



ELLERSTON ASIA

# Ellerston Asian Investments

Roadshow Presentation March 2020

Mary Manning – Portfolio Manager

## AGENDA

- Introduction
- Market Outlook
- Stock Discussion
- LIC Discussion
- Summary & Conclusion

## Ashok Jacob – Chairman

### Chris Hall – Chief Investment Officer

**Mary Manning**  
Portfolio  
Manager (20)



- PhD in Economics from University of Sydney, MBA from Harvard Business School.
- Previously at Oaktree Capital, Soros, Salomon Brothers.
- PM responsibilities include macro, portfolio construction and management.
- Primary sector coverage is Financials and primary country coverage is ASEAN.

**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 include risk management.
- Primary sector coverage is Technology and country coverage is Korea/Taiwan. Fluent in Mandarin.

**Eric Fong**  
Senior  
Analyst (9)



- CFA, MSc Finance from London School of Economics, Bachelor of Commerce from UNSW.
- Previously at BAML, Deutsche Bank, JPM.
- Primary sector coverage is Consumer and country coverage is China.
- Fluent in Mandarin and Cantonese.

**Vinay Chhoda**  
Analyst (10)



- CFA, Masters in Finance ICFAI and Bachelor of Commerce from University of Mumbai.
- Previously an equity analyst in Mumbai and a TMT researcher at Venture Insights in Sydney.
- Primary coverage is India.
- Fluent in Hindi and Marathi. Working knowledge of Punjabi.

### James Tayler – Head of ESG

Global Equities team

Australian Equities team

VC/Private Equity team

Middle Office/Compliance

# Introduction: Key Fund Characteristics

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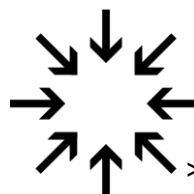
## High Growth

Strict EPS growth hurdles  
Current portfolio has 18%  
median EPS growth and ~18x median  
PE for a portfolio PEG of ~1x



## High Quality

Average ROE ~19%  
Balance sheets net cash on average  
Screen outs for management & ESG



## Concentrated

20-50 stocks  
>50% of the portfolio in Top 10 positions



## Large Cap

Average market cap ~\$160b  
Highly liquid portfolio with strong  
representation from national champions



## Strong ESG

Detailed, integrated ESG process  
Strict ESG knock outs  
ESG risk superior to benchmark



## Dedicated Asia Team

PM first worked in Asia in 1997  
Extensive Asian language capabilities  
1/3 of the year on the ground in Asia  
300+ company contact points per year

# Introduction: Performance

EAI PERFORMANCE TO 28 FEBRUARY 2020

	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
<b>EAI Net</b>	0.70%	5.53%	12.28%	15.70%	5.38%	7.93%
<b>Benchmark*</b>	0.81%	3.56%	9.54%	7.85%	2.91%	8.43%
<b>Alpha</b>	-0.11%	1.97%	2.74%	7.85%	2.47%	-0.50%

