

# AGM Chairman's Address

## 2017 Annual General Meeting Thursday, 19 October 2017

On behalf of the Board, I'd like to welcome all Ellerston Asian Investments (EAI) shareholders, invited guests and other visitors present to our second Annual General Meeting. As we have a quorum, I now declare the annual general meeting open.

### **[Slide 2]**

Before we start may I ask members of the audience to please switch off their mobiles.

To begin, let me introduce myself and the people with me on the floor.

### **[Slide 4]**

My name is Ashok Jacob and I'm Chairman of Ellerston Asian Investments Limited. Our Board and Management here today include Sam Brougham, Stuart Robertson and Paul Dortkamp. Ellerston CEO, Brian O'Sullivan is also present together with EAI's Portfolio Manager, Mary Manning.

Also present today is our auditor for the 2017 financial year, Rohit Khanna from Ernst & Young. Rohit is available to take questions relevant to the conduct of the audit and the preparation and content of the Independent Audit Report. The Corporations Act requires that the Company make copies of relevant questions of the Company's auditors received available. No written questions were received. Please direct any questions that you have of our auditor through me.

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### **[Slide 5]**

EAI listed in September 2015. Shortly after the listing, Asian markets fell sharply primarily due to concerns about China. The benchmark fell by approximately 10% between mid-September 2015 and mid-February 2016. Since then, Asian markets have performed very well, particularly in calendar year 2017.

Asia remains the highest growth region in the world. China and India continue on their path to become two of the largest economies in the world.

A new political era has dawned in China with more power concentrated in fewer hands but the system is becoming a lot less corrupt. China jitters have stabilized and the underlying economy is motoring along pretty well.

The early stages of any dictatorship can be very good for equity markets and we definitely see signs of that. China currently has a very attractive risk-reward profile.

If 10 years ago China was a no go market and 3 years ago a maybe, today it is a must have in any equity portfolio.

India remains, in our view, the best long term market in Asia and possibly in the world. It has exceptional structural advantages such as favourable demographics, a large domestic market and low energy prices. Within the parameters of normal valuation cycles, it is an exceptional long term structural growth story.

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Mary will elaborate on this and other Asian markets later.

Ellerston Capital as a house believes that the world is seeing a Global Synchronised Economic Recovery for the first time since the GFC. We are currently enjoying the best economic growth environment since prior to the financial crisis with modest inflation.

This environment will definitely be good for Asian markets as a whole as the underlying fundamentals, growth profile and valuation are superior to those of developed markets. As a result of these factors, Asian markets are significantly outperforming developed markets.

The MSCI Asia ex Japan Index (in AUD) is up 22.5% from inception to 30 September 2017 with over 18% of that performance occurring in calendar year 2017. Despite all the negative press about China and Korea, the Hang Seng Index is up over 25% year to date and Korea's KOSPI Index is up over 20% year to date in 2017.

## **[Slide 6]**

Buoyant market conditions have been good for Ellerston Asian Investments (EAI) as well. Our NTA has increased 17% year to date, from \$0.957 on December 31 2016 to \$1.12 (as of October 13 2017) and our stock price is up from \$0.8663 to \$1.00 in 2017 (as of October 17 2017).

There are a number of reasons for the outstanding performance of Asian markets:

- **Asian economies are posting strong growth** and this is translating into earnings growth. Average GDP growth in Asia is over 5%. This is more than twice as high as GDP growth in Australia, the US and Europe.
- **Both monetary and fiscal policies remain accommodative** across the region. We expect this to continue in the medium term.
- **Asia is a post-GFC laggard.** Between March 2009 and the beginning of 2017, MSCI World rose over 100% (in AUD terms) while the MSCI Asia Ex Japan Index was up "only" 81%. Asia is now catching up and both passive and active funds are flowing into the region.
- **Valuations remain attractive**, particularly when incorporating growth metrics. Despite the fact that earnings growth in Asia is much higher than in Australia, the PE of the Australian market remains higher than for Asia (14x PE versus 16x PE). The Price to Book ratio for Asia is 1.7x versus almost 2.0x for the Australian market.
- **Stand out performance by Asian mega-cap tech stocks.** Like in the US, the rally in some Asian markets has been concentrated in a few key stocks. We like to refer to the STAT stocks (Samsung, Tencent, Alibaba and TSMC) as the Asian version of FAANG. Over 35% of benchmark gains year to date are from the STAT stocks.

Now we will turn to the results for the fiscal year ending 30 June 2017. **[Slide 7]**

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*[Slide 8]*

## **Item 1**

### **Results for the year ended 30 June 2017**

The first item of business is the results for the period to 30 June 2017. The Company recorded a pre-tax profit of \$13,118,456 and a net profit after income tax expense of \$9,094,644.

