecast for India from 7.2% to 7.0%. This continues to compare favourably to other major economies such as the US, Europe, and Australia, which are predicted to grow at below 3% in 2023.

Recent high frequency data highlights the resilience of domestic demand in India. Firstly, residential property sales across India's top 8 cities rose by 49%YoY in the September quarter. Residential house prices meanwhile grew by 6%YoY over the same period. This upturn in the property sector has occurred despite 230bps of interest rate hikes so far in this monetary tightening cycle. Secondly, India's passenger vehicle sales rose by 38%YoY to over 1m units during the September quarter. The recent easing of semiconductor shortages along with new model launches has helped to meet pent-up demand for auto purchases. Lastly, India's banking system loan growth has accelerated to 16%YoY during September, the highest level since 2013. Credit growth has been quite broad-based with a strong pick up in retail and SME loans, and good growth in mid-corporates and also NBFCs lending. These data points bode well for our positions in the financials (HDFC Bank/HDFC, ICICI Bank, Bajaj Finance), consumer (Maruti Suzuki), and materials/industrial (Ultratech Cement and Astral) sectors.

## Portfolio Performance

Turning to September performance, Communication Services and Healthcare were the biggest contributors to relative performance, whilst Information Technology and Energy were our biggest detractors.

At a company level, Max Healthcare, Bharti Airtel, and Varun Beverages were the key alpha contributors. Max Healthcare is seeing a secular turnaround driven by improving patient mix from discounted government employees to international patients. The company's share price has also been boosted by the removal of a key liquidity overhang following the sell-down of KKR's 27% stake in August. Bharti Airtel moved up following Singtel's stake sale to Indian promoters and positive hype around its 5G service launch. Finally, Varun Beverages has been re-rating due to its superior growth profile and strong execution capabilities as the Pan-Indian bottler and distributor of Pepsi.

Conversely, Reliance, UPL, and the FX hedge were the key detractors to relative performance. Reliance's share price pulled back in line with lower crude prices and falling spot refining margins. UPL meanwhile was sold off on concerns over the impact of the recent drought in Europe and the higher USD on its USD-denominated debt liabilities. Finally, hedging was a drag as the INR appreciated against the AUD 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](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

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## 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](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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