



ELLERSTON ASIA

Ellerston Asian Investments

Investor Update August 2020

Performance

PERFORMANCE TO 31 JULY 2020

- July was a strong month for performance in both absolute and relative terms.
- EAI was up 5.16% during the month and outperformed the benchmark by 1.45%.
- CYTD in 2020 EAI is up 2.60% and has outperformed the benchmark by 2.78%.
- This performance is despite elevated cash levels. Cash was 16.8% as of 31 July 2020.
- The most current NTA (August 11) is \$1.22.
- At the end of June 2020, EAI had franking credits of 7.9 cents per share. This is enough to pay approximately 3 cents fully franked dividend per annum for the next 2 and a half years.

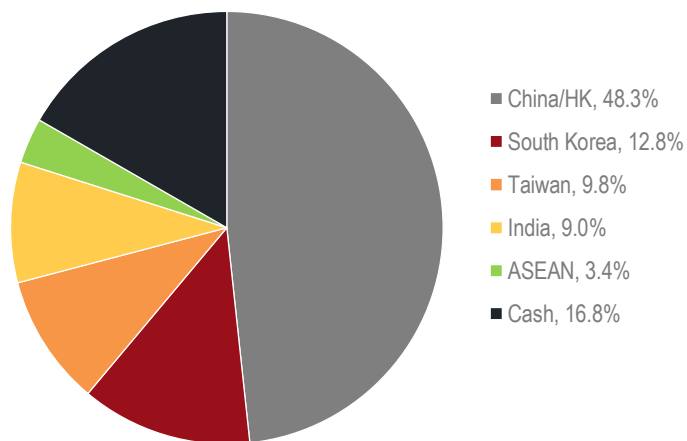
%	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
EAI Net	5.16%	7.41%	1.39%	11.20%	7.77%	7.38%
Benchmark*	3.71%	4.88%	-0.50%	5.50%	3.78%	7.40%
Alpha	1.45%	2.53%	1.88%	5.69%	3.98%	-0.02%

* Benchmark is MSCI Asia ex Japan (non-accumulation) Index in AUD. Inception is Sept 2015.

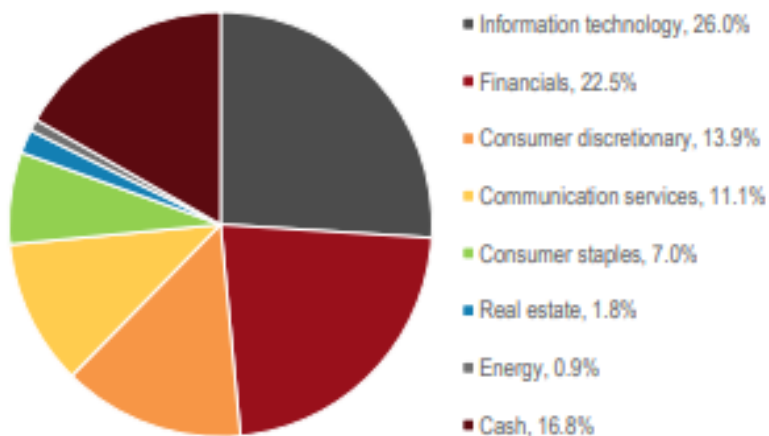
Portfolio Overview

PORTFOLIO CHARACTERISTICS AS OF 31 JULY 2020

Country Exposure



Sector Exposure



Top 10 Holdings	Portfolio Weight (%)
Alibaba	10.70%
Tencent	8.81%
Samsung Electronics	8.20%
TSMC	7.89%
Ping An Insurance	6.48%
Hong Kong Exchange	5.32%
Hindustan Unilever Limited	2.88%
China Merchants Bank Co.	2.66%
SK Hynix	2.63%
Infosys Limited	2.39%
Total	47.26%



