

# Ellerston Asia Growth Fund (Hedge Fund)

Monthly Report as at 31 January 2025

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.) <sup>^^</sup>
Net <sup>^</sup>	-0.3%	3.6%	9.3%	31.4%	14.4%
Benchmark*	-0.1%	2.2%	7.1%	23.8%	11.0%
Alpha	-0.2%	1.4%	2.2%	7.6%	3.4%

<sup>^</sup> 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.

<sup>^^</sup> 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

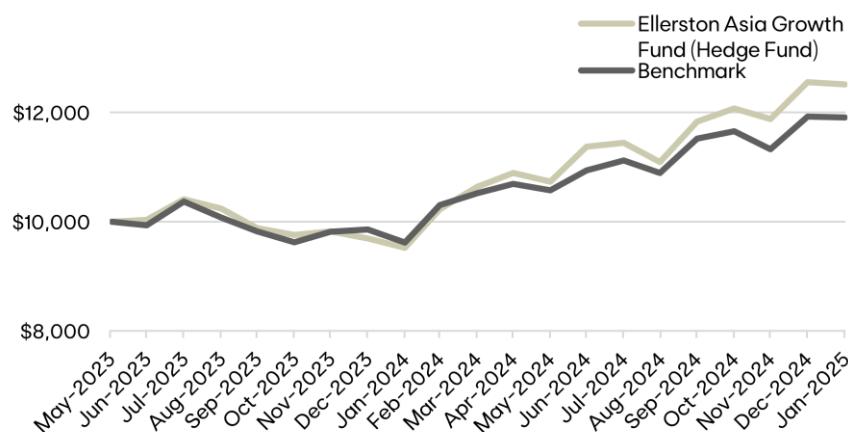
Investment Objective	To outperform the Benchmark on a net of fees basis, with a focus on capital growth and downside protection.
Benchmark	MSCI Asia Ex Japan (non-accumulation) Index in AUD.
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	45
Minimum Investment for Applications Direct with Unit Registry <sup>1</sup>	Initial investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.75% p.a.
Performance Fee <sup>2</sup>	10%
Buy/Sell Spread <sup>3</sup>	0.25% / 0.25%
Unit Prices	Application - \$7.3961 Net Asset Value - \$7.3777 Redemption - \$7.3593
Fund Size	\$ 36,493,449

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

<sup>2</sup> Of the investment return above the Benchmark after recovering any underperformance in past periods.

<sup>3</sup> Applicable only to investors buying and selling directly with the manager.

## Growth of \$10,000 Investment

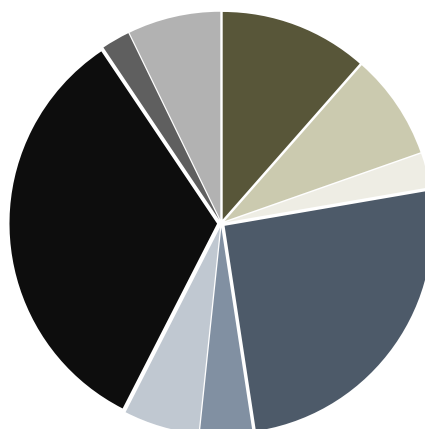


Fund Performance shown is net of fees, assuming all distributions are reinvested.

Past performance is not a reliable indication of future performance.

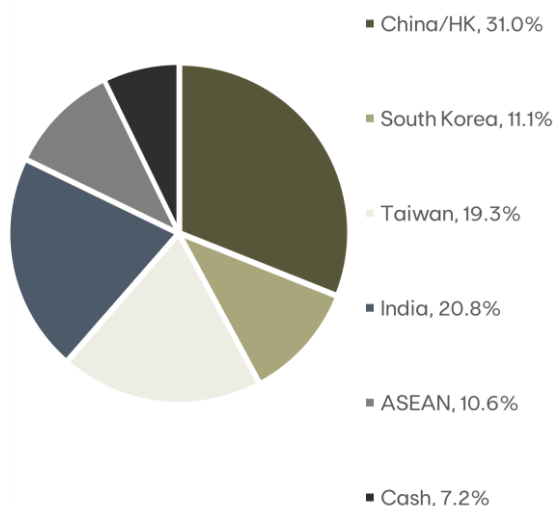
Source: Ellerston Capital.