*Past performance is not a reliable indication of future performance*

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

*\*\* Inception is Sept 2015.*



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# Asian Market Outlook

# Asia Market Outlook for 2020

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## KEY DRIVERS



Coronavirus

Oil Price &  
Credit



Policy  
Response to  
Covid-19

FX



# Asian Market Outlook: Coronavirus

## CHINA PEAKED; GLOBAL STARTING

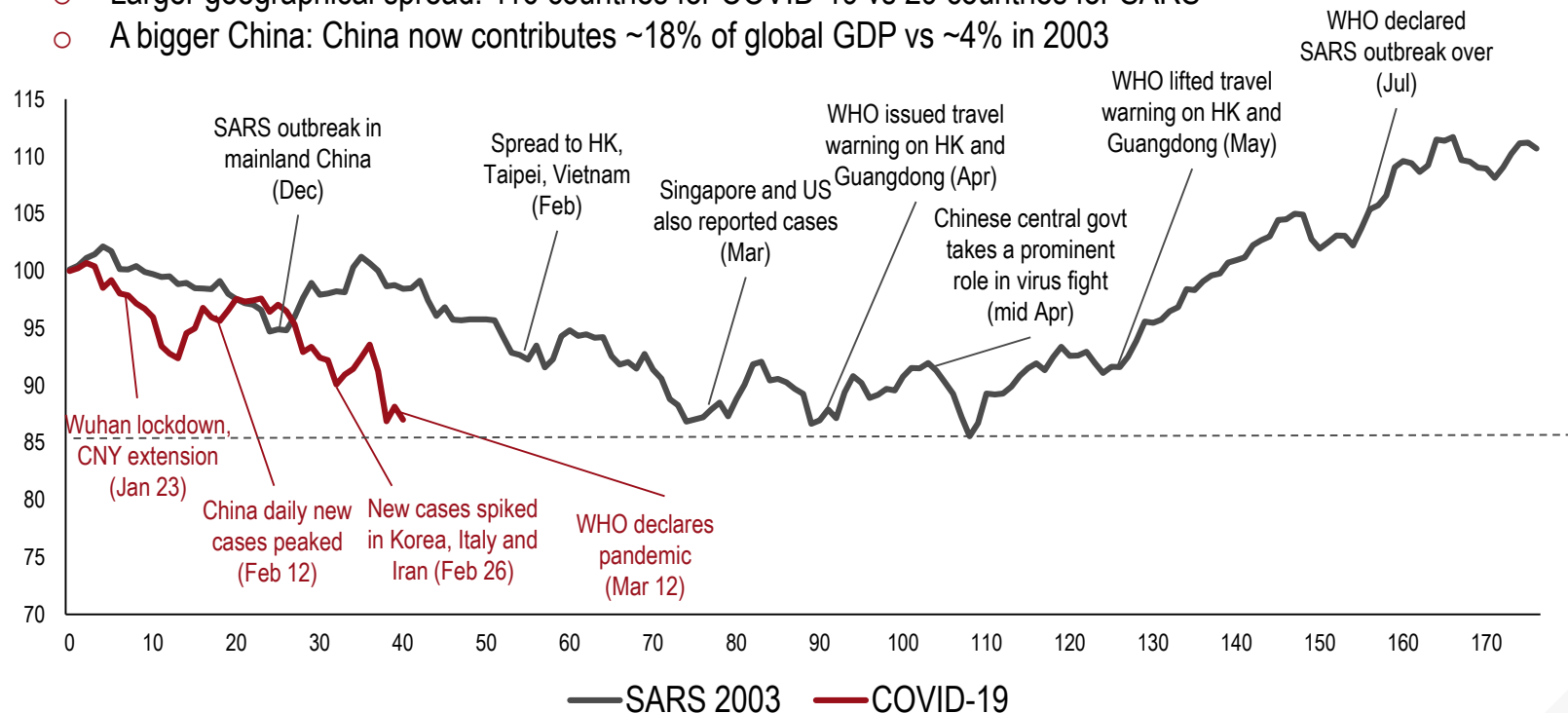
- The outbreak of the coronavirus has changed the outlook of the Chinese economy completely. Instead of a mini recovery post Phase One deal, we will now face an unexpected demand shock and a notable supply shock.
- Latest data have suggested that China is well past the peak of virus outbreak and economic activity shall normalise by end March.
- 1Q GDP growth will take a substantial hit. China Feb PMI was 35.7, lowest on record.
- 2020 is the final year of completing CCP's goal of doubling China's GDP from 2010 to 2020. China would need ~5.5% GDP growth for 2020 to achieve this important political task. We expect strong policy actions from the government.
- New emerging concern is virus outbreak outside of China. It took China 28 days to reach peak despite its extreme measures imposed on people movement. We are only at early stage of this global outbreak.
- Italy (12,462), Iran (9,000) and Korea (7,755) account for ~65% of cases outside of China.