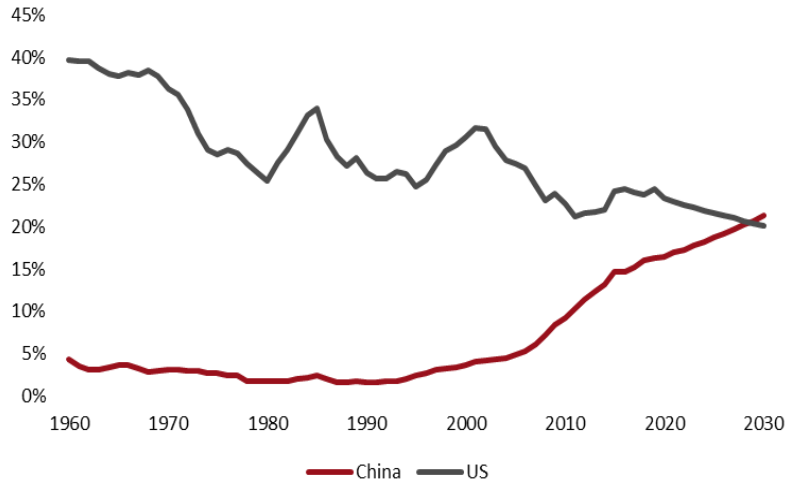
ELLERSTON ASIA

The Technology Cold War –
Is China Already Winning?

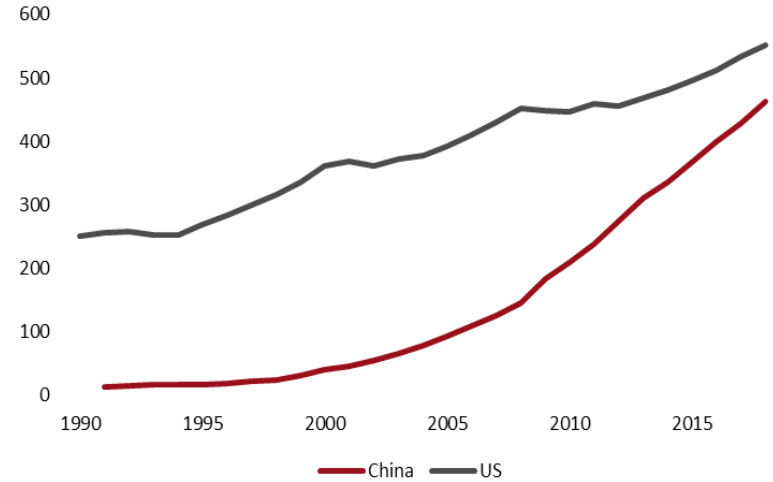
How Did We Get Here?

CHINA'S ASCENDANCE IN THE TECHNOLOGY SECTOR BEGAN DECADES AGO

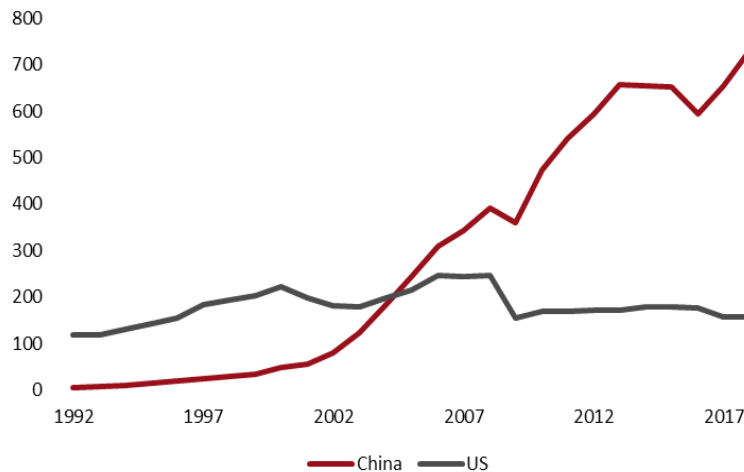
Share of World GDP (%)