As at 30 June 2017, the Company's Net Tangible Assets had increased to \$1.0540 (before all taxes), from \$0.9320 as at 30 June 2016.

From inception (15<sup>th</sup> September 2016) to the period ending 30 June 2017, the EAI portfolio returned 8.6% Net (before all taxes) versus our benchmark, the MSCI AC Asia Ex-Japan Index (AUD) which returned 18.5%. When we analyse the returns in local currency, EAI has returned 22.2% for the same period.

*[Slide 9]*

### **Narrowing the discount**

In September of 2016, EAI announced a share buyback of up to 10% of issued ordinary shares. As of June 30, 2017 EAI had bought back 8.3 million shares. From the day prior to the buy back announcement, until 17 October 2017, the discount has closed from approximately 19% to 10.7%. The buyback has been accretive to shareholders and has had no impact on scale as our earnings for the period were \$9.1 million, while we spent \$7.3 million buying back the shares. Ellerston's interests are aligned with our shareholders as a significant number of shares are held by key management personnel of the Company.

We are committed to reducing the discount further and to achieve this, have taken 3 concrete steps:

1. The Board has passed a resolution to be able to buy back up to 10% of total shares outstanding over the next 12 months. Note, this is not simply an extension of the existing buyback that expired on September 26, 2017 but a resolution to buy back new shares in the coming 12 months.
2. EAI did not declare a dividend for the Fiscal Year Ending June 2017 due to the lack of available franking credits. However, we have subsequently transferred \$2.2 million to a dividend profit reserve which equates to approximately 2 cents per share. EAI aims to deliver a regular stream of dividends as the company matures.
3. From October 31 to November 2 2017, EAI is embarking on a roadshow in Brisbane, Melbourne and Sydney to meet with investors and provide a detailed update of the portfolio and the outlook for Asia 2018.

As part of the initial capital raising, investors were also issued options under the general and priority offer.

Under the general offer, investors were issued one loyalty option for every two shares issued. Under the priority offer, investors were issued two options for every three shares issued.

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We are pleased that of the 68.9m options issued under the prospectus, 65.1 million vested in February 2016. The options can be exercised into ordinary shares at the exercise price of \$1.00 up until the 28<sup>th</sup> February, 2019. The options were trading at \$0.03 as at 30 June 2017.

**[Slide 12]**

## **Resolutions**

We will now turn to the formal business of the meeting.

The Notice of Meeting was posted to shareholders and copies are available from the registration desk. I propose that the Notice of Meeting be taken as read. Is there anyone who objects to this?

Thank you

The proxy and voting procedures for this meeting are as follows: A show of hands will be taken for the three resolutions proposed.

When shareholders vote can they please raise their green card. If you hold an orange card you have already voted or are a joint holder. If there are any shareholders who are eligible to vote at the meeting and who have not received their green voting card, please see a representative from Link Market Services at the registration desk. If you hold a pink card you are a visitor and not eligible to vote or speak at the meeting.

Following discussion on each item, the proxy results will be displayed on the screen behind me.

I would also like to highlight that Ellerston Asian Investments directors and executives identified as key management personnel will not be voting undirected proxy votes given to them for item 1, the Remuneration Report.

On all other items of business, where undirected proxies have been given in favour of the Chairman, I will be voting those proxies in favour of all items. I have been informed by my fellow directors and the company secretary that they will also vote any undirected proxies given to them in the same manner with the exception of item 1, the Remuneration Report.

When it comes to asking questions, would speakers from the floor please make themselves known to Nina and a microphone will be made available to you.

Please note that only persons holding green or orange admission cards are entitled to ask questions at this meeting. Visitors holding a pink card are not eligible to vote or speak, but are welcome to listen.

We will now move onto the items of business for this meeting as set out in the Notice of Meeting.

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## **Item 2**

### **RESOLUTION 1 - REMUNERATION REPORT**

The Corporations Act requires that a resolution that the remuneration report be adopted must be put to the vote at the Company's annual general meeting. The vote on this resolution is advisory only and does not bind the directors of the Company. The Remuneration Report to shareholders is contained on pages [13 to 15] of the 2017 Annual Report.

This item gives you the opportunity to ask questions about or make comment on EAI's remuneration policies.

Is there any discussion on this item?

On the screen behind me are the details of the total valid proxies for this item. **[Slide 13]**

All those in favour, please raise your green voting cards.

All those against, please raise your green voting cards.

The Resolution has carried.

