Ellerston India Fund

Ellerston Capital

Monthly Report as at 31 December 2023

APIR Code: ECL0339AU | ARSN 618 549 796

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

Targets companies which offer attractive risk/reward profiles, utilizing 'bottom up' analysis, along with a 'top down' analysis of macroeconomic conditions and structural themes.

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

Performance Summary

Period	Gross+	Net Before Tax*	MSCI India Net Pre-Tax	Net After Tax^
1 Month	4.0%	3.9%	5.0%	3.0%
6 Months	9.3%	8.7%	12.1%	7.4%
1 Year	17.6%	16.4%	20.1%	14.3%
3 Years (cumulative)	43.6%	39.2%	58.7%	32.5%
Since Inception^^ (cumulative)	91.9%	77.0%	102.3%	69.3%
Since Inception^^ (p.a.)	10.3%	8.9%	11.2%	8.2%

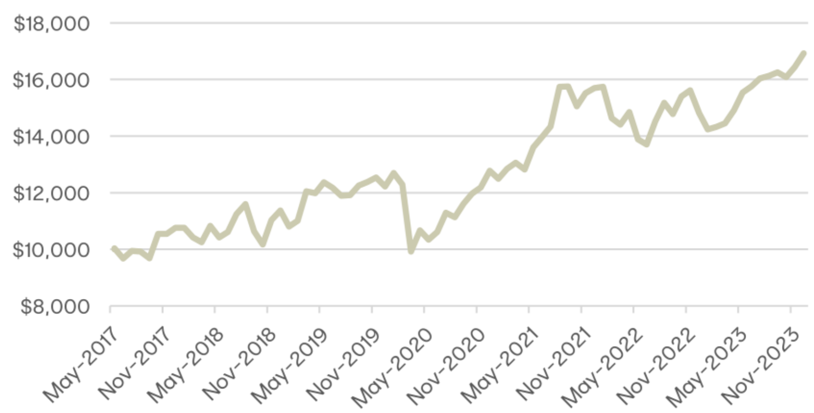
+References to the gross fee and pre-tax contribution components of the total Net After Tax return figures.
** Net Before Tax return figures calculated after fees and expenses, assuming all distributions are reinvested.*
^Net After Tax return figure is calculated after fees, expenses, and taxes, assuming all distributions are reinvested.
^^Inception date is 4 May 2017.
All return figures in above table shown are in AUD. Past performance is not a reliable indication of future performance.

Key Information

Portfolio Manager(s)	Fredy Hoh
Investment Objective	To outperform the Benchmark on a net of fees and tax basis, with a focus on capital growth and downside protection.
Benchmark	MSCI India Net Return Index (AUD)
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	32
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.10% p.a.
Performance Fee[1]	15.00%
Buy/Sell Spread	0.25% / 0.25%
Unit Prices	Application – $1.3502 Net Asset Value – $1.3468 Redemption – $1.3434

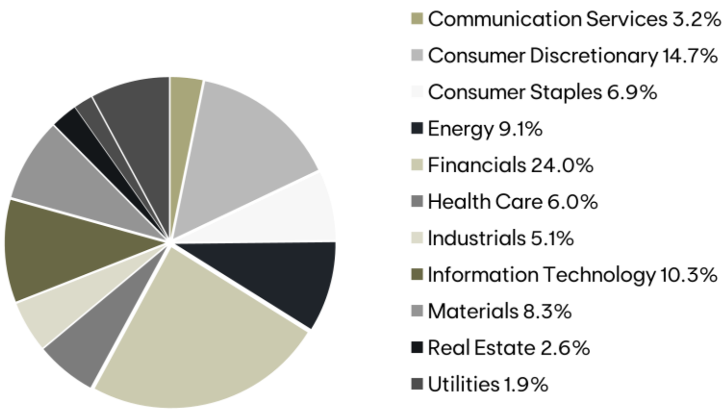
[1]Of the investment return above the benchmark, after recovering any underperformance in past periods.

Growth of $10,000 Investment



Fund Performance shown is after fees, expenses, and taxes assuming all distributions are reinvested.
Past performance is not a reliable indication of future performance.
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital

Top Holdings

Company	Sector	Portfolio Weight
Reliance Industries Limited	Energy	9.1%
ICICI Bank Limited	Financials	7.8%
HDFC Bank Limited	Financials	6.5%
Axis Bank Limited	Financials	4.4%
Infosys Limited	Information Technology	4.0%
UltraTech Cement Limited	Materials	3.9%
HCL Technologies Limited	Information Technology	3.4%
Varun Beverages Ltd.	Consumer Staples	3.2%
Bharti Airtel Limited	Communication Services	3.2%
Sun Pharmaceutical Industries Limited	Health Care	3.2%

Source: Ellerston Capital.