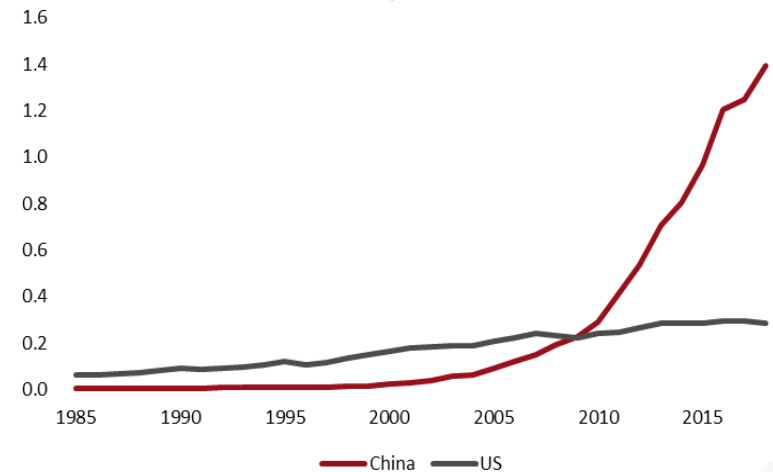
Gross Domestic Spending on R&D (US\$ bn)



High Tech Exports (US\$ bn)



Patents Filed by Residents (mm)



Where Are We Now?

CHINA IS ALREADY WINING IN KEY SECTORS AND SUBSECTORS

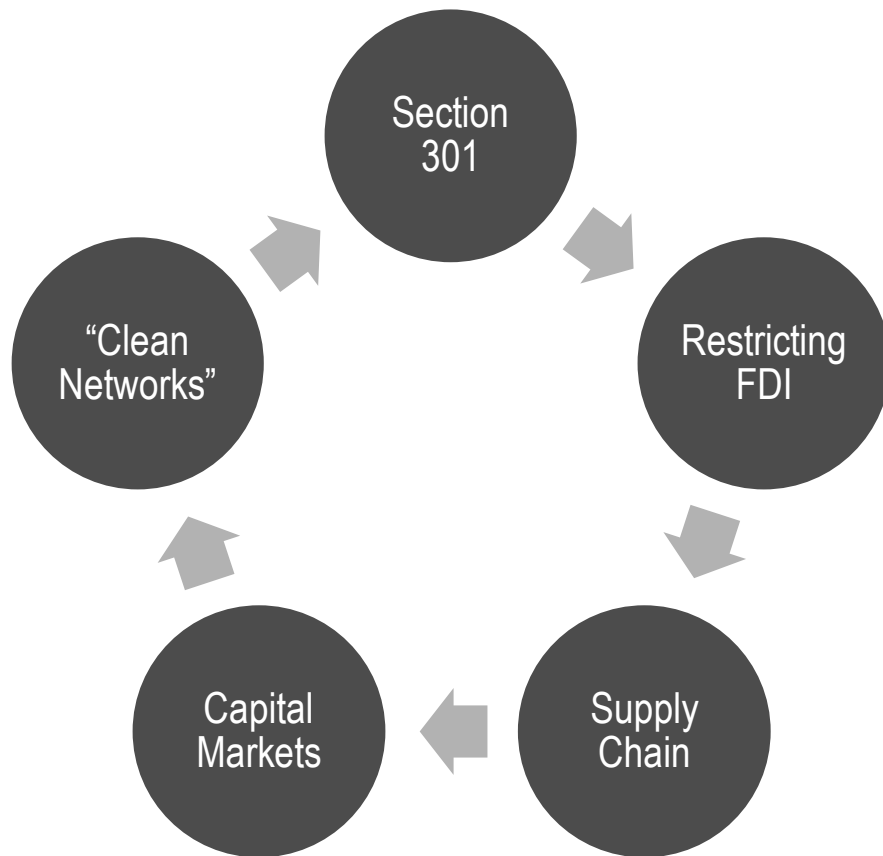
- The US still leads in legacy technologies such as semiconductors and software, but China is already ahead in advanced/emerging technologies such as e-commerce, fintech, green technology and robotics.
- The majority of the smart phone supply chain remains in Asia, making the US vulnerable to backlash on tech.