## **Item 3**

### **RESOLUTION 2 - ELECTION OF DIRECTOR**

The next item of business to consider and if thought fit to pass the following resolution

***"That Paul Dortkamp, who retires as a Director pursuant to the requirement in ASX Listing Rule 14.5 and section 63 of the Company's Constitution and being eligible be elected as a Non-executive Director".***

The Board (with Mr Dortkamp abstaining in respect of this resolution) recommends the election of Mr Dortkamp.

Is there any discussion on this item?

On the screen behind me are the details of the total valid proxies for this item. **[Slide 14]**

All those in favour, please raise your green voting cards.

All those against, please raise your green voting cards.

The Resolution has carried.

**[Slide 15]**

I will now hand over to the Portfolio Manager, Mary Manning.

*[Slide 16]*

## Market Outlook

Asia remains the highest growth region in the world and we continue to find high quality, high growth, large cap stocks in which to invest. China and India are the largest economies in Asia and they are growing at almost 7%. Other smaller Asian economies like the Philippines (6.5% GDP growth) and Indonesia (5.2% growth) get less attention than China and India, but they are also high growth economies with significant macroeconomic and demographic tailwinds.

Despite strong performance year to date, we remain constructive on the outlook for Asian markets going forward. We are monitoring the following situations closely:

- **China:** October 18 marked the start of the 19<sup>th</sup> Party Congress in China. It is widely agreed that President Xi will use this twice a decade event to cement his already strong control over the Party and the Standing Committee. Following the Party Congress we expect a continued focus on structural reform and are confident that policy makers can continue to strike a balance between stable growth and deleveraging. The upcoming inclusion of Chinese A shares into MSCI Indices in May of 2018 will also be an important catalyst for the Chinese market.
- **India:** Prime Minister Modi continues to enjoy high popularity despite implementing beneficial, but short term disruptive, policies like the GST and demonetization. Indian elections are coming up in 2019 and we are confident that voters will return Modi to power. In the run up to the election we are expecting pro-voter policies including a push to increase rural incomes and a focus on infrastructure and affordable housing. We continue to find high growth and attractively valued stock picks in the Indian market.
- **North Korea:** The situation on the Korean Peninsula is obviously very critical to Asian markets. Our base case is that the situation continues to be characterized by escalating brinkmanship but no attack. The EAI team has travelled to Korea twice this year and there seems to be much more concern from foreigners than from locals. Year to date in 2017 the Korean market is up over 20% and Samsung, the largest company in Korea, is at an all-time high. That said, we have protected the portfolio from a worst case scenario by being underweight Korea and by using an option strategy to hedge the KOSPI and other Asian markets.
- **Technology:** Technology is the largest sector weighting in EAI's portfolio and we think Asia is the best way to play tech globally. Approximately 21% of EAI's portfolio is in the Asian mega-cap tech stocks and we have invested in a number of companies that are part of the global technology supply chain. We are also excited about disruptive technologies in Asia such as robotics, Artificial Intelligence and Virtual Reality and hold a number of stocks that are plays on each of these sub-thematics.
- **US Interest Rates, Tax Reform and Trade:** The trajectory for US interest rates and the dismantling of years of Quantitative Easing (QE) has implications for all markets, including Asia. Specifically, we hold a number of financial stocks (banks and insurance) that are beneficiaries of higher interest rates in the US. In addition, higher US rates have implications for Asian currencies and the cross rate between USD pegged or linked currencies in Asia (HKD,

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RMB) and the Australian dollar (AUD). On tax reform, during November 2016 to February 2017 tax reform fever led to a significant sector shift into cyclicals and we are mindful that this could happen again. On trade, we are closely watching the NAFTA renegotiations as it hold implications for the long term trade relationship between the US and China.

## Portfolio Comment

Since listing we have maintained a deliberate and measured approach with regards to the construction of the portfolio. The average EPS growth of the portfolio is 18% versus the ASX 200 which is growing at approximately 4%. The PEG ratio remains less than 1x which implies the price EAI is paying for Asian growth is significantly less than in other markets.

EAI is focused on large cap stocks and the portfolio has an average market cap of over \$90 billion. There are 50 stocks in the portfolio. Note that earlier in 2017 we increased the maximum number of stocks from 40 to 50 due to increases in the number of stocks in the benchmark and to reflect the upcoming inclusion of China A shares into the MSCI Asia ex Japan Index.

EAI's geographic positioning remains consistent: we are overweight India and underweight Korea. We have no investments in countries where we can't find stocks that meet our strict investment criteria (Malaysia, Pakistan). From a sector perspective, we remain primarily invested in 3 core sectors, technology, financials and consumer, but the portfolio is more diversified than in the past. This is because a resurgent reflation trade may cause sector rotation into cyclicals and more value oriented sectors.

