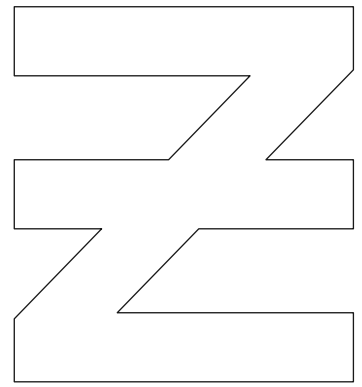


Ellerston India Fund



Monthly Newsletter, October 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	\$1.2437
Net Asset Value	\$1.2406
Redemption Price	\$1.2375
Liquidity	Daily
No. of Stocks	27
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	4.2%	4.1%	3.1%	4.2%
FYTD	13.9%	13.5%	17.5%	12.4%
1 Year	1.9%	0.8%	9.4%	2.4%
3 Years (cumulative)	33.2%	28.6%	46.9%	24.5%
Since Inception^^ (cumulative)	69.7%	58.8%	79.7%	54.1%
Since Inception^^ (p.a.)	10.1%	8.8%	11.2%	8.2%

[^] 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.

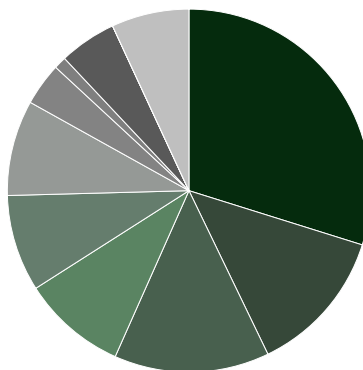
⁺References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

*Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	13.8%
ICICI Bank	Financials	9.4%
Infosys	Information Technology	8.4%
Housing Development Finance	Financials	7.4%
Maruti Suzuki India Ltd	Consumer Discretionary	4.4%
Hindustan Unilever	Consumer Staples	4.2%
Bajaj Finance Ltd	Financials	4.1%
Bharti Airtel Ltd	Communication Services	3.8%
State Bank of India	Financials	3.2%
HDFC Bank	Financials	2.8%



- Financials, 29.8%
- Information Technology, 13.0%
- Energy, 13.8%
- Materials, 9.3%
- Consumer Staples, 8.6%
- Consumer Discretionary, 8.5%
- Communication Services, 3.8%
- Industrials, 1.1%
- Health care, 5.1%
- Cash, 6.9%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was up 4.2% (net after tax) in October versus the MSCI India Index (MXIN) which was up 3.1%.

As highlighted in the performance summary table, the accrual of taxes and currency fluctuations continue to have a material impact on portfolio performance. We note that during the month, we recognized a positive adjustment (refund) in the tax accrued by the fund, which led there to be minimal net tax impact in the October performance numbers.

October saw a strong up move in the Indian market driven by positive global sentiment and continued positive flows into domestic equities. India has defied the sharp downturn seen in other Asian markets most notably China and provided diversification and uncorrelated returns for equity investors this year. Indeed, India is the second-best performing market in Asia (behind Indonesia) in calendar year 2022.

We continue to believe that India's structural growth story will increasingly stand out in a world where consistent growth is becoming scarce. Indeed, the high frequency data continues to validate the growth story. Gross GST collections reached the second highest on record in October and is up 23%YoY on a three-month rolling basis. This has helped to support government spending, with capital expenditure up 50%YoY in the 1HFY23. We expect government capex to remain robust heading into the Federal Election in 2024. Domestic demand indicators also remain positive, with bank credit growth accelerating to ~17%YoY in October. Meanwhile, passenger and commercial vehicle sales were up 20% and 30% respectively last month. Finally, domestic air travel has recovered back to 84% of pre-COVID levels with October passenger volumes the highest since February 2021. Anecdotes suggest that domestic travel will stay strong heading into the year-end festive season. These indicators are supportive for our positions in the financials, consumer and materials sectors.

The key area of concern for the Indian economy remains inflation, with the October CPI reading coming in at 6.8%. Although this was the ninth consecutive month that inflation was above Reserve Bank of India's (RBI) 2-6% band, it did moderate from the 7.4% reading in September. Thus far the domestic economy has absorbed the 190bps of interest rate hikes by the RBI this tightening cycle without much issue. We however stay alert for any signs of a material slowdown in urban consumption and business activity. In the absence of a domestic demand or external shock, India is on track to meet the RBI's FY23 GDP growth target of 7.0%.

The resilience of domestic economy is reflected in the 2QFY23 reporting season, with sales and earnings (ex commodities) for the Indian market growing at 25%YoY and ~15%YoY respectively. Although operating deleverage was again apparent during the quarter due to elevated input costs, corporate comments suggest that margin pressure has begun to ease. Financial, consumer and industrial were the standout sectors from a growth and positive earnings revisions perspective. EIF portfolio companies reported commendably with 78% beating or in-line with market expectations and recording median sales and earnings growth of 18%YoY and 16%YoY respectively. We note that consensus is now forecasting 12 month forward EPS growth of ~17% for the Indian market. The market meanwhile trades on a forward PE of 22x, which remains above its long term average of ~18x. The margin of safety for investing in Indian equities has come down in recent months. As such, we are taking a more cautious and selective approach with regards to our investments.

Portfolio Performance

Turning to October performance, Healthcare, IT and Energy were the biggest contributors to performance, whilst Industrials and Real Estate were our biggest detractors.

As we mentioned in our last newsletter, in order to reduce currency related volatility, we have a currency hedge in place for a portion of the EIF portfolio. For the month of October, this contributed 45bps to portfolio performance.

At company level, Reliance, Infosys and Max Healthcare were the key alpha contributors. The Reliance share price was boosted by a rebound in refining margins during October. Infosys meanwhile reported good 2QFY23 numbers with revenue and EBIT growth of 19%YoY and 13%YoY respectively. The company also announced a INR93bn (A\$1.7bn) buyback, which should help support the share price in the near term. Finally, Max Healthcare's share price was helped by 2QFY23 numbers that were ahead of market expectations. The company's 13%YoY EBITDA growth was driven by improving ARPOB, customer mix and occupancy.

Conversely, Astral, Hindustan Unilever and Bajaj Finance were the key detractors. Astral was sold off on concerns over near term demand for PVC segment. Hindustan Unilever's share price performance during the month reflected a mixed 2QFY23 result, where top-line growth of 16%YoY translated to only 8%YoY EBITDA growth due to raw material pressure on margins. Finally, Bajaj Finance experienced some profit taking, following a solid 2QFY23 where net interest income and pre-provision operating profit grew 29%YoY and 36%YoY.

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

- **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, Automic Group on **1300 101 595** or ellerstonfunds@automicgroup.com.au.

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