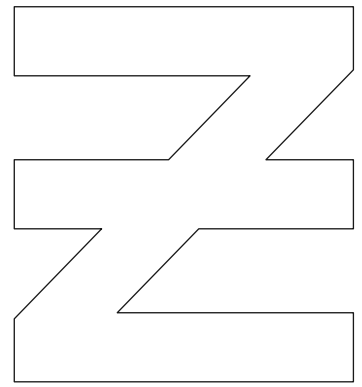


Ellerston India Fund



Monthly Newsletter, November 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	\$1.2610
Net Asset Value	\$1.2579
Redemption Price	\$1.2548
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	\$5,000
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	1.9%	1.8%	0.4%	1.4%
FYTD	16.0%	15.5%	18.0%	14.0%
1 Year	1.0%	-0.1%	6.9%	0.6%
3 Years (cumulative)	33.8%	29.2%	45.6%	24.6%
Since Inception^^ (cumulative)	72.8%	61.6%	80.5%	56.2%
Since Inception^^ (p.a.)	10.3%	9.0%	11.2%	8.3%

[^] 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.

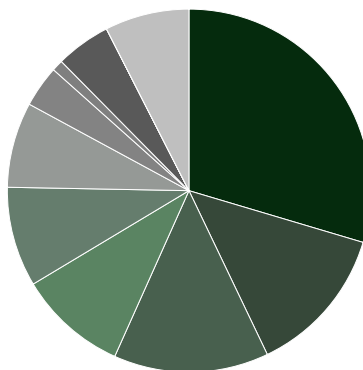
⁺References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

*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	8.8%
Housing Development Finance	Financials	7.6%
Hindustan Unilever	Consumer Staples	4.2%
Maruti Suzuki India Ltd	Consumer Discretionary	3.9%
Bharti Airtel Ltd	Communication Services	3.7%
Bajaj Finance Ltd	Financials	3.6%
State Bank of India	Financials	3.2%
Varun Beverages	Consumer Staples	3.1%



- Financials, 29.6%
- Information Technology, 13.3%
- Energy, 13.8%
- Materials, 9.7%
- Consumer Staples, 8.9%
- Consumer Discretionary, 7.6%
- Communication Services, 3.7%
- Industrials, 1.0%
- Health care, 4.9%
- Cash, 7.5%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was up 1.4% (net after tax) in November versus the MSCI India Index (MXIN) which was up 0.4%. We note that the index was up 3% in local currency terms for the month, but a weaker Indian Rupee against the Australian Dollar (AUD) meant that the currency was a headwind for absolute returns.

India has been one of the best performing markets in Asia throughout 2022, with the MSCI India (MXIN) Index up in excess of 5% in local currency terms. The driver of the outperformance has been the resilience of the domestic economy in the face of high inflation, rising interest rates, elevated commodity prices and strengthening USD.

During the month, we visited India for the first time since late 2019 in order to get a better understanding of the drivers behind the outperformance of the domestic equities market in 2022. Our discussions with corporates and government organisations along with various field trips reaffirmed India's structural growth story with favourable demographics, rising penetration, technology leapfrogging and infrastructure/manufacturing buildout playing out in unison. A big driver of this has been the stable, pro-growth political environment since Prime Minister Modi came into power in 2014. The recent state election result in Gujarat points to continuing political stability beyond the 2024 federal elections. Near term, the domestic demand outlook remains surprisingly strong particularly in urban areas driven by rising household incomes from positive real wage growth. To read more about our recent trip to India, please see [here](#).

We believe India is also well placed to manage near-term risks such as high inflation, rising interest rates and weakness in rural demand. With regards to inflation, nominal wage growth for listed companies in India has been >10%YoY for the past 12 months, which suggests positive real wage increases for most urban residents. It should also be noted that even though inflation has been optically high at between 6-7% and policy rates have increased by 225bps this monetary policy tightening cycle to 6.25%, they are broadly in line with the average inflation and cash rate of the past decade of 5.7% and 6.2% respectively. So unlike most countries around the world, Indian residents are used to living with high inflation and elevated interest rates. The weakness in non-urban demand has been a concern, but we expect the upcoming Budget in February 2023 to contain policies that are pro-rural given ~60% of India's 910m enrolled voters live in regional/rural areas. A revival of rural activity could help sustain the outperformance of Indian equities into 2023.

Whilst the near term and long term growth story for India remains positive, we note that valuations look a little stretched. The MSCI India Index is trading on 22x forward earnings, which is one standard deviation above historical average. This suggests that the margin of safety for investing in Indian equities is not high currently. In this environment, we will continue to focus on owning high-quality structural compounders trading at reasonable valuations such as Reliance Industries, Indian banks and consumer names.

During the month, there were a number of high frequency indicators that validated our observations on the ground. Firstly, India recorded a solid 6.3%YoY real GDP growth for the September 2022 quarter. Although the RBI marginally revised down its FY23 GDP growth forecast from 7.0%YoY to 6.8%YoY, India is still likely to be the fastest growing major economy in the world. Meanwhile, government capex spend accelerated in October 2022, up 177%YoY. This takes government capex in the first 7 months of FY23 to INR4.1tn (or A\$72bn and +62%YoY), which is the highest ever to start a fiscal year. The capex has been skewed towards roads and railway projects. This is bodes well for our building materials related companies such as Ultratech Cement and Astral. Finally, data released during the month showed that India has become the world's largest smartwatch market with sales growing 171%YoY in the September quarter. This again highlights the growing spending power and technology leapfrogging that is playing out across India.

The positive anecdotes and data have driven strong inflows from both domestics and foreign investors in recent months. Indeed foreign institutional investors (FIIs) bought a further US\$4.5bn of Indian equities in November. Meanwhile domestic mutual funds net sold US\$0.7bn during November but have poured a total of ~US\$14bn in calendar year 2022.

Portfolio Performance

Turning to November performance, Consumer Staples, Utilities and Financials were the biggest contributors to alpha, whilst Industrials and Materials were our biggest detractors. As mentioned in our previous newsletter, we have in place a currency hedge on a portion of the EIF portfolio in order to help reduce currency related volatility. For the month of November however, the hedge contributed positively to portfolio performance.

At company level, Varun Beverages, Reliance and HDFC/HDFC Bank were the key alpha contributors. Reliance recently reported strong Retail and Jio quarterly numbers and is a beneficiary of improving refining margins. Varun's share price saw a significant run-up ahead of its inclusion into MSCI Indices during the month. Finally, HDFC/HDFC Bank are both benefiting from improving business fundamentals. Recent clarity provided by MSCI on the proposed merger has also removed a liquidity overhang.

Conversely, Maruti Suzuki (MSIL), Star Health and Bajaj Finance were the key detractors. MSIL has performed well in 2022, up ~22% and saw some profit taking during the month. Star Health has been weak on concerns of stake sales from large shareholders after its one year investor lock-up expires in December. Finally, Bajaj Finance's share price pulled back on rotation within the Financials sector from high valuation companies to laggards. Bajaj Finance however reported solid 2QFY23 numbers with net interest income and pre-provision operating profits growing 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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