



ELLERSTON ASIA

Ellerston Asian Investments

Investor Update September 2020

Performance

PERFORMANCE TO 31 AUGUST 2020

- EAI was up 0.17% during the month versus the benchmark which was up 0.26%.
- CYTD in 2020 EAI is up 2.77% and has outperformed the benchmark by 2.69%.
- MTD in September EAI has generated positive absolute returns and positive alpha.
- The most recent NTA (September 11th) is \$1.1973.

%	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
EAI Net	0.17%	8.98%	0.85%	13.24%	7.28%	7.29%
Benchmark*	0.26%	8.14%	-1.04%	8.40%	3.15%	7.33%
Alpha	-0.10%	0.84%	1.89%	4.84%	4.13%	-0.04%

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

Dividend

RISING & SUSTAINABLE DIVIDEND

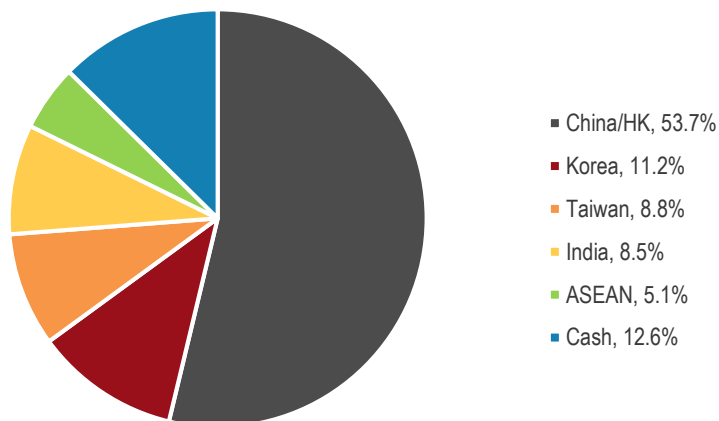
- Ellerston Asian Investments aims is to have a **sustainable dividend policy** based on multiple years of profit reserves.
- As shown below, EAI began paying dividends during Financial Year 2019 and paid higher final and interim dividends in the following financial year.
- In recognition of our **strong performance** and franking credit balance in FY20, EAI has declared a final dividend of **2.5 cents per share fully franked**. This is an increase of **67% on the interim dividend**.
- Note that as of June 30, 2020 EAI had a franking credit balance of 8.5c per share.

Ex Dividend Date	Pay Date	Amount	Franking
4 Sept 2020	2 Oct 2020	2.5c	100%
5 March 2020	27 March 2020	1.5c	100%
4 Sept 2019	4 Oct 2019	1.5c	100%
20 March 2019	5 April 2019	1.0c	100%
5 Sept 2018	5 Oct 2018	1.0c	100%

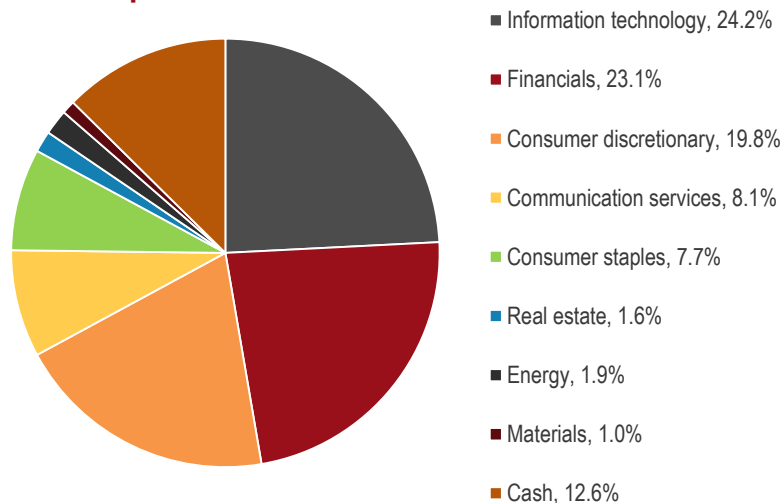
Portfolio Positioning

PORTFOLIO CHARACTERISTICS AS OF 31 AUGUST 2020

Country Exposure



Sector Exposure



Top 10 Holdings	Portfolio Weight (%)
Alibaba	13.9%
TSMC	8.0%
Samsung Electronics	7.4%
Tencent	7.0%
Hong Kong Exchanges	5.4%
Ping An Insurance	4.9%
DBS Group	3.1%
Hindustan Unilever	2.7%
China Merchants Bank	2.6%
JD.com	2.5%
Total	57.7%

