

# Ellerston India Fund

## Monthly Newsletter, April 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-17
Portfolio Manager	Fredy Hoh
Application Price	\$1.2040
Net Asset Value	\$1.2010
Redemption Price	\$1.1980
Liquidity	Daily
No Stocks	30
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 (i.e. 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	3.7%	3.6%	5.6%	3.2%
FYTD	10.4%	9.4%	10.2%	8.8%
1 Year	0.9%	-0.2%	0.1%	0.4%
3 Years (cumulative)	48.1%	43.3%	62.2%	39.8%
Since Inception^^ (cumulative)	64.9%	53.4%	68.7%	49.2%
Since Inception^^ (p.a.)	8.7%	7.4%	9.1%	6.9%

^ 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.

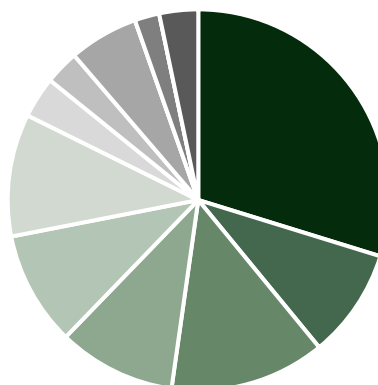
\*Net return figure is calculated after fees and expenses.

### Portfolio Characteristics

#### TOP 10 HOLDINGS

Company	Sector	Weight
Reliance Industries Limited	Energy	13.2%
ICICI Bank Limited	Financials	9.4%
Housing Development Finance	Financials	7.8%
Infosys Limited	Information Technology	6.2%
Hindustan Unilever Limited	Consumer Staples	4.2%
Maruti Suzuki India Limited	Consumer Discretionary	4.1%
Varun Beverages Ltd.	Consumer Staples	3.7%
HDFC Bank Limited	Financials	3.6%
Bharti Airtel Limited	Communication Services	3.5%
Max Healthcare Ltd.	Health Care	3.3%

#### Sector Allocation



- Financials, 29.8%
- Information Technology, 9.3%
- Energy, 13.2%
- Materials, 10.0%
- Consumer Staples, 9.7%
- Consumer Discretionary, 10.4%
- Communication Services, 3.5%
- Industrials, 2.9%
- Health care, 5.9%
- Real Estate, 2.1%
- Cash, 3.3%

## Commentary

The Ellerston India Fund (EIF) was up 3.2% (net) in April versus the MSCI India Index (MXIN) which was up 5.6%. We note that the index was up 3.7% 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.

The Indian market experienced a broad-based rally during the month with all sectors (barring IT Services) performing well. The market performance was helped by strong Foreign Institutional Investor (FII) inflows of US\$1.7bn. The return of FIIs to India coincides with recent weakness in Chinese equities and the pullback of the MXIN to more reasonable valuations. Investors have likely also gained renewed confidence in India's growth prospects given ongoing solid economic data.

Indeed, India's manufacturing PMI rose to a 4-month high of 57.2 in April. Meanwhile the Services PMI accelerated to a 13 year high of 62. These are the highest PMI readings of all major global economies. Other indicators such as passenger vehicles sales (at 131% of pre-COVID levels), domestic travel (passenger volumes at 114% of pre-COVID levels), credit growth (+15%YoY in FY23) and property prices (+7% in Jan-Mar) also show positive trends. The strength of the high frequency data is impressive given the Reserve Bank of India (RBI) has raised the repo rate by 250bps over the past 12 months. The latest inflation reading of 4.7% is now comfortably within the RBI's 2-6% target band. As such, there is increased likelihood that the central bank is nearing the end of its rate hiking cycle. This therefore should allow the current pace of economic expansion to be maintained.

Aside from the positive demand and monetary policy tailwinds, India's fiscal situation is also on a steady footing. GST revenues were up 21%YoY in FY23 and was up another 12%YoY in April. Improved government finances will help fund the budgeted 18%YoY increase in public capital expenditure in FY24. Meanwhile, India's current account could move into surplus in the March 2023 quarter due to strong services exports and lower oil and gold imports.

The strength of the Indian economy bodes well for corporate earnings growth which is forecast to grow by 19% over the next 12 months. The MXIN meanwhile is currently trading on 20x forward PE, which implies a reasonable PEG ratio of 1.1x. Within EIF, we prefer high quality companies across the financials (HDFC Bank, ICICI Bank), consumer (Varun Beverages, Maruti Suzuki), healthcare (Max Health) and Industrial (ABB India) sectors that provide exposure to India's domestic demand and infrastructure buildout story.

## Portfolio Performance

Financials and Communication Services were the largest contributors to alpha during the month. Whilst, Information Technology and Industrials were the largest detractors.

At company level, Tata Motors, State Bank of India (SBI) and Phoenix Mills were the key alpha contributors. Tata Motors is benefiting from a stronger product cycle in India with many of its passenger vehicle (PV) and electric vehicle (EV) models gaining good traction. The company saw PV volumes accelerate to +14%YoY during April. Further, the market was enthused by Jaguar Land Rover's commitment during the month to invest GBP15bn into its EV program over the next five years. The SBI share price has recovered following concerns about its exposure to the Adani group of companies, which appear overplayed. The company has disclosed that that Adani related exposure is ~0.9% of its total loan book and backed by cash generating assets. Meanwhile, SBI has exhibited steady improvements in its core metrics including NIMs, cost structures and ROA/ROE. Finally, Phoenix Mills was boosted during the month by the surprise decision from the RBI to keep the repo rate on hold. The share price was also boosted by a favourable broker initiation which highlighted the company's high quality destination mall portfolio, expansion opportunities and strong balance sheet.

Infosys, Tech Mahindra and Hindustan Unilever were the key detractors for April. Both Infosys and Tech Mahindra reported softer than expected 4QFY23 results due to project delays/cancellations and muted new deal wins. Forward guidance was also below expectations with Infosys expecting only 4-7% topline growth in FY24 due to uncertainty in the customer demand outlook, particularly in North America. As a result of these disappointing results, we believe there are better opportunities in companies with greater exposure to India's domestic demand story. As such, we exited Tech Mahindra during the month and reduced our position in Infosys. Hindustan Unilever also reported a subdued 4QFY23 result with revenues and earnings growing 11% and 10% respectively. Management however provided constructive outlook commentary with demand recovery and margin tailwinds from lower raw material costs to provide tailwinds for earnings in upcoming quarters.

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

## Regulatory Guide (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.

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### Contact Us

#### Sydney

Level 11, 179 Elizabeth Street,  
Sydney, NSW 2000  
+612 90217701  
info@ellerstoncapital.com

### 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](mailto:ellerstonfunds@automicgroup.com.au)**

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