

# Ellerston Asia Growth Fund

Performance Report | December 20

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	Since Inception (p.a.)
Net <sup>^</sup>	1.62	7.10	15.14	12.14	7.99	11.26
Benchmark*	1.81	9.89	15.92	11.57	6.19	11.12
Alpha	-0.18	-2.79	-0.78	0.57	1.80	0.14

Source: Ellerston Capital

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

\*MSCI Asia ex Japan (non-accumulation) (AUD)

## PORTFOLIO CHARACTERISTICS

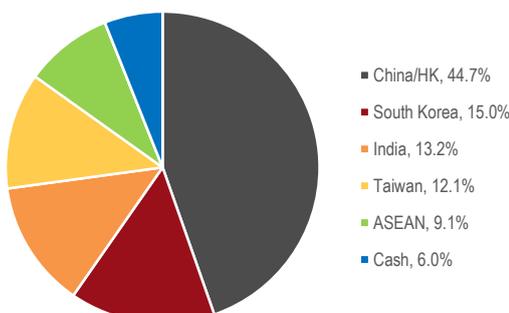
### HOLDINGS

Top 10 holdings	Sector	%
Samsung Electronics	Information Technology	9.2%
TSMC	Information Technology	9.0%
Alibaba Group Holding Ltd	Consumer Discretionary	6.4%
Tencent Holdings Ltd	Communication Services	6.1%
Hong Kong Exchanges & Clearing Ltd	Financials	4.4%
AIA Group Ltd	Financials	3.3%
Reliance Industries Ltd	Energy	3.3%
Ping An Insurance	Financials	3.2%
China Merchants Bank Co.	Financials	2.9%
Housing Development Finance Corporation	Financials	2.2%

### SECTOR ALLOCATION



### GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

### Investment Objective

To outperform the MSCI Asia Ex Japan (non-accumulation) (AUD) benchmark on a net of fees basis, with a focus on capital growth and downside protection.

### Investment Strategy

The Fund's investment strategy is to provide access to a high quality portfolio of primarily large cap Asian Companies using the Manager's distinctively high growth, high conviction and benchmark-independent investment approach. The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that offer the best risk/reward.

### Key Information

Strategy Inception	4 January 2017
Portfolio Manager	Mary Manning
Application Price	\$1.2043
Net Asset Value	\$1.2013
Redemption Price	\$1.1983
Liquidity	Daily
No Stocks	42
Management Fee	1.00%
Performance Fee	15%
Buy/Sell Spread	0.25%/0.25%

## COMMENTARY

The Ellerston Asia Growth Fund (EAGF) was up 1.62% (net) during December versus the benchmark which was up 1.81%. In calendar year 2020, EAGF was up 12.14% and outperformed the benchmark by 0.57% (net).

Compared to November, which included the US election, Ant IPO cancellation, positive vaccine news and extreme sector and factor rotation, December seemed like a relatively subdued month. The main events that impacted markets and the EAI portfolio during the month were: (1) Ongoing first waves or resurgent second waves of COVID-19 in key developed markets (US, UK) despite the initiation of vaccine roll outs; (2) Heightened antitrust measures for Chinese internet and e-commerce companies; and (3) Strong performance by Electric Vehicle (EV) and green stocks in China and globally.

## COVID AND COVID VACCINE UPDATE

This risks associated with vaccine roll out is something that we have written about in numerous previous monthlies. While vaccines are undeniably positive from both public health and economic perspectives, our view has been (and continues to be) that the market has underestimated the challenges associated with vaccine distribution and logistics.

This concern has been borne out with respect to the COVID situations in both the UK and the US. In the UK, vaccinations began on December 2<sup>nd</sup> but by the end of the month the UK was running at over 50,000 cases per day and a mutated more virulent strain of COVID had been detected. Similarly in the US, vaccinations are running far below the planned level, daily cases have exceeded 300,000 and the death toll is over 365,000.

In Asia, Singapore became the first Asian country to approve the Pfizer-BioNTech vaccine with vaccinations beginning on December 30<sup>th</sup>. However, many of the lower income countries in Asia are still struggling to outline feasible and cost effective solutions to vaccine manufacturing, distribution and logistics.

