Ellerston India Fund

Ellerston Capital

Monthly Report as at 28 February 2025

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.

Strategy Performance Summary

Period	1 Month	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception^^ (p.a.)
Gross Return Before Tax+	-7.2%	-12.2%	4.3%	10.8%	11.2%	10.3%
Benchmark**	-7.7%	-12.4%	-1.8%	10.6%	12.5%	10.5%
Strategy Relative Performance	**0.5%**	**0.2%**	**6.1%**	**0.2%**	**-1.3%**	**-0.2%**

+ Strategy performance before taking into account fees, costs and applicable capital gains taxes.
*** Benchmark is MSCI India Net Return Index (AUD) and does not take into account capital gains taxes.*
^^ Inception date is 4 May 2017

Investor Performance Summary

Period	1 Month	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception^^ (p.a.)
Net Return After Tax^	-7.2%	-12.3%	-0.4%	7.9%	8.4%	8.1%
Benchmark**	-7.7%	-12.4%	-1.8%	10.6%	12.5%	10.5%
Investor Relative Performance	**0.5%**	**0.1%**	**1.4%**	**-2.7%**	**-4.1%**	**-2.4%**

^Fund return is calculated after taking into account management fees and expenses as well as capital gains taxes on unrealised gains/losses. This return is based on the NAV calculation and reflects the return received by investors in the Fund.
*** Benchmark is MSCI India Net Return Index (AUD) and does not take into account capital gains taxes.*
^^ Inception date is 4 May 2017

Key Information

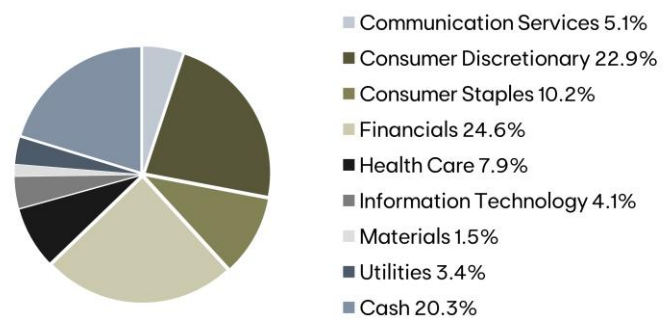
Investment Objective	To outperform the Benchmark on a net of fees and tax basis, with a focus on capital growth and downside protection.
Benchmark	MSCI India Net Return Index (AUD)
Liquidity	Daily
Target Number of Holdings	20-50
Number of Holdings at Month End	22
Minimum Investment	Initial investment - $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 –$1.0167 Net Asset Value – $1.0142 Redemption – $1.0117

[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
HDFC Bank	Financials	10.4%
Bajaj Finserv	Financials	7.7%
Axis Bank	Financials	6.6%
Mahindra & Mahindra	Consumer Discretionary	5.3%
Bharti Hexacom	Communication Services	5.1%
Hero Motocorp	Consumer Discretionary	4.6%
Titan Company	Consumer Discretionary	4.4%
GAIL (India)	Utilities	3.4%
Dabur India	Consumer Staples	3.0%
Britannia Industries	Consumer Staples	3.0%

Source: Ellerston Capital

COMMENTARY

The Ellerston India Fund (EIF) was down 7.2% (net) in February versus the MSCI India Index (MXIN) which was down 7.7% in AUD terms. In INR terms, the MXIN was down 7.0%, while the MSCI India Mid Cap Index and the MSCI India Small Cap Index experienced higher levels of drawdowns, correcting by 10% and 12% respectively. Year to date, the MXIN is down 9% while the Mid and Small Cap index are down 16% and 21% respectively (in INR terms).

Overall, the MXIN has corrected by ~15% from its September 2024 peak as it digests two quarters of weak corporate earnings and more than 5 months of continuous Foreign Institutional Investor (FII) selling. In early March, the market corrected further, pulling back by ~20% from its September peak. We believe the market is oversold and that the domestic and global macroeconomic concerns have now been priced-in, with some signs of structural improvements in the economy. Furthermore, only 12% of NIFTY500 index stocks are trading above their respective 200 Day Moving Average (DMAs), which has historically been a strong indicator of market bottoms.

FIIs continued their sharp sell down of Indian equities with an increasing tilt towards US and European equities. FIIs have also been selectively increasing exposure to Chinese equities, with renewed optimism apparent in the region. Outflow was further accentuated by global worries on tariffs and trade wars. In Feb, FIIs sold to the tune of USD$6.4bn in the secondary market. Since 30 Sep-24, FIIs have sold ~USD$36bn in the secondary market. Domestic Institutional Investors (DIIs) remained net buyers to the tune of USD$7.5bn in Feb. Recently, the market has been worried about strength of retail inflows in a falling market. However, domestic inflow continued across Large, Mid and Small cap funds (which saw close to ~USD$3bn worth of inflows), particularly in monthly Systematic Investment Plans (SIPs) which have been very resilient in Feb.

