



ELLERSTON ASIA

Ellerston Asian Investments

FY20 Performance Review and Asian Market Outlook for FY21
July 16, 2020

Performance

RETURNS TO 30 JUNE 2020

- EAI finished FY2020 with an absolute return of 6.34% and outperformed the benchmark by 5.01%.
- Over this same time frame the ASX 200 was down approximately 7.7%.
- July has seen a significant rally in Asia markets, particularly China.
- The pre-tax NTA has increased by 6% month to date (as of July 13th).
- Despite this rally, we remain cautious on markets in the medium term.
- Cash as of the end of June was 19%.
- The fully franked dividend profit reserve as of June 2020 is 7.86 cents per share.

%	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since Inception p.a.**
EAI Net	3.47%	3.41%	-2.43%	6.34%	7.53%	6.40%
Benchmark*	4.00%	2.95%	-3.76%	1.33%	4.95%	6.73%
Alpha	-0.53%	0.45%	1.32%	5.01%	2.58%	-0.33%

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

**Figures are unaudited and preliminary.



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Asian Market Outlook

Asian Market Outlook for 2H 2020

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OPPORTUNITIES AND RISKS



Opportunities

Macroeconomic normalization post-COVID

Valuations still attractive

China A shares and large cap tech stocks



Risks

Second waves and ongoing first waves of COVID

Geopolitical risk

The Robinhood effect in Asia

COVID-19 Update

HAS OUR FIFO CALL BEEN RIGHT?

- Most countries in Asia, except India, are in the COVID deceleration phase. Second waves in Asia are currently contained.
- Our call that COVID would be FIFO (First In First Out) in nature has informed country allocation, with a preference for North Asia over ASEAN and India.
- This has been the right call in Asia. These markets have outperformed significantly since the global outbreak in late February.
- Outside of Asia, policy response and pre-pandemic economic strength appear to be more significant market drivers than the timing and trajectory of COVID cases.