Date	China Confirmed	Chg	China ex-Hubei Confirmed	Chg	Global ex-China Confirmed	Chg
25-Jan	1,975	688	923	365	40	15
26-Jan	2,744	769	1,321	398	57	17
27-Jan	4,515	1,771	1,801	480	64	7
28-Jan	5,974	1,459	2,420	619	87	23
29-Jan	7,711	1,737	3,125	705	105	18
30-Jan	9,692	1,981	3,886	761	118	13
31-Jan	11,791	2,099	4,638	752	153	35
1-Feb	14,380	2,589	5,306	668	173	20
2-Feb	17,205	2,825	6,028	722	183	10
3-Feb	20,438	3,233	6,916	888	188	5
4-Feb	24,324	3,886	7,646	730	212	24
5-Feb	28,018	3,694	8,353	707	227	15
6-Feb	31,161	3,143	9,049	696	265	38
7-Feb	34,546	3,385	9,593	544	317	52
8-Feb	37,198	2,652	10,098	505	343	26
9-Feb	40,171	2,973	10,540	442	361	18
10-Feb	42,638	2,467	10,910	370	457	96
11-Feb	44,653	2,015	11,287	377	476	19
12-Feb	59,804	15,151	11,598	311	523	47
13-Feb	63,851	4,047	11,865	267	538	15
14-Feb	66,492	2,641	12,086	221	595	57
15-Feb	68,500	2,008	12,251	165	685	90
16-Feb	70,548	2,048	12,366	115	780	95
17-Feb	72,436	1,888	12,447	81	896	116
18-Feb	74,185	1,749	12,503	56	1,013	117
19-Feb	74,576	391	12,545	42	1,095	82
20-Feb	75,465	889	12,803	258	1,200	105
21-Feb	76,288	823	12,834	31	1,371	171
22-Feb	76,936	648	12,852	18	1,677	306
23-Feb	77,150	214	12,863	11	1,978	301
24-Feb	77,658	508	12,872	9	2,403	425
25-Feb	78,064	406	12,877	5	2,753	350
26-Feb	78,497	433	12,901	24	3,332	579
27-Feb	78,824	327	12,910	9	4,258	926
28-Feb	79,251	427	12,914	4	5,298	1,040
29-Feb	79,824	573	12,917	3	6,762	1,464
1-Mar	80,026	202	12,923	6	8,545	1,783
2-Mar	80,151	125	12,934	11	10,283	1,738
3-Mar	80,270	119	12,938	4	12,692	2,409
4-Mar	80,409	139	12,943	5	14,852	2,160
5-Mar	80,552	143	12,960	17	17,463	2,611
6-Mar	80,651	99	12,985	25	21,226	3,763
7-Mar	80,695	44	12,988	3	25,184	3,958
8-Mar	80,735	40	12,992	4	29,133	3,949
9-Mar	80,754	19	12,994	2	32,847	3,714
10-Mar	80,778	24	13,005	11	37,344	4,497
11-Mar	80,793	15	13,012	7	44,187	6,843

