

# Ellerston Asia Growth Fund (Hedge Fund)

## Monthly Newsletter, June 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 Asian Companies using the Manager's distinctive high conviction and benchmark independent investment approach. The Manager identifies those Asian Companies by filtering the investment universe to identify those that are likely to offer an attractive risk/reward profile.

The strategy leverages the Manager's broader experience investing in global markets to identify companies with superior growth characteristics, sustainable earnings and quality management.

### Key Information

Portfolio Manager	Fredy Hoh
Application Price	\$6.1753
Net Asset Value	\$6.1599
Redemption Price	\$6.1445
Liquidity	Daily
No Stocks	34
Buy/Sell Spread <sup>1</sup>	0.25% on application 0.25% on redemption
Distribution Frequency	Half Yearly (i.e. June & December)
Management Fee <sup>2</sup>	0.75% p.a.
Performance Fee <sup>3</sup>	10%

1. Applicable only to investors buying and selling directly with the Manager.
2. The Manager is waiving the management fee for the first year following quotation of units on the ASX.
3. Of the investment return above the benchmark, after recovering any underperformance in past periods.

### Performance Summary

Performance(%)	1 Month	3 Months	1 year	Since Inception <sup>^^</sup> (p.a.)
Net <sup>^</sup>	0.33%	-	-	0.33%
Benchmark*	-0.67%	-	-	-0.67%
Alpha	1.01%	-	-	1.01%

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.

<sup>^^</sup> The Inception Date is 01/06/2023. EAFZ was formerly known as the Ellerston Asia Growth Fund with a strategy inception date of 4 January 2017. The performance was reset following a restructure of the fund into an exchange traded managed fund which took effect on 1 June 2023

\* MSCI Asia ex Japan (non-accumulation) (AUD).

Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was up 0.33% (net) in June versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was down 0.67%.

### Market Commentary

Global equities performed strongly in June driven by moderating inflation, the prospects of an economic soft-landing in the US and euphoria around the artificial intelligence thematic. Asian markets were relative underperformers with the MXASJ (in USD) up +2% compared to the MSCI World, which was up +6%. Within Asia, China (MSCI China +3%) and India (NSE500 +4%) led the way. We remain positive on the outlooks for both the Chinese (>5% GDP growth in 2023) and Indian (6% GDP growth) economies and this is reflected in our positioning, with these two markets representing ~60% of the EAFZ portfolio.

On China, a number of fiscal and monetary stimulus measures have been announced in recent weeks to address the sputtering economy. Specifically, the PBOC cut key interest rates by 10bps during June. Meanwhile, the Government announced debt relief for property developers, support for home appliance consumption and extension of tax breaks on electrical vehicle (EV) purchases. We expect further supportive policies to be rolled-out in the coming months, particularly in the consumption and property sectors. This will likely drive the second phase of China's post-COVID recovery. As such, we see any weakness in Chinese equities as an opportunity to accumulate high quality companies trading at attractive valuations.

The Indian market performance on the other hand continues to be driven by positive economic data and solid corporate earnings. 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. Indian corporates meanwhile reported revenue and earnings growth of +14%yoy and +20%yoy respectively in 4QFY23. The consistently high earnings growth offered by Indian companies is appealing in a world where growth is becoming increasingly scarce. Within India, we like high quality companies across the financials (HDFC Bank, ICICI Bank), consumer (Reliance Industries, Maruti Suzuki, Phoenix Mills) and healthcare space (Max Healthcare).

### Stock Discussion

In last month's newsletter, we highlighted our top 5 holdings which were TSMC, Samsung, Alibaba, AIA and HDFC Bank. This month we highlight the next 5 largest positions in the portfolio.

**Reliance Industries:** The largest conglomerate in India with industry leading operations across petrochemicals, retail, telecommunications and renewable energy. Reliance is therefore the best proxy for India's consumption, technology leapfrogging and green transition stories. These structural tailwinds along with continued market share gains and business improvements are expected to result in ~15% EPS CAGR. Meanwhile, the company is also looking at ways to unlock shareholder value through spin-offs and co-investments.

**Bank of Mandiri:** One the largest and highest quality banks in Indonesia, with a focus on commercial and corporate lending. Mandiri has delivered consistent double digit loan growth over the past 10 years, which is likely to be replicated over the next 2-3 years due to macro tailwinds (Indonesia GDP growing at 5%), a focus on higher yielding segments and investments in its digital infrastructure. The company has also exhibited outstanding asset quality management (non-performing loan coverage of 285%). ROE of ~18% in FY22 looks reasonable against current P/B of 1.8x.

**Kweichow Moutai:** China's most premium liquor brand with a 60% market share. The company has strong economic moats due to geographical (soil and water restrictions) and production (4 year distilling and aging process) reasons. This provides the company with control over supply and pricing. As such, Moutai enjoys gross profit margins of 90%+, ROE of 30%+ and positive free cash flow. Improving demand and sales channel mix shift from distributors to direct to consumer will drive 15-20% earnings growth in the coming years. The company trades on 25x forward PE, which is in-line with global luxury peers.