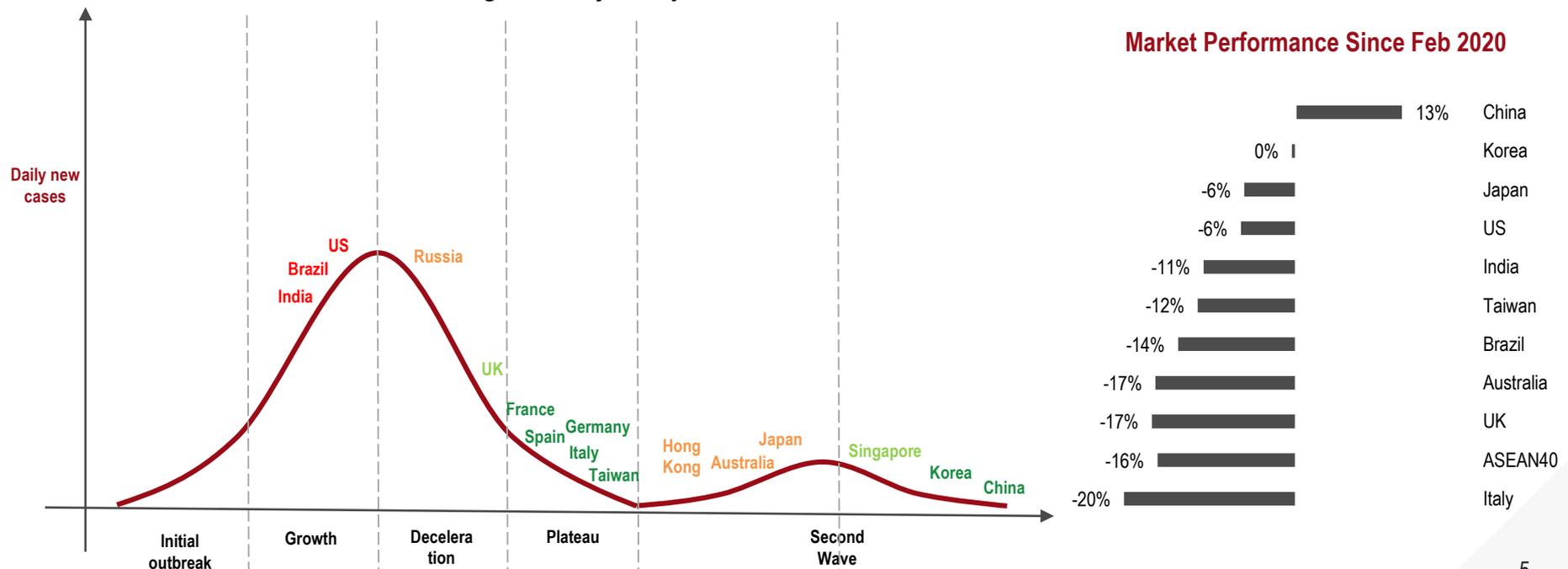


Diagram illustrative and not to scale. Source: Ellerston Asia and John Ho Data on COVID cases as of Jul 13. Market return data from Feb 21, 2020 to July 13, 2020.

China Market Rally

A SHARES AND LARGE CAP TECHNOLOGY STOCKS

- China A Shares have rallied strong up over 16% MTD in July.
- This is not a bubble (yet) as the CSI 300 is still only trading at <14x PE. This is still a significant discount to all other major markets in the world.
- The 2015 China rally is instructive both in terms of longevity (6 months), valuation(20x PE at the peak) and correction trajectory.
- China large cap technology stocks have also performed very strongly along with their US counterparts. Alibaba and Tencent are now two of the largest companies in the world.

CSI 300 Performance 2014 to Present



MSCI AC World Top 7 Weights (Mkt Cap Ranked)*

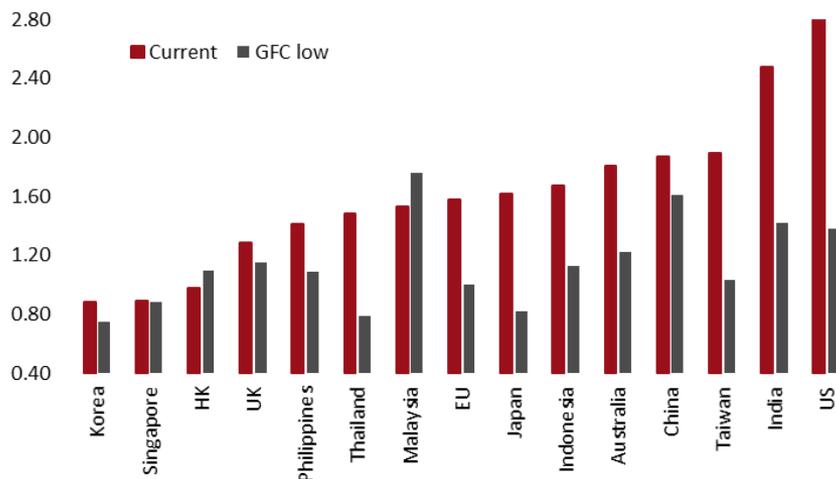
Company	Market Cap (USD)
Apple	\$1.7 trillion
Microsoft	\$1.6 trillion
Amazon	\$1.6 trillion
Google	\$1.1 trillion
Alibaba	\$706 billion
Facebook	\$699 billion
Tencent	\$673 billion

Valuations and Technicals

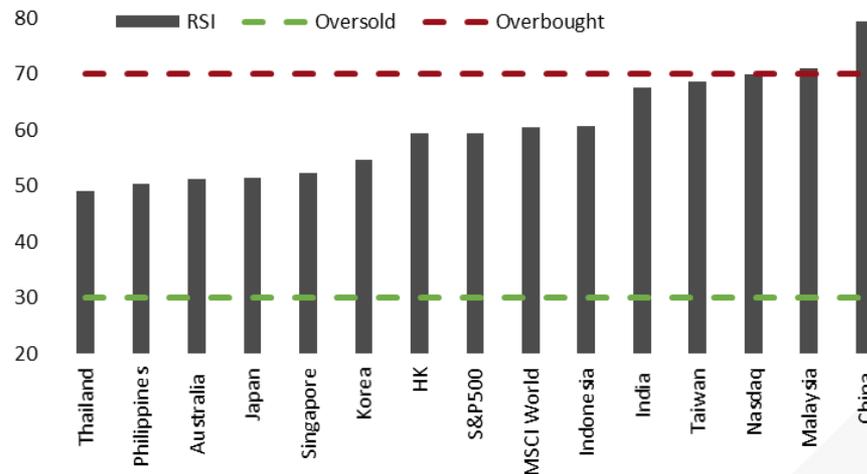
VALUATIONS AND TECHNICAL LEVELS CONTINUES TO RECOVER

- Most markets globally entered bear market territory in mid March, but have since staged a strong recovery.
- Valuations are not as attractive as in March but most Asian markets remain more reasonably valued than the US, Australia, EU and Japan.
- Asian markets no longer look oversold (i.e. RSI < 30) and some markets such as China and Malaysia have moved to overbought territory.