# Asian Market Outlook: Coronavirus

## CASE STUDY: SARS 2003

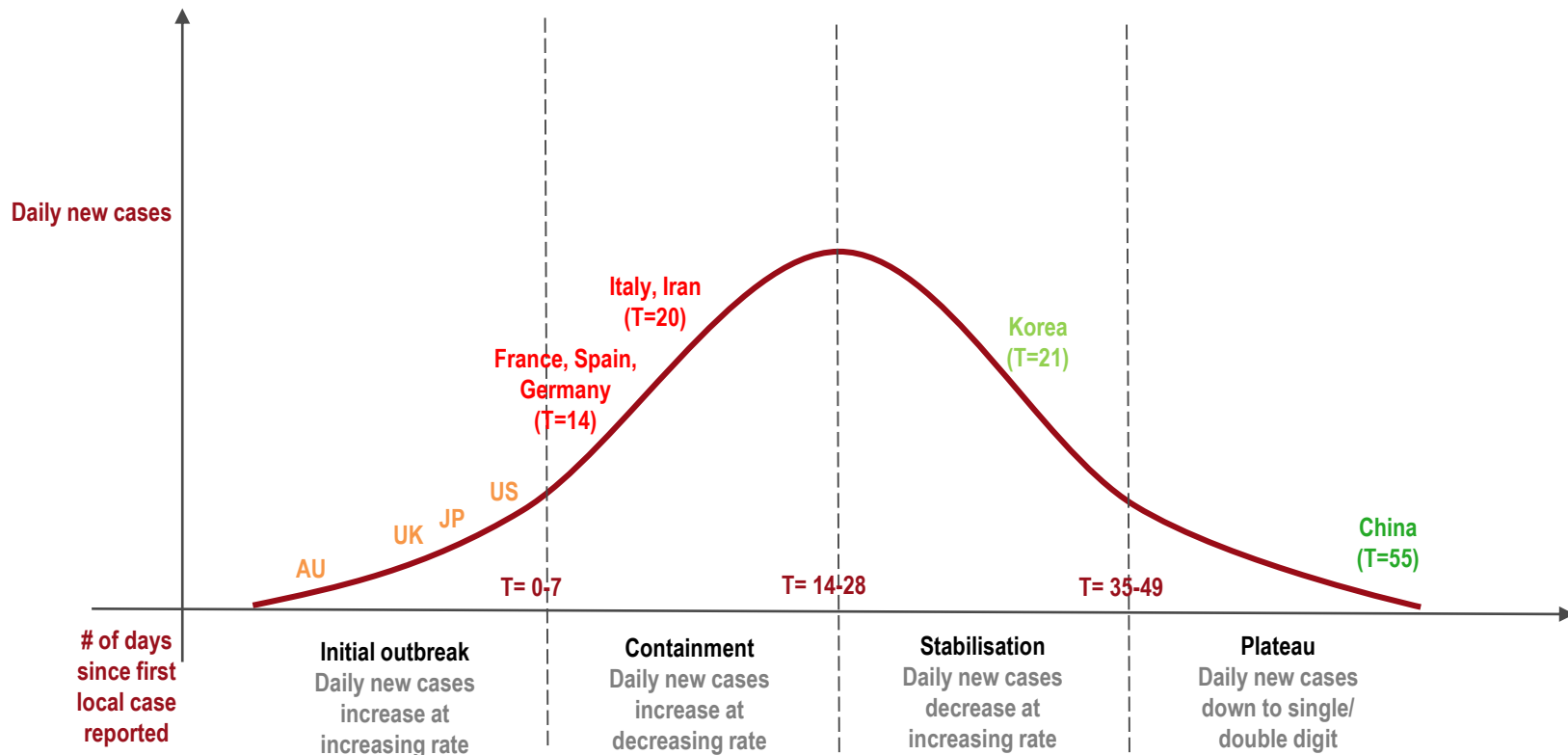
- During SARS in 2003, MSCI Asia Ex Japan fell by 15% (Nov 02 – Apr 03) before rebounding by 30% (Apr 03 – Jul 03) as the situation started to stabilise in mid April.
- It is reasonable to assume market performance during COVID-19 will take a similar trajectory. However, it might not take as long as 180 days like it was during SARS given governments around the world this time are much more responsive (i.e. travel ban, city lockdown, higher public awareness, China's central govt intervention within days).
- Important difference to note between SARS and COVID-19
  - Lower fatality rate: 3.7% for COVID-19 vs 6.6% for SARS
  - Higher transmissibility: 126,000 cases for COVID-19 vs ~8,000 cases for SARS
  - Larger geographical spread: 116 countries for COVID-19 vs 29 countries for SARS
  - A bigger China: China now contributes ~18% of global GDP vs ~4% in 2003



# Asian Market Outlook: Coronavirus

## CHINA BECOMES THE NEW SAFE HAVEN

- China has now effectively contained the outbreak, with ex-Hubei cases averaging single digit for the past 2 weeks. Wuhan the epicentre is also well under controlled given Xi's visit on March 11 (his first time since the outbreak). It took China ~28 days to reach the peak and ~50 days to reach double digit daily new cases.
- Korea, with its proactive measures in testing and travel bans, has been able to reach the peak in 14 days.
- Rest of world, especially Europe, is in trouble given the difficulty in restricting people movement. With Italy (12k confirmed cases) now in lockdown, France (2.2k), Spain (2.2k) and Germany (1.9k) are the next areas of concern. Cases in the US (1.1k) are also ramping up.

