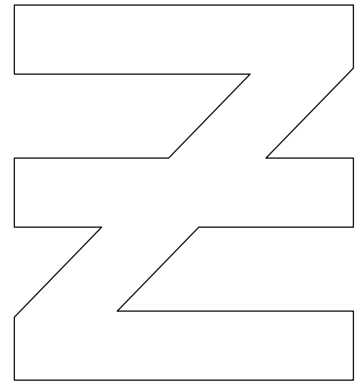


Ellerston Asia Growth Fund (Hedge Fund)



Monthly Newsletter, July 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	\$6.4046
Net Asset Value	\$6.3886
Redemption Price	\$6.3726
Liquidity	Daily
No Stocks	33
Buy/Sell Spread ¹	0.25% on application 0.25% on redemption
Distribution Frequency	Half Yearly (i.e. June & December)
Management Fee ²	0.75% p.a.
Performance Fee ³	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 ^{^^}
Net [^]	3.71%	-	-	4.06%
Benchmark*	4.39%	-	-	3.69%
Alpha	-0.68%	-	-	0.37%

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

^{^^} 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. Performance is cumulative since inception.

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

Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was up 3.71% (net) in July versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was up 4.39%.

Market Commentary

It was another solid month for global equities in July, driven by further evidence of moderating inflation and better than expected earnings out of the US. Asian markets, however, were relative outperformers with the MXASJ (in USD) up +5.7% compared to the MSCI World and S&P500, which were up +3.3% and 3.1% respectively. Within Asia, China (MSCI China +9.3%) and South East Asian markets such as Malaysia (Bursa +6.0%) and Singapore (Straits Times +5.0%) were the standouts.

The outperformance of China was driven by positive sentiment following a Politburo meeting held during the month. Within this meeting, policymakers acknowledged that the economy currently faces challenges and pledged more countercyclical easing measures in order to revive demand. Sectors that were singled out for further stimulus included property, infrastructure, consumption (auto, home appliances, electronics, sports/leisure and tourism) and capital markets. We are cautiously optimistic on the prospects of tangible policy action (rather than just rhetoric) in the coming weeks, and this is reflected in our positioning, with China/HK representing ~48% of the portfolio.

Elsewhere around the region, South East Asian markets saw renewed investor interest over the past month, helped by a lower US dollar and broader risk-on sentiment. South East Asia has often been ignored by investors in favour of China and more recently India. This is despite the fact that South East Asian countries are collectively home to over 650m people, almost half of which are under the age of 30. This large, young and growing working population will be a structural driver of growth in the decades to come. Unsurprisingly, South East Asian markets such as Indonesia, Singapore and Philippines have been amongst the best performers within Asia over the past two years up 14%, 7% and 5% respectively (vs MXASJ down 19%). We have exposure to South East Asia through banks such as DBS and Bank of Mandiri.

Stock Discussion

There are four key structural thematic that guide the way that EAFZ invests namely Technological Disruption, the Rise of the Asian Consumer, Capital Market Liberalisation and Structural Reform in India.

Technology disruption is currently front of mind for investors as euphoria around artificial intelligence (AI) has driven much of the market performance this year. We are excited about the potential of AI and its impact on society and industries. If developed correctly, it has the potential to simplify our daily lives, improve productivity and efficiency of businesses and disrupt or even replace certain industries. The total addressable market for AI has been estimated by some third-party research firms to be worth ~US\$1.5-1.8 trillion by 2030, which implies a ~35% CAGR from current levels. Like most new technologies, there will be many winners and losers throughout the various phases of the development cycle. Given the AI megacycle is only in the nascent stage, we believe the early winners are likely to be the 'picks and shovel' companies that are responsible for building the infrastructure and platforms that will enable the AI models and applications to operate.

A number of US companies such as the big 4 hyperscalers (Microsoft, Google, Amazon, Meta) and chip designers (NVIDIA) have attracted much of the attention as early beneficiaries of the impending AI boom. There are many Asian companies, however, that are also early winners within this thematic. This is unsurprising given MXASJ is one of the most technology heavy indices in the world, with technology stocks making up ~40% of the benchmark. This compares favourably developed markets such as MSCI Australia where technology companies account for only ~4%.

Within Asia, we believe semiconductor supply chain companies will see the biggest near-term boost from AI related demand. EAFZ companies such as TSMC, Samsung Electronics and SK Hynix are standouts and collectively account for just under 20% of the portfolio. Our conviction in these 3 holdings are based on the following reasons:

- **TSMC** is the only manufacturer of NVIDIA's advanced data centre graphic processing units (GPUs) and is a supplier of AI accelerators for AMD, Google, Amazon and even Intel. The company has noted that AI related revenues will grow at 50% CAGR and will account for low-teens share of overall revenues within a few years.
- **Samsung** and **SK Hynix** meanwhile are key suppliers of high-end memory chips to server/data centre customers. It is estimated that AI servers use at least 3 times more basic memory than a traditional server. Furthermore, AI servers use high bandwidth memory (HBM) that are essential to run advanced GPUs from NVIDIA. SK Hynix and Samsung estimate that demand for AI related memory could grow by ~35-40% CAGR over the next 5 years.

