



ELLERSTON INDIA

July 2019

Ashok Jacob – Chairman

Chris Hall – Chief Investment Officer

Dedicated Asia Team

Mary Manning
Portfolio
Manager (19)



- PhD in Economics from University of Sydney, MBA from Harvard Business School
- Previously at Oaktree Capital, Soros, Citigroup
- Macro, portfolio construction and management
- Sector coverage is Financials

Fredy Hoh
Deputy Portfolio
Manager (12)



- Masters of Accounting from UNSW, Bachelor of Economics from University of Sydney
- Previously at BAML, Macquarie Capital, E&Y
- Deputy Portfolio Manager responsibilities, including risk management
- Sector coverage is Materials

Eric Fong
Analyst (10)



- CFA, MSc Finance, London School of Economics, Bachelor of Commerce from UNSW
- Previously at BAML, Deutsche Bank, JPM
- Sector coverage is Health Care and Consumer

Global Equities team

Australian Equities team

Venture Capital/
Private Equity team

Middle Office, Risk Team and Legal and Compliance functions



ELLERSTON INDIA

Investment Philosophy and Process

“ASIA IS THE BEST STRUCTURAL GROWTH STORY IN THE WORLD AND INDIA IS THE BEST GROWTH STORY IN ASIA. WE SEEK OUT HIGH QUALITY COMPANIES THAT PROVIDE SUSTAINABLE GROWTH THAT COMPOUNDS OVER TIME.” *Mary Manning, Portfolio Manager*

Macro

- Without macro support, company growth is typically not sustainable
- India has country specific macro issues that impact growth and returns
- Capital rotates across regions and sectors based on macroeconomics

Stock selection

- Highly liquid, world-class companies are accessible in India
- Deep dive analysis provides understanding of long-term stock potential
- There is no substitute for being your own best analyst

Thematics

- Well-defined, long-term structural themes underpin sector development
- Rich seams of opportunity emerge and wane as themes play out

Portfolio

- Success is achievable by the unfettered stock and sector selection
- Growth and returns must always be considered in context of potential risk

Investment process overview

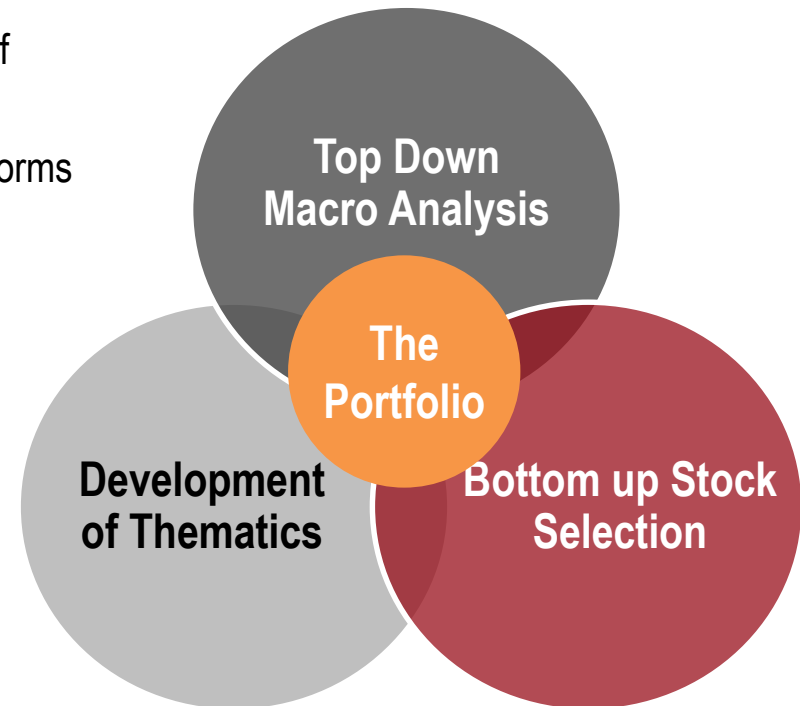
STRUCTURED, REPEATABLE LAYERING OF PERSPECTIVES

There are three bedrocks to the Ellerston India Investment Process

- **Top Down Macro Analysis:** Extensive modelling and analysis of macro economic dynamics.
- **Development of thematic:** Encourages lateral thinking and informs sector selection.
- **Bottom-up stock selection:** Uses well-established filters and identifies a focus list of companies for deep dive analysis.

