APIR Code: ECL1411AU
ASX Code: EAFZ

Ellerston Asia Growth Fund (Hedge Fund)

Monthly Newsletter, September 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	$6.0811
Net Asset Value	$6.0659
Redemption Price	$6.0507
Current Total NAV	$50,275,887
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^^ (p.a.)
Net^	-3.48%	-1.53%	-	-1.20%
Benchmark*	-2.52%	-1.13%	-	-1.79%
Alpha	-0.96%	-0.40%	-	0.59%

^ 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. The Ellerston Asia Growth Fund (Hedge Fund) 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 -3.48% (net) in September versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was down -2.52%.

Market Commentary

Global markets pulled back during September on concerns that central banks, most notably the US Federal Reserve (Fed), may raise interest rates further. Although the Fed kept policy rates on hold at 22-year highs of 5.25-5.50% during September, it left the door open for another rate hike later this year. Fed officials also indicated that rates could stay higher for longer throughout 2024 than they had previously anticipated. Confirmation of potential further upside in interest rates led to a spike in US 10-year yields to a 17 year high of 4.8%. The USD also rallied by ~2.5% during the month. Historically, a stronger USD has been negative for flows into Emerging Markets and indeed this was a headwind throughout September. All Asian indices, with the exception of India (+1.5%) and Philippines (+2.4%) were down last month including MSCI China (-3%), Korea (-3.5%) and Taiwan (-1.7%).

The Indian market performance is notable given it has outperformed most major indices over the past 3 months despite a ~30% rally in the oil price. India imports ~80% of its oil requirements, so a higher price is typically negative for the current account balance and a potential headwind for economic growth. The resilience of Indian equities, however, has been driven by a number of important factors. First, is robust domestic demand with indicators such as PMI (60.9 in September) and credit growth (+15%yoy in September) pointing to a healthy economic environment. The second is India's ability to purchase cheap Russian oil, albeit this discount has narrowed in recent weeks. This along with solid tax collections (+12%yoy in the past 12 months) has helped fund a lift in government capex (+48%yoy in FY24YTD). Finally, strong inflows from foreign investors have helped to support the Indian market.

Over the past 6 months, foreign institutional investors have net bought ~US$19bn of Indian equities, which is the fastest pace in 3 years. Given India is one of the very few countries globally that offer both a structural growth story and near term-economic tailwinds, we remain cautiously optimistic on the Indian market with the region accounting for ~17% of the portfolio. Within India, we are positioned in sectors such as financials (HDFC Bank, ICICI Bank), consumer (Maruti Suzuki, Phoenix Mills), healthcare (Max Health) and industrials (Reliance Industries) that leverage India's domestic demand and infrastructure buildout tailwinds.

Elsewhere around the region, China continues to frustrate investors by the pace of its post-COVID recovery. Policymakers, however, have started to take tangible actions to address key areas of weakness such as consumption and property. The prospects of further positive stimulus in the coming weeks and historically cheap valuations provide an attractive risk-reward backdrop. As such, China/HK remains the largest regional exposure in the portfolio.

Korea and Taiwan equities, meanwhile, pulled-back during the month due to the stronger US dollar and the sell-off in 'growth' companies as a result of the spike in US bond yields. Our exposure to Korea and Taiwan is almost entirely through semiconductor supply chain companies such as TSMC, Samsung Electronics, SK Hynix and Mediatek. As we have discussed in previous newsletters, these companies are going to be the key 'picks and shovels' enablers of technological driven advancements in areas such as generative AI.

Stock Discussion

Over the past two newsletters, we have discussed a couple of the key themes that shape the way that EAFZ is constructed namely – Technological Disruption and The Rise of the Asian Consumer. This month we highlight a third theme, which is "Capital Market Liberalisation".

Asia ex Japan accounts for ~50% of the world's population, ~30% of global GDP and is forecast to contribute ~70% of global growth in 2023. Unsurprisingly, Asia is home to a plethora (>20,000) of listed companies that provide exposure to the enormous scale and growth opportunities on offer across the region. However, only in the past decade have global investors have been able to access a large proportion of these companies. For instance, the progressive liberalisation of the Chinese financial system since the creation of the Hong Kong – Shanghai/Shenzhen stock connect in 2014 and the subsequent inclusion in key indices such as MSCI have been pivotal in drawing foreign capital into the region. Another more recent example has been the inclusion of India into the JP Morgan EM bond Index last month. Whilst not directly linked to equities, the inclusion of India into major bond indices is another major step in increasing the relevance of India and Asia as an investment destination.

There is significantly more progress to be made in attracting capital into the region. For instance, State Owned Enterprises (SOEs) still play a major role in many Asian markets. Currently, around 20% of companies in the MXASJ Index are partly owned by SOEs. As these governments progressively reduce their equity holdings, it will create greater opportunities for private investors to be involved. Another factor is the existence of foreign ownership limits in countries such as China, India, Indonesia and Thailand. Relaxation of these restrictions over time would also help attract outside investors into Asian capital markets. Finally, despite the size and growth of Asian economies in the coming years, the region remains extremely under-represented in major global investment benchmarks. Indeed, Asia ex Japan represent less than 2% of the MSCI World Index and less than 10% of MSCI All-Country World. This mismatch between economic importance/relevance and representation in investor portfolios will need to be addressed in the years to come. This therefore presents a further structural fund flow tailwind for the region.

Within the EAFZ portfolio, we have exposure to this structural thematic through investments in financials that will benefit from this thematic such as AIA, Ping An Insurance, China Merchants Bank and HDFC Bank.