COMMENTARY

The Ellerston India Fund (EIF) was up 3.0% (net) in December versus the MSCI India Index (MXIN) which was up 5.0%.

As highlighted in the performance summary table, the accrual of taxes and currency fluctuations continue to have a material impact on portfolio performance. As a reminder, EIF accrues the full potential of future capital gains tax payable on underlying movements in the portfolio, even if these positions are not realized during the given month. Please bear this in mind when comparing relative performance as our returns are stated on a post-tax basis while the benchmark is pre-tax. This means that in large up months, there is a tax headwind for EIF net performance. On currency, note that the AUD appreciated against the Indian Rupee (INR) by ~3% during the month, which was again a headwind for absolute returns.

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%.

India ended 2023 as the second-best performing market in Asia with the MXIN up 20% in local currency terms. This represents the fifth successive year of positive performance for the MXIN. The Indian market was supported by strong economic activity (GDP for Jan to Sep grew +7.2% on average) and the underperformance of China. This drove strong fund flows from both domestic mutual funds and foreign institutional investors, which poured US$21bn and US$20bn respectively into the Indian market throughout 2023.

Heading into 2024, we expected domestic demand to remain robust, supported by stability in both fiscal and monetary policy settings. Firstly, we expect that incumbent Prime Minister, Narendra Modi, is re-elected for another term at the upcoming General Election in April/May. This view is backed up by the outcome of 5 recently held state elections, which resulted in a better than expected showing by the ruling BJP party. As such, it is reasonable to expect a continuation of Modi's reformist, pro-growth agenda. Secondly, the Reserve Bank of India (RBI) appears to have concluded its monetary tightening cycle with inflation well contained (5.55% in November). This has seen the RBI keep the policy rate on hold at 6.5% for four successive meetings throughout 2023. The central bank has also tried to proactively address potential risks in the economy, most notably with the recent decision to increase risk weights for banks operating in the unsecured lending space. Non-performing loans across the banking system however is currently running at a decade low of ~3%.

The only pushback to the India story is valuations, with the MXIN trading at 22x forward PE. This remains below all-time highs of 23.7x and looks reasonable when compared to expected earnings growth of 18% over the next 12 months (i.e. 1.2x PEG ratio). In the EIF portfolio, we are heavily skewed towards sectors such as financials (HDFC Bank, ICICI Bank, Axis Bank), consumer (Varun Beverages, Maruti Suzuki, Phoenix Mills, Titan), healthcare (Max Health, Sun Pharma) and Industrials/Materials (Reliance, Ultratech Cement) that leverage India's domestic demand and Infrastructure buildout tailwinds.

PORTFOLIO PERFORMANCE

Turning to December portfolio performance, Materials, Consumer Staples and Financials were the key alpha contributors. Meanwhile, Utilities and Industrials were the key detractors for the month.

At a company level, **Ultratech Cement, Varun Beverages** and **Hindalco** were the biggest contributors to relative performance during the month, adding a combined 50bps to alpha. Meanwhile, **Phoenix Mills, Maruti Suzuki** and **not owning Adani Green Energy** detracted 71bps to relative performance.

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

Varun Beverages is the largest bottler of PepsiCo outside of the US and operates in India, Sri Lanka and parts of Africa. The company announced the acquisition of a bottler in South Africa during the month. The acquisition which was conducted an attractive valuation (7x EV/EBITDA) will grow Varun's presence in Africa and is expected to be EPS accretive in year 1.

Hindalco is a leading aluminium and copper producer in India. The company's share price was boosted during the month by a 9% surge in aluminium prices, driven by restocking activity globally.

Phoenix Mills is 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.

Maruti Suzuki is the largest and most recognisable automotive company in India with ~43% market share. While there was no company specific news during the month, sentiment around domestic automakers were impacted by concerns over slowing near term demand for motor vehicles. We however expected rising car ownership and improved product mix to drive sustained earnings growth for Maruti.

The Adani Group of companies including **Adani Green Energy** (+55%) rose on average 28% during December due to a favourable court ruling over allegations of stock manipulation. This was major source of tracking error for the fund during the month. Despite the court decision and subsequent share price moves, we note that the Adani companies still do not pass our strict ESG criteria and we therefore maintain no exposure to the group.

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