Area of tech	Who's ahead?	Who's gaining?	Comment
E-commerce	China	China	China's e-commerce GMV was US\$1.8bn in 2019 vs US e-commerce sales of US\$600bn.
Robotics	China	China	65% of the 2.4m industrial robots in operation globally are in Asia. China alone is 37% of installations.
Fintech	China	China	China recorded US\$50tn of mobile payments in 2019 vs US of US\$100bn.
Smartphones	China	China	Chinese smartphone makers have a combined 53% global market share vs Apple at 15%.
Smartphone Supply-Chain	China	China	~80% of an iPhone BOM cost is from Asian suppliers including Greater China.
Green technology (EVs)	China	China	47% of the world's EV stock is in China. BYD, BAIC and SAIC have top 5 global EV market share.
Social Media	Tied	China	Average 0.9bn MAUs (WeChat, QQ, Weibo, Douyin/TikTok) vs average 1.1bn MAUs (Facebook, Twitter, Snapchat)
AI	US	China	US is still ahead but China's explicit AI 2030 policy means that it is gaining ground fast.
Military Technology	US	US	US military spending as a % of GDP at ~3% in 2018 vs China at ~1.9%.
Cloud	US	US	China's accounts for ~2% of the US\$228bn global public cloud market. US makes up ~50%.
Semiconductors	US	China	China IC design capabilities are currently limited but rapidly improving. US firms account for 28% of global memory market share vs China at ~1%. CPU and IC markets dominated by US companies.
Software (Mobile & PC)	US	US	US firms hold 100% market share in mobile software (Android and iOS). US firms holds 96% of PC operating software.

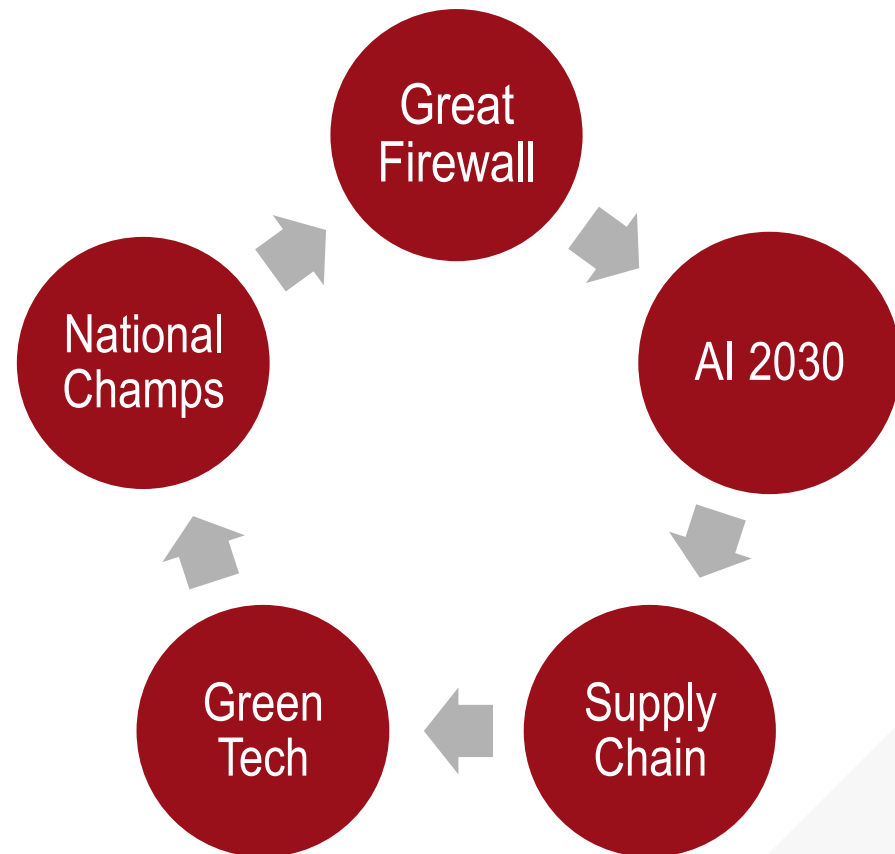
Strategies in the Technology Cold War

CHINA AND AMERICA ARE PURSUING VERY DIFFERENT STRATEGIES

America's Strategy in the Technology Cold War



China's Strategy in the Technology Cold War

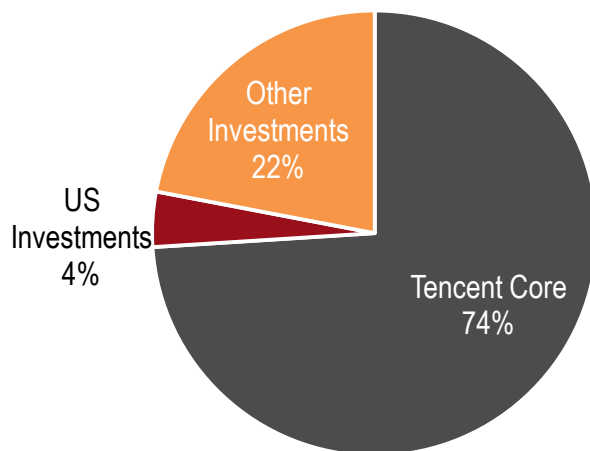


WeChat and TikTok

WHAT DO THE BANS REALLY MEAN?

