

Ellerston Asia Growth Fund (Hedge Fund)

Monthly Newsletter, May 2023

Investment Objective

To outperform the MSCI Asia Ex Japan (non-accumulation) (AUD) benchmark on a net of fees basis, with a focus on capital growth and downside protection.

Investment Strategy

The Fund's investment strategy is to provide access to a high-quality portfolio of primarily large cap Asian Companies using the Manager's distinctively high growth, high conviction and benchmark independent investment approach.

The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that offer the best risk/reward.

Key Information

Portfolio Manager	Fredy Hoh
Application Price	\$6.1590
Net Asset Value	\$6.1436
Redemption Price	\$6.1282
Liquidity	Daily
No Stocks	36
Buy/Sell Spread ¹	0.25% on application 0.25% on redemption
Distribution Frequency	Half Yearly (i.e. June & December)

Fee Structure

Historical Fees

Management Fee ^{EAI} ²	0.85% p.a.
Performance Fee ³ EAI ²	15%
Management Fee ^{EAGF}	1.00% p.a.
Performance Fee ³ EAGF	15%

New Fees⁴

Management Fee ⁵ EAFZ	0.75% p.a.
Performance Fee ³ EAFZ	10%

1. Applicable only to investors buying and selling directly with the Manager.
2. Ellerston Asian Investments Limited (delisted on 5 June 2023).
3. Of the investment return above the benchmark, after recovering any underperformance in past periods.
4. Effective as of 31 May 2023.
5. The Manager is waiving the management fee for the first year following quotation of units on the ASX.

Update

This newsletter provides updates for Ellerston Asian Investments Limited (EAI) and Ellerston Asia Growth Fund (EAGF). The restructure of EAI and EAGF was approved on 18th May, 2023 and began trading as Ellerston Asia Growth Fund (Hedge Fund) (ASX: EAFZ) on 6th June, 2023. As noted in the transaction documents, the exchange traded managed investment fund structure of EAFZ better addresses the concerns around liquidity and the persistent discount to net tangible assets of the previous listed investment corporation, EAI. Thus, we believe this transaction will be in the best interest of shareholders/unitholders. We would like to thank investors in EAI and EAGF for their support over the years. As of next month (June month end) you will be receiving a newsletter and performance report for **Ellerston Asia Growth Fund (Hedge Fund) (ASX: EAFZ)**.

Performance Summary – Ellerston Asian Investments Ltd (EAI)

Performance(%)	1 Month [*]	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	ITD ^{^^} (p.a.)
Net [^]	-1.01%	0.03%	-5.30%	-2.33%	-0.69%	2.55%
Benchmark [*]	0.03%	3.12%	-0.50%	1.74%	0.36%	4.31%
Alpha	-1.03%	-3.09%	-4.80%	-4.07%	-1.05%	-1.76%

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.

^{^^} Inception to Date. Listing date being 4 September 2015.

^{*} MSCI Asia ex Japan (non-accumulation) (AUD).

^{*} 1 May 2023 until 29 May 2023, being the Record Date.

Performance Summary – Ellerston Asia Growth Fund

Performance(%)	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	ITD ^{^^^} (p.a.)
Net [^]	-0.82%	0.39%	-4.56%	-2.02%	-0.71%	3.06%
Benchmark [*]	0.03%	3.12%	-0.50%	1.74%	0.36%	4.57%
Alpha	-0.84%	-2.74%	-4.06%	-3.76%	-1.08%	-1.50%

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.

^{^^^} Inception to Date. Strategy inception date being 4 January 2017.

^{*} MSCI Asia ex Japan (non-accumulation) (AUD).

EAI was down 1.0% (net) in May versus the MSCI Asia ex Japan (MXASJ) Index which was flat for the month. Meanwhile, EAGF was down 0.8% (net).

As the strategy enters a new phase of its lifecycle, we believe it would be appropriate to provide an overview of EAFZ's philosophy and current market outlook, portfolio positioning and significant positions.

