

Ellerston Asia Growth Fund (Hedge Fund)

Monthly Report as at 30 August 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	6 Months	1 Year	Since Inception (p.a.) ^{^^}
Net [^]	-3.1%	3.4%	8.5%	8.4%	8.6%
Benchmark*	-2.1%	3.0%	5.7%	8.1%	7.0%
Alpha	-1.0%	0.4%	2.8%	0.3%	1.6%

[^] 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.

Key Information

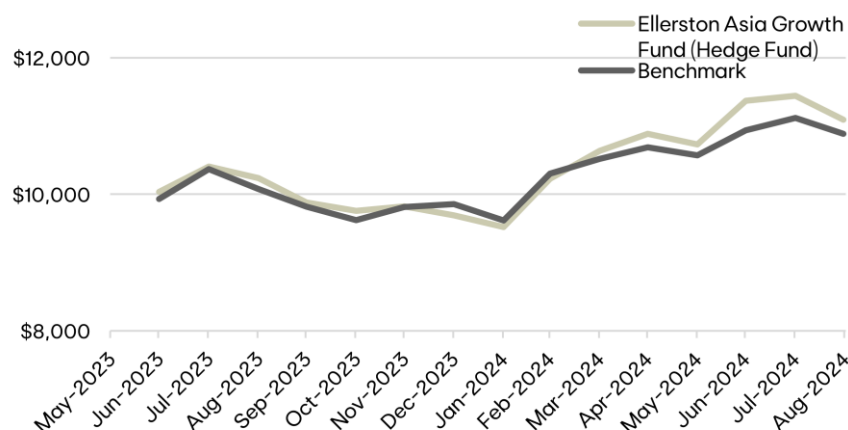
Investment Objective	To outperform the Benchmark on a net of fees basis, with a focus on capital growth and downside protection.
Benchmark	MSCI Asia Ex Japan (non-accumulation) Index in AUD.
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	47
Minimum Investment for Applications Direct with Unit Registry ¹	Initial investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.75% p.a.
Performance Fee ²	10%
Buy/Sell Spread ³	0.25% / 0.25%
Unit Prices	Application - \$6.7180 Net Asset Value - \$6.7012 Redemption - \$6.6844
Fund Size	\$ 37,105,434.97

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

² Of the investment return above the Benchmark after recovering any underperformance in past periods.

³ Applicable only to investors buying and selling directly with the manager.

Growth of \$10,000 Investment

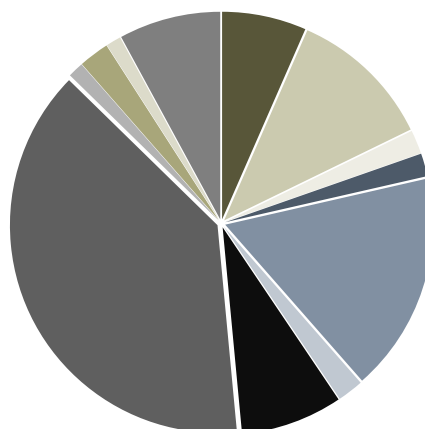


Fund Performance shown is net of fees, assuming all distributions are reinvested.

Past performance is not a reliable indication of future performance.

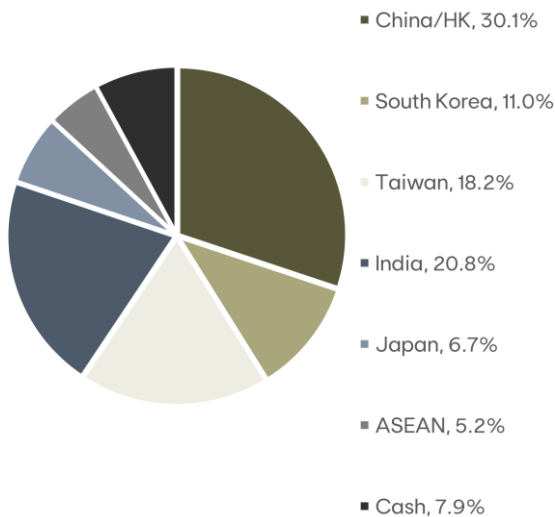
Source: Ellerston Capital.

Sector Allocation



- Communication Services 6.6%
- Consumer Discretionary 11.2%
- Consumer Staples 1.9%
- Energy 1.8%
- Financials 17.1%
- Health Care 2.0%
- Industrials 7.9%
- Information Technology 38.8%
- Materials 1.2%
- Real Estate 2.4%
- Utilities 1.2%
- Cash 7.9%

Geographic Allocation



Source: Ellerston Capital.