On currency, the portfolio is hedged as per the benchmark for all currencies with a weight of greater than 10%. Cash is approximately 5%.

*[Slide 20]*

## Q&A

This now concludes the business section of the AGM and we now call for general questions from the audience.

Following question time, the AGM will be formally announced as closed. The Ellerston Global Investments AGM immediately follows this AGM and we invite you to attend. Following the Ellerston Global Investments AGM, we welcome you to join the Board for tea and coffee.



# Ellerston Asian Investments ANNUAL GENERAL MEETING

October 2017



## AGM Agenda

1. Chairman's Welcome & Address
2. Results
3. Resolutions
4. Portfolio Overview and Market Outlook



# 1. Welcome & Chairman's Address

## Board

Name	Position	Independence	Prior experience
Ashok Jacob	Chairman & Non-Executive Director	Not Independent	Consolidated Press Holding Ltd , Thorney Holdings. Current directorships include MRF Ltd, Thorney Opportunities Ltd and EGI.
Sam Brougham	Non-Executive Director	Independent	Ceres Capital, Structured Asset Management, JBWere and Price Waterhouse
Paul Dortkamp	Non-Executive Director	Independent	Rivergum investors, First State Fund Managers Ltd ( now CFS Investments) and the RBA
Stuart Robertson	Non-Executive Director	Independent	BT Funds Management and Zurich Australia.

## Personnel

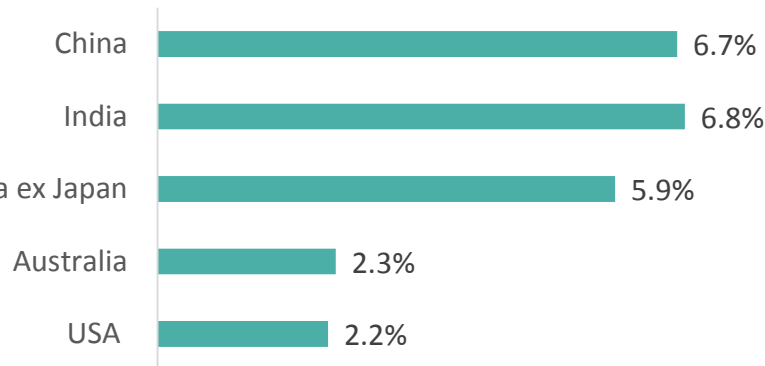
Name	Position	Prior experience
Mary Manning	Portfolio Manager	Oaktree Capital, Soros Fund Management and Citigroup
Brian O'Sullivan	Chief Executive Officer Ellerston Capital Limited	Zurich Australia and BT Funds Management.

## Asian Markets are Performing Well in 2017

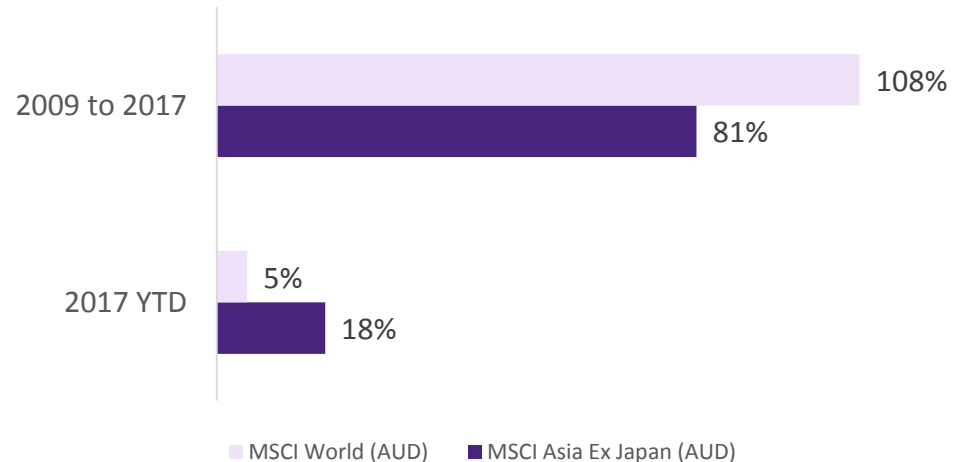
The MSCI Asia ex Japan Index is up 18.6% YTD as at 30 September in 2017. Drivers of this strong performance include:

- High growth. Average GDP growth in Asia is twice as high as in developed markets.
- Monetary and fiscal policies remain accommodative.
- Asia is a post-GFC laggard and is now catching up.
- Valuations remain attractive.
- Stand out performance by Asian mega cap tech stocks.

