

# Ellerston India Fund

## Monthly Newsletter, August 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 <sup>^^</sup>	4-May-17
Portfolio Manager	Fredy Hoh
Application Price	\$1.2864
Net Asset Value	\$1.2832
Redemption Price	\$1.2800
Liquidity	Daily
No Stocks	28
Management Fee	1.10% p.a.
Performance Fee <sup>**</sup>	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 <sup>+</sup>	Net Before Tax <sup>*</sup>	MSCI India Net Pre Tax	Net After Tax <sup>^</sup>
1 Month	0.6%	0.5%	2.1%	0.5%
6 Months	14.6%	14.0%	19.4%	12.5%
1 Year	7.4%	6.2%	7.3%	6.2%
3 Years (cumulative)	55.3%	50.5%	71.6%	44.8%
Since Inception <sup>^^</sup> (cumulative)	80.0%	66.9%	87.4%	61.3%
Since Inception <sup>^^</sup> (p.a.)	9.7%	8.4%	10.4%	7.8%

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

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

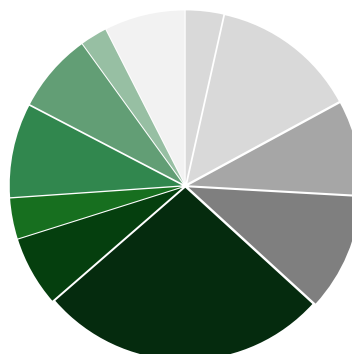
<sup>\*</sup> Net return figure is calculated after fees and expenses.

All returns shown in AUD

### Portfolio Characteristics

Company	Sector	Portfolio Weight
Reliance Industries Limited	Energy	10.9%
ICICI Bank Limited	Financials	9.0%
HDFC Bank Limited	Financials	8.6%
Infosys Limited	Information Technology	6.1%
Maruti Suzuki India Limited	Consumer Discretionary	4.4%
Varun Beverages Ltd.	Consumer Staples	3.9%
Bharti Airtel Limited	Communication Services	3.5%
Max Healthcare Institute Ltd	Health Care	3.4%
Sun Pharmaceutical Industries Limited	Health Care	3.1%
Titan Company Limited	Consumer Discretionary	3.0%

### Sector Allocation



- Communication Services 3.5%
- Consumer Discretionary 13.6%
- Consumer Staples 8.8%
- Energy 10.9%
- Financials 26.8%
- Health Care 6.5%
- Information Technology 8.7%
- Materials 7.4%
- Real Estate 2.5%
- Cash 7.5%

## Commentary

The Ellerston India Fund (EIF) was up 0.5% (net) in August versus the MSCI India Index (MXIN) which was up 2.1%. We note that the index was down 1.4% in local currency terms for the month, but a stronger Indian Rupee against the Australian Dollar (AUD) meant that the currency was a tailwind for absolute returns.

The Indian market pulled back from all-time highs during the month, following the lead of global markets which were dragged down by concerns of further tightening by central banks and economic weakness from China. We view this as a healthy pullback for Indian equities and the market remains on track to post its fifth consecutive year of positive returns. This view is confirmed by positioning, solid economic data and corporate earnings.

Firstly, research conducted by Jefferies indicate that global investors are only about 100bps overweight India relative to their respective benchmarks. This is despite foreign institutional investors (FIIs) pouring USD\$23bn into Indian equities over the past 6 months, including US\$3bn in the past month. As such, there is scope for further inflows from FIIs given India remains one of the very few countries globally that offer both a structural growth story and near-term economic tailwinds.

Indeed, India reported June quarter real GDP growth of 7.8%yoy, which reaffirmed its status as the fastest growing major economy in the world. The strength of India's economy in recent times have been driven by investments with gross domestic fixed capital formation growing by 8%yoy in the June quarter. Private sector investment intentions suggest further strength in this capex cycle, with annualized new private project announcements up by ~70%yoy over the past 12 months. Consumption has also been resilient despite a volatile inflation backdrop (core CPI at 4.9% in August) and 250bps of interest rate hikes over the past 18 months. Private consumption grew 6%yoy over the June quarter. Strong recent credit growth data (+15%yoy in August) suggests recent positive consumption trends are likely to continue.

The positive economic data has translated into solid earnings growth for corporates. Indeed, during the June 2023 quarter reporting season, corporate India recorded earnings growth of ~30%yoy. Among sectors, Autos, Healthcare, and Industrials surprised positively on earnings. Consumer Discretionary and Financials reported strong earnings growth, though largely in-line. Meanwhile, IT services names disappointed due to an uncertain demand outlook overseas. Consensus continues to forecast forward earnings growth of ~18%yoy, which looks reasonable against a forward PE of ~21x.

### Portfolio Performance

Turning to portfolio performance, Consumer Staples and Real Estate were the biggest positive contributors to relative performance. Meanwhile, Financials and IT were the key detractors for the month.

At company level, Varun Beverages, Phoenix Mills and Maruti Suzuki (MSIL) were the key alpha contributors. Varun reported better than expected 2QCY23 earnings during the month, with revenue and EBITDA growing 13%yoy and 25%yoy respectively. The earnings beat was driven by strong volume growth in the international business, and margin improvements from lower input costs and operating leverage. Phoenix Mills also reported well during the month, with 1QFY24 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. Management also guided to strong consumption trends for 2HFY24 and good pre-leasing activity for malls that are currently under construction. We continue to see Phoenix Mills as one of the best proxies for India's urban consumption growth story. Finally, Maruti Suzuki's share price was boosted during the month by the release of solid earnings numbers and some corporate actions. MSIL reported 1QFY24 revenue and EBITDA growth of 22%yoy and 69%yoy respectively, with market share gains in the SUV segment and improved gross profit per vehicle. Also during the month, the MSIL Board approved the purchase of Suzuki Motor Corp's Gujarat manufacturing plant. This transaction will help MSIL to consolidate domestic production facilities within the company and to improve efficiencies.

HDFC Bank (HDFCB), State Bank of India (SBI) and EPL were the key detractors during the month. HDFCB's share price was weighed down during the month by a temporary liquidity overhang post-merger with HDFC. Certain domestic mutual funds were forced to trim their consolidated HDFCB position to meet the 10% single stock ownership ceiling set by the regulator. We however met with the HDFCB management team in Sydney during the month where they confirmed positive underlying industry trends and confidence that the company can grow above system due to synergies that will likely be extracted post-merger. SBI was sold off during the month on slightly weaker than expected 1QFY24 numbers, where net interest income and core pre-provision profit growth grew 25%yoy and 11%yoy respectively. Also, during August, SBI announced a relief package for its borrowers in Manipur by offering a moratorium on interest payments of up to 12 months. This led to asset quality concerns, but we note that Manipur accounts for only <0.1% of SBI's portfolio. Finally, EPL saw profit taking from investors during the month after a 33% rally in the share price since the start of 2023. EPL meanwhile reported solid 1QFY24 numbers with revenue and EBITDA growing 9%yoy and 27%yoy respectively.

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

## 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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