

Ellerston India Fund

Monthly Newsletter, July 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	\$1.2794
Net Asset Value	\$1.2762
Redemption Price	\$1.2730
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	1.7%	1.6%	1.7%	1.8%
6 Month	14.8%	14.1%	16.7%	12.6%
1 Year	12.1%	10.9%	11.4%	10.4%
3 Years (cumulative)	53.2%	48.6%	68.7%	42.0%
Since Inception ^{^^} (cumulative)	79.0%	66.2%	83.6%	60.4%
Since Inception ^{^^} (p.a.)	9.8%	8.5%	10.2%	7.9%

[^] 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.

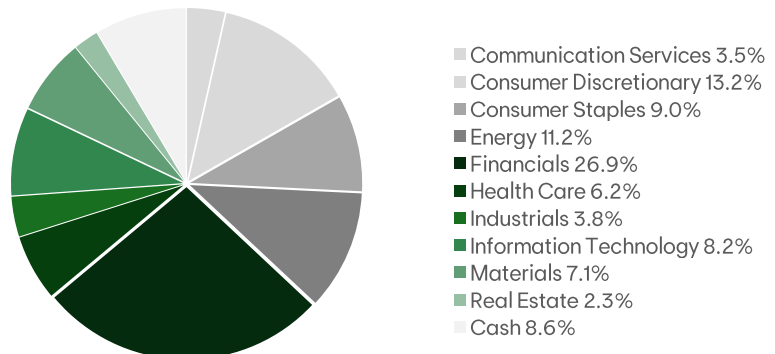
^{*} Net return figure is calculated after fees and expenses.

All returns shown in AUD

Portfolio Characteristics

Company	Sector	Portfolio Weight
Reliance Industries Limited	Energy	11.2%
ICICI Bank Limited	Financials	9.1%
HDFC Bank Limited	Financials	8.3%
Infosys Limited	Information Technology	5.6%
Maruti Suzuki India Limited	Consumer Discretionary	4.2%
Varun Beverages Ltd.	Consumer Staples	3.8%
Bharti Airtel Limited	Communication Services	3.5%
State Bank of India	Financials	3.2%
Sun Pharmaceutical Industries Limited	Health Care	3.1%
Max Healthcare Institute Ltd	Health Care	3.0%

Sector Allocation



Commentary

The Ellerston India Fund (EIF) was up 1.8% (net) in July versus the MSCI India Index (MXIN) which was up 1.7%.

As highlighted in the performance summary table, the accrual of taxes continue to have a material impact on portfolio performance. We note that during the month, we recognized a positive adjustment in the tax accrued by the fund, which led there to be a minimal net tax impact in the July numbers.

The Indian market was buoyed by risk-on sentiment globally, driven by further evidence of moderating inflation, and better than expected earnings out of the US. This led to foreign institutional investors (FIIs) purchasing an additional US\$3bn of Indian equities over the month. So far in 2023, FIIs have injected ~US\$16bn of capital into the Indian market, which would make it the strongest start to a calendar year in over a decade. Not to be outdone, domestic investors put US\$0.9bn of liquidity into the Indian market in July and have been net buyers in six of the past seven months.

India has been one of the best performing markets in Asia in 2023, with the MXIN up 6.9% in local currency terms. Investors have appreciated the stability offered by India's growth story and the supportive policy setting environment. Indeed over the past month, the Reserve Bank of India (RBI) kept policy rates on hold at 6.5% for a third successive meeting whilst maintaining its FY24 GDP growth forecast of 6.5%. Although inflation moved up to 7.4% in July, due to a sudden rise in food prices, the RBI has signaled an intention to 'look-through' temporary price shocks and continues to forecast FY24 CPI (of 5.4%) to be within its 2-6% target range. Furthermore on growth, the IMF recently upgraded India's 2023 growth target to 6.1% (vs 5.9% previously) citing the robust domestic investment environment. High frequency data meanwhile remains positive, with PMI (61.9 in July) and vehicle registrations (+10%yoy in July), confirming a solid demand environment. Within EIF, we are positioned in sectors such as financials (HDFC Bank, ICICI Bank), consumer (Varun Beverages, Maruti Suzuki, Phoenix Mills), healthcare (Max Health) and industrials (ABB India), which are leveraged to India's domestic demand and infrastructure buildout stories. Conversely, we are underweight offshore earners such as IT services.

An interesting development in the Indian market during the month was the formal completion of the merger between HDFC Bank and HDFC. HDFC Bank now becomes a financial behemoth with a US\$150bn market cap, making it the 7th largest lender in the world. Despite its size, we believe the merger can still add significant shareholder value over the next few years given the potential synergies. For instance, the merger will allow HDFC Bank to combine its relatively lower cost of funding with HDFC's leading mortgage book to offer more competitive personal loan products. The merger will also provide significant cross selling opportunities, given 70% of HDFC customers currently do not bank with HDFC Bank. These factors, along with structural tailwinds from rising disposable income and increasing penetration of financial services across India, should drive high quality double digit earnings growth. ROE is also likely to improve over time from the current ~15% (pro forma) levels. Valuations meanwhile look reasonable at 2.2x P/B and 17x PE. HDFC bank remains one of the largest and core holdings in our portfolio.

July also saw the start of the June quarter reporting season and thus far, results have come in broadly in line. Earnings forecast have been cut by ~0.5% with weak tech results offset by strength from domestic cyclicals leveraged to the capex upcycle, and financials. Consensus continues to forecast 12 month forward earnings growth of ~18%yoy vs forward PE of ~20x.

Portfolio Performance

Turning to July performance, Energy and Financials were the key alpha contributors. Meanwhile, Utilities and Industrials were the key detractors for the month.

At a company level, Reliance Industries, Phoenix Mills and ICICI Bank were the key alpha contributors. The Reliance share price was boosted by a number of positive catalysts. Firstly, Reliance demerged its Jio Financial Services (JFS) business during the month. Although JFS is to be listed in the coming months, an initial price discovery process saw the business valued at double of what Reliance had previously guided to. There were also reports during the month that the Qatar Investment Authority was looking to invest in Reliance Retail. These two examples illustrate the company's intention to unlock shareholder value. Finally, Reliance reported in-line 1QFY24 earnings with softness in the Oil to Chemicals division offset by growth in Jio and Retail. Phoenix Mills was up 11% during the month on the back of strong 1QFY24 numbers with revenues up 41%yoy, driven by 9%yoy same store sales growth and new mall openings. Meanwhile, EBITDA was up 52%yoy, helped by improved occupancy. Finally, ICICI Bank reported yet another solid result with 1QFY24 net interest income up 38%yoy, driven by 18%yoy loan growth and margin expansion. This led to 40%yoy net profit growth, which was ahead of market expectations.

SRF, Max Healthcare and Hindustan Unilever (HUL) were the key detractors. SRF reported a weaker than expected 1QFY24 result with revenues and EBITDA falling 14%yoy and 30%yoy respectively due to the impact of softer refrigerant gas pricing and inventory destocking. We view the challenges faced by SRF in 1Q as temporary and expect an improved 2HFY24. Further, we continue to see SRF as primary beneficiary of the structural tailwinds from the "China + 1" thematic in the specialty chemicals sector. Max Healthcare's share price was negatively impacted by a broker downgrade report. This was despite the company reporting a solid 1QFY24 result with revenues and net profit up 17%yoy and 27%yoy respectively. Finally, HUL reported weak Q1FY24 numbers characterized by tepid volume growth of +3%yoy. This led to +7%yoy revenue growth and net profit growth of 9%yoy. This was a disappointing result and we therefore trimmed our position in HUL 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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