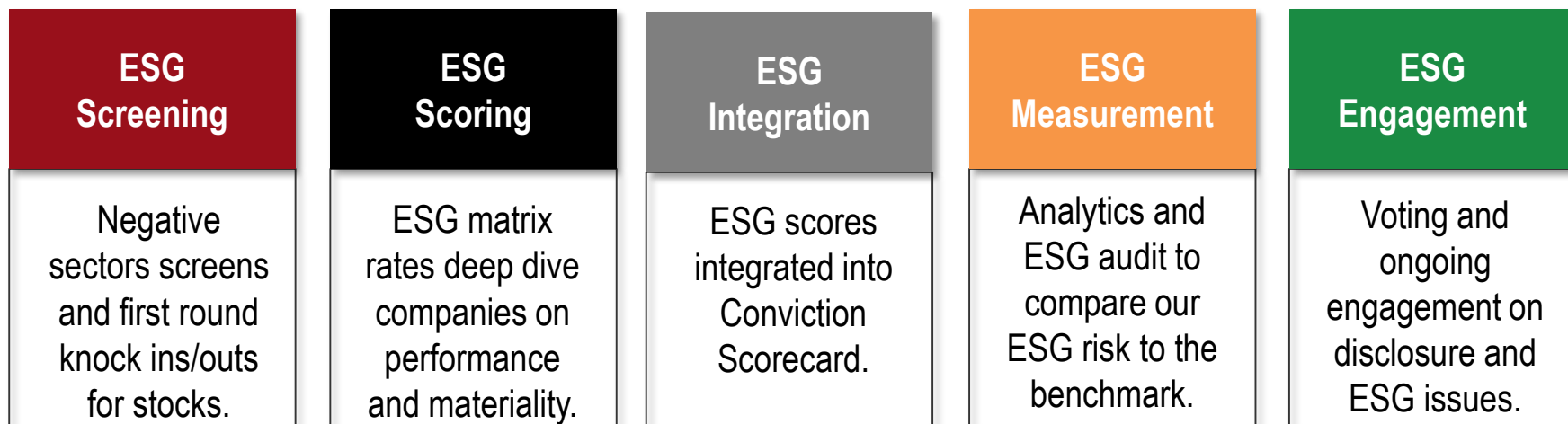


ELLERSTON ASIA

Our Approach to ESG

A STRUCTURED, ENGAGED AND MEASURED APPROACH

- Ellerston Asia has developed a proprietary, structured and measurable approach to ESG which is embedded in the investment process. Our multi-step approach to ESG is shown below.
- We believe that ESG in Asia is generally not as bad as perceived, and ESG in Developed Markets, including Australia, is generally not as good as perceived. The gap is smaller than investors think.
- Ellerston Asia is a new economy centric portfolio. The ESG issues we face are therefore different than those facing a typical domestic or Developed Market portfolio.
- We have a DIY approach to ESG given our time on the ground and Asian language capabilities. We use third party ESG providers for initial screens and ESG risk measurement across portfolios and markets.*



* We use Bloomberg for initial ESG screens, Sustainalytics for ESG measurement and ISS for voting recommendations. All other steps are proprietary to Ellerston Asia and Ellerston Capital.