Fully flexible portfolio construction, with no minimum allocation to any sector or stock, results in a concentrated portfolio of **high growth, high quality Indian companies.**

Investment process



UNDERSTANDING MARKET DRIVERS IS CRITICAL IN INDIA

- Analyse macroeconomic indicators of 12 main Asian countries including India
- Apply complementary analytics tools that are continuously improved and honed
- Consistent, repeated analysis determines appropriate level of cash
- Underpins bottom-up research efforts and sector allocation

The analytics tools

- **Macro scorecard:** 20 long term indicators distilled for scoring and ranking India versus other countries in Asia
- **FICC* indicators:** informs the market backdrop with respect to interest rates, currencies and commodities
- **Relative strength indices:** uses technical analysis to indicate overbought/oversold markets
- **ESG:** monitors governance and social issues by flagging political risk, corruption indices and regime changes

* FICC = Fixed Income, Currency and Commodities

Investment process: Top down macro analysis

MACRO SCORECARD

- Each major country in Asia, including India, is scored on a scale of -1 to +1: +1 (good/green), 0 (neutral/white), -1 (negative/red).
- Country scores are then ranked from best to worst and displayed in a heat map.
- Relative positioning of India informs cash levels. Individual metrics inform sector allocation.

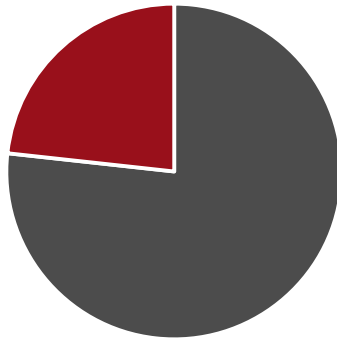
	Growth				Toolbox		Consumption				Business Environment		Banking System			Currency			Political Risk		Total Score
	GDP Growth	Chg in Growth	Structural	Cyclical	Monetary	Fiscal	Demographic Profile	Cons. Confdnce	HH Debt to GDP	Growth in Retail Sales	Manuf. PMI	Annual Patents Filed	System NPL	Credit Growth	Bank Capital	Current Account	Cost of Hedging	Currency Volatility	Quality of Leadership	Election Cycle	
India	1	0	1	1	1	0	1	1	1	1	0	0	1	1	-1	-1	-1	0	1	1	9
China	1	0	1	0	1	1	1	0	0	0	0	1	-1	0	0	0	0	1	1	1	8
Indonesia	1	1	1	1	1	0	1	0	1	0	1	0	0	1	1	-1	-1	-1	0	0	7
Philippines	1	0	1	0	0	0	1	0	1	1	0	0	1	1	1	-1	0	0	-1	0	6
Singapore	0	-1	0	0	1	0	0	0	0	0	0	0	1	0	1	0	1	0	1	0	4
Taiwan	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	1	0	0	3
Malaysia	1	0	1	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	-1	0	3
Thailand	1	0	1	1	0	0	1	1	-1	0	0	0	-1	-1	0	0	0	0	0	-1	1
Korea	0	0	0	0	1	0	0	0	-1	0	-1	1	0	0	0	0	0	0	0	0	0
HK	0	0	0	-1	-1	0	0	0	-1	0	0	0	0	0	0	0	0	1	-1	-1	-4

Investment process: Top down macro analysis

INDIA IS PRIMARILY A DOMESTIC DEMAND ECONOMY

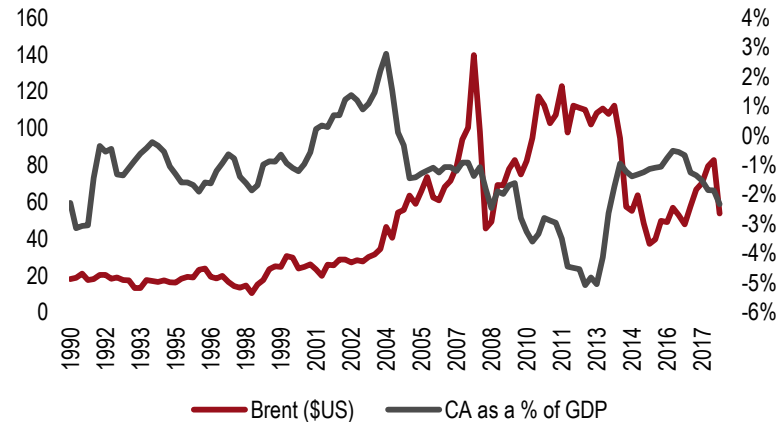
- The vast majority of our portfolio is focused on domestic demand companies in India.
- Inflation, interest rates, twin deficits, the oil price and the currency are critical macro indicators for India.

