



ELLERSTON ASIA

Ellerston Asian Investments

Investor Update April 2020

Performance

ELLERSTON ASIA

PERFORMANCE TO 31 MARCH 2020

- Asian markets have outperformed Australian, US and Global benchmarks CYTD in 2020.
- Ellerston Asia outperformed the Asian benchmark in March and has outperformed CYTD in 2020.
- The falling AUD has provided a tailwind for absolute returns.
- EAI paid a 1.5 cent per share dividend in March.
- The fully franked dividend profit reserve as of March 2020 is 5.73 cents per share.
- April MTD we are up in absolute terms and above benchmark.**

%	1 Month	3 Months (CYTD)	6 Months	1 Year	2 Years p.a.	Since Inception p.a. **
EAI Net	-7.41%	-5.65%	2.77%	4.18%	2.27%	5.98%
Benchmark*	-7.56%	-6.52%	-0.07%	-2.00%	-1.01%	6.43%
Alpha	0.15%	0.87%	2.84%	6.18%	3.28%	-0.45%

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

**As of Monday April 13, 2020. Source: Ellerston Capital

Time on the Ground

COMPANY CONTACT GIVEN TRAVEL RESTRICTIONS

- Typically, the team spends approximately 1/3rd of the year on the ground in Asia.
- We visited 22 different cities in 7 different countries between January 2019 and January 2020 including 9 overseas research trips with 340 company contact points.
- Technology was already enabling remote company contact but the outbreak of the coronavirus has accelerated this trend.
- We have had 160 company contact points CYTD in 2020, which is almost double our quarterly run rate.

Country	Company Contact Points CYTD 2020
China	102
India	41
Other	17
Total	160





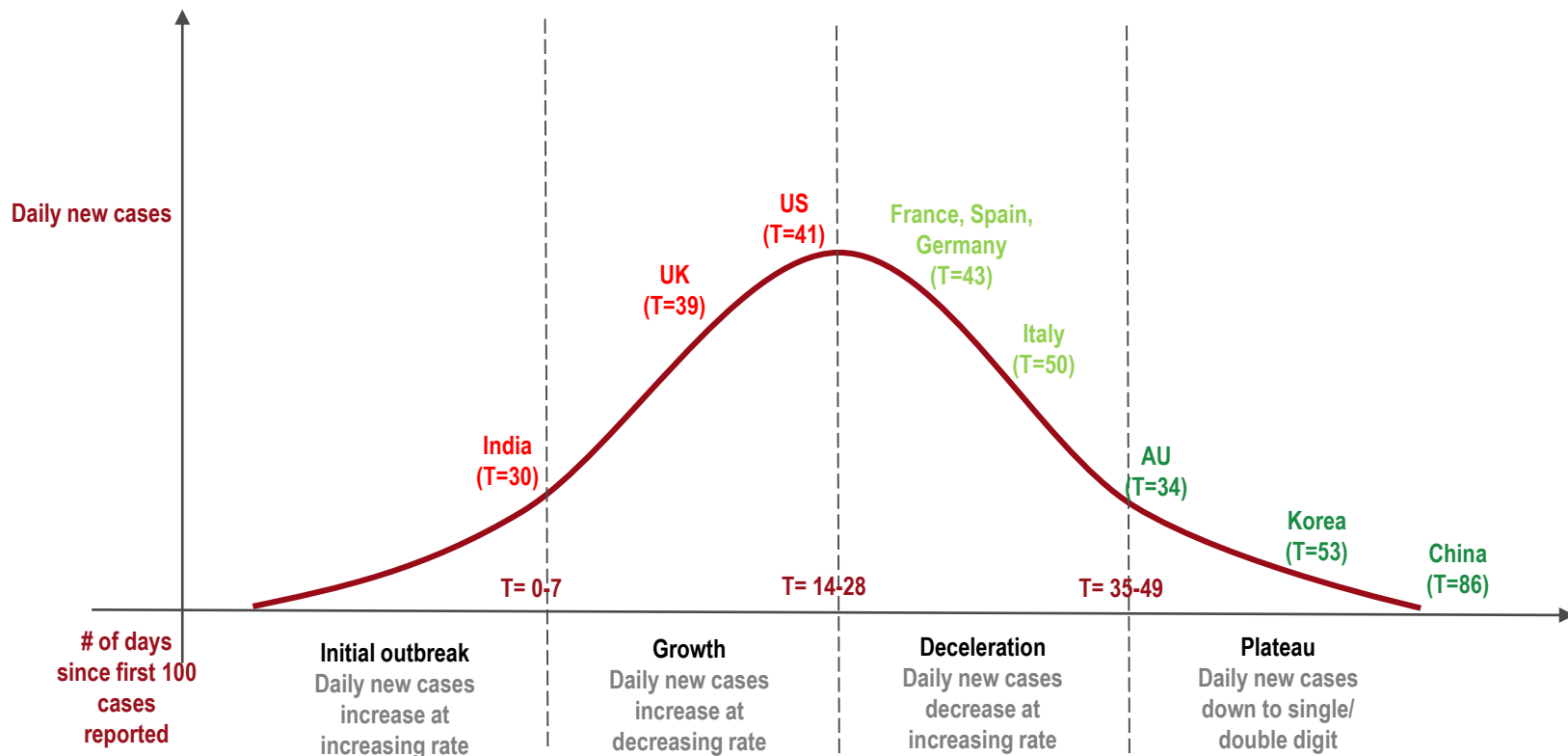
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Asian Market Outlook

Coronavirus

THE EPIDEMIC CURVE: WHICH COUNTRIES ARE WHERE?