ESG Screening

NEGATIVE SECTOR SCREENS

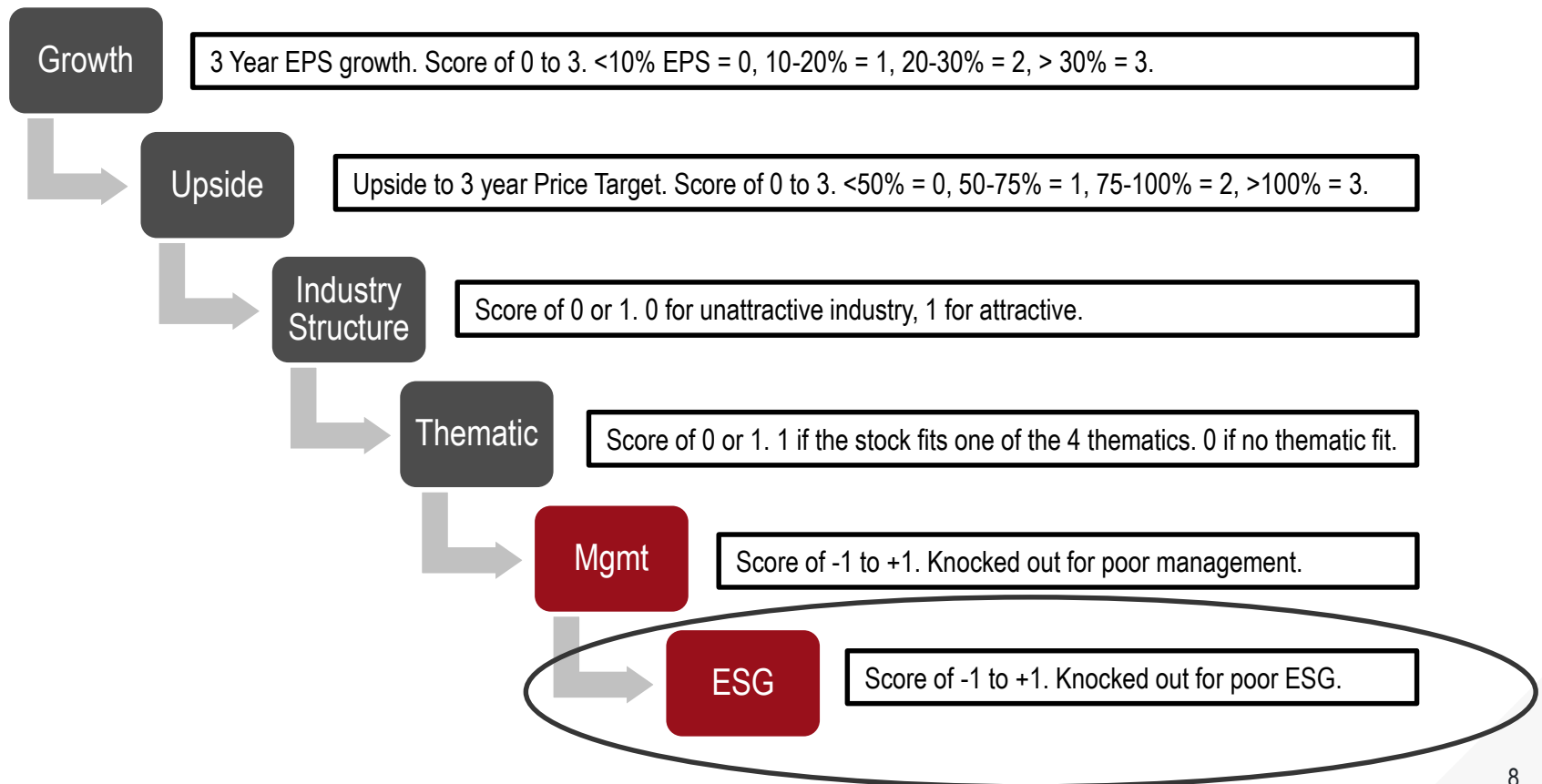
- Ellerston Asia has negative screens in place for the sectors listed below.
- A 0% revenue threshold is used for significant harm sectors and a 5% revenue threshold is used for the other negatively screened sectors.

Sector	Revenue Threshold
Tobacco Production	0%
Armaments & Weapons	0%
Tobacco Distribution	5%
Coal	5%
Gambling	5%
Palm Oil Production	5%
Nuclear Energy	5%
Pornography	5%

ESG Integration

ESG SCORE IS INTEGRATED INTO INVESTMENT PROCESS

- 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.
- Stocks with a score of -1 on ESG are “knocked out” of the process and are not eligible for portfolio inclusion even if they have a score of 5 or greater on the other metrics.