% of Portfolio Revenues Generated Domestically

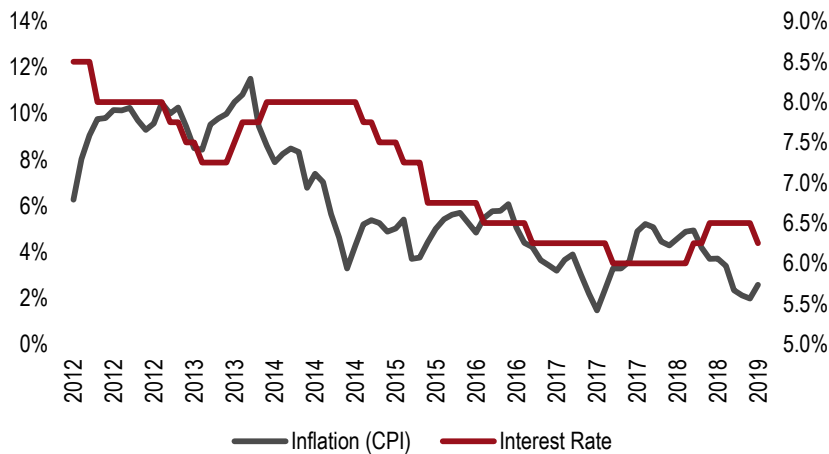


■ Domestically Generated Revenue (77%) ■ Externally Generated Revenue (23%)

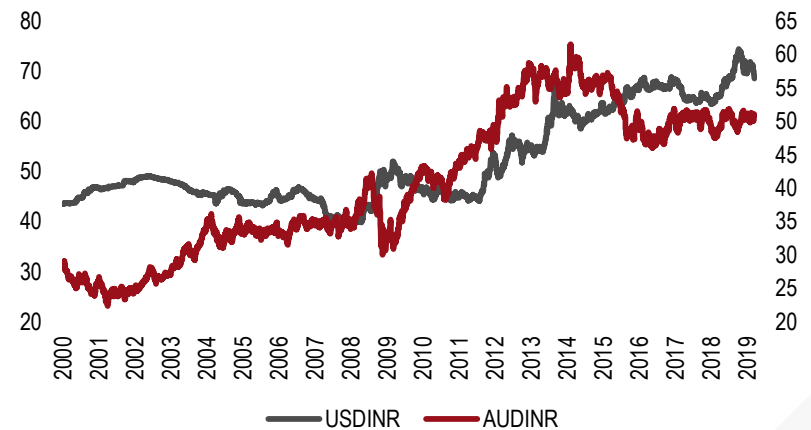
Current Account Deficit & Oil



Inflation & Interest Rates



Indian Rupee




Investment process: Development of thematic

THEMATICS DEVELOP OUR IDEAS INTO INVESTABLE OPPORTUNITIES

- Three key thematic cut across our thinking to focus on ripest areas for long term growth
 - Directs research along industry specific lines
 - Encourages us to examine specific timeframes for realisation