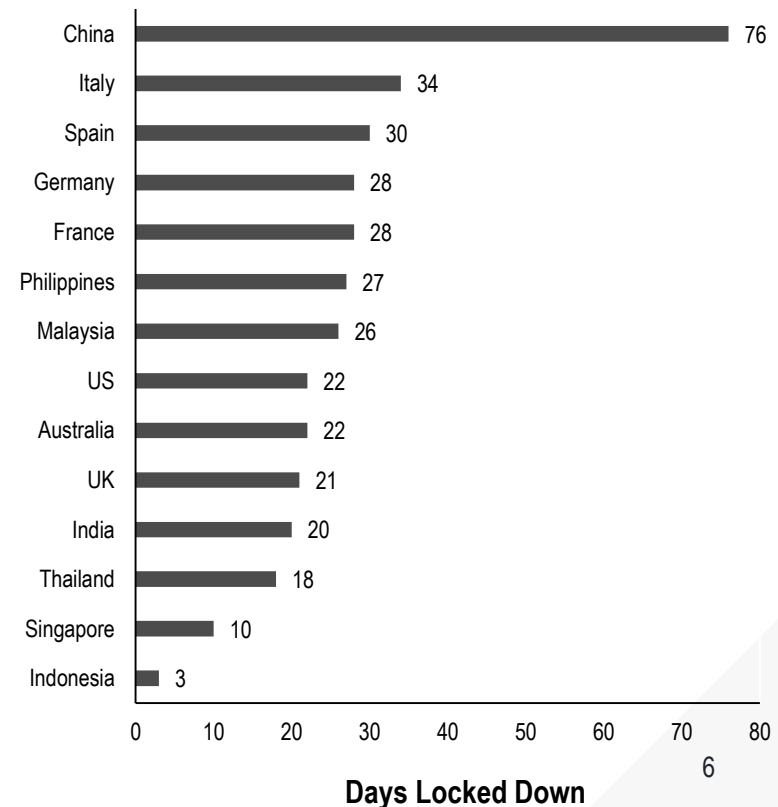
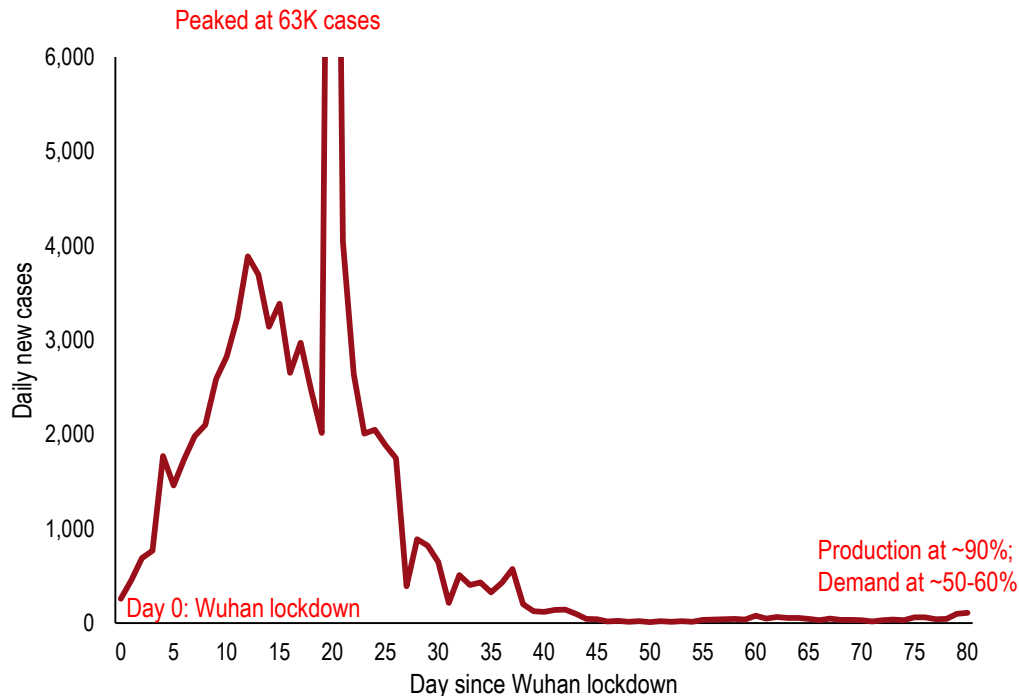
- China has now effectively contained the outbreak. Wuhan, the original epicentre, lifted lockdown on April 8. Since Wuhan lockdown, it took China 20 days to reach the peak and 43 days to reach double digit daily new cases.
- Most other Asian countries (ex India) have not experienced the exponential growth seen in Western countries. We are watching India closely to determine if the 21 day lock down has been effective.
- The US, Spain, Italy, Germany and France have now overtaken China in terms of confirmed cases. The US is still in the growth phase while most EU countries are now seeing deceleration.