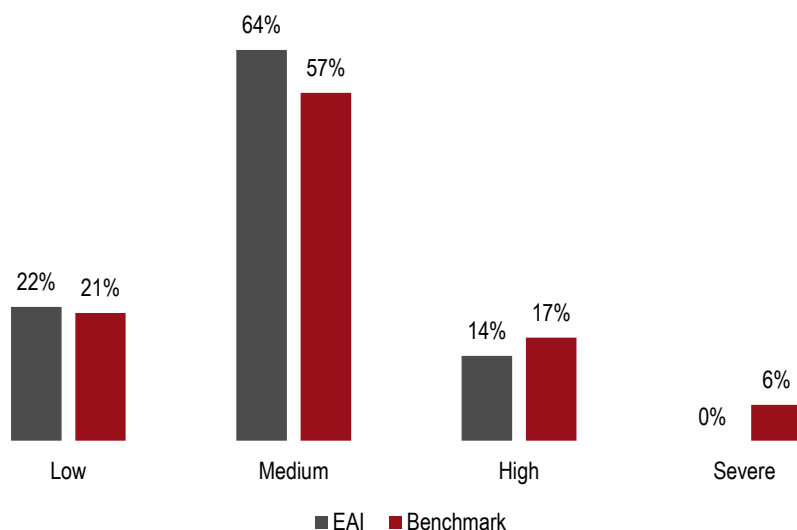


ESG Measurement

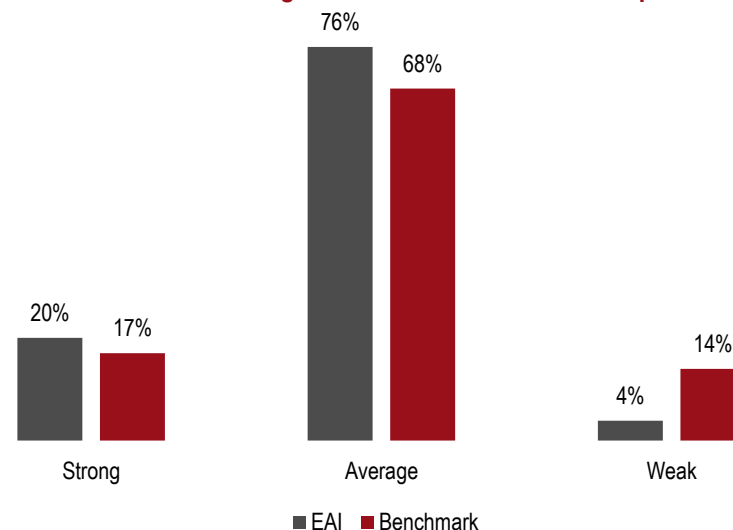
PORTFOLIO ESG RISK VS BENCHMARK

- ESG Measurement using Sustainalytics data shows that our ESG process is effective in reducing ESG risks.
- The prevalence of Severe ESG Risk in the Fund is zero versus the benchmark at 6%.
- The prevalence of companies with weak management of ESG issues is lower than the benchmark, and the prevalence of companies with strong management of ESG issues is higher than the benchmark.
- There are no companies in the Ellerston Asia portfolio with a Sustainalytics Category 5 ESG risk event.

Overall ESG Risk Rating EAI vs MSCI Asia Ex Japan



ESG Risk Management EAI vs MSCI Asia Ex Japan



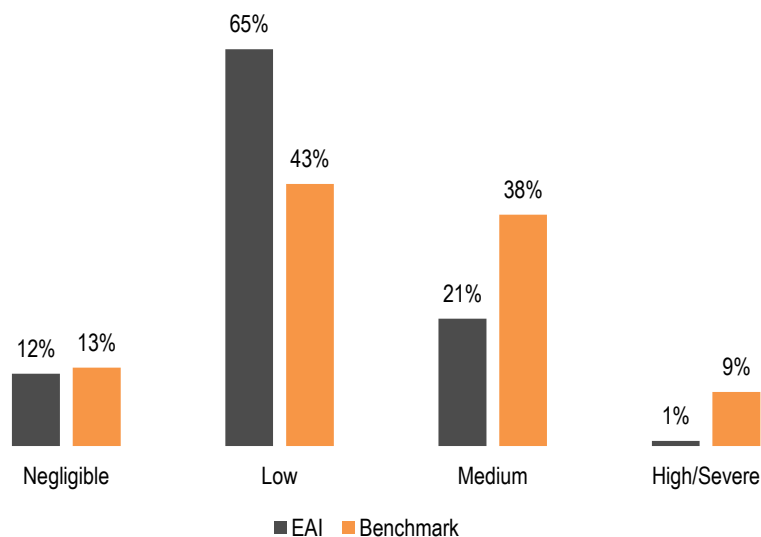
Portfolio as of July 30, 2020. 30 out of 32 (98%) stocks in the portfolio were rated by Sustainalytics. 1,131 stocks out of 1,338 stocks in the benchmark (96%) were rated by Sustainalytics. The unrated stocks are primarily A shares.

