APIR Code: ECL1411AU

Ellerston Asia Growth Fund

Monthly Newsletter, March 2022

Investment Objective

To outperform the MSCI Asia Ex Japan (non-accumulation) (AUD) benchmark on a net of fees basis, with a focus on capital growth and downside protection.

Investment Strategy

The Fund's investment strategy is to provide access to a high quality portfolio of primarily large cap Asian Companies using the Manager's distinctively high growth, high conviction and benchmark independent investment approach.

The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that offer the best risk/reward.

Key Information

Strategy Inception ^^	4 January 2017
Portfolio Manager	Fredy Hoh
Application Price	$0.8869
Net Asset Value	$0.8847
Redemption Price	$0.8825
Liquidity	Daily
No Stocks	31
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception^^ (p.a.)
Net^	-6.72%	-11.72%	-13.53%	-16.69%	0.87%	1.46%	5.27%
Benchmark*	-6.20%	-11.14%	-13.02%	-14.93%	2.66%	1.08%	5.83%
Alpha	-0.51%	-0.57%	-0.51%	-1.77%	-1.79%	0.38%	-0.56%

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
* MSCI Asia ex Japan (non-accumulation) (AUD)

Commentary

Ellerston Asia Growth Fund (EAGF) was down 6.72% (net) in March versus the MSCI Asia ex Japan Index which was down 6.20%.

March 2022 was of the most volatile months for Asian markets in recent memory driven primarily by geopolitical and COVID related concerns in China.

China Fears

During the month, Chinese ADR stocks were sold off heavily after the US Securities and Exchange Commission (SEC) began enforcing the Holding Foreign Companies Accountable Act (HFCAA). Specifically, the SEC formally notified 11 Chinese companies listed in the US on their failure to comply with auditing requirements, which could see them forcibly delisted within 3 years if additional audit disclosures are not provided. We expect all 200+ Chinese ADR companies, including Alibaba, JD.com, PDD, Baidu and Netease to eventually be notified by the SEC over this matter. Given foreigners are major shareholders of Chinese ADR companies, delisting could force many of these investors to offload their shares. Even for companies that are dual-listed in both the US and HK, delisting could still see selling from foreign investors that are either unable or unwilling to hold HK-listed shares. The prospects of US-listed Chinese stocks being 'cancelled' and the subsequent liquidity event was a primary trigger for the worst three day decline in the Hang Seng Index since 2011. We think it is important to highlight that the exchange on which a company is listed does not affect the underlying fundamentals of a company. EAGF has always focused on the bottom-up fundamentals because we see ourselves as part owners of companies. All of the dual-listed Chinese companies that we own are profitable, have good earnings growth and solid balance sheets and generate significant free cash flows. We used the sell-off in March as an opportunity to selectively add to our core holdings in China/HK.

On COVID, the spread of the Omicron variant has forced over 20 cities across China notably Shenzhen, Dongguan, Jilin and Shanghai into some form of localised lockdown. This unfortunately will again result in near term economic and supply chain impacts. We had initially expected this round of lockdowns to be shorter in duration given Jilin and Shenzhen were cleared within 7 days. The Shanghai lockdown however has so far lasted over two weeks.

The latest wave of COVID will necessitate more fiscal and monetary stimulus in order to meet China's 5.5% GDP growth target for this year. Indeed during the month, Premier Li Keqiang and Vice Premier Liu He announced a number of measures and commitments to support the economy and financial markets. As such, we expect targeted rate cuts and fiscal measures such as rebates/subsidies and increased investments to be announced in the coming weeks. This should be supportive for Chinese equities and we continue to have a large portion of our portfolio allocated to China/HK.

Portfolio Performance Summary

India and Singapore were the largest contributors to alpha during the month. Whilst, Taiwan and South Korea were the largest detractors. At a sector level, Energy and Materials were the biggest contributors to performance. Meanwhile, Consumer Staples and Consumer Discretionary were the worst performers.

At a company level, Reliance Industries and JSW Steel were the main alpha generators for the portfolio. The positive performances from Reliance and JSW Steel were driven by rising refining margins and steel prices respectively due to the impacts of the Russia/Ukraine conflict and global (ex-China) re-opening demand.