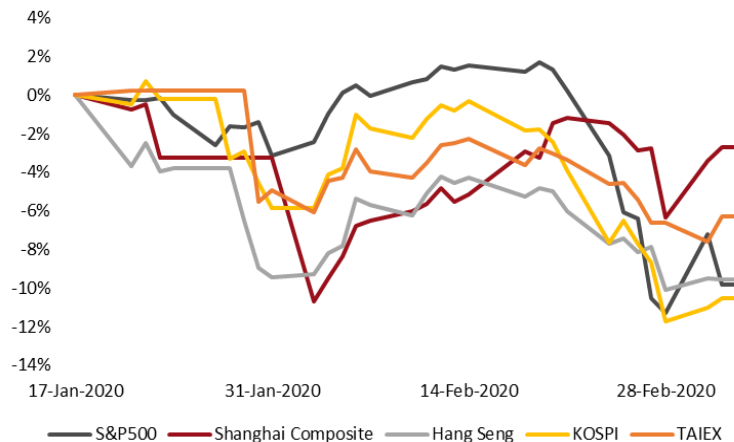


# Asian Market Outlook: Policy Response

## MORE TO COME

- Since last January, many Asian markets have actually outperformed the US market. This can partially be attributed to valuations and risk pricing prior to the coronavirus outbreak. Asia was still priced for trade war risk, the S&P 500 and NASDAQ were priced for perfection.
- Many countries have already announced monetary and/or fiscal stimulus to counter the effects of the epidemic. The market reaction to fiscal stimulus has been more positive than to monetary stimulus.
- Cutting rates is not the answer. Unintended consequence risk is very real (i.e. most of DM at/near the lower bound after the epidemic).
- EM outperformed DM in the one month following the majority of emergency cuts since 1998 as these cuts can be interpreted as USD negative.

## SPX vs Asia performance since Coronavirus outbreak



## Stimulus measures announced since Jan 2020

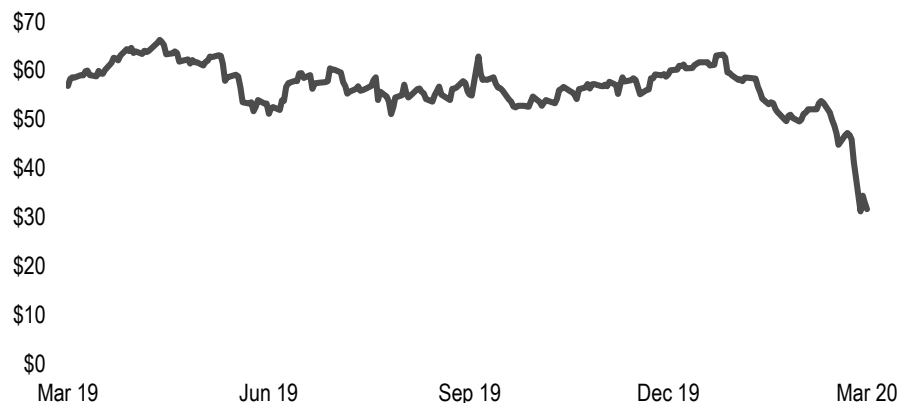
Country	Monetary or Fiscal?	Policy
US	Monetary	50bps cut to the target benchmark rate to 1-1.25%.
China	Monetary & Fiscal	Cut 7-14 day repo rate by 10bps to 2.4%/2.55% respectively. Cut MLF rate by 10bps to 3.15%. Advance allocation of RMB\$1.8tn in local government bonds.
Hong Kong	Fiscal	HK\$120bn relief package incl. HK10k cash handout to each permanent resident
Singapore	Fiscal	S\$20.5bn stimulus package incl. corporate tax cut, job support scheme and assistance to sectors such as aviation and retail.
South Korea	Fiscal	KRW12tn stimulus package to support the healthcare sector and SMEs.
Taiwan	Fiscal	Special budget of NT60bn to support virus affected industries.
Malaysia	Fiscal	MYR20bn to support the tourism industry and increased infra spending.
Indonesia	Fiscal	IDR10.3tn fiscal package focused on tourism, airline and housing sectors.
Thailand	Fiscal	THB400bn stimulus package to support the low income earners, rural households and SMEs.
Australia	Monetary	25bps cut in the cash rate to 0.5%
Italy	Fiscal	EUR3.6bn package incl. tax cuts for the health system and tax credits for struggling companies.
Canada	Monetary	Cut benchmark interest rate by 50bps to 1.25%.
UK	Monetary	50bps cut to the benchmark interest rate to 0.25%.