Coronavirus

CASE STUDY: CHINA ECONOMIC RE-OPENING

- China is the first in / first out (FIFO) country in terms of the coronavirus outbreak. Hubei & Wuhan saw lockdown orders lifted after 62 days and 76 days, respectively. China reached peak infections on Day 20 and stabilised to double digit daily new cases by Day 43. The country allowed for 20 days after peak infections before unlocking Hubei.
- Countries that did not see a large scale community transmission outbreak like Wuhan could expect a sooner re-opening than China.
- In terms of economic recovery, supply recovered sooner than demand. China is now at ~90% of normal operating capacity for production while demand is still ~50-60% of the normal level.



Policy Response

IS IT ENOUGH?

- Most countries have already announced monetary and/or fiscal stimulus to counter the effects of the COVID-19 epidemic.
- The market reaction to fiscal stimulus has been more positive than to monetary stimulus. Fiscal stimulus needs to be a significant proportion of GDP to be effective.
- 25 central banks have cut rates since mid January, but cutting rates is not the answer. The unintended consequences of lower rates are a significant risk for DM.
- EM continues to have more policy optionality than DM.

Major Stimulus Measures Announced Since January 2020

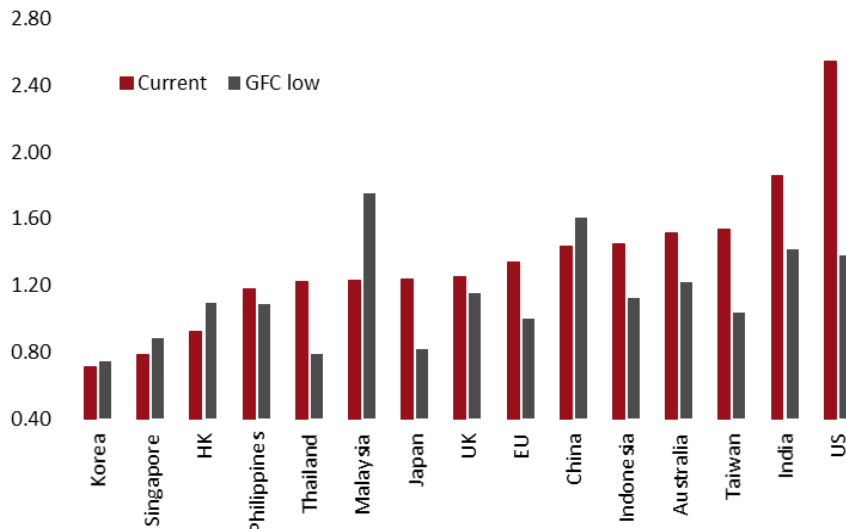
Country	Monetary or Fiscal?	Policy	Fiscal stimulus as % of GDP
UK	Monetary & Fiscal	50bps cut to the benchmark interest rate to 0.25% and GBP200bn QE program. GBP330bn in government backed loans for businesses.	14.0%
Singapore	Fiscal	S\$48bn stimulus package incl. corporate tax cut, job support scheme, wage offsets and assistance to sectors such as aviation and retail.	10.7%
US	Monetary & Fiscal	150bps cut to the target benchmark rate to 0-0.25% and announced a further unlimited asset buying program. \$2tn stimulus package for financial aid, hospitals and industries affected by the coronavirus.	10.3%
Australia	Monetary & Fiscal	50bps cut in the cash rate to 0.25% and asset purchase program. A\$17.6bn stimulus package to support SMEs and pensioners and disadvantaged households (A\$750 cash handout). Another A\$66bn package for financial aid. Third stimulus package of \$130bn for wage, loan and rent support.	9.6%
Taiwan	Monetary & Fiscal	Cut to the benchmark rate by 25bps to 1.125%. Special budget of NT60bn to support virus affected industries. Additional NT\$1tn in financial aid to SMEs and households.	6.0%
South Korea	Monetary & Fiscal	Cut benchmark interest rate by 50bps to 0.75%. KRW12tn stimulus package to support the healthcare sector and SMEs. Another KRW78tn for financial aid and to support the bond and equity markets.	4.8%
Hong Kong	Fiscal	HK\$120bn relief package incl. HK10k cash handout to each permanent resident	4.2%
New Zealand	Monetary & Fiscal	Cut benchmark interest rate by 75bps to 0.25%. NZ\$12bn stimulus package for health services, income support and wage subsidies.	3.3%
Thailand	Fiscal	THB400bn stimulus package to support the low income earners, rural households and SMEs.	2.3%
China	Monetary & Fiscal	Cut 7 day repo rate by 30bps to 2.2%. Cut MLF rate by 10bps to 3.15%. Cut RRR by 50-100bps. Advance allocation of RMB\$1.8tn in local government bonds.	1.8%
Malaysia	Fiscal	MYR20bn to support the tourism industry and increased infra spending.	1.2%
India	Monetary & Fiscal	Cut repo rate by 75bps to 4.40%. INR1.7tn rescue package which cash transfers, food distribution and support for organized workers.	0.7%