- On Aug 6, President Trump issued two Executive Orders (EO) related to TikTok and WeChat, prohibiting “any transaction that is related to WeChat / ByteDance by any person, or with respect to any property, subject to the jurisdiction of the United States, with Tencent Holdings Ltd / ByteDance”, effective in 45 days.
- The biggest issues with the EO are: (1) What does “transaction” mean?; (2) Is the EO legal and was due process followed?; (3) Does the EO apply just to WeChat or other Tencent businesses and investments?; (4) Does this have potential repercussion for WeChat and Tiktok’s businesses in other geographies?; And (5) Does this have any implications for other Chinese companies with US operations like Alibaba and JD?
- Bytedance is a private company but we do have a significant position in Tencent. Tencent remains a domestically focused business with <1% of WeChat DAUs in the US, <2% revenue exposure to the US and <5% NAV related to US investments. We have slightly trimmed our position but remain OW.

Our Tencent SOTP



Stopping the rise of TikTok

Top Apps Worldwide for July 2020 by Downloads (Non-Game)



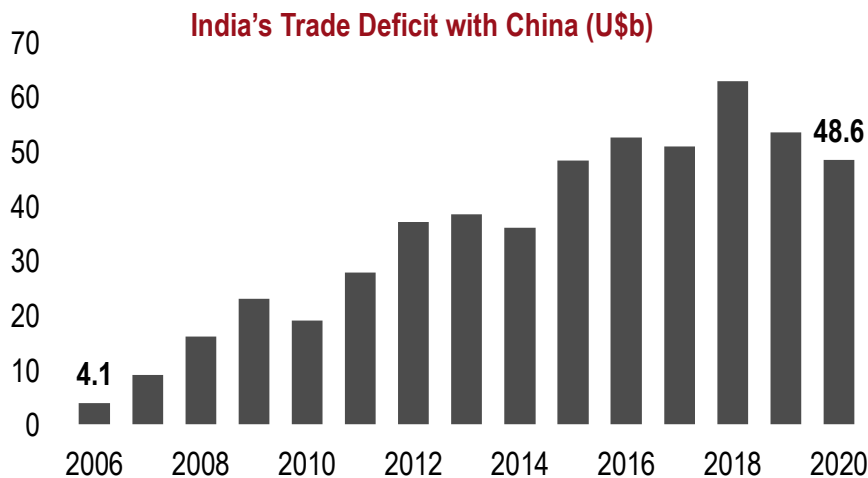
Overall Downloads	App Store Downloads	Google Play Downloads
1 TikTok	1 TikTok	1 TikTok
2 Facebook	2 YouTube	2 Facebook
3 ZOOM	3 Instagram	3 ZOOM
4 Instagram	4 ZOOM	4 WhatsApp
5 WhatsApp	5 WhatsApp	5 Instagram
6 Messenger	6 Facebook	6 Google Meet
7 Google Meet	7 Messenger	7 Messenger
8 Snack Video	8 Google Maps	8 Snack Video
9 Likee	9 Pinduoduo	9 Likee
10 Telegram	10 Gmail	10 Telegram

Note: Does not include downloads from third-party Android stores in China or other regions. TikTok includes downloads of Douyin.