# Asian Market Outlook: Oil Price and Credit

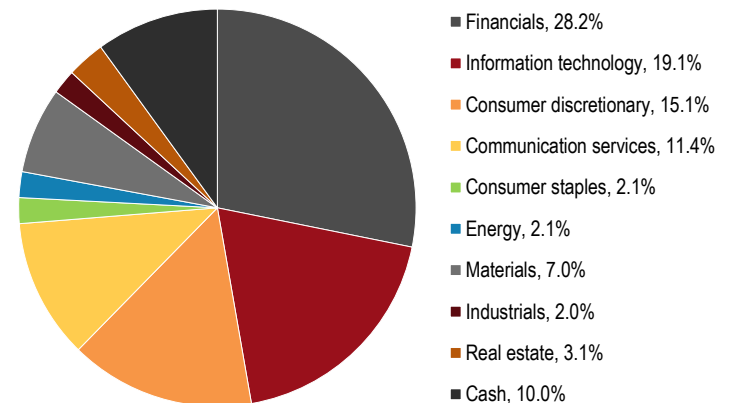
## NO OIL EXPOSURE

- The oil price has fallen by 44% over the last year including a 25% one day plunge in early March 2020.
- Ellerston Asia has a very strict ESG criteria and as a result we had very little exposure to the energy complex when the Russia/Saudi oil price war began.
- The only energy stock we held was Reliance and we have since exited the position in EAI.
- Asia as a region is a net oil importer. India in particular is a macro beneficiary of lower oil. We have no exposure to Malaysia.
- The second order effect of the fall in the price of oil is that it has negative implications for credit quality at banks and in the US high yield market. We have trimmed our financials exposure (DBS, Indo) in response to this.

**WTI 1 Year Performance**



**EAI Sector Exposure**

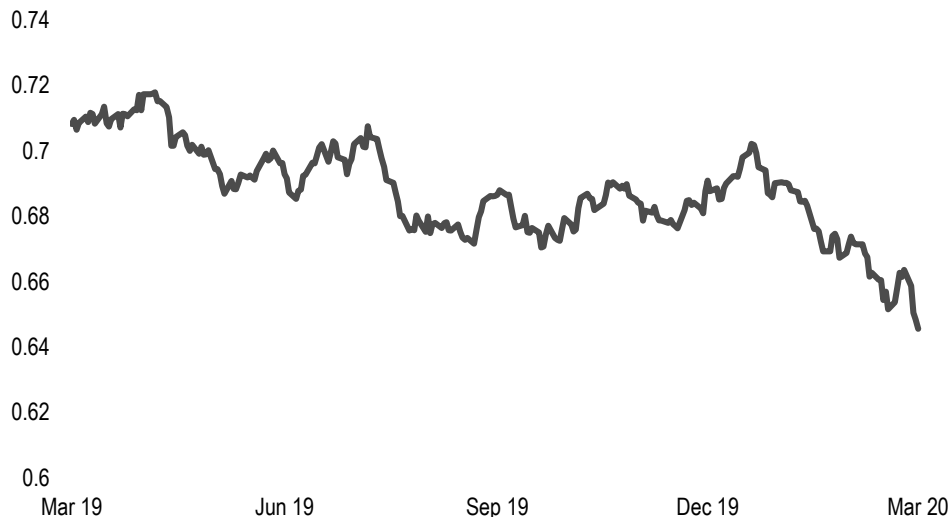


# Asian Market Outlook: FX

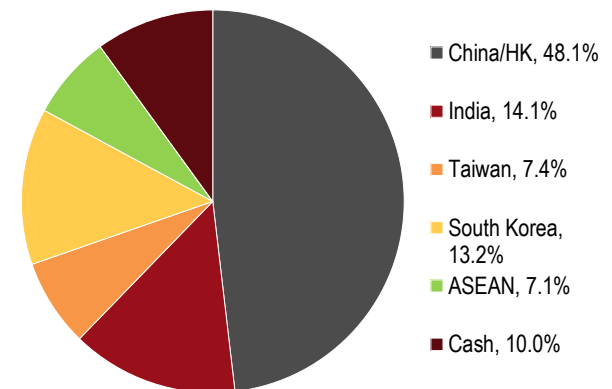
## IMPLICATIONS OF A WEAK AUD

- The AUD has depreciated approximately 6.4% since mid January.
- More than 50% of the EAI portfolio is in currencies that are USD linked (USD, HKD, RMB).
- Given this, a weak AUD provides a tailwind or offsetting impact on EAI's absolute performance in a risk off environment.
- The prospect of QE in Australia and could see the AUD trade weaker from here. Say hello to the lower bound!

**AUD 1 Year Depreciation**



**EAI Country Exposure**





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Stock Discussion

# EAI Top 10 Positions

HIGH QUALITY, HIGHLY LIQUID, LARGE CAP STOCKS

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Top 10 Holdings	Country	Sector	Portfolio Weight (%)
Tencent Holdings Ltd	China	Communication Services	9.3%
Alibaba Group Holding Ltd	China	Consumer Discretionary	8.2%
Samsung Electronics	Korea	Information Technology	7.8%
TSMC	Taiwan	Information Technology	6.2%
China Life Insurance Co. Ltd.	China	Financials	4.0%
Anhui Conch Cement Company Limited	China	Materials	3.2%
Sunac China Holdings Ltd.	China	Real Estate	3.1%
ICICI Bank Limited	India	Financials	3.1%
China Merchants Bank Co. Ltd.	China	Financials	3.1%
Ping An Insurance	China	Financials	3.1%