Valuations and Technicals

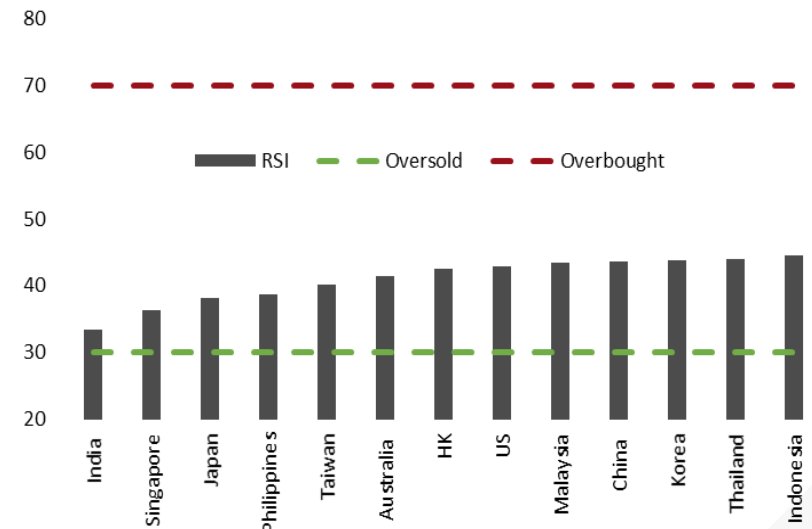
ARE VALUATIONS AND TECHNICAL LEVELS ATTRACTIVE YET?

- Most markets globally entered bear market territory in mid March. Markets have recovered somewhat, but are still down 15-30% from their peaks. Asian markets have outperformed the US and European markets CYTD in 2020.
- Valuations are the most attractive they've been in many years. Asia in particular looks very inexpensive, with countries such as China/HK and Korea currently trading at or below their GFC low valuations despite stabilised coronavirus situations.
- The US, EU and Australia on the other hand, are still trading well above their GFC lows even though the coronavirus is not yet fully contained and markets have sold off sharply.
- Asian markets are also close to oversold territory (i.e. RSI < 30), which has typically been a contrarian buy signal.

