Ellerston Asia Growth Fund (Hedge Fund)

Ellerston Capital

Monthly Report as at 31 January 2024

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^	-1.75%	-2.45%	--	-4.80%
Benchmark*	-2.44%	-0.03%	--	-3.83%
Alpha	0.69%	-2.42%	--	-0.97%

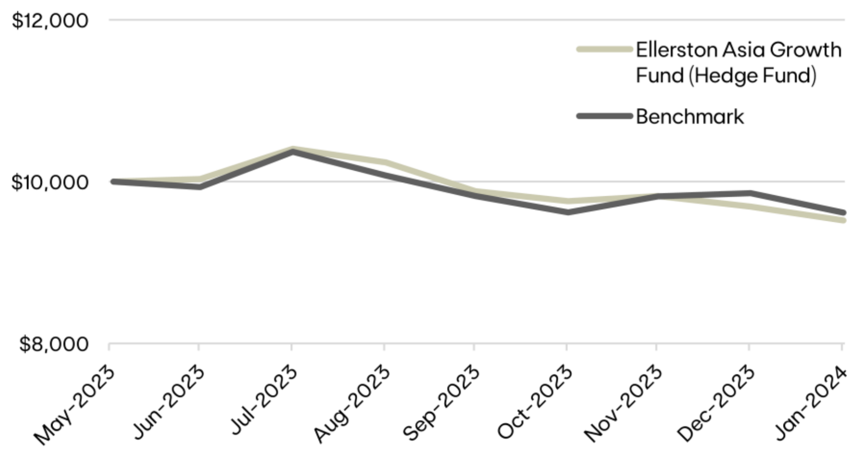
^ The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.
** MSCI Asia Ex Japan (non-accumulation) Index in AUD.*
^^ Inception Date is 01/06/2023. The Ellerston Asia Growth Fund (Hedge Fund) 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	34
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 – $5.8594 Net Asset Value – $5.8448 Redemption – $5.8302
Fund Size	$39,349,253

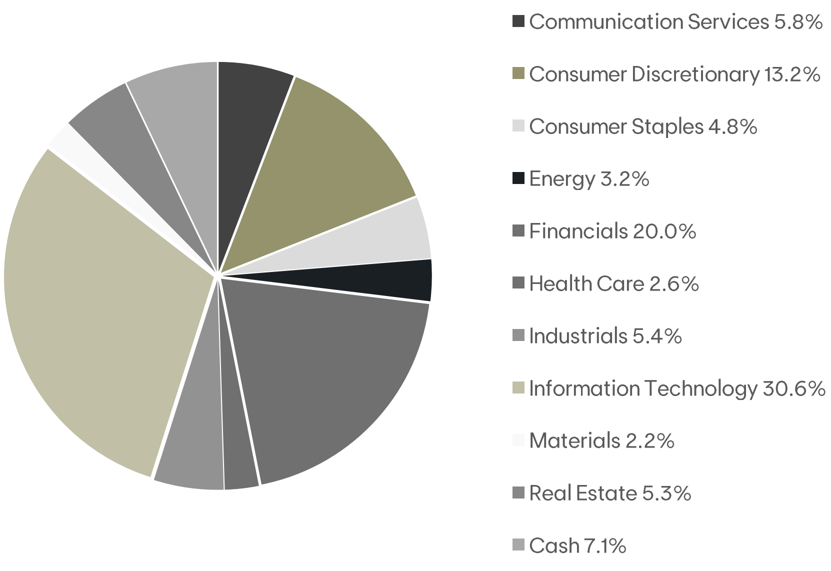
[1] Minimum number of units required for purchases made via the ASX will be dependent on each stockbroker.
[2] The Manager is waiving the management fee for the first year following quotation of units on the ASX.
[3] Of the investment return above the benchmark, after recovering any underperformance in past periods.
[4] Applicable only to investors buying and selling directly with the manager.

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



Geographic Allocation

Source: Ellerston Capital.

Top Holdings

Company	Country	Sector	Portfolio Weight
Taiwan Semiconductor Manufacturing	Taiwan	Information Technology	11.5%
Samsung Electronics	Korea	Information Technology	8.3%
Tencent Holdings	China	Communication Services	5.8%
SK hynix	Korea	Information Technology	4.5%
PT Bank Mandiri	Indonesia	Financials	4.0%
AIA Group	Hong Kong	Financials	3.8%
MediaTek	Taiwan	Information Technology	3.6%
ICICI Bank	India	Financials	3.4%
Kweichow Moutai	China	Consumer Staples	3.3%
Reliance Industries	India	Energy	3.2%

Source: Ellerston Capital.

