APIR Code: ECL0339AU

Ellerston India Fund

Monthly Newsletter, October 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 thematics 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	$1.2834
Net Asset Value	$1.2802
Redemption Price	$1.2770
Liquidity	Daily
No Stocks	30
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

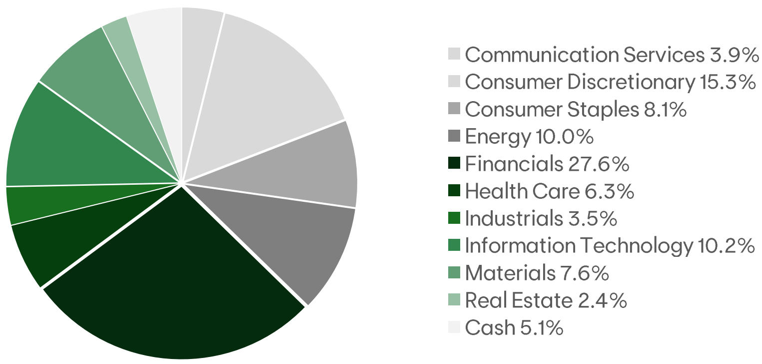
Period	Gross+	Net Before Tax*	MSCI India Net Pre Tax	Net After Tax^
1 Month	-1.5%	-1.6%	-1.1%	-1.0%
6 Months	9.2%	8.6%	12.1%	7.9%
1 Year	5.8%	4.7%	5.2%	4.4%
3 Years (cumulative)	43.4%	38.9%	61.6%	34.4%
Since Inception^^ (cumulative)	79.9%	66.2%	89.1%	60.9%
Since Inception^^ (p.a.)	9.5%	8.1%	10.3%	7.6%

^ 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	10.0%
ICICI Bank Limited	Financials	8.6%
HDFC Bank Limited	Financials	7.8%
Infosys Limited	Information Technology	4.6%
Maruti Suzuki India Limited	Consumer Discretionary	4.1%
Bharti Airtel Limited	Communication Services	3.9%
Bajaj Finance Limited	Financials	3.8%
Varun Beverages Ltd.	Consumer Staples	3.6%
Axis Bank Limited	Financials	3.5%
Titan Company Limited	Consumer Discretionary	3.2%

Sector Allocation



Commentary

The Ellerston India Fund (EIF) was down 1.0% (net) in October versus the MSCI India Index (MXIN) which was down 1.1%.

Global markets were negatively impacted during October by the resurgence of the Israel/Palestine conflict and US bond yields rising above 5% for the first time since 2007. These two events put further upside pressure on the US dollar, which rose to near 12 month highs during the month. Historically, a stronger USD has been negative for flows into Emerging Markets and indeed this was again a headwind throughout October. All Asian indices, with the exception of Malaysia (+1.3%), were down during the month.

The Indian market pulled-back during the month led by midcap stocks, with the Nifty Midcap Index down 4.1%. This was driven by global risk off sentiment and profit taking from investors, given the Midcap Index has outperformed the broader MXIN by ~30% so far this calendar year. We view this as a healthy correction as the bottom-up conditions remain supportive of stronger earnings growth for midcap stocks over the coming year. This view is driven by the fact that midcap companies are more domestically focused than larger cap companies and economic conditions in India remain favourable. The EIF portfolio currently has ~25% weighting towards companies that have a market cap below A$30bn.

The primary source of selling pressure for the Indian market during October was foreign institutional investors (FII), which recorded US$3bn of outflows. Although this was the second consecutive month of selling, FIIs have plowed ~US$13bn of liquidity into the Indian market throughout 2023. Domestic Mutual Funds (DMF) meanwhile bought a further ~US$3bn of equities during the month. DMFs have bought in 8 of the 10 months this year as they continue to benefit from structural tailwinds such as rising income levels and contributions to systematic investment plans.