Market P/B vs GFC Low



Asian markets close to being oversold

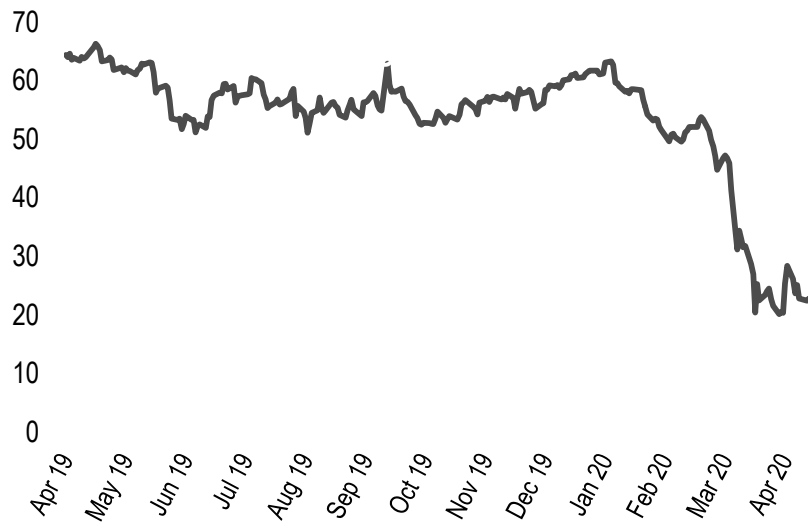


Oil Price and Credit

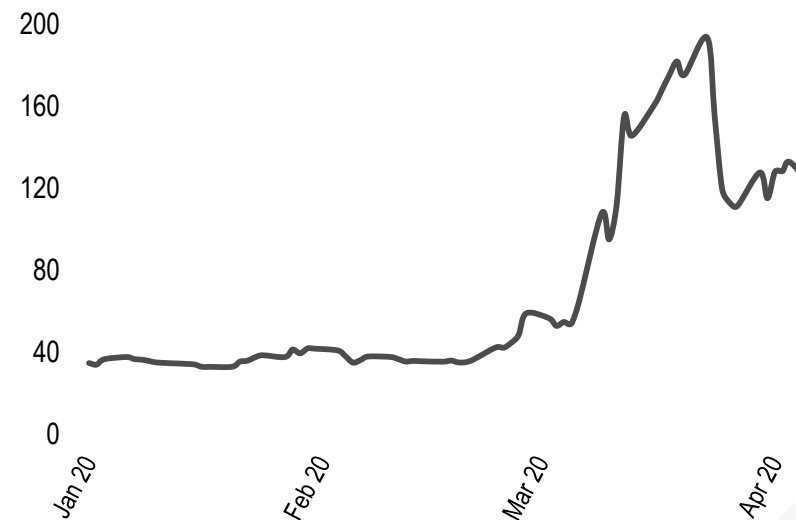
LIMITED OIL EXPOSURE

- Oil prices collapsed by nearly 65% from \$55 in mid-Feb to \$20 by end of March, including a 25% single day plunge in early March 2020 after Saudi Arabia and Russia called off their planned production cuts.
- Ellerston Asia has very strict ESG criteria which means we had very little exposure to the energy space as oil prices declined. The only energy stock we held was Reliance and we have since exited the position in EAI.
- With demand plunging across the world, OPEC+ announced a historic production cut of about 10mbpd with additional contributions from G20 which should provide a floor to oil prices in the near term.
- Asia as a region is a net oil importer and lower oil prices provide a macro tailwind for countries like India.
- The second order effect of lower oil prices is the negative implications for credit quality at banks which is reflected in the Credit Default Swaps for Asian markets such as Malaysia. We have trimmed our financials exposure (DBS, Indo) in response to this.

WTI 1 Year Performance (\$)



Credit Default Swaps (bps) - Malaysia



Putting It All Together

EAI'S PROPRIETARY COVID MARKET MATRIX

	COVID-19			Policy Response			Valuation		Technicals		Flows	Oil	Count/Rank
	Epidemic Status	Response Status	Monetary	Fiscal % of GDP	Fiscal Adequate?	P/B vs GFC Low	3M Performance	RSI	Technical Support?	Flows	Low Oil + or -		
China (CSI 300)	Peaked	Out of lockdown	Yes (10bps cut to repo rates)	1.8%	No	5% or less from GFC Low	-8.7%	46.8	Within 5% of Tech Support	Positive	Positive	6	
Taiwan	Stabilizing	No lockdown	Yes (25bps cut to 1.125%)	0.3%	Yes	>5% from GFC Low	-15.2%	49.2	>10% from Tech Support	Positive	Positive	5	
Korea	Peaked	Partial lockdown	Yes (50bps cut to 0.75% + unlimited QE)	5.0%	Yes	>5% from GFC Low	-17.1%	51.8	Within 10% of Tech Support	Positive	Positive	4	
Japan (Nikkei 225)	Stabilizing	No lockdown	Yes (expanded QE)	0.4%	Yes	>5% from GFC Low	-18.3%	48.3	>10% from Tech Support	Neutral	Positive	4	
India	Escalating	Full Lockdown	Yes (75bps cut to 4.4%)	0.7%	No	>5% from GFC Low	-26.8%	46.2	>10% from Tech Support	Positive	Positive	4	
Australia	Stabilizing	Partial lockdown	Yes (50bps cut to 0.25%)	3.5%	Yes	>5% from GFC Low	-20.8%	49.1	>10% from Tech Support	Neutral	Neutral	3	
Indonesia	Stabilizing	Partial lockdown	Yes (25bps cut to 4.5%)	0.1%	No	>5% from GFC Low	-25.6%	45.0	>10% from Tech Support	Neutral	Neutral	2	
HK	Stabilizing	Partial lockdown	No	4.2%	Yes	5% or less from GFC Low	-14.7%	51.7	>10% from Tech Support	Neutral	Positive	2	
UK (FTSE 100)	Escalating	Full Lockdown	Yes (65bps and bank relief)	2.5%	No	5% or less from GFC Low	-23.4%	51.1	>10% from Tech Support	Neutral	Neutral	2	
Philippines	Stabilizing	Partial lockdown	Yes (25bps cut to 3.75%)	0.0%	No	5% or less from GFC Low	-25.8%	46.5	>10% from Tech Support	Neutral	Neutral	2	
US (S&P)	Escalating	Partial lockdown	Yes (150bps cut to 0-0.25%)	10.0%	Yes	>5% from GFC Low	-15.9%	53.3	>10% from Tech Support	Neutral	Neutral	2	
Singapore	Stabilizing	Full Lockdown	No	10.7%	Yes	5% or less from GFC Low	-19.4%	48.1	Within 10% of Tech Support	Neutral	Neutral	1	
Thailand	Stabilizing	Partial lockdown	No	2.3%	No	5% or less from GFC Low	-20.8%	55.9	>10% from Tech Support	Neutral	Negative	1	
Malaysia	Stabilizing	Full Lockdown	No	1.2%	No	5% or less from GFC Low	-13.2%	48.1	Within 5% of Tech Support	Neutral	Negative	1	
Europe (MXEU)	Vaired	Partial lockdown	Yes (expanded QE)	2.5%	No	>5% from GFC Low	-18.3%	48.3	>10% from Tech Support	Neutral	Neutral	1	

Long Term Implications from COVID 19

WILL COVID HAVE PERMANENT IMPACTS?