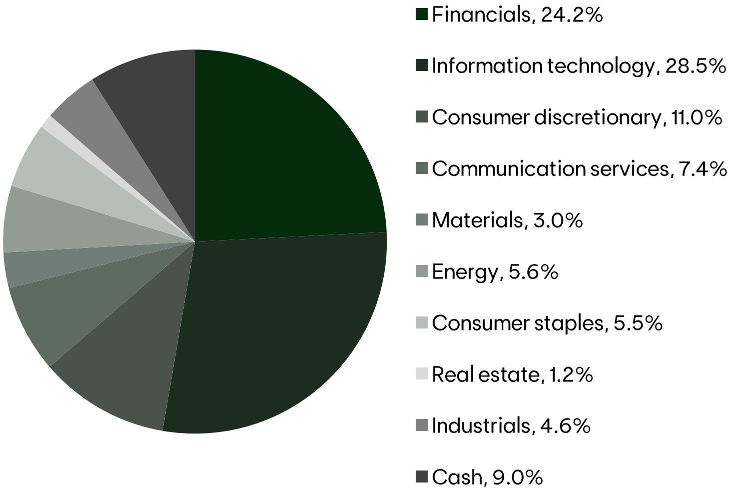
Mengniu Dairy and Mediatek were the biggest drags on performance. Mengniu's share price weakness was driven by the possible impact of rising animal feed prices on the cost of raw milk, which is a key input for the company's dairy products. Late in the month however, Mengniu management reaffirmed its 2022 guidance for 'low double digit' revenue growth and 30-50bps of operating margin expansion. The weakness in Mediatek's share price was due to concerns over potential order cuts from Chinese smartphone customers and increased competition from Qualcomm. Chinese smartphone sales have indeed been weak in 2022 (-23% YoY YTD) due to the recent resurgence of COVID and high base effect (1Q21 smartphone sales was +100% YoY). We however expect some normalization in China smartphone sales once the latest COVID wave is contained. Meanwhile, any step up in the competitive intensity of the mobile SoC space will likely prove temporary given Qualcomm and Mediatek both use TSMC as their primary foundry. As such, neither company has a cost advantage. Qualcomm will therefore need to abandon its margin expansion strategy in order to compete more aggressively with Mediatek. Mediatek currently trades on 10x forward PE, with low teens earnings growth and free cash flow yield of ~10%. So we believe these concerns have largely been discounted in the share price.

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

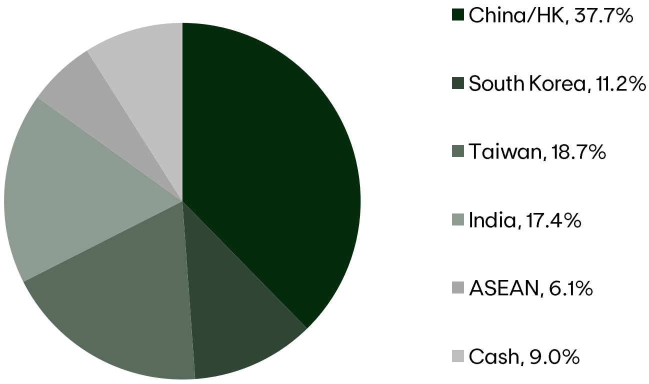
PORTFOLIO CHARACTERISTICS

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

TOP 10 HOLDINGS

Company	Sector	Weight
TSMC	Taiwan	11.16%
Samsung Electronics Co.	Korea	7.57%
Tencent Holdings	China	5.81%
Reliance Industries	India	5.62%
DBS Group Holdings	Singapore	4.59%
AIA Group Limited	Hong Kong	4.03%
Alibaba Group Holding Ltd.	China	3.81%
China Mengniu Dairy Co. Ltd.	China	3.26%
ICICI Bank Limited	India	3.12%
MediaTek Inc.	Taiwan	2.89%

Contact Us

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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, Link Market Services on **1800 992 149** or **ellerston@linkmarketservices.com.au**

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