

# Ellerston Asian Investments Limited (ASX: EAI)

Performance Report | January 21



CERTIFIED BY RIAA

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.)
Net <sup>^</sup>	4.34%	6.09%	14.27%	15.85%	8.28%	9.34%
Benchmark*	4.58%	9.57%	16.89%	16.31%	6.43%	9.82%
Alpha	-0.24%	-3.48%	-2.62%	-0.46%	1.85%	-0.48%

Source: Ellerston Capital

<sup>^</sup> The net return figure is calculated before all tax provisions, after fees & expenses, includes the effects of the share buyback, and excluding the effects of option exercise dilution. Past performance is not a reliable indication of future performance

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

## PORTFOLIO COMMENTARY

Ellerston Asian Investments (EAI) was up 4.3% (net) during January versus the benchmark which was up 4.6%. Financial year to date in 2021, EAI is up 20.16%.

Ellerston Asian Investments aims to have a sustainable dividend policy based on multiple years of profit reserves. As at the end of January 2021, EAI's dividend profit reserve was approximately 17.05 cents per share (includes FY21 profits).

## MARKET OUTLOOK

The commentary below discusses key market drivers in Asia in January and key factors to watch in the next few months: (1) the transition to a Biden administration in the US and implications for China; (2) Vaccine roll out in Asia and around the world; (3) India's expansionary budget; and (4) Asia's IPO pipeline.

## BIDEN ADMINISTRATION AND CHINA

The first half of January saw the Democrats win both seats in the US Senate runoff elections and the civil unrest on Capitol Hill. The second half of January saw Biden's inauguration and announcements on key appointments to positions that will impact the relationship between the US and China. Specifically, Biden nominated Antony Blinken as Secretary of State and Katherine Tai as the top US trade official. Blinken is a known Europeanist and a multi-lateralist, a marked change from Mike Pompeo. Katherine Tai has a reputation for being a tough negotiator and being tough on China. She is also seen as being more partial to multilateralism than her predecessor Robert Lighthizer.

While we do not expect the Biden administration to be soft on China, we do expect relations and communications to be more rational and multi-lateral. This will be a welcome change from the Trump administration.

## VACCINE UPDATE

The world continues to struggle with vaccine roll outs and Asia is no exception. The table below outlines the vaccine candidate(s) and vaccination targets in major Asian markets. Note that in a number of countries there are both internationally developed and locally developed vaccines available. China recently pushed back its target to inoculate 50 million people given supply constraints and hesitancy among the population to get vaccinated. Vaccines made by local Chinese developers Sinovac Biotech and Sinopharm's China National Biotech Group have encountered some scepticism from the local population.

Likewise in India, India has approved both the AstraZeneca vaccine and a locally developed candidate from Bharat Biotech, the latter of which is still in trials. Indians do not know which vaccine they are going to get when they make an appointment for vaccination, but most patients have a preference for an internationally developed vaccine. We have already heard anecdotal evidence of a dual class structure emerging in some developing countries (China and India included) where people who can afford to secure the more effective international vaccine are attempting to do so and are bypassing the locally developed versions. This may create political and socio-economic problems down the road.

### Key Facts

Listing Date	4 September 2015
NTA (before tax)*	\$1.3579
NTA (after realised tax) <sup>^</sup>	\$1.3165
NTA (after tax)**	\$1.2863
Share Price at 31/01/21	\$1.22
EAI Market Capitalisation	\$160.8 Million
Average Management Fee	0.82%
Performance Fee	15%

\* NTA (before tax) – Includes taxes that have been paid.

<sup>^</sup> NTA (after realised tax) - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

\*\* NTA (after tax) - Includes any tax on unrealised gains and deferred tax.