Globalization

- Is this the end of globalization?
- Are travel and trade permanently impaired?

Geopolitics

- Will there be a backlash against China?
- Will COVID change any election outcomes?
- Is OPEC + dead?

GDP

- Structurally higher unemployment?
- Has some consumption moved permanently online?
- Are fiscal deficits as a % of GDP sustainable?

Growth

- Has the Japanification of DM finally happened?
- Is value investing dead? Long live investing in growth.



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Stock Discussion

North Asia

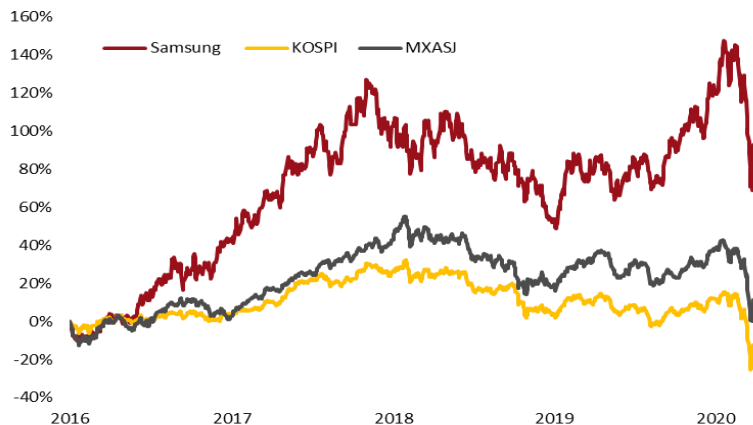
SAMSUNG AND TSMC

- North Asia has been less impacted by COVID because Korea was prepared due to MERS and Taiwan acted quickly by implemented travel restrictions from China/HK in early February,
- Supply chains in Asia, particularly in tech, were disrupted by the lockdowns in China. But production is now back to normal levels. Risk is to near term demand, but positive structural trends persist. Sticking with quality.

Samsung Electronics

- #1 smartphone, memory and display panel maker in the world.
- Near term beneficiary of the 'stay at home' trend = increased demand for servers and notebooks.
- Other comments, valuation etc,
- Stock up 90% since initial investment

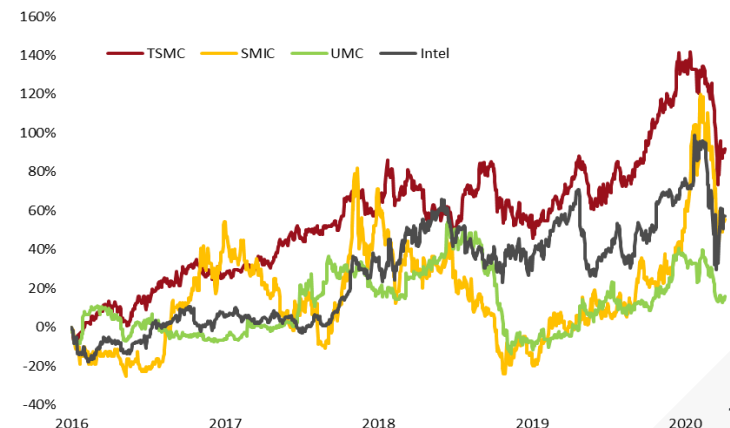
Samsung has outperformed the KOSPI and MSCI Asia



TSMC

- Industry leader (in foundry) with strong cash flows, fortress balance sheet and structural tailwinds (e.g. 5G, IoT)
- Revenues and EPS are forecast to grow at 10-15% p.a. Trading at 16x PE.
- Stock up over 90% since initial investment.