**ICICI Bank:** One of the largest private sector banks in India with a focus on retail lending. The company has built a best-in-class digital banking platform that is likely to drive continued market share gains. This combined with macro tailwinds (India GDP growth of 6%) and an increased focus on SME and corporate lending should see mid-teens earnings growth. The company meanwhile trades on ~18x forward PE.

**Midea:** The world's largest electrical appliance manufacturer with a focus on air conditioners, refrigerators, washing machines and other small home appliances. Whilst the company operates in a mature industry, a number of upcoming catalysts such as China property sector stimulus and moderating input costs could deliver 10%+ earnings growth. The company meanwhile trades on an undemanding PE of ~10x.

### Portfolio Performance Summary

China, Taiwan and South Korea were the largest contributors by country to alpha during the month. Whilst, India was the relative underperformer. At a sector level, Consumer Discretionary and Healthcare were the biggest contributors by sector to relative performance. Meanwhile, Industrials and Information Technology were the worst performers.

At a company level, Zhejiang Shuanghuan Driveline, Midea and Trip.com were the biggest contributors to relative performance during the month. Driveline's share price surged 43% during the month on improving sentiment around EV demand and expectations of Chinese Government support for smart manufacturing development. Driveline benefits from both thematics as the world's largest EV gear manufacturer and also a key component supplier to factory robotics equipment. Midea's share price was helped by positive policy announcements for the China property sector, which could boost home appliance sales. Finally, Trip.com reported strong 1Q23 numbers with revenues and operating profit growing +13% and +153% respectively vs 1Q19 levels. The company continues to be a primarily beneficiary of the China travel recovery story, with outbound tourism only at ~40% of pre-pandemic levels.

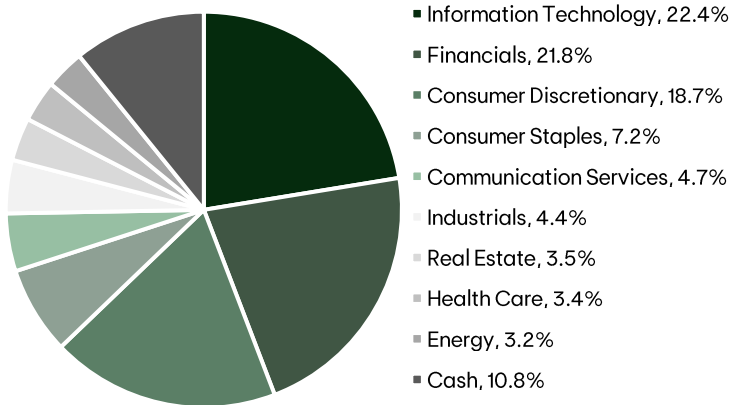
Samsung SDI and China Merchants Bank (CMB) were the biggest drags on alpha. Samsung SDI saw some profit taking from investors during the month after a 25% rally in the share price since the start of 2023. The share price weakness occurred despite confirmation that SDI will form a JV with GM to build an EV battery plant in the US. CMB's share price was sold off following the rate cuts announced by the PBOC, which could create headwinds to net interest margins for banks. There were also concerns that banks may be asked to carry out 'national service' to help stabilize the China property sector. We however continue to favour CMB amongst the domestic banks due to its greater focus on retail and wealth management segments, which could outperform corporate and SME areas. This should help maintain ROE above 15%, which compares favourably to current P/B of 0.7x.

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

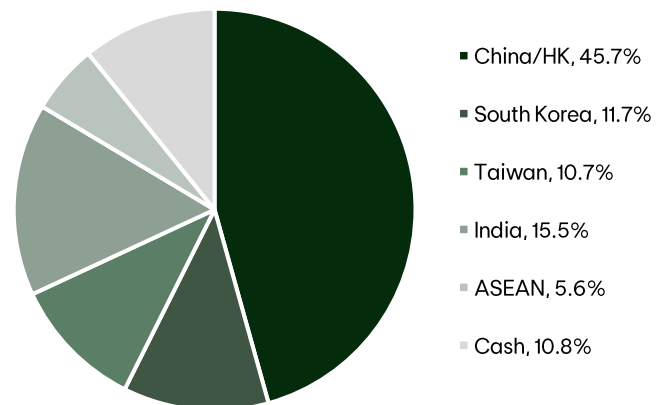
## Portfolio Characteristics

### 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	9.0%
Samsung Electronics Co., Ltd.	Korea	Information Technology	7.0%
Alibaba Group Holding Limited	China	Consumer Discretionary	3.8%
AIA Group Limited	Hong Kong	Financials	3.7%
Reliance Industries Limited	India	Energy	3.2%
HDFC Bank Ltd.	India	Financials	3.2%
PT Bank Mandiri (Persero) Tbk.	Indonesia	Financials	3.2%
Kweichow Moutai Co., Ltd.	China	Consumer Staples	3.1%
ICICI Bank Limited	India	Financials	3.1%
Midea Group Co. Ltd.	China	Consumer Discretionary	2.9%

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.

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### 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](mailto:info@ellerstoncapital.com)** or visit us at **[ellerstoncapital.com](http://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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