As at 28 Feb 2020

Source: Ellerston Capital

# Stock Examples

## TOP PICKS: CONSUMER SECTOR



Hindustan Unilever Limited

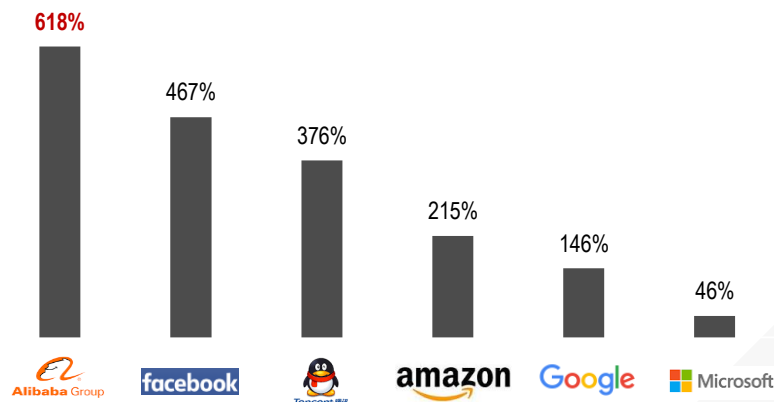
- India's largest FMCG business with market cap of \$83bn. Approx. 9 out of 10 households use HUVR products and HUVR has market leading shares in nearly all FMCG categories.
- FMCG continues to be a big opportunity in India driven by low per capita FMCG spends. China is 4x India.
- Earnings growth of 20% CAGR over past three years, ROE at 80% and 100bps margin expansion per year since 2011.
- Stock up over 200% in five years and up 100% since initial investment.

### Hindustan Unilever Power Brands



- World's largest eCommerce company with market cap of A\$837b, 654m active customers and GMV of over \$850b.
- Business model a mix of eBay (Taobao), Amazon (Tmall), Paypal (Alipay), Fedex (Cainiao) and Microsoft (AliCloud).
- Online to offline with Hemafresh, Starbucks, SunArt, Ele.me.
- 45% sales growth driven by lower tier city consumption (<40% penetration), cloud and improvement in take rate.
- Revenue and EPS expected to grow 25-30% for next 3+ years, currently valued attractively at 25x PE. \$50b of net cash. FCF yield of 2% (\$16b of FCF). ROE of 17%.

### BABA's Phenomenal 5 Year Growth



# Stock Examples

## TOP PICKS: FINANCIALS SECTOR



- One of India's largest private sector banks (market cap of \$75bn) and one of the best ways to play financial penetration.
- New CEO, Sandeep Bakhshi, appointed 2018 to replace Chandra Kochar.
- High SOTP valuation with stakes in ICICI Pru, ICICI Lombard and ICICI Securities now separately listed.
- Extremely high EPS growth in the last 2 years normalizing at ~25% for FY21. ROE at 15% with a stretch target of 18%.
- Stock up over 200% in five years and up 100% since EIF's initial investment.

**ICICI Share Price Performance**

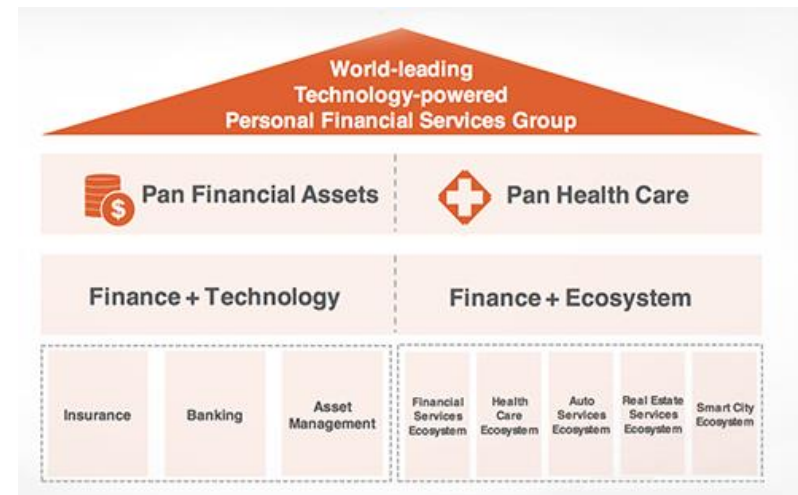


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- Insurance conglomerate in China but really a fintech in sheep's clothing.
- Strategy is to build a tech enabled eco-system and they have been successful with over 400 million internet users.
- Market cap of \$317 billion. 9x PE and >10% 3 Yr EPS CAGR. 1.8x P/B with ROE of over 20%.
- Significant upside on SOTP basis (>35% CY). Hidden value in Lufax, Good Doctor, Ping Bank, etc).