Country	Current Situation	Vaccine Candidate(s)	Vaccination Targets	Comments
<b>China</b>	Vaccinations underway in 75 cities	Locally developed vaccine by Sinopharm	50m people by Chinese New Year	1) Question marks over efficacy of locally developed vaccine, 2) People don't get to choose which vaccine to take
<b>Hong Kong</b>	Early Feb 2021	Pfizer-BioNTech vaccine (Fosun Pharma)	Entire population vaccinated by 3Q21	People will have a choice on which vaccine to take
<b>India</b>	More than 1.5m people vaccinated	Oxford-AstraZeneca candidate and locally developed candidate from Bharat Biotech	Target 300m people by Jul/Aug 2021	1) People don't get to choose which vaccine to take, 2) daily run-rate of vaccinations well below targeted rate
<b>Singapore</b>	More than 6,000 frontline healthcare workers vaccinated	Pfizer-BioNTech candidate approved	Entire population in 6 months	Plan to set up 36 vaccination centres that can process 2,000 people per day
<b>South Korea</b>	Middle of Feb 2021	Pfizer, Moderna, AstraZeneca and J&J	35m by Sep 2021	Plan to purchase an additional 40m doses of the Novavax vaccine manufactured by local manufacturer SK Bioscience
<b>Taiwan</b>	End Feb/Mar 2021	Oxford-AstraZeneca candidate	No timeline fixed	Three domestic vaccine candidates under trial
<b>Indonesia</b>	Vaccinations underway	China made Sinovac Biotech candidate	2/3rds of population by March 2022	Prioritise vaccine shots for 18-59 year old's

## INDIAN BUDGET

The Indian budget was released on February 1, 2021. Expectations were low going into the announcement given India's well known fiscal constraints, but the government and Finance Minister have apparently decided to deliver a pro-growth budget now and deal with the rating agency implications later. Specifically, the budget announced an aggressive 35% increase in target spending for FY21-22. This will lead to a fiscal deficit target of 6.8% for FY22 (previously 5.5%) and the government outlined a very gradual reduction of the fiscal deficit target aiming to reduce to 4.5% only by FY26. In addition, some of the assumptions in the budget appear ambitious with a 17% increase in tax collections and a 5x increase in privatisation targets.

Regardless, the Indian budget was well received by capital markets with the MSCI India Index rising over 9% in the 6 trading sessions immediately following the budget's release. Ellerston Asia has increased our weighting to India in the wake of the budget adding primarily to financials and introducing InfoEdge to the portfolio.

## ASIA'S IPO PIPELINE

Asia's IPO pipeline is very robust. Late last year, Ellerston Asia participated in the JD Health IPO which rose over 55% in its debut. In February, we participated in the IPO of Kuaishou, the second largest player in short form video in China behind TikTok. Kuaishou rose approximately 160% on the first day and has continued to perform well in subsequent trading sessions.

Importantly, these IPOs are already mega-caps upon listing. JD Health has a current market cap of \$81 billion (AUD) and Kuaishou's market cap is approximately \$237 billion (AUD). The table below shows that we expect the IPO pipeline in Asia to remain very active for the next 12 to 18 months with multiple listings of high quality, high growth, large cap companies that fit nicely with EAI's strategy. Also note that these listings are not all out of China, with India expected to produce a number of unicorn listings in the near term. Elsewhere in Asia, Singapore and Indonesia are home to the much anticipated tech-related listings of Grab and Go-Jek, respectively.

Rank	Company	Country	Est. Valuation (US\$bn)
1	Ant Group	China	150+
2	ByteDance	China	140
3	Reliance Jio	India	70
4	Didi Chuxing	China	60
5	Reliance Retail	India	60
6	Flipkart	India	25
7	Paytm	India	16
8	Grab	Singapore	14
9	Go Jek	Indonesia	10
10	Oyo	India	8

## PERFORMANCE

In January, Hong Kong and Taiwan were the largest country contributors to alpha while China was the largest detractor. Financials was the largest sector contributor to alpha while Materials was the largest detractor. Hong Kong Exchange and TSMC were the largest single stock contributors, while our position in Xinyi Solar was the largest detractor.

