

Ellerston India Fund

Monthly Newsletter, May 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	\$1.2542
Net Asset Value	\$1.2511
Redemption Price	\$1.2480
Liquidity	Daily
No Stocks	28
Management Fee	1.10% p.a.
Performance Fee ^{**}	15.00%
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	4.8%	4.7%	5.1%	4.2%
FYTD	15.6%	14.5%	15.9%	13.4%
1 Year	13.2%	12.0%	12.7%	11.9%
3 Years (cumulative)	61.3%	56.4%	77.8%	50.2%
Since Inception ^{^^} (cumulative)	72.4%	60.3%	77.3%	55.4%
Since Inception ^{^^} (p.a.)	9.4%	8.1%	9.9%	7.5%

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

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

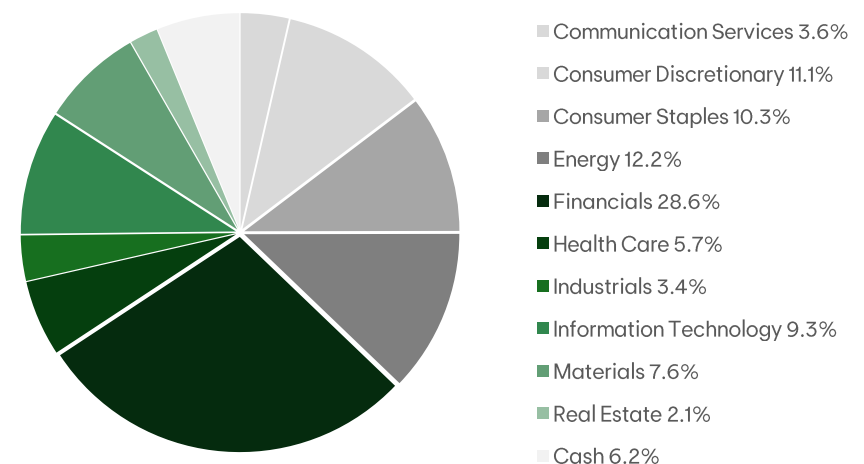
^{*} Net return figure is calculated after fees and expenses.

All returns shown in AUD

Portfolio Characteristics

Company	Sector	Portfolio Weight
Reliance Industries Limited	Energy	12.2%
ICICI Bank Limited	Financials	9.1%
Housing Development Finance Corporation Limited	Financials	7.1%
Infosys Limited	Information Technology	6.3%
Hindustan Unilever Limited	Consumer Staples	4.4%
Maruti Suzuki India Limited	Consumer Discretionary	4.3%
Varun Beverages Ltd.	Consumer Staples	4.2%
Bharti Airtel Limited	Communication Services	3.6%
HDFC Bank Limited	Financials	3.3%
Max Healthcare Institute Ltd	Health Care	3.2%

Sector Allocation



Commentary

The Ellerston India Fund (EIF) was up 4.2% (net) in May versus the MSCI India Index (MXIN) which was up 5.1%.

This was the third consecutive up month for the Indian market and was driven by the release of positive economic data and the conclusion of a solid 4QFY23 reporting season.

On the economic front, India reported 4QFY23 GDP growth (+6.1%yoy) that was significantly ahead of market expectation of ~5-5.5%. This meant that India achieved GDP growth of 7.2% in FY23, which ranked amongst the fastest of any major economy in the world. Inflation meanwhile came in at a 25-month low of 4.25% in May. With inflation having peaked and now comfortably within the Reserve Bank of India's 2-6% target, this allows the central bank to keep rates on hold for some time barring a sharp uptick in global inflationary pressures. This therefore creates an ideal backdrop for India to continue achieving global leading economic growth in FY24.

May also saw the end of Q4FY23 earnings season, with corporate India recording revenue and earnings growth of +14%yoy and +20%yoy respectively. The positive operating leverage exhibited by corporates was driven by more benign costs environment. Consumer Discretionary, Communication Services, Healthcare and Financials were the standout sectors from a growth and earnings revision, while Materials and Information Technology were the weakest. EIF portfolio companies performed commendably with the majority beating or in-line with market expectations. The portfolio companies recorded median revenue and earnings growth of +18%yoy and +21%yoy respectively in 4QFY23.

The positive read-throughs from recent economic data and corporate earnings have driven renewed interest in India as an investment destination. Indeed during the month, foreign institution investors (FI) purchased US\$5.4bn of Indian equities, whilst domestic mutual funds returned to being net buyers. India is forecast to record GDP and earnings growth of +6.5%yoy and +20%yoy respectively in FY24. This is likely to look increasingly attractive in a world where growth is becoming scarcer and we believe further inflows into the Indian market is likely. The only pushback on the India investment story is the valuations with the MSCI India trading on ~20x forward PE. This leaves little room for error for many Indian corporates. As such, we are taking a cautious approach to investing in India and 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.

Finally, in an interesting development for the month, the Indian government announced withdrawal of INR2000 notes from circulation on 19th May. This is the largest currency note in circulation and was introduced in Nov 2016 a part of the demonetization program. The note will remain a legal tender and can be exchanged or deposited in bank accounts until September 30, 2023. Based on what we've seen post demonetization in 2016, the liquidity from this note removal could eventually find its way into mutual funds and the domestic equity market in the coming months.

Portfolio Performance

Turning to May performance, Healthcare and Industrials were the key alpha contributors. Meanwhile, Financials and Materials were our biggest detractor for the month. Also, performance was negatively impacted by the depreciation of AUD vs INR towards the end of May, which is partially hedged for EIF.

At company level; Max Healthcare, Varun Beverages and ABB were the key alpha contributors. Max Healthcare reported strong 1QFY24 results during the month, delivering best in class average revenue per occupied bed (ARPOB, +11%yoy) and EBITDA margins (28%) which led to 45%yoy EBITDA growth. Management has guided to further ARPOB improvements driven by price hikes and improving payor mix. The share price was further helped by the announcement that the company will be added into the MSCI India index. Varun Beverages also reported strong 1QFY24 results with volumes growing +25%yoy and realizations rising 11%yoy. The company expects robust demand to continue heading into the seasonally strong summer period. Furthermore, increased market share in South and West India and ramp-up of its energy drink "Sting" will also help drive earnings growth. Finally, ABB reported a 15% earnings beat for the quarter, led by solid revenue growth (+23%yoy) and margin expansion (+229bps yoy). The company also recorded its highest ever quarterly inflow with the orderbook up 36%yoy driven by strong data center, railway, automotive related demand. We continue to like ABB for its ongoing leverage to India's rising capex story.

HDFC Bank, Star Health and UPL were the key detractors for May. HDFC Bank was sold off during the month after MSCI announced that the upcoming HDFC Bank/HDFC merger will likely see index weight changes. As such, there is likely to be limited buying from passive funds heading into the event. HDFC Bank however is performing well operationally with 4QFY23 loan growth up 17%yoy and net interest income up 24%yoy. Star Health meanwhile continues to be impacted by competition and regulatory related concerns. Finally, UPL's soft share price performance for the month was due to an unexciting outlook for FY24 due to high system inventories and increased global competitive pressure from Chinese counterparts. We conducted a review of our investment thesis for UPL following the result and as a result exited the position during the month.

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 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

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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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