Market P/B vs GFC Low



RSI for Asian Markets

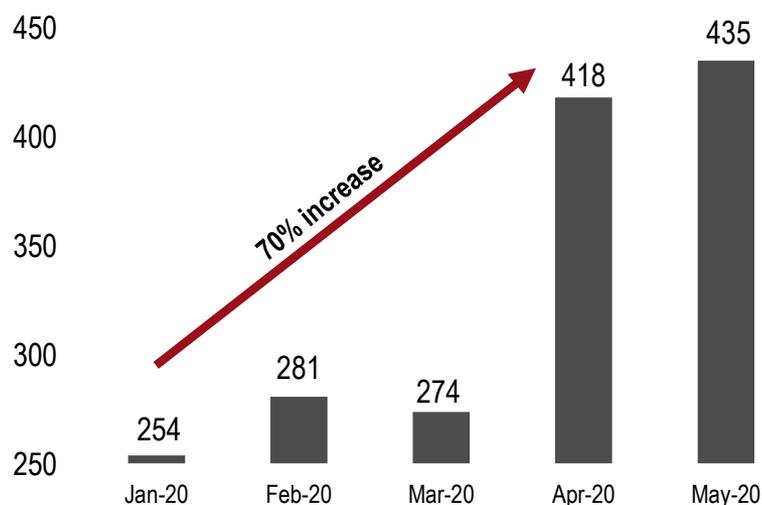


The 'Robinhood' Effect in Asia

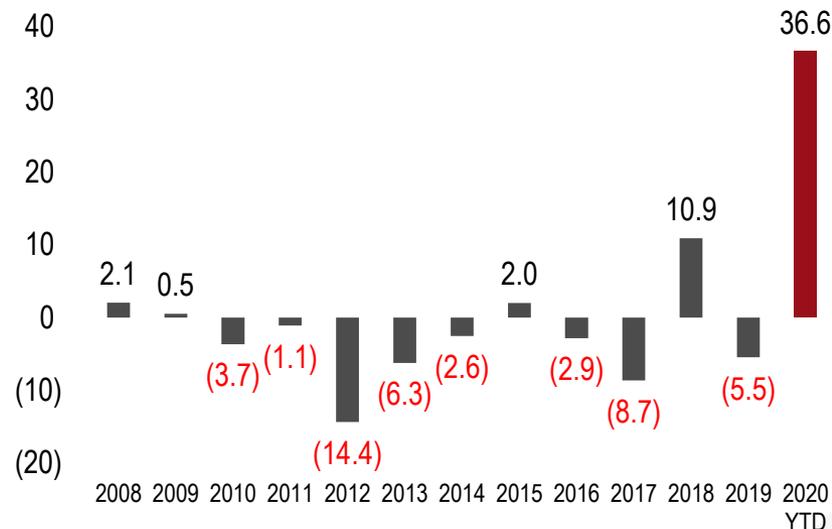
RISING RETAIL PARTICIPATION IN ASIAN EQUITY MARKETS

- While Asian markets saw significant declines in Feb/Mar 2020, we observed a huge uptick in retail investor participation in key markets across the globe. Asia, South Korea, Taiwan and India saw large spikes in retail trading activity. In July, retail participation in China has also increased.
- South Korea: Retail net buying in 2020 is already the highest on record at KRW 37tn. This has been offset by foreigners and local funds which have sold KRW ~24tn and KRW 8tn respectively YTD.
- Taiwan: Retail transaction value as at the end of May 2020 is TWD20tn, which is up 55%yoy and is on track to be the highest on record.
- India: Between January 2020 and May 2020, non-institutional or retail turnover on the Indian markets has increased by more than 70%.