Portfolio Performance Summary

Taiwan and Thailand were the largest contributors by country to alpha during the month, whilst China and India were the relative drags. At a sector level, Materials and Real Estate were the biggest contributors to relative performance. Meanwhile, Financials and Industrials were the worst performers.

At a company level, **Maruti Suzuki, Samsung Electronics** and **Mediatek** were the biggest contributors to relative performance during the month adding a combined ~40bps to alpha. Meanwhile **CATL, Samsung SDI** and **Trip.com** were detracting 86bps to relative performance.

Maruti Suzuki was up 6% during the month on positive channel checks which showed strong order momentum, particularly for its newly launched SUV models. Improving product mix and normalising raw material costs have enhanced the company's near-term earnings outlook.

Samsung Electronics' share price was boosted by reports it will start supplying NVIDIA with high band-width memory for AI applications from as early as 4Q2023. We expect Samsung to be a key player in the advanced/AI memory space from 2024 onwards. In the meantime, the memory market has likely bottomed with spot prices turning positive over the past month. This bodes well for our positions in Samsung and SK Hynix.

Mediatek saw renewed investor interest following reports that it was working with a US hyperscaler on AI application specific (ASIC) chips. Although AI related revenues is unlikely to be a material earnings driver until 2025, we view this potential development as a positive in allowing Mediatek to reduce its exposure to the slowing smartphone segment.

Electric vehicle (EV) related stocks such as **CATL** and **Samsung SDI** were sold off during the month on concerns over slowing demand driven by factors such as the push out of the internal combustion engine vehicles ban in the UK, EV subsidy reform in France and the EU investigation into Chinese EV imports. We however see the transition of the entire auto industry to EVs as a structural story and any slowdown in demand as temporary. We continue to prefer the battery makers within the EV supply chain given it accounts for the largest value-added proportion (~30-40%) of the total vehicle cost. Amongst the EV makers, we like CATL for its technology and capacity leadership and Samsung SDI for its exposure to the premium EV segment, which should prove more resilient in a slowing demand environment.

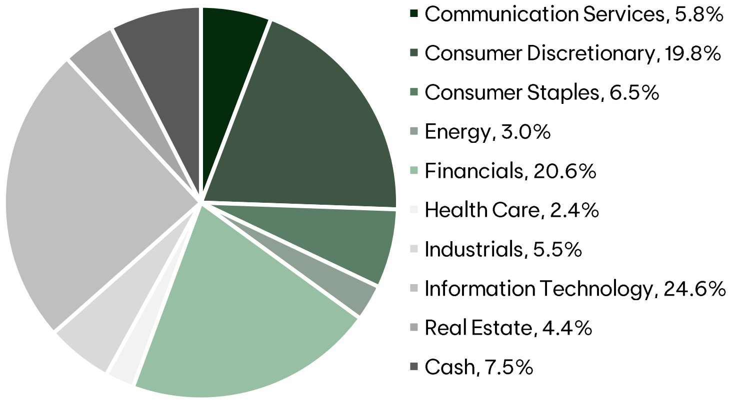
Trip.com was sold off despite reporting very strong 2Q2023 numbers where revenues and earnings grew 180% yoy and 942% yoy respectively. Recent high frequency data shows that Chinese domestic travel demand remains solid and outbound travel has recovered to ~60% of pre-COVID levels. Trip.com saw 2x more domestic travel and 8x more international travel orders during the recent Golden Week holidays (29 Sep to 6 Oct) compared to last year. We expect pent-up travel demand from Chinese tourists to persist into 2024 and this should underpin mid-teens earnings growth. The company meanwhile is currently trading on 15x forward earnings and ~7% FCF yield, which we view as attractive relative to travel peers such as Booking (18x PE) and AirBnB (27x PE).

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

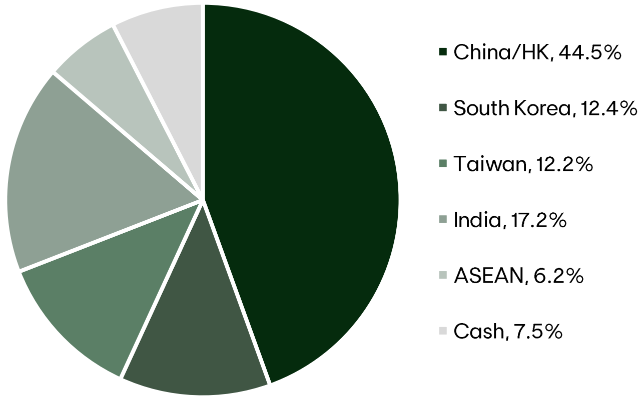
Portfolio Characteristics

Sector allocation



Source: Ellerston Capital.

Geographic allocation



Source: Ellerston Capital.

Top 10 Holdings

Company	Country	Sector	Weight
Taiwan Semiconductor Manufacturing Company Limited	9.6%	Taiwan	Information Technology
Samsung Electronics Co., Ltd.	7.1%	Korea	Information Technology
Alibaba Group Holding Limited	4.2%	China	Consumer Discretionary
HDFC Bank Ltd.	3.7%	India	Financials
PT Bank Mandiri (Persero) Tbk.	3.5%	Indonesia	Financials
Midea Group Co. Ltd.	3.4%	China	Consumer Discretionary
AIA Group Limited	3.3%	Hong Kong	Financials
Kweichow Moutai Co., Ltd.	3.2%	China	Consumer Staples
NetEase, Inc.	3.1%	China	Communication Services
SK hynix Inc.	3.1%	Korea	Information Technology

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**
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All holding enquiries should be directed to our register, Automic Group on **1300 101 595** or ellerstonfunds@automicgroup.com.au

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