EAFZ Philosophy

EAFZ aims to provide investors with access to Asia's structural growth through a concentrated and high conviction portfolio of high growth and high-quality companies trading at reasonable valuations. The focus on Asia stems from our belief that the region remains the best structural growth story in the world due to tailwinds from demographics, rising wealth across most social economic segments, ongoing investments in infrastructure and innovation, capital market maturation and technological leapfrogging. Many of these factors are unique to Asia and therefore provides diversified exposure for global investors.

EAFZ has a dedicated and experienced investment team that is tasked with investing in opportunities across Asia that offer an attractive risk/reward profile. These opportunities are identified through filters and detailed 'bottom up' fundamental analysis which includes a proprietary ESG assessment criteria. The fund will take a rigorous, patient and disciplined investment approach to capital growth and a much greater focus on capital preservation.

Market Outlook

At present, we believe the economic cycle divergence between Asia (accelerating) and the US and Europe (slowing) will play out throughout the coming months. The growth in Asia will be led by China (>5% YoY GDP growth) and India (+6% YoY GDP growth), which combined are likely to account for half of global GDP growth in 2023.

On China specifically, the economy is in the early stages of its post-COVID recovery. Although there has been a slowdown in the pace of the recovery, we believe that the overall positive trend remains intact. We expect further targeted policy stimulus in the coming months, with a focus on the property and consumption sectors. This should help the world's second largest economy achieve, if not exceed, its 'around 5%' GDP growth target for 2023. Reaccelerating economic growth should also drive double digit corporate earnings growth for domestic companies over the coming year. MSCI China meanwhile trades on 10.2x forward PE. As such, the risk/reward for investing in Chinese equities remains extremely attractive. Within our China portfolio, we have taken a diversified approach with ~70% of our exposure skewed towards companies that either operate in industries that have strong government backing or operate in sectors where the policy environment is not restrictive. Further, the majority of our portfolio are domestic demand stories and therefore unlikely to be negatively affected by trade or export related sanctions as part of ongoing geopolitical tensions between China and the US.

On India, we see the country as one of the best structural growth stories in the world. This is driven by a large (1.4bn people) and young (~440m millennials) population and rising penetration across most segments of the economy. The country has also benefitted enormously from Prime Minister Modi's pro-growth and reformist agenda. This has provided a positive backdrop for sustained economic growth which in turn has resulted in the Indian market being a haven for finding excellent earnings compounding stories. Despite the attractiveness of India's micro and macro story, the Indian market is not cheap, with the MSCI Indian trading on 20x forward earnings. Whilst this compares reasonably to forecast EPS growth of 19% in the coming year, we see China as providing better risk reward at this point in time. Nonetheless, we remain on the look-out for opportunities in India and stand ready to allocate more when the price is right.

Positioning and Significant Positions

At a regional level, we are currently most positive on Chinese and Indian equities due to the world-leading growth that both economies are forecast to achieve in the coming years. These two markets account for ~57% of the EAFZ portfolio. At a sector level, we have taken a barbell approach to portfolio construction with a large weighting towards quality growth names in the technology and consumer sectors as well as exposure to interest rate sensitive names in the financials sector. We believe that these three sectors provide the best exposure to the structural growth drivers that was highlighted earlier such as demographics, technology leapfrogging and innovation, rising middle class and capital market liberalisation.

With regards to our largest positions, we summarise our top 5 holdings below:

TSMC: The largest dedicated semiconductor foundry in the world, with a 55% revenue share. The company is a key enabler of technology innovation with a ~90% share in the production of advanced chips. Aside from technology leadership, TSMC's other competitive advantages include a flawless track-record of execution and excellent management. This helps to explain the company's attractive ROE of ~25% and double-digit through-the-cycle earnings growth.

Samsung Electronics: The largest smartphone, memory chip and display panel manufacturer in the world. The company therefore has many different levers for growth. The key earnings driver is the memory chip division, which is essential in modern technology and will also play a pivotal role in future technologies such as artificial intelligence, internet of things, connected home and artificial/virtual reality. The company is also focusing on improving corporate governance and shareholder returns.