One country that has exceeded our expectations in this regard is India. India has 6 vaccines currently in development and trial and in early January the Drug Controller approved two local vaccines, Covishield (manufactured by the Serum Institute of India in partnership with Oxford) and Covaxine (a vaccine developed by unlisted local player Bharat Biotech). With respect to vaccine logistics, the Indian government has established 31 main distribution hubs, has identified over 200,000 public and private health facilities for vaccine rollout and has a clear pecking order for who gets the vaccine first.

We will wait for further information and data from other Asian countries on vaccine roll out but we do not think that this is the quick fix that markets have priced into valuations of re-opening plays. Our portfolio remains diversified across countries and retains a marginal bias for north Asia over ASEAN (ex Singapore).

## CHINA INTERNET COMPANIES AND ANTI-TRUST REGULATION

In November the Chinese government announced draft anti-trust rules for Chinese internet companies. This accelerated on Christmas Eve when the Chinese government announced that Alibaba was under investigation in an anti-monopoly probe.

Many investors have asked the question “why now?” with respect to the crack down on Chinese internet companies. One possible reason is that the Chinese government was shocked by how influential media and internet platforms were in shaping the US election hence felt the need to have more control over similar platforms in China. Secondly, the increase in Jack Ma’s wealth and power that was expected from the Ant Group IPO, in conjunction with his speech at the Lujiazui Finance Summit where he criticized the Chinese banking sector, highlighted the risk of Chinese internet leaders getting “too big to fail” and creating systemic risk in the Chinese economy and political risk for the Chinese Communist Party.

Going forward the main concern is whether the government wants to drastically crack down on players with monopolistic market positions (i.e. high market share) or whether this was a shot across the bow for large internet entities to reign in their corporate and personal behaviour. Our view is that the focus is more on stemming anti-competitive behaviours and structures (two-choose-one, inappropriate platform exclusivity arrangements, inappropriate use of discriminatory algorithms, etc) rather than going after companies just because they have high market share.

As mentioned in the November webinar, our relative preference in this space is now for challengers rather than dominant market players. We have increased our positioning in PDD and have smaller positions in Alibaba and Tencent than in the past.

## ELECTRIC VEHICLES AND THE GREEN TRADE

Three things have occurred in the last few months that have caused sharp rally in EVs and green stocks in our universe. First of all, in late 2020, China committed to have net zero carbon emissions by 2060 (China Net Zero). To meet the 2060 timeline, China must aim to have peak CO2 emissions before 2030. Reaching peak emissions in less than 9 years will necessitate a resetting of the energy mix in China with a short term pivot towards renewables, primarily solar and wind.

As part of the broader decarbonisation plan, China has also outlined aggressive policies on New Energy Vehicles (NEVs), which include electric, plug-in hybrid and hydrogen fuel-cell vehicles. China aims to have electric cars account for 20% of all total car sales by 2025 and all new car sales to be either hybrids or NEVs by 2035.

Secondly, Biden’s win in November and the Democratic wins in the Senate runoffs in early January, have increased the probability of Biden’s environmental agenda actually becoming policy. And thirdly, Tesla’s index inclusion came and went with no great sell off in the stock and demand for EVs globally continue to trend well in December.

Ellerston Asia has exposure to a number of stocks that are beneficiaries of the above including NIO, China’s largest pure play EV company, Geely, one of China’s largest auto companies that has a burgeoning in-house EV business, EV battery play Samsung SDI, and Xinyi Solar. We strongly believe that the rise of EVs globally and the change in energy mix driven by China Net Zero are important long term thematic. We continue to look for attractive stocks via which to access the benefits of new green policies in China and globally.

## PERFORMANCE

In December, Hong Kong and Korea were the largest country contributors to alpha while China was the largest detractor. Health Care was the largest sector contributor to alpha while Communication Services was the largest detractor. Both sectors reversed versus the previous month. Samsung Electronics and Sun Pharma were the largest single stock contributors, while the IPO of JD Health was also a contributor. Not holding Baidu and our positions in China Resources Cement were the largest detractors.

As always, if you have any questions regarding any aspect of EAGF or the portfolio, please feel free to contact us at [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com).

Kind regards,

Mary Manning

All holding enquiries should be directed to our registrar, [Link Market Services](https://linkmarketservices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

Should investors have any questions or queries regarding the Fund,  
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