TSMC has outperformed its foundry peers



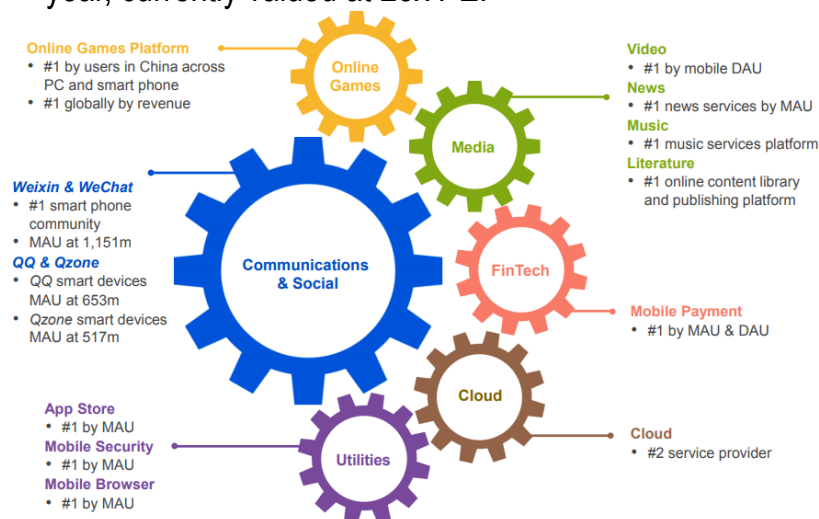
Hong Kong / China

TENCENT AND NEW ORIENTAL EDUCATION

- Overall consumer confidence in China has been severely impacted by COVID-19, several new economy sectors have emerged as potential beneficiaries. We own several “stay-at-home tech” candidates such as Tencent and New Oriental Education (EDU).

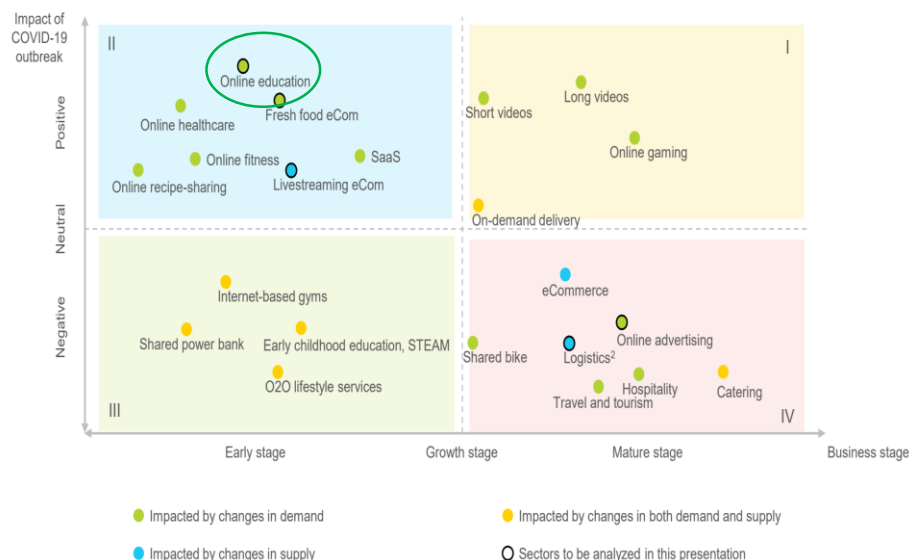
Tencent

- China's largest social platform (WeChat and QQ) and is also the number 1 game developer globally.
- The most dominant traffic aggregator in China capturing over 40% of Chinese internet user time spent. WeChat is the ultimate asset of Tencent with 1.15bn MAU.
- Revenue and EPS expected to grow 20-25% for next few year, currently valued at 28x PE.



New Oriental Education

- China's largest provider of after-school tutoring (3.8m enrolments) which has structurally strong demand given Chinese parents' focus on academics.
- The COVID-19 has led to strong demand for online education and has benefited leaders such as EDU.
- Revenue/EPS expected to grow 30%/35%, while the stock is trading at 24x forward PE.



CADILA AND HINDUSTAN UNLIVER

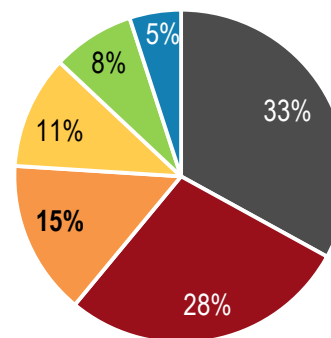
- Indian Government has imposed a strict 3 week lock down which is expected to be lifted in phases from 14th April with certain parts of the country remaining under lock down till the end of April.
- Only 6% of tests are coming up as positive vs 20% for Italy and US. India plans to rollout more than 5m rapid antibody tests to identify virus hot spots and isolate them.
- Base case remains that India is not out of the woods yet. In response, we have added Pharma and sold Financials and Auto. Indian Pharma sector is one of the leading providers globally of HCQS – an anti-malarial formulation being trialled as a treatment for COVID 19.

HINDUSTAN UNILEVER

- India's largest FMCG business with approx. 9 out of 10 households using HUL products.
- FMCG continues to be a big opportunity in India driven by low per capita FMCG spends.
- ROE of 80% and earnings growth of 20% CAGR over past three years.

CADILA

- One of the largest players in the HCQS space with ability to increase capacity by 4x
- 15% market share of HCQS market in the US and about 10% domestic market share.
- Valuation attractive at 14x FY22 PE vs its 2 year avg of 21x.



