

Ellerston Asia Growth Fund (Hedge Fund)

Monthly Report as at 31 December 2023

APIR Code: ECL1411AU | ARSN 626 690 686



Portfolio of 20-50 Asian Companies built through a distinctive high conviction and benchmark independent investment approach.



Focus on high quality companies with superior growth characteristics, sustainable earnings, and quality management.



Aims to outperform the Benchmark with a focus on capital growth and downside protection.

Performance Summary

Performance	1 Month	3 Months	1 Year	Since Inception ^{^^}
Net [^]	-1.35%	-1.93%	--	-3.10%
Benchmark [*]	0.42%	0.38%	--	-1.42%
Alpha	-1.77%	-2.31%	--	-1.68%

[^] The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.

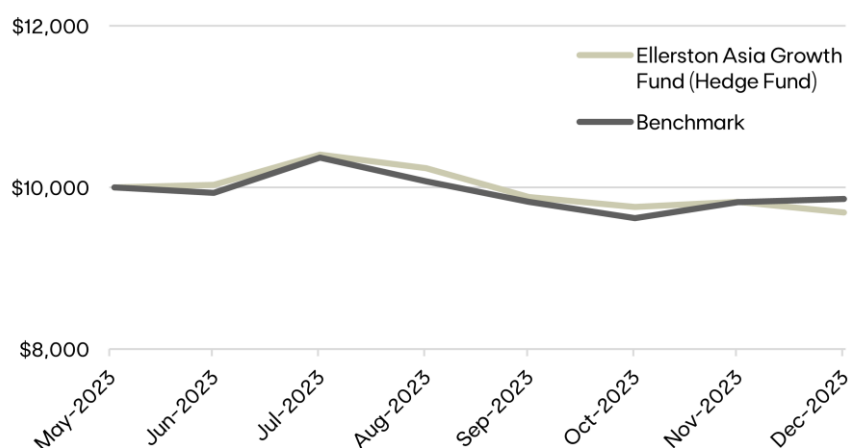
^{*} MSCI Asia Ex Japan (non-accumulation) Index in AUD.

^{^^} 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. Cumulative return since inception.

Key Information

Portfolio Manager(s)	Fredy Hoh
Investment Objective	To outperform the Benchmark on a net of fees basis, with a focus on capital growth and downside protection.
Benchmark	MSCI Asia Ex Japan (non-accumulation) Index in AUD.
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	35
Minimum Investment for Applications Direct with Unit Registry ¹	Initial investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee ²	0.75% p.a.
Performance Fee ³	10%
Buy/Sell Spread ⁴	0.25% / 0.25%
Unit Prices	Application - \$5.9638 Net Asset Value - \$5.9489 Redemption - \$5.9340
Fund Size	\$40,945,162

Growth of \$10,000 Investment

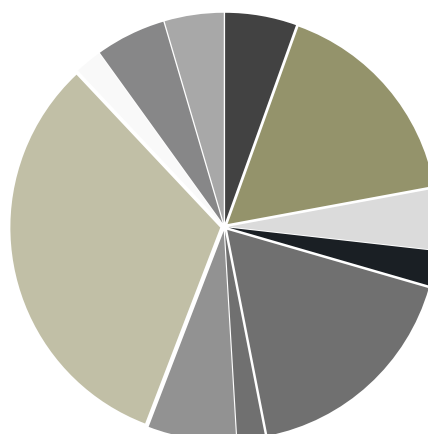


Fund Performance shown is net of fees, assuming all distributions are reinvested.

Past performance is not a reliable indication of future performance.

Source: Ellerston Capital.

Sector Allocation



- Communication Services 5.5%
- Consumer Discretionary 16.6%
- Consumer Staples 4.7%
- Energy 2.7%
- Financials 17.4%
- Health Care 2.1%
- Industrials 6.8%
- Information Technology 32.2%
- Materials 2.1%
- Real Estate 5.4%
- Cash 4.6%

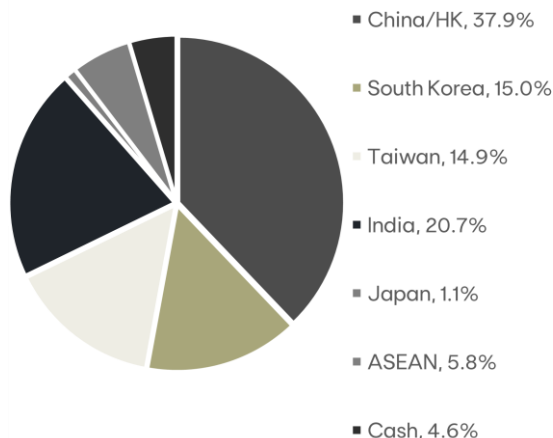
¹ Minimum number of units required for purchases made via the ASX will be dependent on each stockbroker.