## Sector Allocation



- Communication Services 11.5%
- Consumer Discretionary 8.1%
- Consumer Staples 2.7%
- Financials 25.3%
- Health Care 4.1%
- Industrials 5.9%
- Information Technology 33.1%
- Real Estate 2.2%
- Cash 7.2%

## Geographic Allocation



Source: Ellerston Capital.

## Top Holdings

Company	Sector	Portfolio Weight	Benchmark Weight
Taiwan Semiconductor Manufacturing Co., Ltd.	Information Technology	14.4%	12.5%
Tencent Holdings Ltd.	Communication Services	3.8%	4.9%
DiDi Global Inc. Sponsored ADR Class A	Industrials	3.0%	0.0%
Xiaomi Corp. Class B	Information Technology	2.8%	1.1%
Agricultural Bank of China Limited Class H	Financials	2.7%	0.2%
MediaTek Inc	Information Technology	2.5%	1.0%
DBS Group Holdings Ltd	Financials	2.5%	1.0%
Delta Electronics, Inc.	Information Technology	2.4%	0.4%
Trip.com Group Ltd.	Consumer Discretionary	2.3%	0.6%
Singapore Telecommunications Limited	Communication Services	2.2%	0.3%

Source: Ellerston Capital.

## MARKET COMMENTARY

The Ellerston Asia Growth Fund (Hedge Fund) (EAFZ) was down -0.3% (net) in January, compared to the MSCI Asia ex Japan (non-accumulation) (AUD) (MXASJ) Index, which was down -0.1%.

## MARKET SUMMARY

In a transient rally to start the new year, the AI theme was rattled by the emergence of DeepSeek's showcased efficiency, which far exceeded market expectations. This triggered sharp sell-offs in stocks like Nvidia, dragging the US IT sector well into the red as investors began to seriously question the necessity of the ongoing AI investment boom. President Trump's pending imposition of tariffs on China, Mexico, and Canada was also front and centre for investors, coupled with the US Federal Reserve confirming its hawkish pause on rates. Yet, against this backdrop of uncertainty, global equities performed strongly, with Europe leading the charge. The MSCI World Index gained 3.5%, outperforming the MSCI Emerging Markets Index, which posted a modest increase of 1.6% in local currency terms.

Asian equity markets were caught in the tariff crosswinds, as potential US tariff hikes pose the biggest headwind for regional growth this year. These tariffs could disrupt supply chains and exports, impact corporate capital expenditures, and dampen household consumption. Volatility was further exacerbated by DeepSeek's challenge to the US frontier Large Language Models (LLMs). Chinese markets started the month on a weak note but rebounded strongly as the market began to price in a softer stance from President Trump regarding the imposition of tariffs on China. Additionally, animal spirits were ignited as the success of DeepSeek's R1 model reshaped the growth potential of Chinese technology companies. That said, tariff risks remain, and there is a possibility that the March NPC meeting could bring policy disappointment, as stabilizing economic data reduces the urgency for further stimulus compared to a few months ago. The Chinese government is also likely to wait for clarity on US tariff plans before introducing additional policy support. Taiwan and Korea started the year strong, fuelled by optimism around AI-themed stocks following the US announcement of the "Stargate" plan earlier in the month. However, this optimism was quickly reversed with the release of DeepSeek. India's equity market is showing signs of exhaustion, evidenced by the large divergence in performance between small caps, which saw a deep correction, and large caps. The MSCI India Small Cap Index fell 10.6% (INR), while the MSCI India Large Cap Index declined 1.5% (INR). For the month, all sectoral indices were in the red, with the higher-growth and more expensive segments of the market facing steeper declines. Given the uncertainty, Asian markets generally underperformed, with the Hang Seng in positive territory at +1.2%, followed by Japan's Nikkei and India's Sensex both down 0.8%. The laggard was China's SSE down 2.8%.

### DeepSeek – a true inflection point for China technology companies

DeepSeek R1 was launched this month by the Chinese hedge fund High-Flyer. The model's new reasoning techniques and purported efficiency gains in compute sent shockwaves through the AI community and, subsequently, through the prices of AI-related equities. The DeepSeek R1 model grabbed market attention as the first open-sourced reasoning model ever released, boasting high performance (matching some existing frontier models in certain outputs) and extremely low cost (high efficiency)—approximately 90% cheaper than existing models to train and run queries.