Top Holdings

Company	Sector	Portfolio Weight	Benchmark Weight
Taiwan Semiconductor Manufacturing Co Ltd.	Information Technology	14.9%	10.9%
Samsung Electronics Co Ltd.	Information Technology	7.4%	4.0%
Tencent Holdings Ltd.	Communication Services	5.0%	4.9%
ICICI Bank Limited	Financials	3.4%	1.1%
OBIC Business Consultants Co Ltd.	Information Technology	2.9%	0.0%
Alibaba Group Holding Limited	Consumer Discretionary	2.8%	2.4%
Tokyo Electron Ltd.	Information Technology	2.7%	0.0%
Techtronic Industries Co Ltd.	Industrials	2.4%	0.3%
SK hynix Inc.	Information Technology	2.4%	1.1%
Agricultural Bank of China Limited Class H	Financials	2.4%	0.2%

Source: Ellerston Capital.

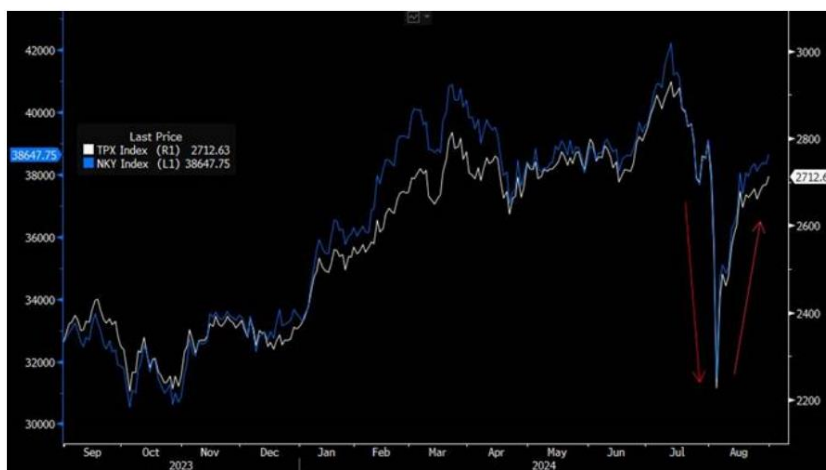
MARKET COMMENTARY

The Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) declined by 3.07% (net) in August, compared to the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index, which fell by 2.07%.

Market Summary

The global equities market experienced notable volatility in August. Early in the month, markets faced a sharp sell-off driven by concerns of a potential U.S. economic slowdown, exacerbated by weaker-than-expected job data and the Bank of Japan (BOJ)'s surprise interest rate hike. The Nikkei's 12.4% drop on August 5th was its sharpest one-day fall since the Black Monday crash of 1987 (-14.9%). The VIX spiked to levels last seen during the initial COVID-19 sell-off. However, global stocks rebounded strongly later in the month as investor sentiment improved, supported by expectations that the U.S. Federal Reserve would begin easing its monetary policy in September.

Japanese Equities in their biggest rout since 1987



Source: Bloomberg

Asia underperformed the global market in August, with the MSCI Asia ex Japan Index (net) up only 0.3% for the month in local currency, lagging behind the MSCI World Index, which gained 1.9%. South Korea was the worst-performing market, with the KOSPI Composite Index down 3.5%. Japan's Nikkei reacted violently to the BOJ's 0.25% rate hike, which pushed up the Yen and dragged down its stock market, falling 20% before stability returned. This recovery was largely driven by investors covering Yen carry trades, with the Nikkei "magically" finishing the month down only 1.1%. India's BSE SENSEX rose by 1.0% in local currency, buoyed by U.S.-linked sectors such as Pharma and IT services.

The Chinese equity market was mixed, with China A-shares (SSE) down 3.4% but the Hang Seng Index up 3.9% for the month. China's growth momentum remained weak in July and early August. Retail sales growth edged up, while manufacturing and infrastructure FAI remained resilient. Property activity was muted, with new start volumes stabilizing in July versus June but hovering lower than the Q2 average. Export growth cooled year-over-year, and loans to the real economy contracted. The July Politburo meeting called for faster implementation of existing policy support measures. Meanwhile, the government rolled out more easing measures, including a policy rate cut and the use of special CGB funds to support consumption and equipment upgrades. Given the disappointing growth in recent months and the ongoing property downturn, the government will need to significantly ramp up policy support for the rest of the year. We believe Hong Kong's strong performance reflects a robust RMB, which appreciated sharply against the USD in the month. Stocks in Hong Kong, essentially USD-denominated RMB assets, benefited from this strong RMB. Hong Kong stocks are also more heavily weighted toward top Chinese internet companies, which reported strong results in the month.

PERFORMANCE SUMMARY

At the country level, **China** was the largest contributor to alpha, while **India** and **South Korea** were the relative underperformers. Our China positions benefited from strong stock selection. Key positions such as **Trip.com** (+9.6%), **Xiaomi** (+15.8%), and **Meituan** (+8.1%) all posted strong results. The long **Alibaba**, short **PDD** (not owning) call worked well, generating more than 30 basis points of alpha in the month. Our India performance was impacted by a new addition, Syrma SGS Technology, which is a key player in India's burgeoning EMS sector. The company reported weaker-than-expected Q1FY25 margins at 4%, overshadowing strong 93% year-over-year revenue growth. Our **South Korea** positions were affected by aggressive sector rotation, where companies with strong fundamentals and positive earnings revisions were sold off in favour of those with weaker business momentum (e.g., lithium battery players).