Aside from these companies, we are doing work on other opportunities across the region that could benefit from the acceleration in AI related investments in the next 5-10 years.

Portfolio Performance Summary

Indonesia and India were the largest contributors by country to alpha during the month. Whilst South Korea and Taiwan were the relative drags. At a sector level, Real Estate and Financials were the biggest contributors to relative performance. Meanwhile, Information Technology and Consumer Discretionary were the worst performers.

At a company level, Kweichow Moutai, China Overseas Property Holdings (COPH) and Trip.com were the biggest contributors to relative performance during the month. Moutai reported a positive 1H23 earnings result during the month, where revenues and net profit increased by 19% and 21% respectively. COPH's share price was boosted by supportive policy announcements for the Chinese property sector. Finally, Trip.com continued to be helped by positive investor sentiment around the China travel recovery story and in-particular outbound tourism, which is only at ~40% of pre-pandemic levels.

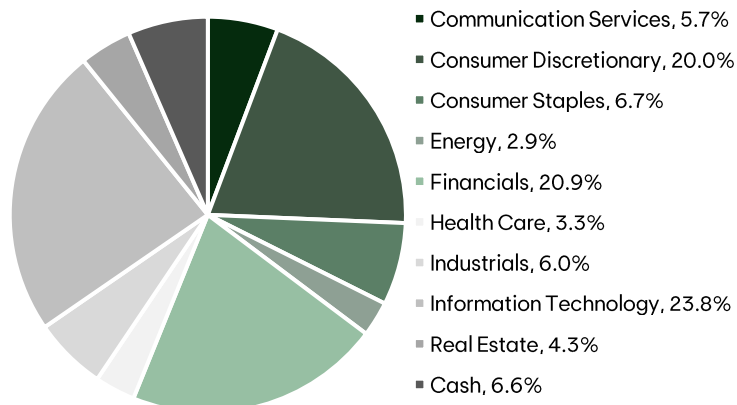
Zhejiang Shuanghuan Driveline, By-Health and not owning Posco were the biggest drags on alpha. Driveline saw profit taking from investors during the month after a 43% rally in the share price since the start of 2023. The share price weakness occurred despite the Chinese Government announcing support for the domestic EV industry during the month. By-Health's share price was sold off after the company provided guidance for net profit to grow +30-50%yoy in 1H23. Despite the strong result, the market was concerned about elevated marketing spend which saw a significant year-on-year increase in 2Q. We see cost volatility between quarters as normal, especially when they had underspent in the first quarter. We believe By-Health will continue to benefit from increased health awareness post-COVID as well as from the offline channel recovery where it has >40% market share. We believe By-Health can comfortably deliver a ~20% net profit CAGR over the next two years which compares favourably to its current valuation of ~16x forward PE. Finally, POSCO was up 65% during the month on optimism around the company's battery materials business. POSCO however derives the majority of its earnings from steelmaking and does not pass our ESG criteria due to its ownership of coal assets and past ESG related indiscretions.

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

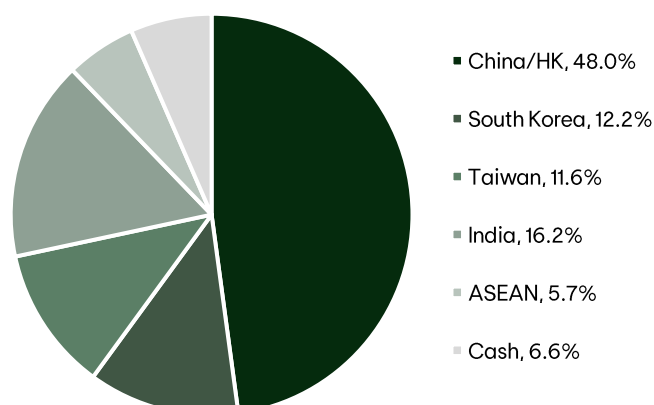
Portfolio Characteristics

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	9.5%
Samsung Electronics Co., Ltd.	Korea	Information Technology	6.9%
Alibaba Group Holding Limited	China	Consumer Discretionary	4.2%
AIA Group Limited	Hong Kong	Financials	3.6%
HDFC Bank Ltd.	India	Financials	3.4%
PT Bank Mandiri (Persero) Tbk.	Indonesia	Financials	3.3%
Midea Group Co. Ltd.	China	Consumer Discretionary	3.3%
Kweichow Moutai Co., Ltd.	China	Consumer Staples	3.2%
Trip.com Group Limited	China	Consumer Discretionary	3.1%
ICICI Bank Limited	India	Financials	3.0%

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

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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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