APIR Code: ECL1411AU
ASX Code: EAFZ

Ellerston Asia Growth Fund (Hedge Fund)

Monthly Newsletter, August 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	$6.3005
Net Asset Value	$6.2848
Redemption Price	$6.2691
Liquidity	Daily
No Stocks	32
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^	-1.62%	2.37%	-	2.37%
Benchmark*	-2.83%	0.75%	-	0.75%
Alpha	1.21%	1.62%	-	1.62%

^ 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 04/01/2017. The performance was reset following a restructure of the fund into an exchange traded managed fund which took effect on 01/06/2023. Performance is cumulative since inception.
* MSCI Asia ex Japan (non-accumulation) (AUD).

The Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was down -1.6% (net) in August versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was down -2.8%. Over the past 3 months, EAFZ is up 2.4% compared to the MXASJ which is up 0.8%.

Market Commentary

Global equities pulled back in August as positive economic data, particularly from the US, revived investor concerns that central banks would need to further tighten monetary policy. Asian markets were relative underperformers with the MXASJ (in USD) down 6.6% compared to the MSCI World and S&P500, which was down 2.6% and 1.8% respectively. Within Asia, China was the worst performer with the MSCI China index down 9% during the month.

Chinese equities were weighed down in August by a spate of soft economic data. The most notable data point was headline CPI of -0.3%, which confirmed China was in deflationary territory. This led to investor concerns that China was heading for a debt deflation spiral akin to what Japan experienced during the 1990s. Although overall leverage in China is high (debt to GDP of ~300% in 2022) and demographics are weakening, we believe that 'Japanification' can be avoided due to a number of reasons. Firstly, China still has meaningful growth potential driven primarily from productivity gains. Secondly, there are no signs in China of an asset price bubble similar to what Japan experienced in the 1980s that could trigger a forced deleveraging event. Finally, Chinese policy makers have tools at its disposal to reflate the economy and keep real GDP growth above real interest rates. So whilst the pace of policy action in light of a slowing economy has so far have been disappointing, we continue to expect supportive countercyclical policies to be announced over the coming months.

Indeed, since the end of August, the Chinese government has announced a number of meaningful stimulus measures aimed at boosting domestic equity markets and stabilizing the property sector. Firstly, the stamp duty on stock trading has been cut by 50% and margin lending restrictions were relaxed in order to encourage more equity market activity. Secondly, the government has eased down payment requirements for first and second home buyers, cut mortgage rates for second home buyers and have eased the rules for first home buyers in a number of tier 1 cities such as Beijing, Shanghai, Shenzhen and Guangzhou. We view these policies as pivotal in helping to restore confidence in the domestic equity and property markets and to revive 'animal spirits' in China. The combination of supportive government policies and cheap valuations (MSCI China forward PE of 10x) continue to drive our portfolio skew towards China.

Stock Discussion

In last month's newsletter, we discussed one of the four key themes (technological disruption) that shape the way that EAFZ is constructed. This month we highlight a second theme, which is 'The rise of the Asian Consumer'.

Asia currently accounts for ~60% of the world's population, which makes it the most significant consumer market in the world. The consumption power of Asia is driven by rising income levels from a rapidly growing middle class. Indeed, the Brookings Institute estimate that over half of the 4 billion middle class consumers globally reside in Asia. It is estimated that by 2030, there could be an additional 1 billion people added to Asia's consumer ranks. McKinsey has quantified Asia's consumption growth opportunity over the next decade to be ~US$10tn. Much of this growth is expected to be driven by India, Indonesia and to a lesser extent China due to a combination of improving urbanization/industrialisation, demographics and supportive government policies. As such, this represents a multi-year growth tailwind for a number of consumer facing companies across the region.

Within EAFZ, consumer related companies account for ~30% of the portfolio. We have exposure to this structural thematic across a number of different regions, and through a number of sub-categories such as premium consumer products (Moutai), core consumable goods (Midea, Maruti Suzuki), shopping mall operators (Phoenix Mills), e-commerce platform operators (Alibaba, JD.com), travel/leisure enablers (Trip.com, Samsonite) and entertainment providers (NetEase).

Samsonite is a consumer name we initiated a position in during August. The company is a global manufacturer and retailer of suitcases, toiletries bags and briefcases. It has a strong brand presence and an extensive distribution/retail network. Near term, Samsonite provides exposure to the ongoing post-COVID pent up travel activity. Longer term, it is a play on increased travel demand as income levels rise globally, most notably across Asia. The company is extremely cash flow generative (10% FCF yield currently) and has an ROE of ~30%. Furthermore, we believe the company is undervalued trading on 11x forward PE, which is below its historical average multiple of 15x and compares favourably to 3yr earnings CAGR forecast of ~15%.