Average Daily Non-Institutional Turnover in India (\$m)



Retail Net Buying of the KOSPI (KRW tn)



POTENTIAL FLASHPOINTS FOR US-CHINA RELATIONS

- There are 4 main categories where deteriorating US-China relations will play out in the coming months: Hong Kong, Technology Capital Markets and Trade.

Flashpoint		Comment
Hong Kong		<ul style="list-style-type: none">• Sanctions in the wake of National Security Law• Implications for US companies operating in HK (Article 29)• Increased military presence in South China Seas
Technology		<ul style="list-style-type: none">• Ongoing crack down on Huawei / ZTE• Additions to US Entity List and Department of Defence List• Banning of Chinese Apps (TikTok)
Capital Markets		<ul style="list-style-type: none">• Crack down on ADRs via the Holding Foreign Companies Responsible Act• Banning US government pension funds from investing in ADRs or in China• China retaliation via selling Treasuries
Trade		<ul style="list-style-type: none">• Formal cancellation of Phase II of the trade talks• Repeal of Phase I and/or re-initiation of tariffs• FX war and currency manipulation labelling



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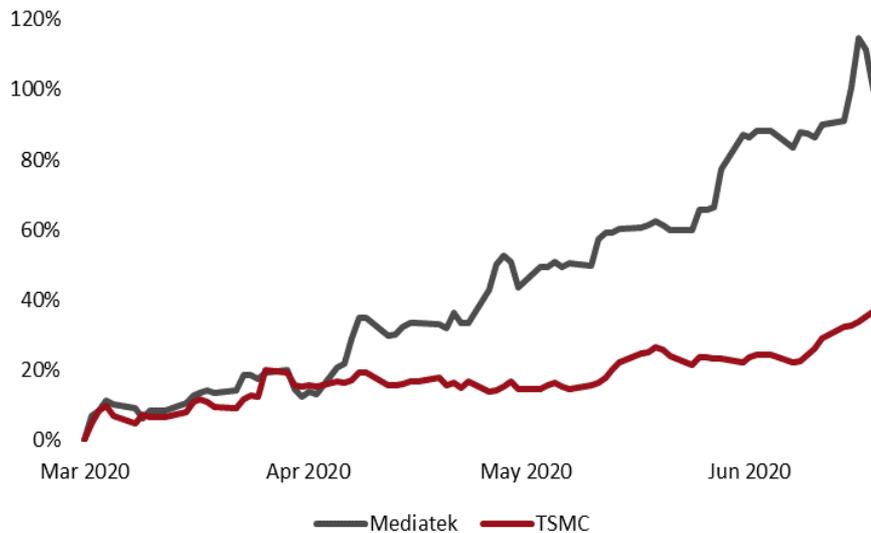
Stock Discussion: Leaders, Laggards and Disciplined Portfolio Management