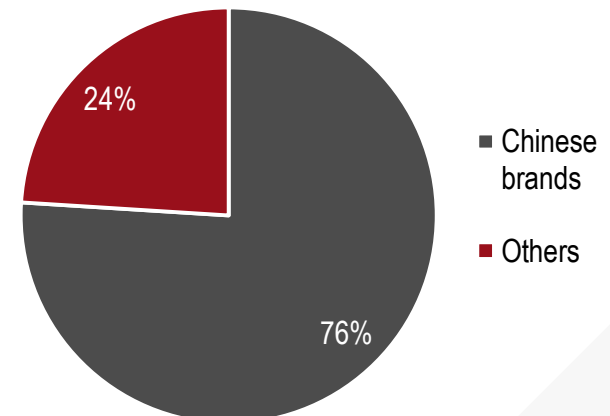
India and China in the Technology Cold War

INDIA ALREADY TAKING STEPS TO REDUCE DEPENDENCE ON CHINESE TECHNOLOGY

- India has a significant trade deficit with China at approximately \$US 49 billion This has increased 10x since the mid-2000s.
- Rising tensions were exacerbated by the border skirmish a few months ago. India has banned more than a 100 apps like TikTok and WeChat and Chinese smartphone brands have withdrawn from the sponsorship of Indian sporting events like the IPL.
- Reliance is setting its sights on the space that is currently dominated by China: 1) Jio is developing an in-house 5G network solution which it plans to sell to global providers, and 2) Jio has partnered with Google to develop low-cost Android based 5G smartphones. We continue to hold RIL in the portfolio.
- India is an alternative to China for big tech companies. Amazon, Google and FB's recent investments in India are examples.



Indian Mobile Industry – Market Share of Chinese brands

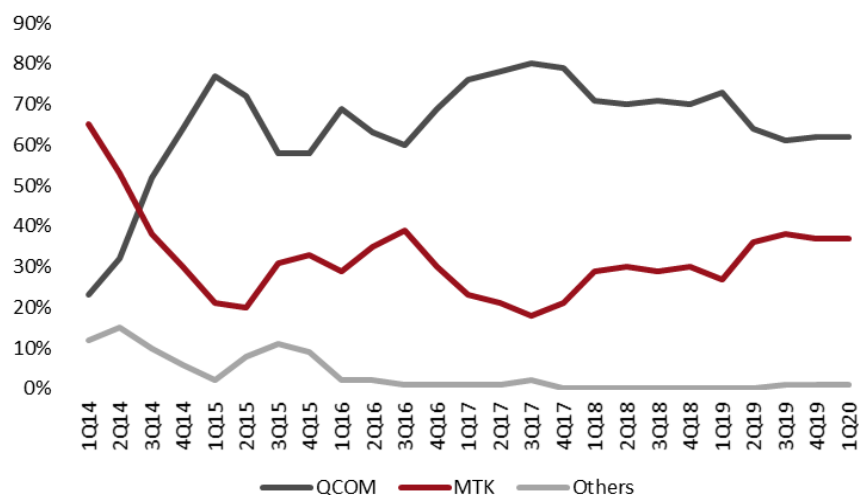


Korea and Taiwan in the Technology Cold War

BENEFICIARIES OR CAUGHT IN THE MIDDLE?

- Korean and Taiwan semiconductor companies have customers from both China and the US.
- Impact from US sanctions against Chinese tech companies such as Huawei are mixed for the technology sector.
- Positive for companies that benefit from the China's push to 'localise' its own supply chains. Mediatek is one of the biggest beneficiaries.
- Neutral for Samsung (weaker memory demand offset by potential smartphone market share gains) and TSMC (lost Huawei orders replaced by other US based customers).
- Negative for companies heavily reliant on Huawei such as King Yuan and Win Semi.

Mediatek vs Qualcomm market share at Chinese smartphone brands



Mediatek share price performance



Technology Sub-Sector Overview

HOW TO WE THINK ABOUT SUB-SECTORS WITHIN TECHNOLOGY?

- EAI has exposure to 10 of the 13 sub-sectors of tech listed below.

Sub Sector of Technology	Risk Level in Tech Arms Race	Does EAI Have Exposure?	Stock Example
E-Commerce	Low	Yes	
Robotics	Low	No	None
FinTech	Low	Yes	
Smartphones	Medium	Yes	
Smartphone Supply-Chain	High	Yes	
GreenTech (EVs)	Low	Yes	
Social Media	High	Yes	
AI	High	Yes	
Military Technology	High	No	None – ESG Screen Out
Cloud	Medium	Yes	
Semiconductors	Medium	Yes	
Software (Mobile & PC)	High	No	None
IT Services	Low	Yes	

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Thank you

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