Key thematic

The Rise of the Indian Consumer




Hindustan Unilever Limited

JUBILANT FOODWORKS TITAN

MARUTI SUZUKI

Bajaj Finance

Structural Reform in India




LARSEN & TOUBRO

Ambuja Cement

BRITANNIA
Eat Healthy. Think Better

ICICI Bank

Technological Disruption in India



Reliance Industries Limited Tech Mahindra

INFO EDGE

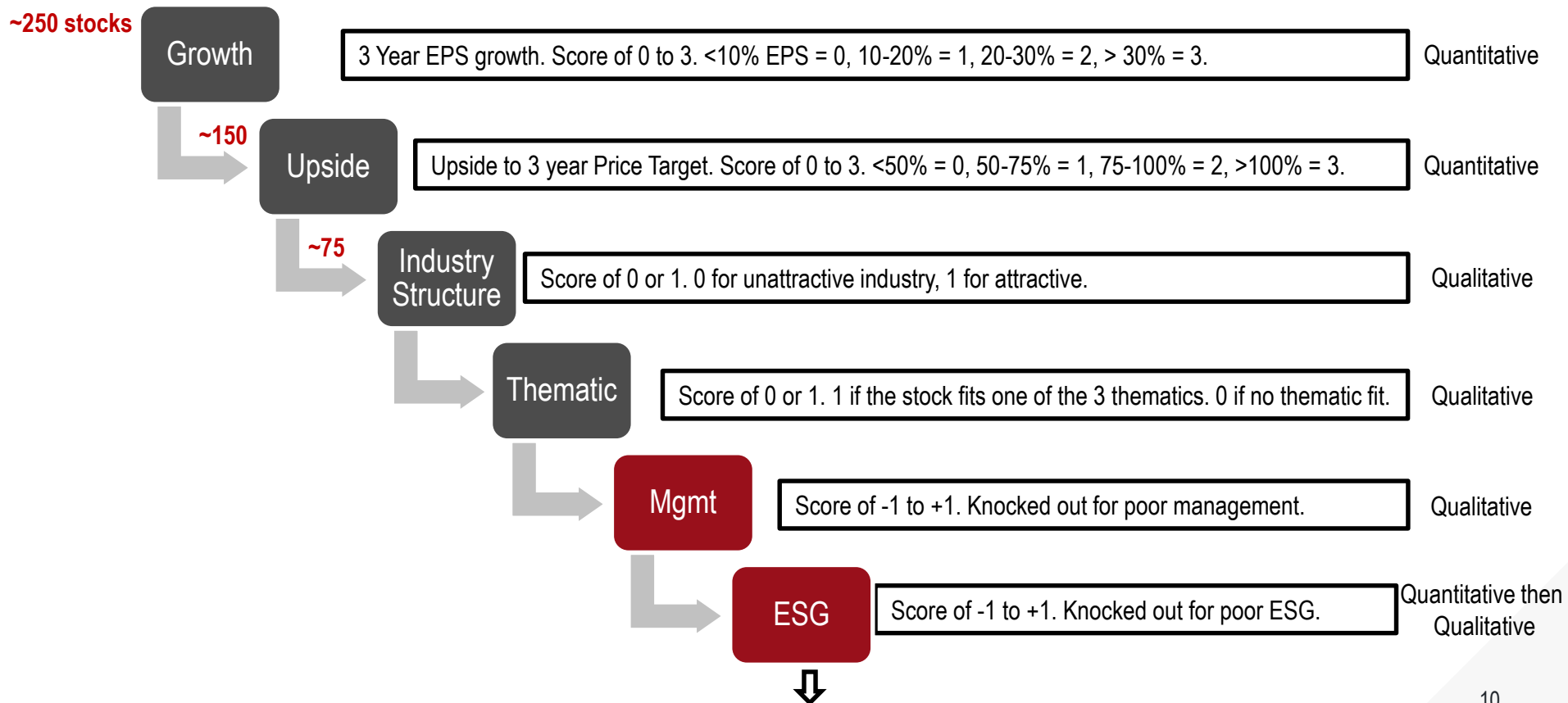
Infosys

TATA
TATA CONSULTANCY SERVICES

Investment process: Bottom up stock selection

CONVICTION SCORECARD REDUCES INVESTMENT UNIVERSE TO A FOCUS LIST OF STOCKS

- Our Conviction Scorecard is a series of quantitative filters, qualitative assessments and knock outs. Stocks must have a score of 5 or greater to be considered for the portfolio.
- There are ~250 stocks in the universe. ~150 jump the growth hurdle, ~75 jump the growth and upside hurdles. The other assessments and knock outs further filter the universe to a Focus List of ~50 stocks.



