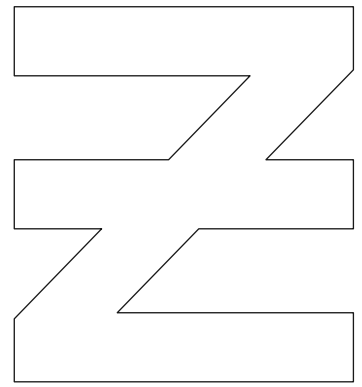


Ellerston India Fund



Monthly Newsletter, February 2023

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	\$1.1569
Net Asset Value	\$1.1540
Redemption Price	\$1.1511
Liquidity	Daily
No. of Stocks	29
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	0.7%	0.7%	-0.3%	0.7%
FYTD	5.6%	4.8%	2.5%	4.6%
1 Year	-2.1%	-3.2%	-3.2%	-2.1%
3 Years (cumulative)	23.4%	19.1%	29.2%	16.6%
Since Inception^^ (cumulative)	57.9%	47.1%	56.9%	43.3%
Since Inception^^ (p.a.)	8.1%	6.8%	8.0%	6.4%

[^] 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.

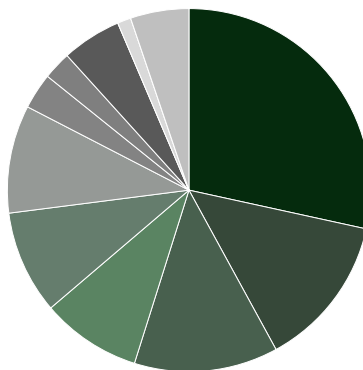
*Net return figure is calculated after fees and expenses.

Portfolio Characteristics

Top 10 Holdings

Company	Sector	Weight
Reliance Industries	Energy	13.3%
ICICI Bank	Financials	9.3%
Infosys	Information Technology	9.1%
Housing Development Finance Corp	Financials	7.7%
Hindustan Unilever	Consumer Staples	4.4%
Maruti Suzuki India	Consumer Discretionary	4.3%
HDFC Bank	Financials	3.6%
Varun Beverages	Consumer Staples	3.5%
Bharti Airtel	Communication Services	3.4%
Bajaj Finance	Financials	3.2%

Sector Allocation



- Financials, 28.4%
- Information Technology, 13.6%
- Energy, 12.8%
- Materials, 8.9%
- Consumer Staples, 9.2%
- Consumer Discretionary, 9.6%
- Communication Services, 3.2%
- Industrials, 2.5%
- Health care, 5.3%
- Real Estate, 1.2%
- Cash, 5.2%

Source: Ellerston Capital.

Commentary

The Ellerston India Fund (EIF) was up 0.7% (net after tax) in February versus the MSCI India Index (MXIN) which was down 0.3%. Indian market stayed weak through February reverberating under the Adani Group companies' sell-down that started in January. Foreign Institutional Investors remained net sellers of A\$1bn whereas domestic investors deployed their cash reserves buying A\$3.5bn into the market weakness. Retail equity inflows in February were one of the highest seen in recent months, as local investors stay buyers at dips.

The underlying Indian economy is still chugging along well with 4.4% GDP growth in the October–December quarter, in-line with Reserve Bank of India (RBI) and market expectations. GST collection had another good month up 12% YoY. Government Capex has also been strong growing at 60% YoY over April to January FY22 with greater emphasis on roads, railways, and water resources. In its February meeting, RBI raised repo rate by another 25bps increasing the repo rate to 6.5%, a total of 250bps increase since May 2022. February CPI is still high at 6.4% though in-line with market expectations but above the RBI tolerance band. Market expectations are of another 1 or 2 rates hikes of 25bps before RBI takes a pause.

The recently ended third quarter (October–December) results season was solid with 20% adjusted earnings growth. Financials had a stellar quarter with decadal-high NIMs and decadal-low credit costs leading to robust ROAs. The consumer sector did have some weakness with a mix of factors (pent-up demand normalizing, inflation, seasonality) hurting demand but margins were strong as RM costs deflated. We expect the slowdown in discretionary demand to be a short cycle and expect headwinds to get absorbed in coming quarters. IT/ITES sector reported a decent quarter with in-line US Dollar revenue growth but surprised positively on operating margins as attrition and subcontracting trends came in better than expected. Domestic cyclical like Cement, autos and cap goods also reported strong results primarily benefiting from improved margins.

Portfolio Performance

Turning to February performance – Financials and Consumer Staples were the key alpha contributors. Meanwhile, Health Care was our biggest detractor for the month.

At company level; ICICI Bank, Varun Beverages and Reliance were the key contributors. Both, Reliance and ICICI Bank were impacted by the Adani Saga with concerns regarding political linkages and Adani Group lending exposure respectively and these stocks had been key detractors last month. Post the knee jerk reaction, market is now becoming cognizant on the strong underlying fundamentals of these businesses and lack of any linkages with Adani Group. Varun Beverages is benefitting from the prospects of higher demand for carbonated cold drinks. Driven by record high temperatures in February across Northern India and early signs of El Nino in India which could lead to hotter and dryer summer this year.

Hindalco, UPL and Sun Pharma were the key detractors. Hindalco is being impacted by reducing margin on its conversion business in Novelis due to lower Aluminium prices on a higher cost base and weak global demand scenario. UPL and Sun Pharma have been ranged bound and traded towards the lower end of their range. In UPL, investors awaits further clarity on its net debt reduction which we expect to surprise positively in the next quarterly results. Indian pharmaceutical industry has been impacted by the recent US FDA action of putting import bans on certain Indian manufacturing plants supplying drugs to US. Though Sun Pharma has not been directly impacted by recent FDA actions, but it has also seen investor interest waning amidst the rising sector concern.

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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