Ellerston Asia Growth Fund

Monthly Newsletter, September 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	$0.7828
Net Asset Value	$0.7808
Redemption Price	$0.7788
Liquidity	Daily
No Stocks	33
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^	-5.73%	-9.22%	-11.74%	-23.68%	-10.13%	-2.90%	2.55%
Benchmark*	-7.17%	-8.63%	-10.04%	-21.76%	-6.57%	-1.78%	3.39%
Alpha	1.44%	-0.59%	-1.70%	-1.93%	-3.56%	-1.11%	-0.84%

^ 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 5.7% (net) in September versus the MSCI Asia ex Japan (MXASJ) Index which was down 7.2%.

Global equity markets were sold off heavily during the month as higher-than-expected inflation in the US and a more hawkish US Federal Funds rate 'dot plot' exacerbated global recession concerns. Asia was not spared with exporting countries such as Taiwan and Korea faring relatively worse.

Financial markets continue to be driven overwhelmingly by the macro outlook and data. The macro backdrop is currently the inverse of goldilocks with most major economies fighting high inflation, rising interest rates, and the prospects of a significant economic slowdown. Even in China, where we recently turned positive, the macro environment is being negatively impacted by the ongoing zero-COVID policy. In this environment, we believe a selective and patient approach to investing is required. The EAGF portfolio is currently skewed towards quality companies trading at reasonable valuations (portfolio PEG ratio of <1x) that we want to own through the cycle. Cash as at the end of September was 10.5%, which we will selectively deploy if opportunities arise amidst the volatility.

China Musings

Whilst all Asian markets were down during September, the China on-shore index (CSI300) performed relatively more resiliently driven by support from domestic funds and also a number of positive policy announcements.

On the fiscal front, policymakers rolled out additional measures to support both the supply and demand sides of the property sector. The measures such as the mandate for State-Owned Enterprise (SOE) banks to provide RMB600bn of net financing by the end of 2022, the establishment of a RMB200bn real estate relief fund, reduction of down payment restrictions, and removal of purchase/resale restrictions are aimed at ensuring the completion of stalled projects and to restore buyer sentiment. Meanwhile, policymakers also announced an extension to current tax exemptions for electric vehicle (EV) purchases until the end of 2023. It should be noted that since the Beidaihe meeting in August, the amount of fiscal and monetary stimulus measures that have been announced have increased significantly and equated to ~1.8% of GDP. This bodes well for the growth outlook in the coming months, as long as policy follow-through and implementation is prioritized.

There were also incrementally positive developments on the COVID front with Hong Kong removing hotel quarantine restrictions, which we believe is a key step in restoring the city's competitiveness as a regional financial hub. Meanwhile, Macau resumed e-Visa issuances and will allow tour groups from mainland China by the end of the year. We view both cities as potential pilot programs for the Chinese government to assess how to effectively manage a reopening on the mainland. Further, the development of domestic mRNA vaccines was given a boost in late September with the Walvax/Abogen vaccine approved for emergency use in Indonesia. We believe an effective indigenous mRNA based vaccine is another important pre-condition to facilitate a China reopening.

Investor attention in the coming month will be on the 20th National Party Congress starting on October 16. This meeting will have important ramifications for China's economic outlook for the next 5 years. Whilst we expect Xi to be elected for another term, personnel changes within the Politburo and the Standing Committee will provide read-throughs on the potential policy direction. We believe the appointment of more progressive politicians into the Standing Committee is necessary to give balance to the policy-setting process. In particular, a progressive replacement for outgoing Premier Li Keqiang could help facilitate more open and supportive economic and market reforms. As for the overarching policy priorities coming out of Congress, focus areas of the past couple of years such as common prosperity, green energy, self-sufficiency, and manufacturing upgrading are likely to be reiterated. Whilst the policy focus may not change materially, we believe the conclusion of the Congress should allow President Xi to focus more on managing the country with an economic rather than a political agenda. This could drive better economic policy coordination and implementation, which would help to support growth heading into 2023. We remain overweight China given the easing policy environment, signs that earnings downgrades have bottomed out, cheap valuations and low investor sentiment towards the region.