FOCUS LIST OF ~50 STOCKS FOR DEEP DIVE FUNDAMENTAL ANALYSIS

Investment process: Bottom up stock selection

RIGOROUS FUNDAMENTAL ANALYSIS OF CANDIDATES SELECTED FROM THE FOCUS LIST

- Deep Dive Analysis is comprised of the following components:

Deep Dive Analysis	Comment
Detailed stock write up	Standardised stock write ups for new positions covering each aspect of the Scorecard. Presented at weekly meeting for discussion by the team.
Valuation	Valuation metrics used are sector specific. P/E metrics are typically used for consumer and technology sectors. P/B, Gordon Growth Model (GGM) and P/E for financials. Sum of the Parts (SOTP) for conglomerates or business with unlisted subs. PEG ratio overlay for entire portfolio (target ~1x PEG).
Financial model review	Weekly meetings to go over new or existing models and ensure that the forecasts and valuations are accurate. Constantly reviewing investment thesis.
Company contact	Spend roughly 1/3 of the year on the ground in Asia as a team. All team members on the ground in India. Over 250 company contact points in India since 2015 and ~150 since inception of EIF.
360 degree triangle	Triangulate discussions within a company (multiple different contact points, if possible). 360 degree analysis looks at competitors, customers, suppliers, JV partners and we try to experience the product/service ourselves.

Investment process: ESG

DETAILED ESG ANALYSIS EMBEDDED IN THE INVESTMENT PROCESS

- We have a unique multi-step approach to ESG that is embedded in the investment process.
- Our team motto of “be your own best analyst” applies to ESG as well. As such, our ESG analytics is primarily DIY and is not outsourced.
- Our time on the ground in India means we have timely, first hand views of ESG for Indian companies. Third party ESG research providers often have views that are outdated, static and distant.
- Voting on AGM resolutions and ESG alerts ensures ongoing monitoring of portfolio company ESG.
- Our aim is for Ellerston India to have best in class ESG for our own fund.

ESG Knock Out Screens

ESG screens for first round knock outs.

Conviction Scorecard

ESG score embedded in conviction scorecard.

Ellerston ESG Matrix

ESG matrix rating performance and materiality.

Ongoing Monitoring

Voting and flags for ongoing monitoring of ESG.

Macro ESG Analysis

Transparency International and political risk monitoring.

POSITION WEIGHTING CONSIDERATIONS

- Position weighting strategy a function of multiple factors as shown below.

Level of Conviction	Investment History	Growth, Value, Earnings	Beta	Size & Liquidity	Top Down Macro Analysis
Outcome of deep dive analysis.	How long have we known this company?	Bias for structural growth over cyclical growth. Target portfolio PEG of ~1x. Earnings risk.	Smaller position sizes for very high beta stocks.	Market caps >\$1b. Bias for more liquid stocks.	Macro outlook, political risk/return analysis and market liquidity.

- Position sizes range from 1% to 10% or +5% of benchmark weight (whichever is higher). Position sizing generally falls into 3 broad baskets:

~1-3%	~3-5%	~5% or above
<ul style="list-style-type: none"> High growth but with some cyclical or volatile growth characteristics. High beta. Less liquid. 	<ul style="list-style-type: none"> Standing relationship with company. Structural growth story. Reasonable liquidity. 	<ul style="list-style-type: none"> Long standing relationship with company. Structural growth story. Mega cap for India. Need >5% position to convey conviction given high weights in the benchmark.

Investment process: Portfolio construction

POSITION WEIGHTING EXAMPLES

- The following table shows examples of positions in the various buckets and the rationale for their portfolio weights.

~1-3%		~3-5%		~5% or above	
11 stocks; 29% of portfolio*		7 stocks; 21% of portfolio*		6 stocks; 48% of portfolio*	
Stock (% weight)	Comment	Stock (% weight)	Comment	Stock (% weight)	Comment
Jubilant Foodworks	Size, value	Axis Bank	History, growth, value, liquidity	Reliance	Size and liquidity, growth, value
Britannia	History, value	L&T	History, growth, value, liquidity	HDFC	History, size and liquidity
Hindalco	Growth, value	ICICI Bank	History, growth, value, liquidity	Infosys	Size and liquidity, value, macro
HDFC Bank	History, value	Maruti Suzuki	History, value, liquidity	Hindustan Unilever	Size and liquidity
Asian Paints	Growth, value	Yes Bank	History, value	TCS	Size and liquidity, value, macro
Titan	Size, value	Dr Reddy's	Value, earnings, macro	Bajaj Finance	History, growth

* Portfolio as of 27 March 2019. % of portfolio figures include cash which is why they don't add up to 100%.