MARKET COMMENTARY

The Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was down 1.7% (net) in January versus the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index which was down 2.4%.

Market Summary

Global equities started 2024 in the same way it finished 2023 with the MSCI World rising 1.1% during the month led by Japan (+8.4%) and the US (+1.6%). Within Asia, Malaysia, Philippines and India were the standout performers up 4.0%, 3.0% and 2.2% respectively in January. China, on the other hand, continued its recent underperformance with MSCI China down 10.5%.

Even though China reported robust GDP growth of 5.2% for 2023, and the central bank announced a 50bps cut to the reserve requirement ratio for banks during the month, investors were again disappointed by the lack of meaningful stimulus measures to address demand side concerns. We believe interest rate cuts at this stage of the cycle is akin to "pushing on a string" given the issues facing the Chinese economy is not a lack of liquidity but rather the lack of animal spirits needed to drive consumption. As such, policymakers need to directly address the root cause of the subdued household confidence domestically, which is the property sector malaise. Whilst we view the Chinese market as too large and too cheap to ignore, until the property sector problems are resolved, a sustained market rally is unlikely to occur. In light of this, we reduced our China exposure further during the month and dialed up our weightings in South-East Asia and India, which now account for a combined 30% of the fund.

Portfolio Performance Summary

Indonesia, Japan and Taiwan were the largest contributors by country to alpha during the month, whilst China/HK and Malaysia were the relative drags. At a sector level, Healthcare and Energy were the biggest contributors to relative performance. Meanwhile, Information Technology and Consumer Discretionary were the worst performers.

At a company level, Bank of Mandiri, Max Healthcare and Phoenix Mills were the largest contributors to alpha adding a combined 121bps. Meanwhile, Samsonite, HDFC Bank and Sunny Optical detracted 81bps to alpha during the month.

Bank of Mandiri is the second largest bank in Indonesia. The company's management team attended a broker conference during the month where they provided positive 2024 outlook guidance for loan growth above market (i.e. 10-15%) and flat net interest margins. This should allow Mandiri to maintain ROE above ~20%, which looks reasonable against P/B ratio of ~2.2x.

Max Healthcare is India's second largest private hospital operator. The company's share price surged 14% during the month, helped by a better than expected earnings result. Max reported revenue and earnings growth of 15% and 25% respectively in 3QFY24, driven by improved average revenue per occupied bed. We continue to have a favourable view on the company's outlook given new capacity additions allowing it to benefit from structural tailwinds, such as increased insurance penetration, growing health related illnesses and rising income levels.

Phoenix Mills, India's premier luxury shopping mall developer and operator, is one of the best proxies for India's urban consumption growth and rising income stories. While there was no stock specific news during the month, there was strong inflows into property related companies with the Nifty Realty Index up 9% in January.

Samsonite is a global manufacturer and retailer of suitcases, toiletries bags and briefcases. Samsonite's share price was sold off during January over concerns of the company's 2024 growth outlook due in part to a slower than expected China recovery. Despite the appetite for travel remaining strong, earnings growth for the company could slow to ~10-15% vs (~20% in 2023). We continue to like the long term story for Samsonite, however, and see it as a play on the structural increase in travel demand as income levels rise globally, most notably across Asia. The company remains 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%.

HDFC Bank is the largest private bank in India. The company reported a disappointing earnings result during the month. Whilst pro forma loan growth grew 16%yoy during the December 2023 quarter, margins were weaker than expected due to higher credit costs. Management also provided conservative guidance for NIMs to grow only gradually (by ~30bps) over the next 2 years and is targeting ROA of 1.9-2.1% (vs 2% currently) in FY24. However, we believe HDFC Bank has the ability to outperform these targets given the potential synergies from the recent merger between HDFC Bank and HDFC.

Sunny Optical is a developer and manufacturer of optical components such as camera modules and lenses for smartphone and automotive customers. The stock was sold off during the month after it issued a profit warning citing weaker than expected margins due to worsening product mix, low utilization and increased competition. This was despite volumes across its key product segments turning positive for the first time in almost 2 years during 2H2023. The lack of operating leverage from the business was disappointing as we underestimated the impact competition was having on pricing in particular. A core pillar of our investment thesis on Sunny Optical was the earnings turnaround story driven by a rebound in smartphone demand. The profit warning highlighted issues that were contrary to our thesis. As such, we exited the position in Sunny Optical during the month.

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