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.

⁴ Applicable only to investors buying and selling directly with the manager.

Geographic Allocation



Source: Ellerston Capital.

Top Holdings

Company	Country	Sector	Portfolio Weight
Taiwan Semiconductor Manufacturing Company Limited	Taiwan	Information Technology	10.3%
Samsung Electronics Co., Ltd.	Korea	Information Technology	9.0%
Tencent Holdings Ltd.	China	Communication Services	5.5%
SK hynix Inc.	Korea	Information Technology	4.5%
AIA Group Limited	Hong Kong	Financials	4.0%
Kweichow Moutai Co., Ltd.	China	Consumer Staples	3.8%
PT Bank Mandiri (Persero) Tbk.	Indonesia	Financials	3.6%
MediaTek Inc.	Taiwan	Information Technology	3.6%
ICICI Bank Limited	India	Financials	3.5%
HDFC Bank Ltd.	India	Financials	3.1%

Source: Ellerston Capital.

MARKET COMMENTARY

The Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was down 1.35% (net) in December versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was up 0.42%.

Market Summary

Global equities finished 2023 on a positive note driven by the US Federal Reserve ("Fed") policy pivot and further evidence of moderating inflation. MSCI World was up 4.2% in December in local currency terms. US and European equities, meanwhile, were up 4.4% and 3.2% respectively. Asian markets also participated in the rally helped by a 2% pullback in the US Dollar. Within Asia, India, Singapore and Korea were the standout performers up 7.8%, 5.4% and 4.7% respectively. China, on the other hand, was the major underperformer, with the MSCI China Index down 2.6%. Investors were disappointed by the outcome of the Central Economic Work Conference held during the month, which saw Chinese policymakers acknowledge the challenges facing the economy but fail to deliver any meaningful policy measures. The continued absence of 'big bang' stimulus in the face of volatile economic activity drove some capitulatory selling in December.

2024 Outlook

As we head into 2024, equities markets are faced with a complicated investing backdrop.

Firstly, global equities still need to navigate the fastest rate hiking cycle in recent history and the resultant (lagged) impact on economic growth and earnings. Developed market equities such as the S&P500, however, ended 2023 at close to all-time highs. A large reason for the equity market exuberance has been a goldilocks backdrop, where economic activity has remained resilient in conjunction with falling inflation. This has allowed central banks to halt monetary tightening and even consider cutting interest rates in the year ahead. Indeed, the Fed has guided to three interest rate cuts over the next 12 months in its most recent 'dot plot'. The bond market, meanwhile, has aggressively priced in 6 rate cuts by the Fed in 2024. This in turn has fuelled the equity market gains in recent weeks. We believe the tail risk facing investors in the coming months is that rate cut expectations currently discounted by the markets fail to materialize. Central banks will only cut interest rates aggressively if there is a dramatic slowdown in economic growth (i.e. recession). Otherwise, significant rate cuts may not be necessary. Regardless of which scenario plays out, we believe the era of ultra-low interest rates is most likely over, and this presents a less supportive backdrop for economic growth and equity market returns.

Another risk for global equity investors is the outcome of elections that are scheduled for 2024. Over 30 countries accounting for 40% of the world's population, 60% of global GDP and 80% of the world's market cap are scheduled for elections over the next 12 months. These include the US (November), UK (TBD), Europe (June), Russia (March) and in Asia, Taiwan (January), Indonesia (February), Korea (April) and India (April/May). Election years have historically been a driver of volatility for equity markets. We will use periods of volatility to opportunistically add or build positions in names that we fundamentally like.

Given the risks facing global markets, we believe there is a strong case to be made for Asian equities to outperform developed market equities in 2024. Firstly, the growth divergence between Asia and developed markets should become even more apparent over the coming year. Countries such as China and India are forecast to record real GDP growth of 4-5% and 6-7% respectively in 2024, which compares favourably to expectations for 1-2% growth for the US, Europe and Australia. This economic growth differential should drive relatively better earnings growth for Asian companies in 2024. Indeed, earnings growth for the MXASJ are forecast to grow by ~17% over the next 12 months. Earnings for the S&P500 and ASX200 meanwhile are forecast to grow at ~10% and low single digit respectively. Valuations, meanwhile, are much cheaper for Asian equities than its developed market peers with the MXASJ trading at 12x forward PE compared to the S&P500 and ASX200 at 20x and 16x respectively. We therefore view the current environment as a unique opportunity to buy good companies in Asia trading at very undemanding valuations.

