APIR Code: ECL0339AU

Ellerston India Fund

Monthly Newsletter, June 2023

Investment Objective

To outperform the MSCI India Net Return Index (AUD) with a focus on risk management and capital preservation.

Investment Strategy

The Fund's investment strategy is to construct a concentrated portfolio with exposure to Indian companies using the Manager's high growth, high conviction, benchmark independent investment approach. The Fund has identified a number of core thematics that will drive returns in the Indian market in the medium term. The focus is on investing in Indian companies that benefit from these fundamental drivers.

Key Information

Strategy Inception^^	4-May-17
Portfolio Manager	Fredy Hoh
Application Price	$1.2719
Net Asset Value	$1.2687
Redemption Price	$1.2655
Liquidity	Daily
No Stocks	28
Management Fee	1.10% p.a.
Performance Fee**	15.00%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	$10,000
Minimum Additional Investment	$5,000
Distribution Frequency	Half Yearly (i.e. June & December)

**** Of the investment return above the benchmark, after recovering any underperformance in past periods**

Performance Summary

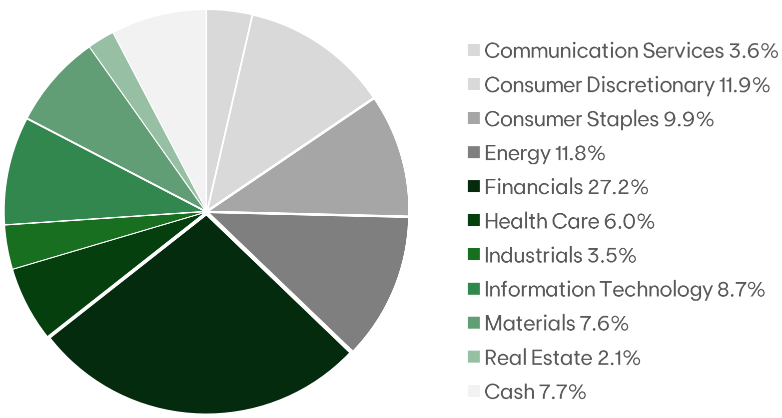
Period	Gross+	Net Before Tax*	MSCI India Net Pre Tax	Net After Tax^
1 Month	2.2%	2.1%	1.8%	1.4%
6 Month	7.7%	7.1%	7.1%	6.4%
1 Year	18.1%	16.8%	17.9%	15.0%
3 Years (cumulative)	60.5%	55.5%	75.8%	48.5%
Since Inception^^ (cumulative)	75.8%	63.4%	80.5%	57.6%
Since Inception^^ (p.a.)	9.6%	8.3%	10.0%	7.7%

^ The net return figure is calculated after fees, expenses and taxes. Past performance is not a reliable indication of future performance.
+References to the gross fee and pre-tax contribution to the total Net After Tax and Fee return.
*Net return figure is calculated after fees and expenses.
All returns shown in AUD

Portfolio Characteristics

Company	Sector	Portfolio Weight
Reliance Industries Limited	Energy	11.8%
ICICI Bank Limited	Financials	8.6%
Housing Development Finance Corporation Limited	Financials	6.4%
Infosys Limited	Information Technology	6.2%
Maruti Suzuki India Limited	Consumer Discretionary	4.3%
Hindustan Unilever Limited	Consumer Staples	4.2%
Varun Beverages Limited	Consumer Staples	3.8%
Bharti Airtel Limited	Communication Services	3.6%
HDFC Bank Limited	Financials	3.1%
Max Healthcare Institute Ltd	Health Care	3.1%

Sector Allocation



Source: Ellerston Capital

Commentary

The Ellerston India Fund (EIF) was up 1.4% (net) in June versus the MSCI India Net Return Index (AUD) which was up 1.8%.

The Indian market continued to grind higher, driven by strong foreign inflows and robust economic data. Indeed, foreign institutional investors (FII) were net buyers of another US$8bn of equities in June. Over the past three months, FIIs have poured US$15bn of liquidity into the Indian market, which is the strongest quarter of inflows in 3 years.

On the economic front, high frequency indicators such as PMI (59.4 in June), credit growth (+14% YoY in June) and vehicle registrations (+10% YoY in June) remain healthy. Meanwhile, India's current account deficit (CAD) narrowed significantly to 0.2% of GDP in 4QFY23. This is the lowest in 2 years and was helped by an improved trade balance and positive servicehhhhs exports. Finally, the latest inflation reading came in at 4.8% and comfortably within the Reserve Bank of India's (RBI) 2-6% target range. This should allow the RBI to keep rates on hold at 6.5% for the foreseeable future. A more benign inflation outlook and interest rate stability provides a less volatile backdrop for investors into India.

Another positive development during the month was the decision by the Indian government to hike the Minimum Support Prices (MSP) for Kharif crops (monsoon or autumn crops) by 7.8% YoY for FY24. This MSP hike was the second highest increase since FY14 and the largest in 5 years. An increase in the MSP is likely to improve rural demand for autos, industrials (piping), materials (cement) and the consumer staples categories. We see this policy as part of Prime Minister Modi's populist agenda ahead of the general elections next year. The Government has already handed down a pro-cyclical budget for FY24 where capex was forecast to increase by 18% YoY. We expect further supportive policies to be announced in the coming months. This again should be positive for Indian equities.

We remain cautiously optimistic on the Indian market in the near term with a forward PE of 20x, backed up by forecast earnings growth of ~19%. The EIF portfolio is currently skewed towards financials, consumer, healthcare and industrial sectors which provide exposure to India's domestic demand and infrastructure buildout stories. The portfolio is also holding ~8% cash, providing dry powder to take advantage of opportunities in case of a pull back.

Portfolio Performance

Turning to June performance, Consumer Discretionary and IT were the key alpha contributors. Meanwhile, Consumer Staples and Materials were the key detractor for the month.

At company level, Max Healthcare, EPL and Tata Motors were the key alpha contributors. Max Healthcare's share price continued to benefit from positive momentum following its strong 4QFY23 result where EBITDA grew 45% YoY. Meanwhile, EPL saw buying activity ahead of its 1QFY24 results where pricing uplifts, volume growth and softening raw material prices are expected to drive a potential earnings beat. Finally, Tata Motors is benefitting from pent up demand for new vehicles following two years of supply chain disruptions. This is helping the Jaguar Land Rover (JLR) division, where sales were up 29% YoY in 1QFY24. The company's domestic business continues to perform well with volumes up ~8% YoY in 1QFY24. We believe the solid data for JLR and the domestic business could lead to a positive surprise in FCF and earnings at the upcoming result.

Varun Beverages, SRF and ICICI Bank were the key detractors. Varun Beverages saw some profit taking during the month after a ~28% rally in the share price since the start of 2023. However, we expect Varun to report a solid set of numbers at its June quarter results driven by seasonally strong sales, market share gains (particularly in the energy drinks segment), and lower raw materials costs. SRF has been impacted by the globally weaker agricultural chemicals demand cycle. Further, expectations are building for a weaker quarter due to lower refrigerant gas pricing and subdued packaging film margins. We however see these headwinds as transitory and believe structural tailwinds from the "China + 1" thematic in the specialty chemicals sector, and SRF's industry leading positions in flourachemicals and refrigerants, to drive consistent double digit earnings growth. Finally, ICICI Bank saw some selling pressure as investors rotated into HDFC Bank, mid-cap banks, and other NBFCs.

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

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

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

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