There were some positive signals emerging at the horizon for the Indian equity market. Firstly, India's real GDP growth rose to 6.2% year-on-year in 3QFY25 (Dec-24) from 5.6% in 2QFY25. This was in-line with street expectations. The improvement was driven by a pickup in private and government consumption, along with improvement in the agriculture and services sector.

Secondly, India saw its first rate cut in 5 years. In Feb, the Reserve Bank of India (RBI) reduced rates by 25 bps. The minutes of the meeting were dovish, with a clear focus on growth concerns amidst uncertainty. We expect two more rate cuts of 25bps each in April and June this year. RBI is also reversing the tightening measures of last year. It has initiated open market operation (OMO) auctions to purchase government securities worth USD$12bn in two tranches on March 12 and March 18. Additionally, a USD/INR buy-sell swap auction for $10 billion with a tenor of 36 months is scheduled for March 24. These measures will inject significant liquidity in the banking system. Also, the new RBI governor's is keen to reduce the regulatory overhangs. The RBI has reversed the 25pp increase in risk weights for banks lending to Non-Banking Financial Company (NBFCs), which was introduced earlier in Nov-23 with effect from 1 Apr-25. Furthermore, the risk weights for banks' Micro Finance Institution (MFI) exposures have been reduced to 100% (vs. 125% previously). This could lead to 10-25bp decrease in borrowing costs for these lenders.

Thirdly, the Government has come out with a pro-consumption budget to boost the economy. The Indian government presented its Union budget on 1 Feb-25, significantly reducing income tax across slabs, leading to tax relief for urban households equaling ~0.3% of GDP. This implies higher disposable income for ~13mn consumers. On the other hand, the central government stuck to its fiscal consolidation path (targeted fiscal deficit at 4.4% of GDP from the revised estimate 4.8% of GDP in FY25) by keeping CAPEX flat (focus is on execution).

Finally, India's high frequency indicators are starting to see some signs of recovery in Feb. Feb GST collections were up 13% year-on-year (versus 12.3% in Jan-25, 7.3% in Dec-24, 8.5% in Nov-24 and 8.9% in Oct-24). January industrial production (IIP) accelerated to 5.0% (versus 4.0% street expectations and 3.2% in Dec-24) led by higher growth in the manufacturing sector. Further, headline CPI fell 65bps to 3.61% year-on-year in Feb, nearing to its post-Covid lows. The decline is led by a 185bp fall in Food & Bev inflation (3.8%). At the other end, non-Food credit growth in Feb was stable at 11.4%, and still not showing signs of uptick. Also seen across 2-Wheeler registrations being down 6% y-o-y and Passenger Vehicle registrations being down 11% y-o-y.

Portfolio Performance

Turning to portfolio performance, our underweight exposures to Financials and Industrials were the key contributors to alpha. Conversely, our overweight exposure to Consumer Discretionary and underweight exposure to Materials were the main detractors for the month.

At the company level, Bajaj Finserv, Axis Bank, and not owning Tata Consultancy Services (TCS) were the largest contributors to relative performance. On the other hand, Sonata Software, Mahindra & Mahindra (M&M) and Syrma SGS were the main detractors.

Bajaj Finserv is the holding company of the largest NBFC (Bajaj Finance) which is benefiting from the RBI actions mentioned above, along with an improved outlook for its lending book. It had also reported above consensus Q3FY25 results at the end of January. Axis Bank had a very sharp correction at the end of January, post the Q3FY25 results where it reported muted loan and deposit growth levels, along with slight softness in its asset quality versus peers. We bought post the correction as Axis is a quality lending franchise and had become significantly cheap on valuations as it further it benefits from the macro backdrop of improving liquidity. TCS and the overall Indian IT services sector is highly dependent on the US large corporate and BFSI sectors. In February, markets were had a cautious view over the Indian IT Services sector, looking for potential risks to IT budgets given the macro uncertainty related to tariffs and trade wars, along with the US Governments' drive for efficiency, targeting reduced government spending and related cuts in consultant budgets.

Sonata Software reported weak Q3FY25 results as one of their large clients ramped-down operations, leading to decreased revenues and margins. This impacted is expected to play out over Q3&Q4FY25. It was further impacted by overall investors' concerns on the IT services Sector. M&M announced significant investments up to USD$500mn in the rights issues of its subsidiaries—Mahindra & Mahindra Financial Services Limited (MMFSL) and Mahindra Lifespace Developers Limited (MLDL), raising capital allocation concerns. Furthermore, markets were worried that M&M could see increased competition in its EV passenger car segment with the entry of Tesla. Syrma SGS had a sharp run-up at the end of January after a very strong Q3FY25 results. It reported EBITDA growth of 104% YoY which was 40% above street estimates. In February, the stock saw some profit booking given the weakness seen in peers and in the Small Cap Index.

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

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Find out more:

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All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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