ESG Measurement

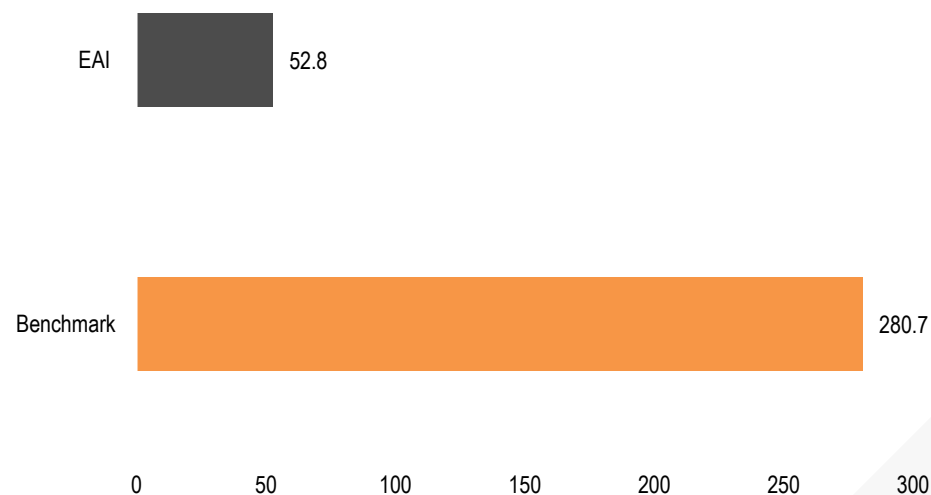
PORTFOLIO CARBON RISK VS BENCHMARK

- Measurement using Sustainalytics data shows that our ESG process is effective in reducing carbon risk in the portfolio.
- The prevalence of High/Severe Carbon Risk in the Fund is lower than in the benchmark.
- The carbon intensity of the portfolio is significantly lower than the benchmark.
- The portfolio has 82% less exposure to Fossil Fuels than the benchmark and 0% stranded assets.
- The portfolio has 13% stronger management of carbon risk that the benchmark.

Overall Carbon Risk Rating EAI vs MSCI Asia Ex Japan



Carbon Intensity (tCO2e/Mil USD) EAI vs MSCI Asia Ex Japan



Portfolio as of July 30, 2020. 30 out of 32 stocks (98%) in the portfolio were rated by Sustainalytics. 998 stocks out of 1,338 stocks in the benchmark (94%) were rated by Sustainalytics. The unrated stocks are primarily A shares.

Our Own ESG

WALKING THE TALK

- Ellerston Capital is a signatory to the Principles of Responsible Investment.
- Ellerston Capital is a signatory to Climate Action 100+.
- Ellerston Capital has been recognised as a leading responsible investor by RIAA.
- The Asia team is represented on the firm wide Ellerston Capital ESG Committee.
- Our team's international travel is carbon neutral.
- Our team is highly diverse.





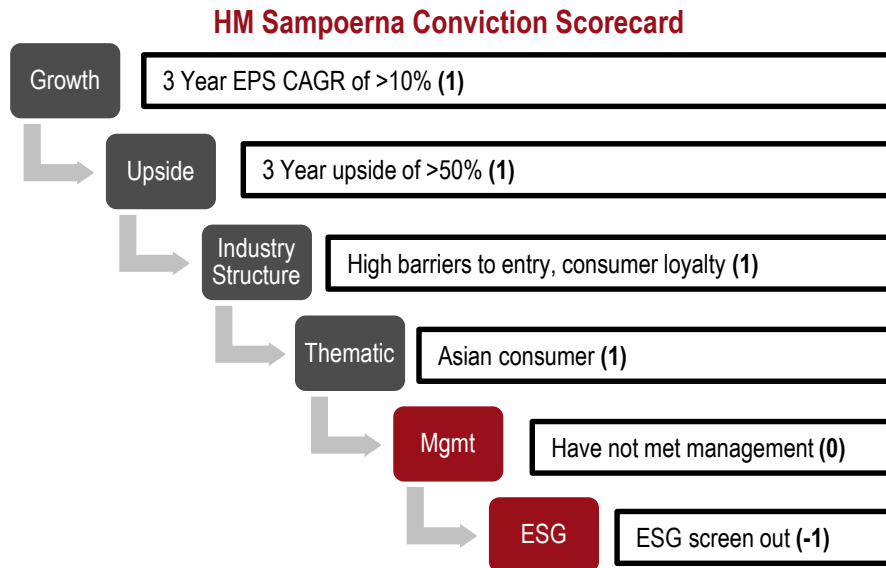
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Stock Discussion