As always, if you have any questions regarding any aspect of EAI or the portfolio, please feel free to contact us at [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com). Our next quarterly webinar will be on Tuesday 16<sup>th</sup> March 2021 at 10am AEDT, for which you can register [here](#).

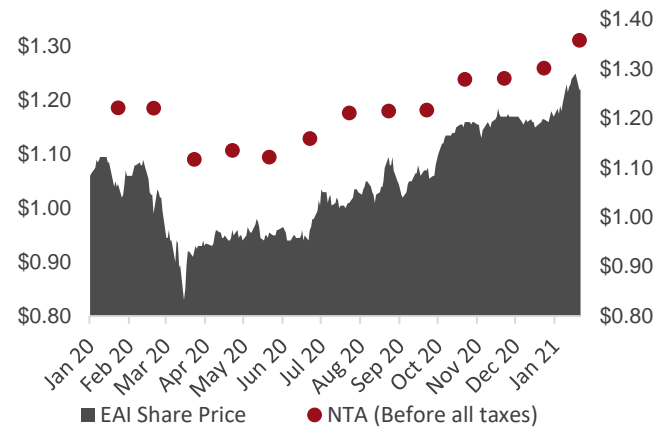
Kind regards,  
Mary Manning

## PORTFOLIO CHARACTERISTICS

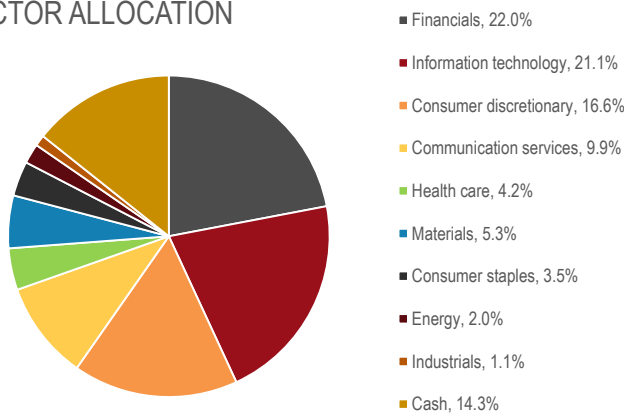
### HOLDINGS

Top 10 holdings	%
TSMC	8.1%
Tencent Holdings Ltd	8.1%
Samsung Electronics	6.9%
Alibaba Group Holding Ltd	6.7%
Hong Kong Exchanges & Clearing Ltd	3.2%
AIA Group Limited	2.8%
Meituan Class B	2.3%
Sun Pharmaceutical Industries Limited	2.1%
Reliance Industries Limited	2.0%
Ping An Insurance	2.0%

### EAI SHARE PRICE VS NTA

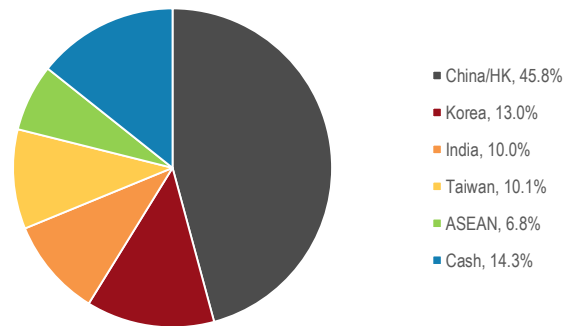


### SECTOR ALLOCATION



Source: Ellerston Capital

### GEOGRAPHIC ALLOCATION



All holding enquiries should be directed to our share registrar, **Link Market Services** on 1300 551 627 or [EAI@linkmarketservices.com.au](mailto:EAI@linkmarketservices.com.au)

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Should investors have any questions or queries regarding the company, please contact our **Investor Relations team** on 02 9021 7701 or [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com) or visit us at <https://ellerstoncapital.com/>

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