Ellerston India Fund

Monthly Report as at 30 August 2024

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	(3.3)%	(1.1)%	(2.7)%	(3.4)%
6 Months	14.3%	18.3%	12.0%	13.7%
1 Year	31.5%	37.8%	33.4%	30.1%
3 Years (cumulative)	37.7%	39.7%	47.68%	33.3%
Since Inception^^ (cumulative)	129.3%	126.2%	149.9%	109.8%
Since Inception^^ (p.a.)	12.0%	11.8%	13.3%	10.6%

+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

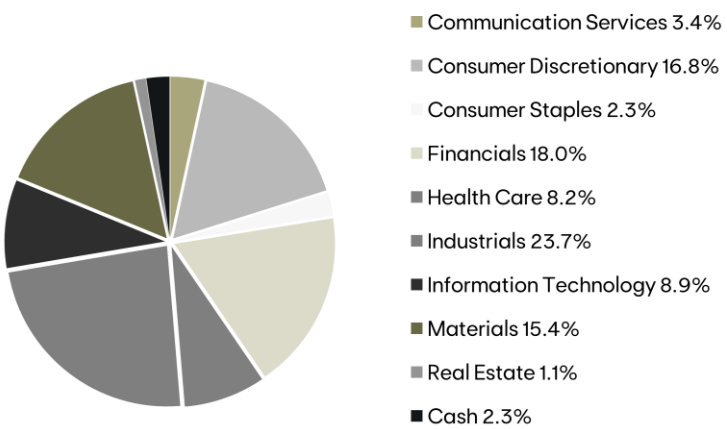
Investment Objective	To outperform the Benchmark on a net of fees and tax basis, with a focus on capital growth and downside protection.
Benchmark	MSCI India Net Return Index (AUD)
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	46
Minimum Investment	Initial investment - $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 – $1.1600 Net Asset Value – $1.1571 Redemption – $1.1542

[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
Syrma SGS Technology Limited	Information Technology	3.7%
ICICI Bank Limited	Financials	3.6%
Kalpataru Projects International Limited	Industrials	3.0%
Aptus Value Housing Finance India Limited	Financials	2.9%
Mankind Pharma Ltd.	Health Care	2.8%
Manappuram Finance Limited	Financials	2.8%
Cello World Limited	Consumer Discretionary	2.8%
Insecticides (India) Limited	Materials	2.8%
NCC Limited	Industrials	2.7%
Hitachi Ltd.	Industrials	2.7%

Source: Ellerston Capital

COMMENTARY

Ellerston India Fund (EIF) was down 3.39% (net) in August versus the MSCI India Index (MXIN) which was down 2.75%. EIF recalibrated its unrealized Capital Gains Tax (CGT) after the government increased CGT on equities leading to 229 bps of one-time tax adjustment, impacting the net performance. EIF fully accrues all the future potential CGT payable on the portfolio investments, even if those positions have not been realized. Note that, while this is a performance drag, investors have minimal additional tax burden as they get tax offset given the double tax avoidance agreement between India and Australia.

The Indian equity market was up 1.1% in local currency, with US-linked sectors Pharma and IT performing better in anticipation of rate cuts in the US. Global markets had a weak start to the month, concerned about the Yen 'carry trade' unwind and weak US data sparking recession fears. However, the latter part of the month saw easing inflation trends and increasing rate-cut expectations, with the S&P 500 rising 2.4% for the month and a recovery in other markets. The Australian Dollar appreciated in August, as the Reserve Bank of Australia (RBA) kept interest rates unchanged and hinted at potential future increases.

In August, Foreign Institutional Investors (FIIs) were net buyers of USD 2.2 billion, while Domestic Institutional Investors (DIIs) were net buyers of USD 5.7 billion. Equity inflows from domestic retail investors were strong, with August seeing USD 6.5 billion in inflows. On a year-to-date (YTD) basis, domestic equity inflows stand at USD 43 billion. New fund offerings across sectoral or thematic funds, along with monthly investments in Systematic Investment Plans (SIPs), have contributed to these investments.

There was some softness in the August economic data. GST revenue for August grew 10% year-on-year. Credit growth (adjusted for the HDFC merger) slowed to 13.6% year-on-year in August. First-quarter FY25 real GDP growth fell to a five-quarter low of 6.7% year-on-year, compared to 7.8% in the previous quarter and slightly below market expectations. Passenger vehicle sales and air passenger traffic also saw some moderation. However, much of the softness can be attributed to the base effect (8.2% GDP growth in Q1 FY24) and a near-term slowdown driven by elections and extreme heatwave conditions.

Meanwhile, the impetus on capital expenditure (capex) continues, with the Central Government urging various ministries to expedite capital spending and execution to meet the targets for the first and second quarters in the third quarter. With the monsoon season coming to an end, cumulative rainfall across India has been pleasant, at 8% above the long-period average (LPA).

Headline CPI was at 3.7% year-on-year in August and 3.6% year-on-year in July. It has been trending near five-year lows and was down 154 basis points in July. However, core CPI inflation rose to a six-month high of 3.4% year-on-year in July/August. July saw approximately 30 basis points of upside pressure due to the telecom price hike, while August experienced rising food inflation. Overall, we expect CPI to remain benign, even though base effects are normalizing, and to stay within the RBI's comfort range of below 4%. The RBI continues to remain on pause, as expected. We anticipate India may see a shallow rate cut cycle (75-50 basis points) possibly in the early part of next year or later this year.

Portfolio Performance

Turning to portfolio performance, overweight positions in Industrials and Healthcare were key contributors to alpha. Conversely, Consumer Discretionary and an underweight position in IT were the main detractors.

At the company level, **Triveni Turbine, Insecticide India, and Mankind Pharma** were the largest contributors to relative performance. On the other hand, **Titagarh Railways, Syrma SGS Technology, and NCC** were the main detractors.

Triveni Turbine, a low- to mid-sized steam turbine manufacturer, benefits from a duopolistic domestic market. It reported 32% year-on-year earnings growth for Q1 FY25, resulting in a 15% earnings surprise. Its order book also increased by 23% year-on-year. Management's positive commentary on exports, aftermarket services, and improving margins was well-received by the market. **Insecticide India**, a major Indian crop protection company, is benefiting from new product launches, distribution of new multinational corporation products in India, and a focus on premiumization. It reported 68% year-on-year earnings growth for Q1 FY25, driven by sharp margin improvements. The company also guided for further margin increases and announced a share buyback of 1.7% of its equity base. **Mankind Pharma**, one of the largest domestic pharmaceutical companies and a new position in EIF, announced the closure of approximately USD 1 billion debt raise to finance its recent ~USD 1.5 billion acquisition of Bharat Serums and Vaccines (BSV), addressing investors' concerns about a potential equity raise. It also reported a solid 10% year-on-year earnings growth for Q1 FY25, supported by rising exports.

Titagarh Railways reported weak 6% year-on-year earnings growth for Q1 FY25 as elections and heatwaves affected wagon production. Management maintained their full-year and long-term outlook, though the stock took a breather after strong performance in previous months. **Syrma SGS Technology**, a key player in India's burgeoning EMS sector, reported weaker-than-expected Q1 FY25 margins of 4%, overshadowing strong 93% year-on-year revenue growth. However, the improving business mix and positive management commentary provide comfort that the company will meet its full-year guidance. **NCC** is a large EPC company, was also impacted by elections and heatwaves this quarter. It reported 24% year-on-year earnings growth for Q1 FY25, aided by solid execution. However, its backlog fell 3% year-on-year due to an election ban on new orders, though it is the preferred bidder for USD 1 billion in orders.

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.

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 registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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