Negative Screening Example

HM SAMPOERNA – INDONESIA

- HM Sampoerna is a tobacco company in Indonesia.
- As shown in the Conviction Scorecard below, the stock meets (met) our other investment criteria but is in a negatively screened sector so gets an ESG score of -1.
- The stock is therefore “knocked out” and is ineligible for further analysis or portfolio inclusion.



Negative Sector Screens

Sector	Revenue Threshold
Tobacco Production	0%
Armaments & Weapons	0%
Tobacco Distribution	5%
Coal	5%
Gambling	5%
Palm Oil Production	5%
Nuclear Energy	5%
Pornography	5%

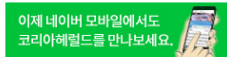
Negative Scoring Example

SAMSUNG BIOLOGICS – KOREA

- Samsung Biologics is a Korean biotech company. It does not operate in any of the negatively screened sectors.
- The stock meets the other investment criteria in our process and was therefore eligible for a deep dive analysis.
- The deep dive analysis revealed major governance related issues namely accounting fraud, failure to inform shareholders of material events and destruction of evidence.
- As such, the stock was scored -1 on both ESG and management. This score was integrated into the Conviction Scorecard making Samsung Biologics ineligible for further analysis or portfolio inclusion.

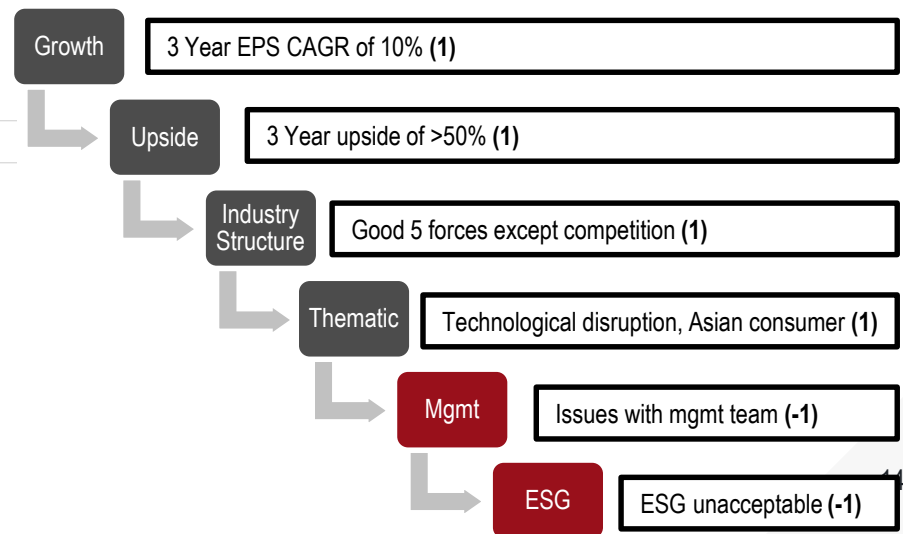
Controversy Alert

Integration of ESG Score into Conviction Scorecard



Business All Industry Technology Transport Retail

Prosecutors seek arrest warrant for Samsung BioLogics CEO in accounting scandal

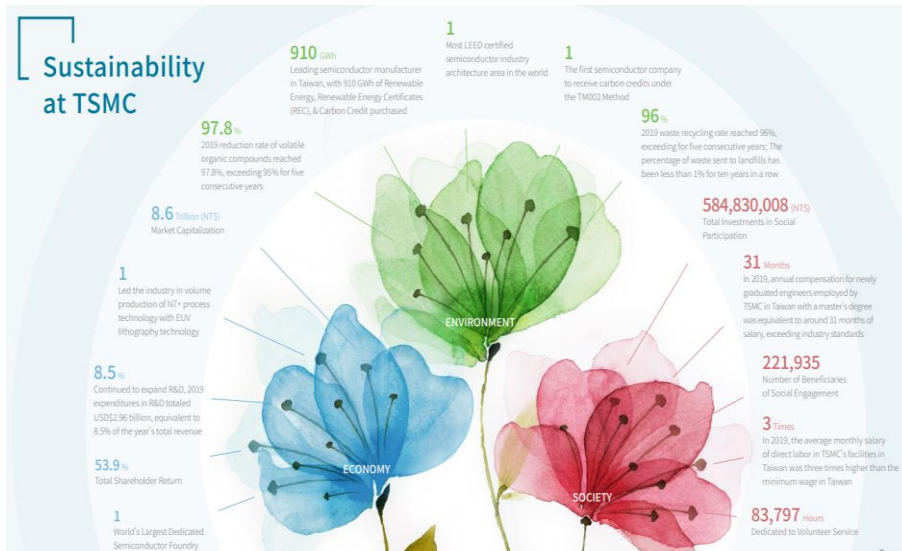


Positive Scoring Example

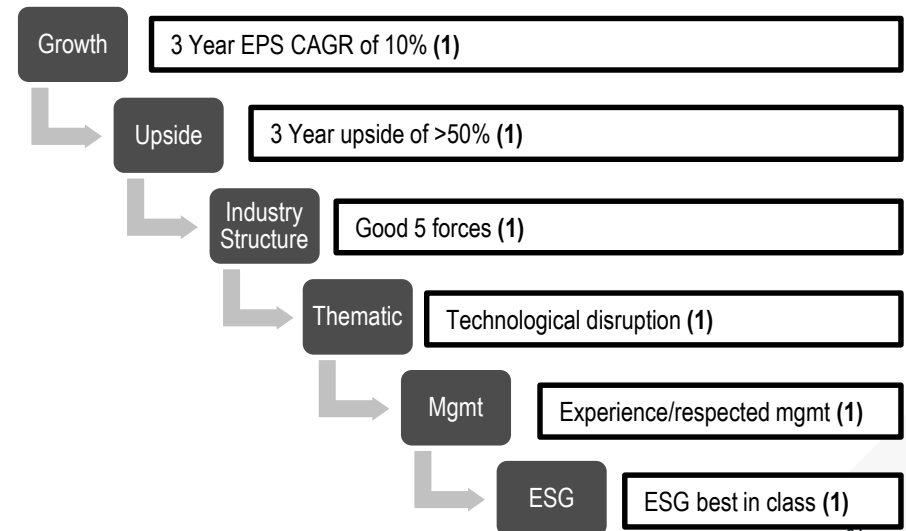
TSMC – TAIWAN

- TSMC is the world’s largest semiconductor foundry in the world.
- It does not operate in any of the negatively screened sectors.
- At the time of purchase, TSMC met our growth, upside, industry, thematics and management criteria.
- TSMC is also assessed a score of 1 for ESG as we consider it ‘best in class’ amongst tech manufacturers globally. It has a strong focus on the environment, has good social practices, has good corporate governance and no major controversies.

TSMC ESG related achievements



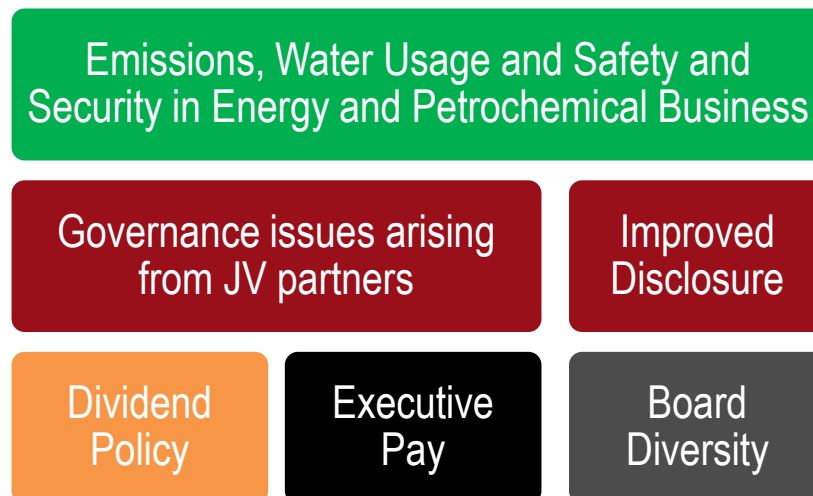
Integration of ESG Score into Conviction Scorecard