Within Asia, we continue to favour China and India with these two markets accounting for just under 60% of the EAFZ portfolio. Despite the underperformance of China in 2023 (MSCI China down ~13%), our conviction remains high. We believe it is important not to lose sight of the bigger picture when investing in China. Despite the near-term headwinds facing China, it remains the second largest economy in the world with a GDP of US\$18tn, which is forecasted to grow at 5% in 2023 and likely another 4-5% in 2024. This will make China one of the fastest growing major economies in the world over this two-year period. Furthermore, China remains one of the few countries where both fiscal and monetary policies are accommodative. So, whilst the Chinese government and central bank have thus far disappointed investors with a lack of 'big bang' stimulus, incremental supportive measures have been announced and further policies targeted at the consumer and property sectors are likely in the coming months. This should help support 10%+ earnings growth for Chinese companies in the coming year. Despite the positive earnings growth outlook, Chinese equities are trading at historically low valuations with the MSCI China forward PE at 8.6x. As such, China offers compelling margin of safety for patient investors. At Ellerston, we want to invest in high quality companies trading at undeniably attractive prices. The old adage "be greedy when others are fearful" very much applies here. All of our China investments which includes Moutai, Tencent, Trip.com and Midea are profitable, growing earnings, have low gearing, generate significant free cash flows and trade well below historical valuations. This gives us conviction that our investments in China will generate positive returns in the coming years. In order to better manage risk and volatility for our overall portfolio however, we have taken an even more selective approach to investing in China. This has resulted in a reduction of our exposure to China from ~45% in June 2023 to ~38% currently.

Much of the proceeds from our trimming of China exposure have been allocated towards India, which currently account for ~21% of the portfolio. We continue to be attracted to India's structural growth story, which is driven by demographics, rising income levels, formalization of the economy, rising penetration across key sectors and supportive government policies. These factors will be a tailwind for domestic demand and see India become the fastest growing major economy in the world over the next few years. Within India, we are positioned in sectors such as financials (HDFC Bank, ICICI Bank), Consumer (Maruti Suzuki, Phoenix Mills, Varun Beverages), Healthcare (Max Health) and Industrials/Materials (Reliance, Ultratech Cement) that leverage India's domestic demand and Infrastructure buildout tailwinds.

Within Asia, we are also selectively positioned in Korea and Taiwan. Specifically, we believe that semiconductor supply chain companies such as TSMC, Samsung Electronics, SK Hynix and Mediatek are going to be key 'picks and shovel' enablers of technological driven advancements in areas such as generative AI over the next decade.

PORTFOLIO PERFORMANCE SUMMARY

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

At a company level, **Samsung Electronics**, **Samsonite** and **Ultratech Cement** were the largest contributors to alpha adding a combined 61bps. Meanwhile, **Netease**, **Tencent** and **Phoenix Mills** detracted 86bps to alpha during the month.

Samsung Electronics is the global leader in smartphones, home appliances, display panels and the production of memory chips. Samsung's share price was helped by positive read-throughs from Micron's earnings result which confirmed that the memory market recovery was well underway. There are also growing expectations that Samsung will soon begin supplying NVIDIA with high bandwidth memory. This will confirm the company as a key player in the advanced/AI memory space from 2024 onwards.

Samsonite is a global manufacturer and retailer of suitcases, toiletries bags and briefcases. The company's share price was up 12% in December on improved sentiment stemming from the Fed 'pivot'. Fundamentally, we believe Samsonite provides exposure to the ongoing post-COVID pent up travel demand. 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 (12% FCF yield) and has an ROE of ~30%. Furthermore, we believe the company is undervalued trading on 10x forward PE, which is below its historical average multiple of 15x and compares favourably to 3yr earnings CAGR forecast of ~15%.

Ultratech Cement is India's largest cement producer with ~25% market share. Ultratech announced an acquisition during the month which will bolster the company's presence in southern India. We also see Ultratech as one of the biggest beneficiaries of India's property and infrastructure capex cycles.

Netease is a leading mobile game developer. Whilst **Tencent** operates the biggest social media platform in China (WeChat) and is also a leading game developer in the country. Both companies had shown improved business momentum this year. But share prices were negatively hit during the month by a surprise announcement from China's gaming regulatory to limit spending and rewards for players of online games. If implemented, we believe the restrictions will impact Netease relatively more given the nature of their gaming portfolio and the fact that games represent a greater proportion of overall earnings. Whilst the new guidelines are still subject to consultation and review, there is the risk that this represents the start of a new regulatory crackdown cycle. Rather than second guess the likely regulatory direction, we decided to proactively exit Netease during the month. We have however maintained our holding in Tencent given the more diversified nature of the company's earnings (e.g., games, advertising, fintech) along with industry leading shareholder returns (of ~8% over the past year). We also met with Tencent management during the month and came away positive on the strategic direction of the company and its continued commitment to enhancing shareholder value.

Phoenix Mills India's premier luxury shopping mall developer and operator and is one of the best proxies for India's urban consumption growth and rising income stories. The company saw some profit taking during December after rising for 8 consecutive months, which included an up 31% performance in November.

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.

Find out more:

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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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