HCQS Market Share US

- Prasco
- Sandoz
- Cadila
- Teva
- Northstar
- Others

ASEAN

CP ALL AND TELKOM INDONESIA

- EAI had <1% ASEAN exposure at certain times in March, which was a source of alpha generation.
- Malaysia, Thailand, Philippines and Indonesia were among the worst performing markets during the sell off.
- By the 3rd week in March, a number of ASEAN markets were trading below GFC low valuations so we have since increased our ASEAN allocation considerably.

CP ALL

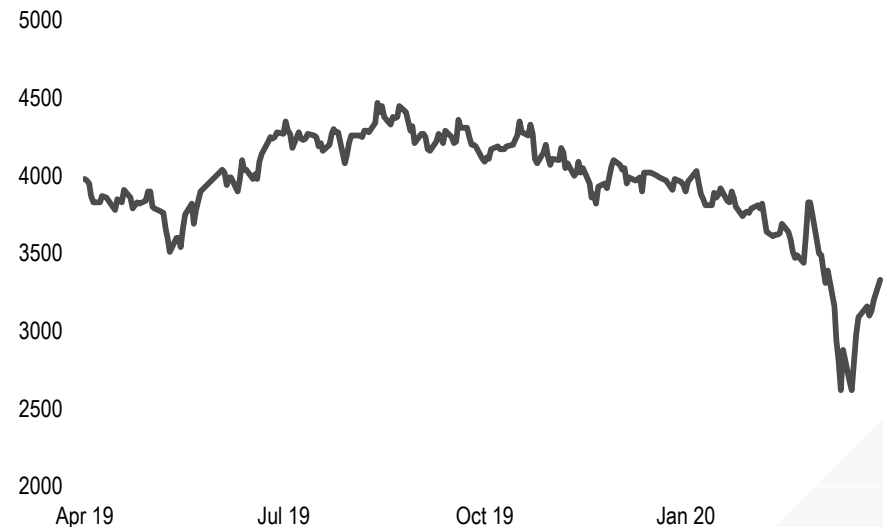
- CP ALL is the sole owner of the 12,000+ 7-Eleven stores in Thailand. These CVS have stayed open during Bangkok lockdown, albeit at curfew imposed hours.
- We took profits in CP ALL last year and recently re-entered the stock ~16% lower. Growth attractive at 12% CAGR. Long term story intact.



Source: Ellerston Asia, Bloomberg.

TELKOM INDONESIA

- Falls in the category of “stay-at-home tech” as data usage has surged during COVID-19
- One of the only telcos in Asia that meets our growth criteria. Attractive value at 15x PE.

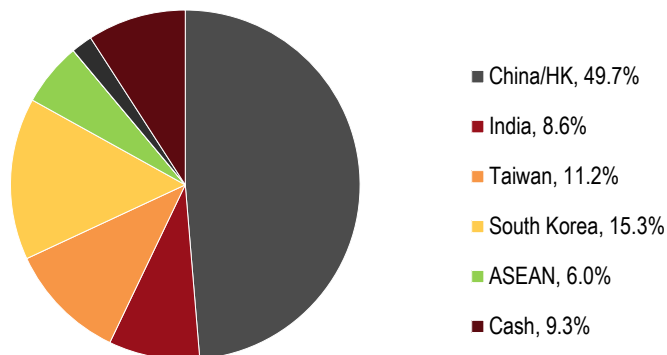


Portfolio Overview

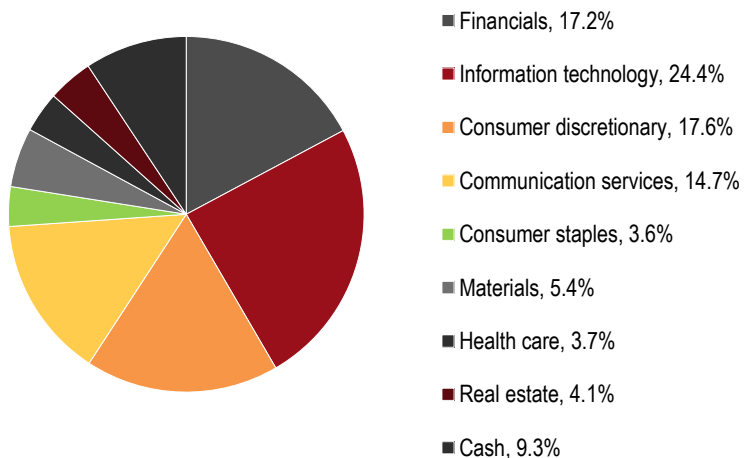
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PORTFOLIO CHARACTERISTICS AS OF 31 MARCH 2020

Country Exposure



Sector Exposure



Top 10 Holdings	Portfolio Weight (%)
Tencent	9.2%
TSMC	9.1%
Samsung Electronics	8.0%
Alibaba	7.9%
Anhui Conch Cement Company	4.4%
SK Hynix	4.2%
Sunac China Holdings	4.1%
JD.com	3.7%
China Merchants Bank	3.5%
Ping An Insurance	3.2%
Total	57.3%

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