Leaders and Laggards

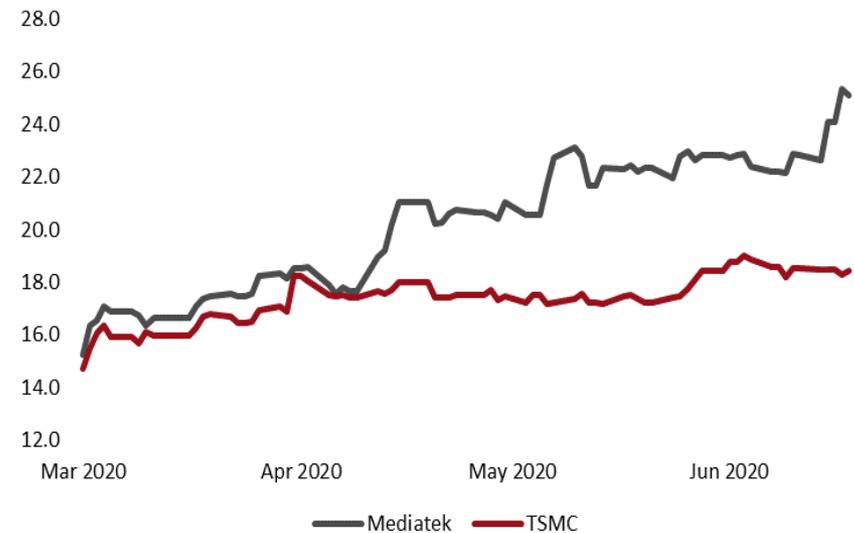
MEDIATEK AND TSMC

- TSMC has been a core holding in the portfolio since inception. We initiated our position in Mediatek in June 2019.
- Since the March 2020 low, Mediatek is up 100% vs TSMC which is up 37%.
- Mediatek is now trading at 26x PE but is forecast to grow earnings by a CAGR of 28% p.a. driven by the China localisation, 5G thematics and market share gains. We remain an overweight in the stock, but have taken some profits in recent weeks.
- TSMC is trading at 20x PE despite being a global leader in the foundry space and mid-teens earnings growth. We have recently added to our overweight position as we believe Huawei related concerns are overplayed .

Relative Stock Price Performance Since March 2020



PE Multiples Since March 2020

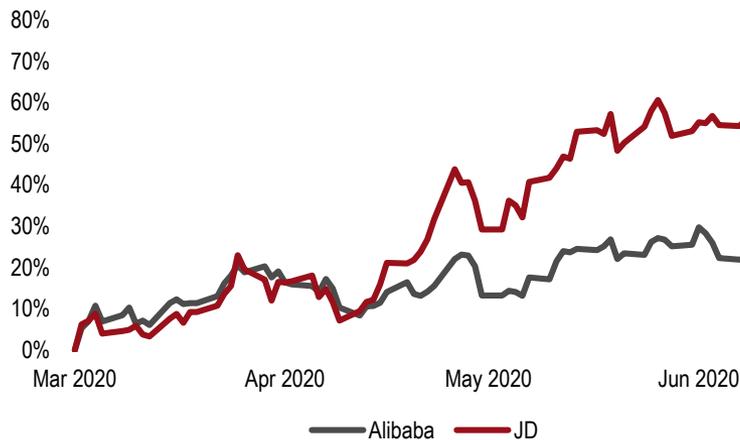


Leaders and Laggards

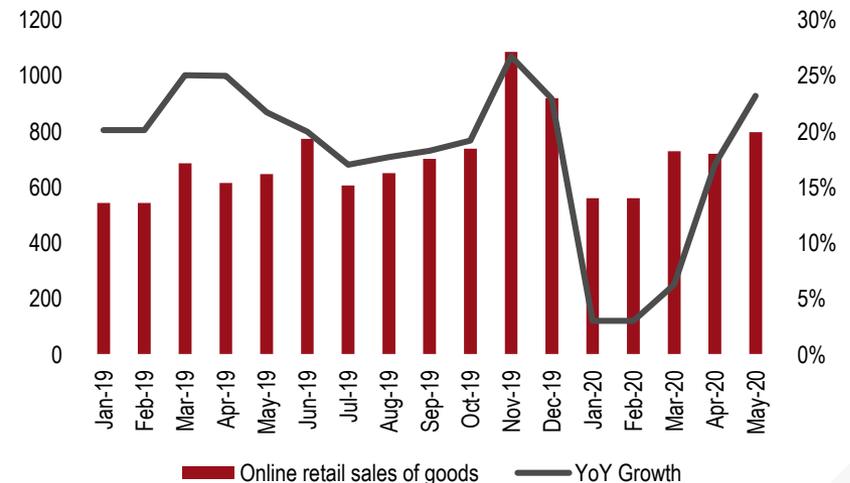
JD AND ALIBABA

- JD and Alibaba are leaders in China eCommerce and key beneficiaries of the stay-at-home tech thematic. Both stocks have done well over the pandemic period.
- Since the March 2020 low, JD is up 70% while Alibaba is up 48%.
- JD is now trading on 38x forward PE, up from trough PE of 28x in March. We remain positive on the stock given its strong and visible growth momentum and long term profitability prospect.
- Alibaba is trading on 28x PE and 0.9x PEG. As the industry leader, BABA is set to benefit from the China economic and consumption recovery. We expect the stock to catch up.
- We have increased our weighting in Alibaba and have trimmed JD.