AIA: The largest pan-Asia life insurer. The company has a long track record of delivering solid earnings growth (5yr EPS CAGR from 2016-21 of 15%) and characterised by a solid balance sheet and high quality management team. Earnings growth in coming years will be driven by further expansion into the China market and continued gains across south-east Asia.

Alibaba: The world's largest ecommerce platform with ~1bn active users globally. The company is also the leading cloud services provider in China. Alibaba's size and dominant market position has allowed it generate significant free cash flow (~US\$25bn in FY23). Despite its operational and financial strengths, the company remains one of the most undervalued ecommerce companies globally trading at 8.5x (ex cash) forward PE, 0.2x P/GMV and 9% FCF yield.

HDFC Bank: The largest private sector bank in India with a focus on non-mortgage loans. The company has a demonstrated track record of double-digit per annum loan growth, sound asset quality and high ROE (~17% in FY23). The upcoming merger between HDFC Bank and HDFC, the second largest mortgage lender in India, will create significant synergies and add meaningfully to shareholder value.

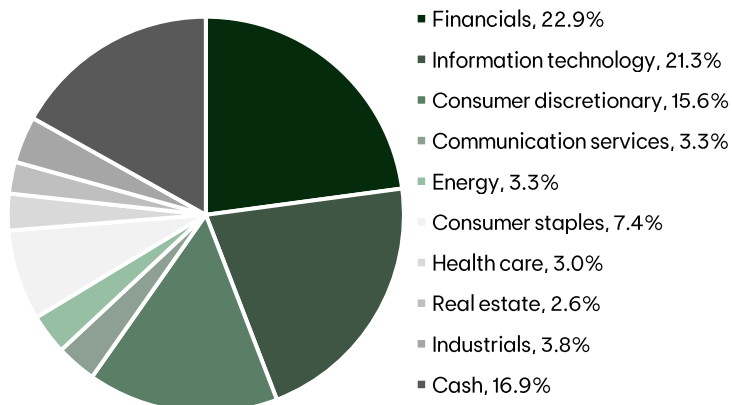
As always, if you have any questions regarding any aspect of the Fund or the portfolio, please feel free to contact us at info@ellerstoncapital.com.

Kind Regards,

Fredy Hoh

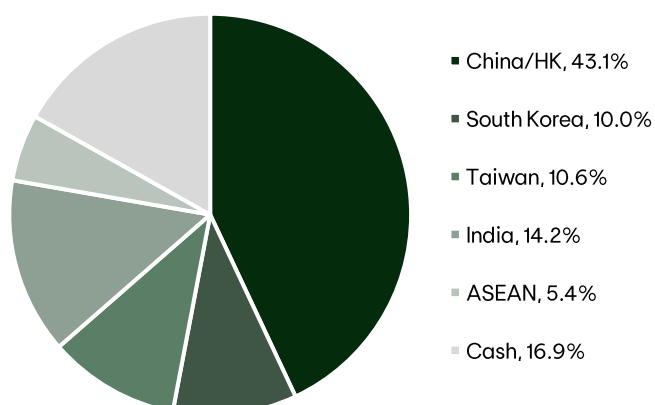
Portfolio Characteristics

Sector allocation



Source: Ellerston Capital.

Geographic allocation



Source: Ellerston Capital.

TOP 10 HOLDINGS

Company	Country	Sector	Weight
Taiwan Semiconductor Manufacturing Company Limited	Taiwan	Information Technology	8.7%
Samsung Electronics Co., Ltd.	Korea	Information Technology	6.7%
AIA Group Limited	Hong Kong	Financials	4.0%
Alibaba Group Holding Limited	China	Consumer Discretionary	3.5%
HDFC Bank Limited	India	Financials	3.5%
Reliance Industries Limited	India	Energy	3.3%
Tencent Holdings Ltd.	China	Communication Services	3.3%
PT Bank Mandiri (Persero) Tbk.	Indonesia	Financials	3.1%
Kweichow Moutai Co., Ltd.	China	Consumer Staples	3.0%
ICICI Bank Limited	India	Financials	2.7%

Source: Ellerston Capital.

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.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
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**

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