On the economic front, data continues to be net positive. Headline inflation moderated from 6.8% to 5.0% in September. Core CPI came in at 4.4% and now sits comfortably within the Reserve Bank of India's (RBI) 2-6% inflation band. This has taken the pressure off the RBI to raise interest rates further. Indeed, the policy rate was kept on hold at 6.5% in early October. During the month, the RBI also released its bi-monthly consumer confidence survey, which showed that sentiment has improved to a four year high. This is consistent with feedback we have seen across the auto, consumer electronics and services segments. The resilience of India's domestic demand story has seen the IMF raise its FY24 GDP forecast for India from 6.1% to 6.3%. If achieved, it would solidify India as the fastest growing major economy in the world.

The Indian September quarter reporting season kicked-off during the month, with results so far coming in broadly in-line with expectations and reflective of the economic data that we've witnessed. Sectors that have reported well so far have been banks, auto, property, building materials and power utilities. Conversely, IT services, consumer staples and chemicals have been weaker than expected. Encouragingly, EIF portfolio companies reported well with median revenue and operating profit growth of +16%yoy and +25%yoy respectively.

Finally, we are keenly watching five state elections that will be held throughout November namely, Madhya Pradesh, Chhattisgarh, Rajasthan, Telangana and Mizoram. Given these states together account for ~15% of the Lok Sabha seats, the results will provide a read-through on voters' thinking going into the General Election in April/May 2024.

Portfolio Performance

Turning to October performance, Industrials and Materials were the key alpha contributors. Meanwhile, Consumer Discretionary and Financials were the key detractor for the month.

At a company level, **Nestle India, Max Healthcare** and **Ultratech Cement** were the biggest contributors to relative performance during the month adding a combined 35bps to alpha. Meanwhile **Crompton Greaves, Sapphire Foods** and **Sun Pharma** detracted 31bps to relative performance.

Nestle India is one of India's leading packaged food and beverage companies specializing in dairy, nutrition, instant noodles, confectionary and instant coffee. The company reported better than expected, with 3QCY23 revenues and EBITDA growing 9% and 22% respectively.

Max Healthcare is India's second largest private hospital operator. While there was no company specific news during the month, sentiment around the domestic hospital sector was boosted by reports that Blackstone will buy a majority stake in local operator Care Hospitals, and KKR potentially acquiring a stake in Manipal Hospitals. These reports highlight the interest in India's hospital sector which is supported by structural tailwinds such as rising income levels, higher insurance penetration and increasing incidence of non-communicable diseases.

Ultratech Cement is the largest Indian cement producer. The company reported a solid 2QFY24 result during the month with revenues and EBITDA growing +15%yoy and +37%yoy respectively. Furthermore, management provided positive comments around pricing and demand in 2HFY24 which will continue to support strong double digit earnings growth.

Crompton Greaves is the second largest consumer electrical company in India, specialising in fans, water pumps, small home appliances and lighting products. The company's share price was sold off on negative read-throughs from earnings results by peers such as Havells. Indeed in early November, Crompton reported 2QFY24 revenues and earnings that grew +5%yoy and -23%yoy respectively. Underlying demand for Crompton products remain tepid. Meanwhile, competition remains elevated. This suggests the potential for more earnings downgrades in the coming quarters. This backdrop contradicts our investment thesis for a turnaround in business performance in FY24. In this context, we consider the current PE multiple of 31x as expensive and we therefore exited our position in Crompton during the month.

Sapphire Foods is the operator of KFC and Pizza Hut quick service restaurants (QSR) in metro areas across India. Sapphire's share price was weighed down by weaker than expected earnings results from QSR peer Jubilant Foodworks. In early November, Sapphire Foods reported an in-line result with revenues and EBITDA growing 14%yoy and 12%yoy respectively. Management also guided for sequential revenue improvement and broadly stable profit margins. Furthermore, we remain positive on the structural story for the QSR sector with increased propensity to eat out, wallet share migration to more discretionary spending and potential further industry consolidation.

Sun Pharma is the 4th largest global specialty generics pharmaceutical company in the world. The company's share price was weighed down by slightly underwhelming results from its US-listed subsidiary Taro. Sun Pharma subsequently reported in November with revenues growing 11%. EBITDA however was disappointing (at -1%yoy) due to higher R&D, manufacturing and one-off expenses. Despite the earnings miss, we continue to like the company's specialties portfolio which will help drive market share gains both domestically and in the US.

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

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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

Ellerston Capital