Relative Stock Price Performance Since March 2020



China Online Retail Sales of Goods

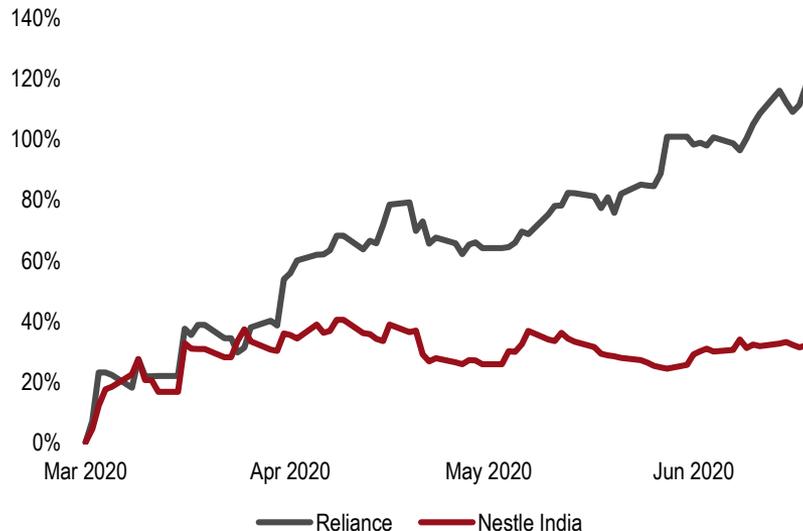


Leaders and Laggards

RELIANCE AND NESTLE

- Reliance Industries and Nestle are part of the India allocation in the portfolio.
- Since the March 2020 low, Reliance is up over 100% while Nestle is up only 30%.
- Reliance has seen its PE multiple double since March 2020 and is now trading at 30x PE. Upside triggers going forward include a strategic stake sale in the retail business, the Jio IPO and closure of the Saudi Aramco deal. We have trimmed some RIL in July.
- Nestle India, the largest organised player in the packaged foods market, has traded at roughly the same PE multiple despite being a major beneficiary of increased at-home consumption of packaged foods in India. We initiated a position in Nestle in June.

Relative Stock Price Performance Since March 2020



Nestle Category Leadership

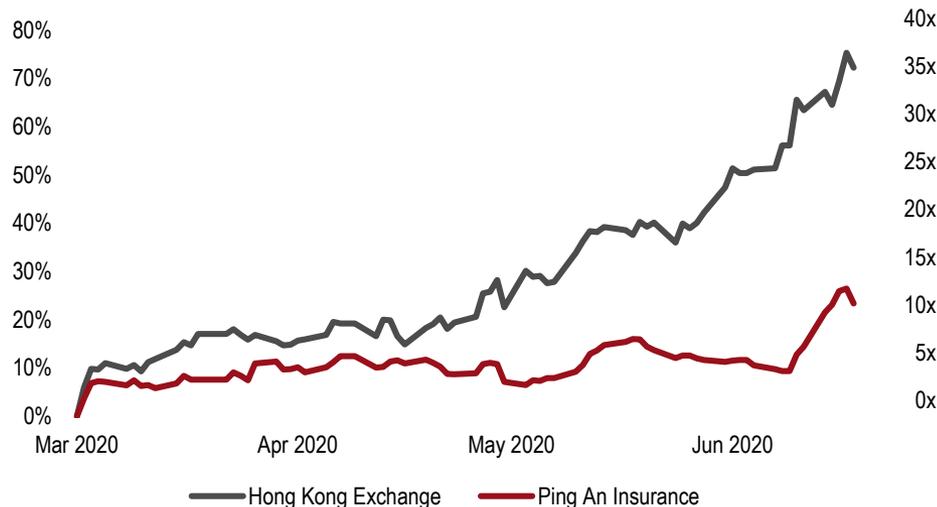
Category	Brand	Market Share	Market Position
Infant Cereals		97%	#1
Infant Formula		67%	#1
Instant Noodles		59%	#1
Instant Pasta		74%	#1
White & Wafer		63%	#1
Instant Coffee		51%	#1