We believe the launch of DeepSeek R1 marks a true inflection point for Chinese technology companies, as it provides a fully localized technical path that is comparable to its Western peers. Chinese technology companies have long been recognized for their rapid technology adoption, and following the release of DeepSeek R1, we engaged with the technology companies in our portfolio regarding their plans for integration. To our surprise, all of them had already developed a strategy to leverage DeepSeek's open-source model, despite being on a break for Chinese New Year. This reflects the strong entrepreneurial spirit of Chinese technology companies, a trait rarely seen to this extent in other markets. The so-called "Six Little Dragons" of Hangzhou (which includes DeepSeek) showcase the deep talent pool of China's Generation Z, whose long-term structural benefits are often overlooked by the market.



*"In disruptive technology fields, tightly guarded competitive moats are not sustainable. Even OpenAI's closed-source model has not prevented other companies from catching up. Therefore, the true moat lies in the growth of talent —accumulating technical know-how and fostering a culture of innovation. Open-sourcing and publishing research papers is by no means a loss of our hard work; in fact, it is quite the opposite. For researchers, being recognized and followed by peers is an achievement in itself. Open-source is not just a business strategy—it is a culture. Contributing to the community is an honor, and it also helps attract top talent."*

Source: Liang Wenfeng (Founder, DeepSeek)

## PERFORMANCE SUMMARY

At the country level, **Taiwan** was the largest contributor to alpha, while **India** was the relative underperformer. On the sector level, **Financials** made the biggest contributions to relative performance, whereas **Consumer Discretionary** was the relative underperformer.

At a company level, **Lexinfintech**, **Navin Fluorine** and **CreditAccess Grameen** were the largest contributors to alpha, adding a combined 95 bps. Meanwhile, **Varun Beverage**, **SuneVision** and **Sona BLW Precision** detracted 68 bps from alpha during the month.

**LexinFintech** is a China-based fintech company that provides technology-driven consumer finance services, including installment loans, e-commerce, and credit risk management solutions, primarily targeting young consumers. As referenced in our December newsletter, we introduced the stock just last month, and it has already surged by 40% in January. While there is no stock-specific news, we believe the market is beginning to digest the company's turnaround story, which we previously highlighted. We remain positive on the stock as it still trades at less than 5x 2026 EPS for an expected 45% earnings growth (12-month forward). **Navin Florine** is one of the largest Indian Specialty Fluorochemicals players with significant global presence. The company reported strong results, its Q3FY25 EBITDA up 95% year-on-year and 37% quarter-on-quarter driven by higher specialty chemicals and domestic refrigerant gas sales. It also saw EBITDA margin go up to 24.3% from 20.7% in 2QFY25 and 15.1% in 3QFY24. **CreditAccess Grameen** is a high quality and largest Indian microfinance institution. It serves customers predominantly in rural areas, offering microfinance services to women from low-income households organized into Joint Liability Groups. The company has had a sharp correction in recent months and bounced back from lows after an expected weak Q3FY25 result. The operating profit was in-line and asset quality was weak but showing signs of potentially bottoming out.

**Varun Beverages** is one of the largest franchisees of PepsiCo globally, engaged in manufacturing, bottling, and distributing PepsiCo beverages across India and international markets. Its share price underperformed due to broader market weakness, competition concerns from Ambani's Campa Cola, and doubts surrounding its investment in its South African subsidiary. **SuneVision** is the largest data center operator in Hong Kong, holding a 35% market share. Its facilities are last-mile and low-latency, and the company also owns a sea cable station. While there is no stock-specific news, the share price underperformed as the market digested concerns over US chip export controls and the impact of DeepSeek. **Sona BLW** is a leading Indian manufacturer of automotive components, specializing in precision-forged and machined products. It caters to a global clientele in the automotive and industrial sectors and is a key player in the transition toward electric mobility. The stock's recent decline aligns with broader weakness in Indian small- and mid-cap stocks, with no company-specific news driving its performance.

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](mailto: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.

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### 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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or [ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au).

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