Engagement and Retention Example

RELIANCE INDUSTRIES – INDIA

- Reliance is an Indian conglomerate with 3 main business units: Telecom, Retail and Energy.
- Reliance is the only Energy stock in the EAI portfolio and the only stock that is rated a Severe ESG risk by Sustainalytics, The team has done significant engagement to gain comfort in the stock's ESG.
- In the last 3 years, the EAI team has had 4 meetings with Reliance management on the ground in India and has conducted 4 calls/VCS with management since COVID began earlier this year.
- We have voted on all resolutions for the last 3 AGMS and attended the virtual AGM in 2020.
- The team has engaged with CA100+ on this stock, as Reliance is a company we have common interest in improving disclosure.
- The main ESG issues for this stock arise in the Energy business. Our engagement with management makes us comfortable that the telecom and retail businesses will be sold off within the next 2 years at which time we do not anticipate holding any of the energy assets.
- The following diagram summarizes the ESG topics discussed with management.

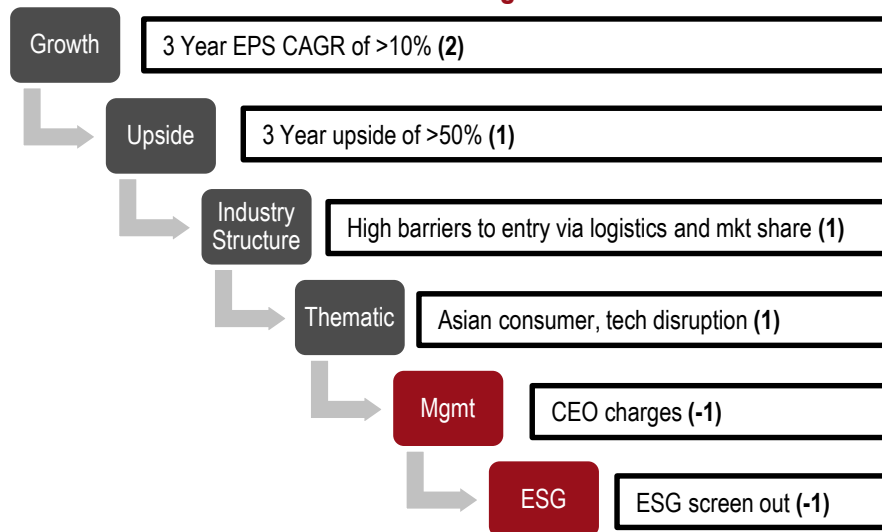


Engagement, Divestment and Reinvestment Example

JD.COM – CHINA

- JD is one of the largest e-commerce companies in China. It meets all of our growth and investment criteria and has been an important alpha generator for the Fund.
- In September 2018, CEO Richard Liu was detained in America for alleged criminal sexual misconduct.
- As shown below, Ellerston Asia has a consistent and long standing relationship with JD management and IR but they were not disclosing any details or providing investors with any comfort as to the governance risks associated with the event. As such, the scores for both management and ESG were moved to -1 and we divested the company.
- Later in the year criminal charges were dropped. Once this had occurred and there was sufficient visibility as to the role and conduct of the CEO going forward, we reinvested in the stock.

JD Scorecard During Late 2018



Engagement with JD

Date	PM/Analyst
January 2017	Mary Manning
May 2018	Eric Fong
Aug 2018	Fredy Hoh
May 2019	Eric Fong
January 2020	Eric Fong
April 2020	Eric Fong
June 2020	Eric Fong



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Q&A

Next Webinar

CONTINUOUS ENGAGEMENT

- Next Ellerston Asia Update: Wednesday, 14 October 2020 at 10am AEST
- You can register at
 - <https://primetime.bluejeans.com/a2m/register/vfkfybsx> or
 - the Ellerston website

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Thank you

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