Leaders and Laggards

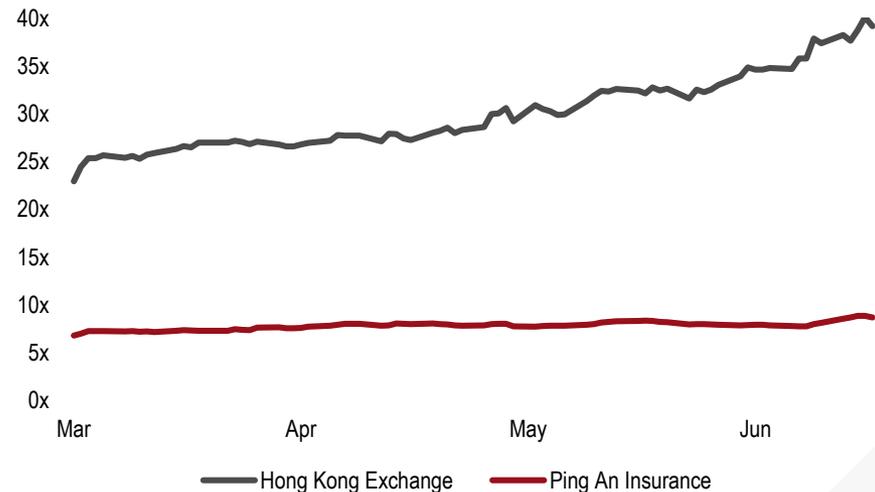
HONG KONG EXCHANGE AND PING AN

- Hong Kong Exchange and Ping An Insurance have both been in the portfolio since inception.
- Since the March 2020 low, Hong Kong Exchange is up 72% while Ping An is up only 23%.*
- Hong Kong Exchange is now trading at 40x PE but considerable catalysts remains (ADRs, Stock Connect expansion, A share futures). We have maintained a significant overweight position in the stock.
- Ping An is trading at less than 10x PE despite being a tech company in disguise (leading health care app in China, over 300m registered internet users) and having a very strong growth profile.
- We have increased our weighting in Ping An to 4.7%.

Relative Stock Price Performance Since March 2020



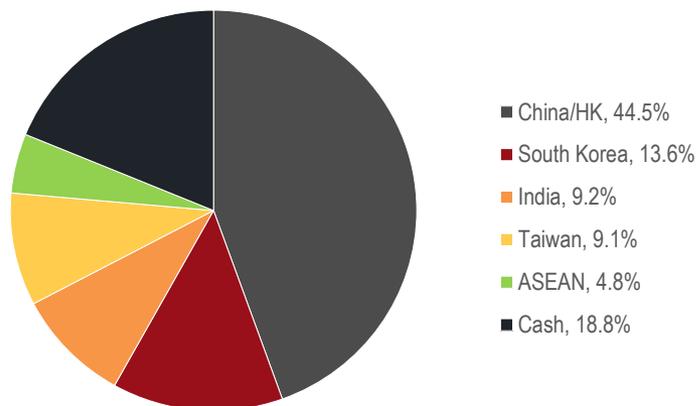
PE Multiples Since March 2020



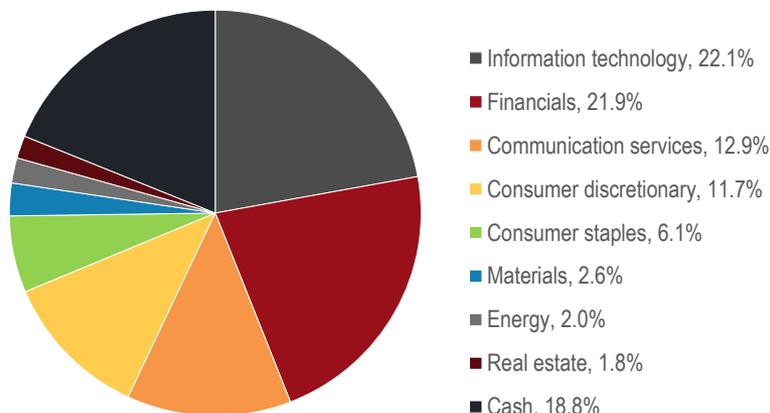
Portfolio Overview

PORTFOLIO AS OF 30 JUNE 2020

Country Allocation



Sector Allocation



Top 10 Holdings	Portfolio Weight (%)
Alibaba	9.5%
Tencent	8.1%
Samsung Electronics	7.1%
TSMC	7.0%
Hong Kong Exchange	5.5%
Ping An Insurance	4.7%
Hindustan Unilever	3.1%
SK Hynix	2.9%
Baidu	2.9%
China Merchants Bank	2.9%
Total	53.7%



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Q&A

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