Risk management and sell discipline

STRICT DISCIPLINE SEEKS TO LOCK IN GAINS AND PREVENT LOSSES

- Although risk management embedded in each level of the investment process, the team continuously monitors every position for sell indicators:

- Thesis changes
- Price target reached or surpassed
- Profit taking on accelerated price

- Ceases to meet growth criteria
- ESG or management knock out
- Stop loss process

- Implement stop-losses on every trade:

-10% triggers	A full review of the investment proposition (model review, company contact, etc).
-20% triggers	Another full review
-30% triggers	Hard stop loss

Trading

- Robust pre-trade compliance system (EZE OMS).
- Portfolio manager executes trades with back up from Deputy Portfolio manager. Long term investment horizon means trading is primarily VWAP and not expected to be a source of alpha generation.
- Post-trade monitoring includes Bloomberg portfolio risk contribution “live” on the desk and monthly risk analytics provided by Ellerston Risk Team.
- Firm wide risk monitoring independent of the India/Asia team.



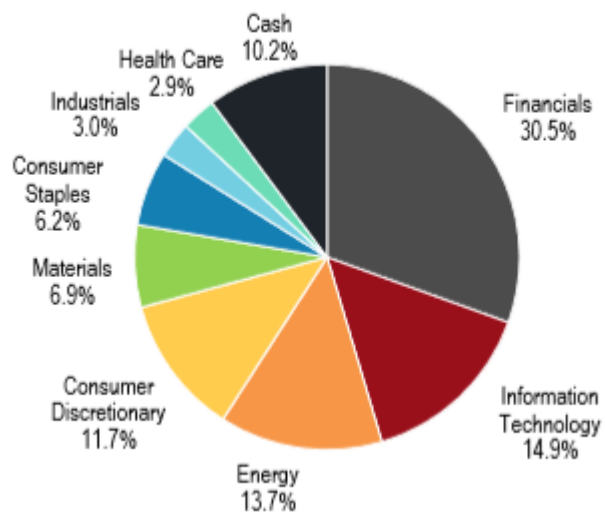
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Performance & Positioning

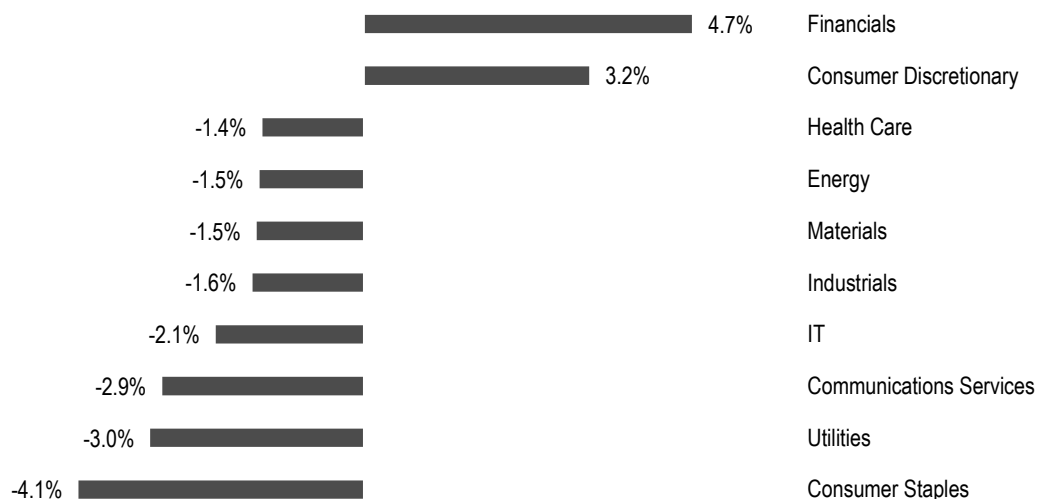
PORTFOLIO ATTRIBUTES AND POSITIONING AS AT 30 JUNE 2019

- 21 stocks in the portfolio with an average market cap is \$42 billion.
- 20% median EPS growth and 21x median PE = ~1x PEG ratio for the portfolio.
- Cash is currently high at over 10%.
- Financials, Tech and Consumer are ~64% of the portfolio. Financials are the largest OW.

