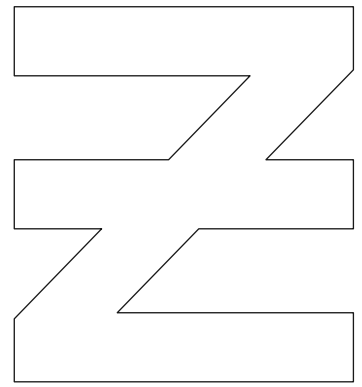


Ellerston India Fund



Monthly Newsletter, December 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	\$1.1955
Net Asset Value	\$1.1925
Redemption Price	\$1.1895
Liquidity	Daily
No. of Stocks	28
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	-5.5%	-5.6%	-6.7%	-5.2%
FYTD	9.7%	9.1%	10.1%	8.1%
1 Year	-6.1%	-7.1%	-1.3%	-5.7%
3 Years (cumulative)	29.6%	25.1%	39.2%	21.2%
Since Inception^^ (cumulative)	63.7%	52.9%	68.5%	48.1%
Since Inception^^ (p.a.)	9.1%	7.8%	9.6%	7.2%

[^] 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.

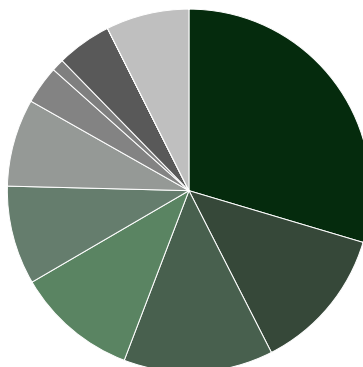
⁺References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.

*Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	13.3%
ICICI Bank	Financials	8.8%
Infosys	Information Technology	8.4%
Housing Development Finance Corp	Financials	7.5%
Hindustan Unilever	Consumer Staples	4.1%
Maruti Suzuki India	Consumer Discretionary	3.8%
Bajaj Finance	Financials	3.7%
State Bank of India	Financials	3.4%
Bharti Airtel	Communication Services	3.4%
HDFC Bank	Financials	3.3%



- Financials, 29.6%
- Information Technology, 12.9%
- Energy, 13.3%
- Materials, 10.8%
- Consumer Staples, 8.8%
- Consumer Discretionary, 7.8%
- Communication Services, 3.4%
- Industrials, 1.1%
- Health care, 4.9%
- Cash, 7.4%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was down 5.2% (net after tax) in December versus the MSCI India Index (MXIN) which was down 6.7%. We note that the index was down 4% 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.

The Indian market pulled back in December in line with most global markets driven by hawkish rhetoric most notably from the US Federal Reserve (Fed). Despite the subdued end to the year, India finished as the third best performing Asian market in 2022, with the MSCI India (MXIN) Index up 2% in local currency terms and reaching an all-time high in December. Unsurprisingly, we saw some profit taking from Foreign Institutional Investors (FIIs) during the month. We note that the recent decision by Chinese policymakers to abandon its zero-COVID policy could trigger further outflows away from Indian equities into China in the coming weeks. We however expect local investors to remain supporters of the Indian market given the domestic demand indicators continue to be positive. Indeed, high frequency data for manufacturing activity (PMI of 57.8), consumption (retail sales +7% over pre-COVID levels) and GST collections (+15%YoY) remained robust in December. These indicators are consistent with the takeaways from our recent visit to India ([see here for further information](#)).

Heading into 2023, we are cautiously optimistic on the outlook for Indian equities despite slowing global growth. Indeed, we expect India to start 2023 on a strong footing. Firstly, we expect companies to report solid December 2022 quarterly results driven by positive top-line growth and improving margins. Secondly, the upcoming Budget in February could contain a number of pro-growth policies ahead of the 2024 Federal election. Finally, India remains on track to achieve 7% GDP growth in FY23 according to advanced estimates released by the National Statistical Office. If achieved, this would make India the fastest growing major economy in the world next year. Supporting the near term growth outlook for India is the fact that inflation has fallen for three straight months to 5.7%YoY in December. This in turn has alleviated pressure on the Reserve Bank of India (RBI) to raise interest rates beyond the 225bps in cumulative hikes this monetary tightening cycle. The EIF portfolio therefore remains heavily weighted towards India's domestic growth story through companies such as Reliance Industries, ICICI Bank, HDFC and Maruti Suzuki.

Looking beyond 2023, an interesting development worth monitoring is India's aggressive energy transition plans. India recently committed to becoming energy independent by 2047 and to achieve net zero carbon emissions by 2070. These policies will therefore be the key structural drivers of capex investments over the next few decades. Specifically, the Government has earmarked green hydrogen as a pivotal technology in order to achieve this and last month approved a US\$2.4bn subsidy package to support investments in this area. Companies leading the development of hydrogen capacity include Reliance, Adani, NTPC and Indian Oil.

Portfolio Performance

Turning to December performance, Consumer Staples and Utilities were the biggest contributors to alpha, whilst Consumer Discretionary and Energy were our biggest detractors.

As mentioned in our previous newsletters, we currently have a currency hedge in place on a portion of the EIF portfolio in order to help reduce currency related volatility. For the month of December however, the hedge contributed positively to portfolio performance.

At a company level, Varun Beverages and HDFC Bank were the key alpha contributors. Varun's share price was boosted by passive inflows following its inclusion into the MSCI India Index. Meanwhile, its business continues to perform well across all product lines including its recently launched energy drink Sting. HDFC Bank's recent share price move reflect improving business fundamentals with the company reporting 3QFY23 net interest income and core pre-provision profit growth of 25%YoY and 19%YoY respectively. Further, MSCI has recently given much needed clarity on HDFC Bank's index implications post its proposed merger with HDFC.

Conversely, Reliance Industries and Tata Motors were the key detractors. Reliance saw profit taking from investors during the month as the stock outperformed the MXIN by ~6% in 2022. The company's value driving verticals of retail, Jio and new energy however continues to show good progress. The Tata Motors share price was negatively impacted by the surprise resignation of the Jaguar Land Rover (JLR) CEO in late November. JLR has subsequently provided a positive trading update in early January with volumes and order book both exhibiting growth and the business turning FCF positive in 3QFY23. Meanwhile, we continue to like Tata's domestic passenger vehicles and commercial vehicles exposure particularly its presence in the electric vehicle market, where it holds an 80% market share.

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

Regulatory Guidelines (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, Automic Group on **1300 101 595** or ellerstonfunds@automicgroup.com.au.

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