Portfolio Performance Summary

China and Korea were the largest contributors to alpha during the month. Whilst, India and Hong Kong were the largest detractors. At a sector level, Financials was the biggest contributor to relative performance. Meanwhile, Consumer Discretionary and Materials were the worst performers.

At a company level, DBS, Bank of Mandiri, and Moutai were the biggest contributors to relative performance during the month. South East Asian financials were well supported by optimism around the post-pandemic economic rebound across the region. Moutai meanwhile performed resiliently amidst the broader market weakness given its defensive earnings growth driven by industry leadership, brand strength, and healthy supply/demand dynamics.

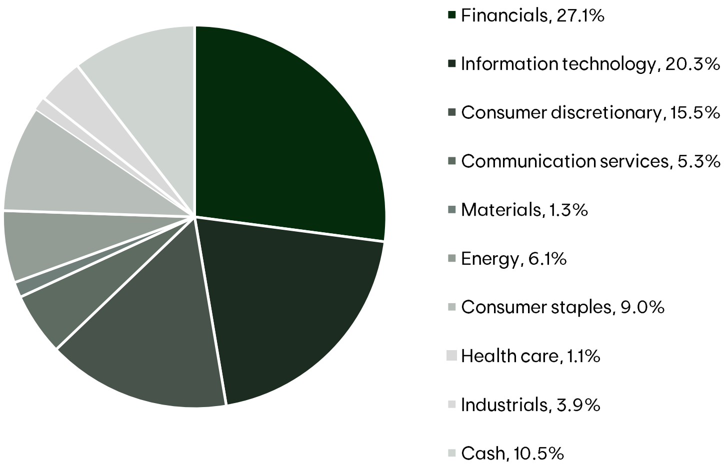
JD.com and BYD were the biggest drags on alpha. The weakness in JD.com shares reflects concerns over the impact of recent COVID-related disruptions on consumption demand. Meanwhile, BYD's share price continued to be impacted by the liquidity overhang created by the sell-down of Berkshire Hathaway (BYD's largest shareholder) in late August/early September. However as written in last month's commentary, we remain positive on the business outlook for BYD with earnings forecast to double over the next two years due to strong demand for its mass-market electric vehicles as well as outsourcing opportunities for its EV batteries. In the near term, the company has 4 months of order backlog and has exhibited commendable pricing power by increasing prices for its vehicles multiple times this year.

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 Manager

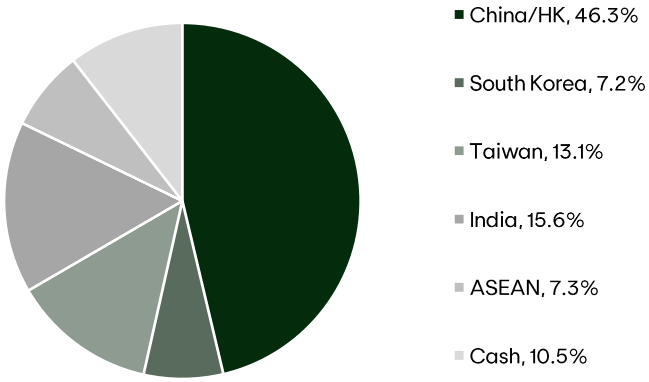
PORTFOLIO CHARACTERISTICS

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

TOP 10 HOLDINGS

Company	Country	Weight
TSMC	Taiwan	8.8%
Reliance Industries	India	6.1%
Samsung	Korea	5.5%
Tencent Holdings	China	5.3%
Alibaba Group	China	4.5%
AIA Group	Hong Kong	4.4%
DBS Group	Singapore	4.4%
China Mengniu Dairy	China	4.2%
ICICI Bank	India	4.0%
Kweichow Moutai	China	3.4%

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**

Please refer to details on page one; 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 register, Link Market Services on **1800 992 149** or **ellerston@linkmarketservices.com.au**

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