On the sector level, **Consumer Discretionary** made the biggest contributions to relative performance, whereas **Information Technology** and **Healthcare** were the relative underperformers. The Fund's performance was hurt by a market rotation from year-to-date winners to year-to-date laggards as well as light positioning in healthcare sector where we found it difficult to find good investment ideas given weak earnings, rich valuation and/or geopolitical/regulatory complexity. We view this style shift as only temporary, as the market starts to price in an extreme bearish scenario for the global economy. We believe the Fund is well-positioned to outperform in the coming months as market panic eases.

At a company level, **OBIC Business Consultants**, **Industrial and Commercial Bank of China (ICBC)** and **Xiaomi** were the largest contributors to alpha, adding a combined 61 bps. Meanwhile, **Tokyo Electron**, **Samsung Electronics**, and **Tencent Music Entertainment** detracted 104 bps from alpha during the month.

OBIC Business Consultants, a consulting firm providing comprehensive business and IT solutions to small and medium-sized businesses in Japan, benefited from a series of broker upgrades due to steady cloud penetration. The company also raised its full-year dividend plan, backed by strong cash flow generation. We added to our position amid the market sell-off earlier in the month and benefited from a subsequent >20% strong rally. **Industrial and Commercial Bank of China (ICBC)** is China's largest commercial bank. ICBC has performed well this year along with other China Stated-Owned Banks on the back of government's ongoing SOE reform campaign. ICBC trades on <0.5x Book but pays a >5.5% dividend which makes it an attractive bond proxy play amid falling 10-year government yield (now below 2.1%). We, however, exited the position in the middle of the month, right before the 15% correction, as we believed the dividend spread had become no longer attractive to validate its thesis. **Xiaomi** is one of world's largest electronics companies known for producing affordable, high-quality smartphones. During the month, Xiaomi reported a robust quarterly result with both revenue and net profit up 32% and 20% YoY respectively. The positive surprise on EV margin and upbeat earnings result served as re-rating catalysts, sending the share price 19% higher during the month. Xiaomi has been one of our winning stock picks since July last year. The stock is up >60% since we initiated the position. We believe its EV business is still significantly under-appreciated by the market. We believe Xiaomi's EV business has the potential to become one of the world's top 5 brands in the future, given the track record of its legendary founder, Lei Jun, who has dedicated significant personal effort to ensuring the success of the EV venture.

Tokyo Electron is a leading Japanese semiconductor equipment manufacturer, specializing in the production of cutting-edge tools for the fabrication of integrated circuits and flat panel displays, critical for the global electronics and technology industries. Despite reported a better-than-expected results during the month, the stock was sold off aggressively amid global semiconductor sector sell-off and the unwinding of Yen carry trades. We added to our position amid the sell-off as we see compelling value following the correction. We see unchanged fundamental outlook after speaking to the management during the month. **Samsung Electronics** is the global leader in smartphones, home appliances, display panels, and the production of memory chips. The stock was under pressure amid global semiconductor sector sell-off and, especially, concerns around near-term pricing trends for non-AIDRAM and NAND. While cautious about near-term memory pricing trends, we see price correction overdone as the stock is now almost trading towards a recession multiple. Thus, we kept our position unchanged. **Tencent Music** is China's leading online music entertainment platform, offering a range of streaming services, including music, social entertainment, and karaoke, with a vast user base and strong ties to the broader Tencent ecosystem. The stock corrected after they reported 2Q24 results where investors were disappointed with a rather muted music net adds guidance, despite the fact that the management hinted a likely better-than-expected full year profitability and maintained medium-term net adds target. We had a call with the management on the next day of the stock sell-off and have decided to exit the position after the call as we believe competition risk starts to emerge which dampens our initial investment thesis. The stock is down another 12% thereafter.

During the month, we initiated two positions in China: **Autohome** (a leading online platform for automotive consumers, China's equivalent of Carsales.com) and **Zhihu** (a leading knowledge-sharing platform, China's equivalent of Reddit). Both companies are household internet names in China but trade at prices that assume bankruptcy, with cash value greater than market capitalization. After speaking to the management in the month, we believe corporate actions are increasingly likely in the next six months for them to unlock balance sheet value in enhancing shareholder return. In India, we initiated positions in **Hitachi Energy** and **Syrma SGS Technology** and exited **Vodafone Idea** after a strong 30% rally over the past 6 months. Hitachi Energy is one of the key plays on the upswing in the Indian government's transmission sector capex, particularly related to High Voltage Direct Current (HVDC) lines that are needed to support renewable, intermittent, and interstate transmission needs. We also initiated positions in Philippines (a conglomerate) and Malaysia (a private hospital) as we see rate cut in the U.S will benefit the region with better FX stability.

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.

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.**

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 registry, Automic Group on 1300101 595 or ellerstonfunds@automicgroup.com.au.

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