Portfolio Performance Summary

China/HK, Singapore and Indonesia were the largest contributors by country to alpha during the month, whilst India and South Korea were the relative drags. At a sector level, Real Estate and Communications Services were the biggest contributors to relative performance. Meanwhile, Information Technology and Financials were the worst performers.

At a company level, Bank of Mandiri, Zhejiang Shuanghuan Driveline and Phoenix Mills were the largest contributors to alpha adding a combined 79bps. Meanwhile, Ping An, China Merchants Bank and JD.com detracted 69bps to alpha during the month.

Bank of Mandiri's share price responded positively following its 2Q23 result where net interest income and pre-provision operating profit grew 14%yoy and 19%yoy respectively. Shuanghuan Driveline's share price performance was helped by a favourable broker initiation report and 2Q23 result where revenues and net profit rose 31%yoy and 50%yoy respectively. Phoenix Mills also reported well during the month with revenues and net profit growing 41%yoy and 49%yoy respectively in 1QFY24, driven by robust like-for-like retail consumption growth of 10%yoy and new retail mall openings. We continue to see Phoenix Mills as one of the best proxies for India's urban consumption growth story.

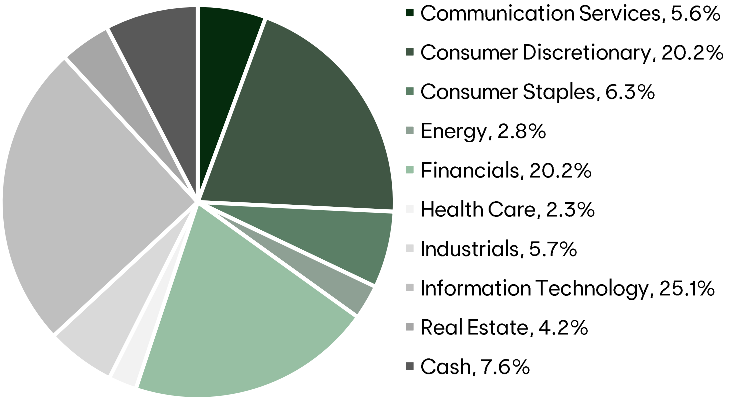
Chinese financials such as Ping An and China Merchants Banks were dragged down during the month by concerns over their property sector exposure. Both companies however, have come out and clarified that their exposures to property developers accounted for <10% of total investments/loans and exposures to the sector will be further reduced. As such, we believe property related risks are manageable and fully reflected in the valuations as both companies are now trading below 0.8x P/B. Finally, the share price for JD.com was sold off after management provided conservative 3Q23 guidance. The company however continues to execute well with 2Q23 revenues and adjusted earnings growing by 8%yoy and 32%yoy respectively and ahead of consensus expectations.

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

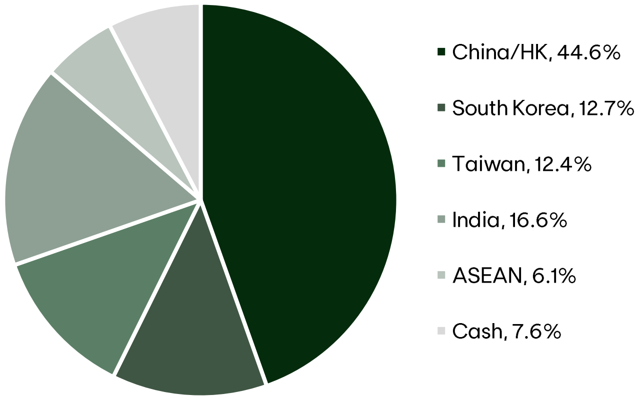
Portfolio Characteristics

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	9.98%
Samsung Electronics Co. Ltd.	Korea	Information Technology	7.12%
Alibaba Group Holding Limited	China	Consumer Discretionary	4.11%
PT Bank Mandiri (Persero) Tbk.	Indonesia	Financials	3.58%
HDFC Bank Ltd.	India	Financials	3.55%
AIA Group Limited	Hong Kong	Financials	3.40%
Midea Group Co. Ltd.	China	Consumer Discretionary	3.19%
SK hynix Inc.	Korea	Information Technology	3.15%
Kweichow Moutai Co. Ltd.	China	Consumer Staples	3.12%
Trip.com Group Limited	China	Consumer Discretionary	3.08%

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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