**Ping An Eco-system**



# Stock Examples

## TOP PICKS: TECHNOLOGY SECTOR



- The world's largest semiconductor foundry with a market cap of A\$400bn and revenues of A\$50bn p.a.
- TSMC is an industry leader, with lower earnings volatility and we regard its strong management team as a competitive advantage.
- Disruptive technologies like Internet of Things (IOT) and 5G are positive medium term growth thematics.
- Revenues and EPS are forecast to grow at a CAGR of 10-15% over the next 3 years. Trading at 17x PE.
- Stock up over 100% since initial investment.

### TSMC has outperformed its peers

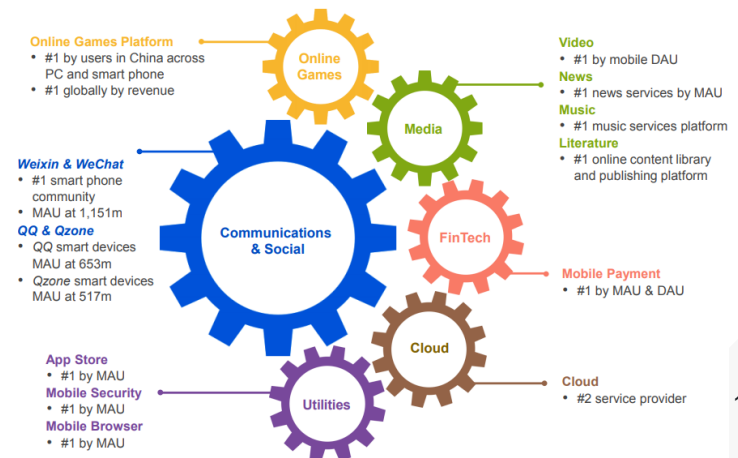


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- China's largest social platform (WeChat and QQ) and is also the number 1 game developer globally. Market cap of \$725b and revenues of \$80b.
- The most dominant traffic aggregator in China with over 40% of user time spent in Tencent's ecosystem. WeChat is the ultimate asset of Tencent with 1.15bn MAU.
- Growth will be driven by payment and Fintech, industrial internet (cloud) and further monetization in advertising.
- Revenue and EPS expected to grow 20-25% for next few year, currently valued at 29x PE.

### Tencent's Mega Eco-system





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LICs and Conclusion

# LIC Environment in Australia

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## MANAGING THE DISCOUNT

- Daily NTA disclosure. Most recent daily NTA is \$1.1375. Share price was \$0.92 (as at March 13<sup>th</sup> ). Discount remains double digit.
- Bill Best has replaced Ashok Jacob as Chairman of EAI. Ashok remains the executive Chairman of Ellerston Capital and his shareholding in EAI remains the same.
- Dividend profit reserve at 6.57 cents per share as of Dec 31, 2019. Interim dividend of 1.5 cents per share. Took additional profits in late January.
- Share buy back remains in place and marketing efforts continue.



## FINANCIAL REVIEW

live**wire**

India is the best growth option in Asia

Will trade war history repeat itself?

MARY MANNING  
Ellerston Capital

Once upon a time there was an Asian country that had a large trade deficit with the United States. The US said this country manipulated its currency, engaged in unfair trade practices, stole intellectual property and threatened American jobs. The US responded by starting a trade war. You probably think... [Read More](#)

Asian equities | Feature 18



## CONCLUSION

- We are defensively positioned with high cash and a high quality, highly liquid portfolio
- China is outperforming global markets given coronavirus FIFO
- Our portfolio has no direct exposure to oil
- We have reduced exposure to financials negatively impacted by oil and lower rates
- Asia has more policy optionality than ROW
- The weak AUD is a positive for absolute returns
- Don't panic. Manage responsibly.

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