Sector Allocation



Relative to Benchmark



TOP 10 HOLDINGS AS OF 30 JUNE 2019

Company	Portfolio Weight (%)	Sector
Reliance Industries	13.7%	Energy
HDFC	10.6	Financials
Infosys	7.3	Information Technology
Bajaj Finance	6.0	Financials
Axis Bank	5.6	Financials
ICICI Bank	5.4	Financials
Bajaj Finance	4.8	Financials
Maruti Suzuki	4.6	Consumer Discretionary
Hindustan Unilever	4.5	Consumer Staples
M&M	3.0	Consumer Discretionary
Total Top 10	65%	

Ellerston India Fund

ELLERSTON INDIA

HISTORICAL PERFORMANCE TO 30 JUNE 2019

%	1M	3M	6M	1 Year	2 Year (p.a.)	Since Inception (p.a.)
EIF Net	-1.58%	1.01%	7.06%	14.77%	12.19%	9.52%
Index*	-1.54%	1.73%	8.04%	13.65%	12.08%	9.38%
Alpha	-0.04%	-0.72%	-0.98%	1.12%	0.11%	0.14%

* Benchmark is MSCI India Net Index in AUD.



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ESG Appendix

Initial ESG screens

DETERMINING EARLY KNOCK OUTS

- Initial knock out screens utilise 3 external ESG rating sources plus a proprietary red flag model.
- RobecoSAM is our preferred measure due to broader coverage of stocks and more comprehensive and robust ESG scoring system.

Source	Score Range	Comment
RobecoSAM	0 (worst) – 100 (best)	Total ESG.
ISS	10 (worst) – 1 (best)	Focus on governance and shareholder rights.
Bloomberg ESG	1 (worst) – 100 (best)	Based on disclosure or ESG metrics. Not evaluative.
Ellerston Red Flag Checklist	0 (best) – 10 (worst)	Financial and accounting metrics used to identify potential governance or accounting issues.

- Ellerston India’s proprietary financial red flag model uses the metrics below.

Capex growth vs sales growth	Negative free cash flow trends	Depreciation as a % of capex	Sales growth vs EPS growth	Declining ROE
Declining DPS	Net debt growth vs sales growth	Low average tax rate	Working capital “drags”	Low Bloomberg analyst ratings

- Companies that score <30 on RobecoSAM and have more than 5 red flags on the Ellerston Red Flags are highlighted for further ESG review.
- If they are found to indeed have substandard ESG, they are given an ESG Score of -1 and screened out.

ESG matrix

ANALYSING PERFORMANCE AND MATERIALITY

- Companies for which we are doing a Deep Dive analysis are rated based on their performance and the materiality of each of the three criteria (Environment, Social, Governance).
- Within this matrix approach, if a company receives any -1 scores they are knocked out. If they score +1 on performance for a metric that is high materiality, the company gets a score of +1. This is extremely rare.
- If an ESG event occurs for a company already in the portfolio and the score moves to a -1, the stock will be removed from the portfolio and is not eligible to re-enter the portfolio until the ESG issue is resolved.
- Examples of stocks that have been removed from the portfolio for ESG reasons include Vendanta and Sun Pharma.
- We vote on all resolutions where we are assigned voting rights (523 votes since inception in May 2017).

E	Performance			
Materiality	Good	Acceptable	Poor	
High				
Medium				
Low				

S	Performance			
Materiality	Good	Acceptable	Poor	
High				
Medium				
Low				

G	Performance			
Materiality	Good	Acceptable	Poor	
High				
Medium				
Low				

ESG Outcomes

SUPERIOR ESG PORTFOLIO

- The sum of our ESG process results in a Ellerston India Fund portfolio with superior Robeco Total Sustainability Score AND fewer Red Flags that both the MSCI India Index and the ASX 200.
- With these outcomes, we are confident we have best in class ESG.

	RobecoSAM TSS (Higher is better)	Ellerston Red Flags (Lower is better)
Ellerston India Fund	45	1.9
MSCI India	32	2.5
Australia (ASX200)	42	3.1



Thank you

FOR FURTHER INFORMATION

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