2017E GDP Growth



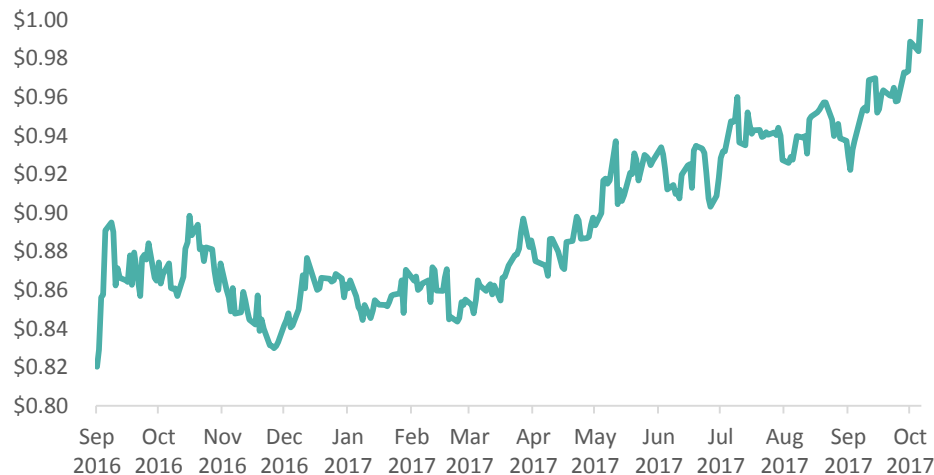
MSCI Asia ex J vs MSCI World Since the GFC\*



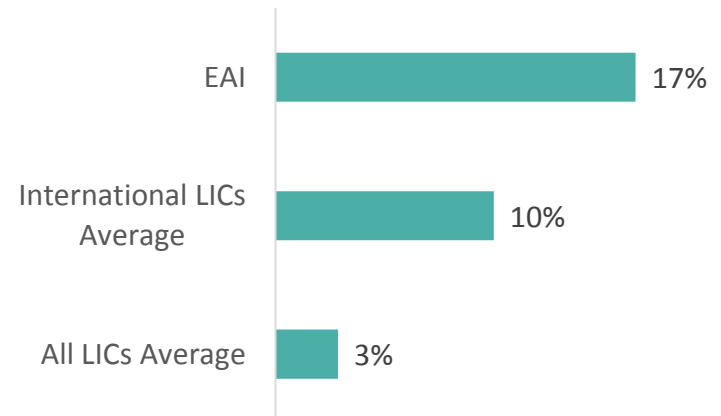
\* Returns are in AUD terms. Post GFC period is March 1, 2009 to Dec 31, 2016. 2017 YTD is until Oct 11, 2017 .

## CHAIRMAN'S REMARKS

- The NTA is up 17% in 2017, from \$0.9573 at 31 December 2016 to \$1.12 as of Friday October 13, 2017.
- In Sept 2016 we announced a 10% share buy back.
- Since initiation of the buy back the discount has closed from 19% to approximately 10.7%.
- Due to the combination of a higher NTA and a lower discount, EAI's stock price is up 22% from \$0.8202 the day prior to the buy back announcement to \$1.00.
- The buy back has been accretive for EAI shareholders and has not reduced the scale of EAI. Our interests are aligned with shareholders.



EAI Stock Price Performance vs LIC Universe Since Buy Back Announcement\*



\* LIC Universe includes 43 ASX listed LICs, 11 international strategy LICs and 32 Australian or specialist strategy LICs. Time frame for this chart is Sept 12, 2016 to Oct 11, 2017.



## 2. Results

## Financial Results for the year ended 30 June 2017

	30 June 2017
Pre Tax Profit	\$13,118,456
After Tax profit	\$9,094,644
Earnings per share <sup>(a)</sup>	7.77
Final dividend per share	Nil
Dividend profit reserve	\$2.2m
Pre Tax Net tangible assets	\$117,629,969
Pre Tax Net tangible asset backing per share	\$1.0540

(a) EPS on an undiluted basis

### Reducing the Discount Further

- On 13 September 2017 a resolution was passed by the Board for an additional 10% buy back over 12 months.
- Note this is not an extension of the existing buyback but a new mandate.
- We did not pay a dividend in FY17 due to lack of available franking credits, but we are committed to paying a dividend going forward.
- \$2.2m has been moved into a profit reserve to support a fully franked dividend this fiscal year.
- We continue to actively engage with investors to increase the breadth and depth of our shareholder base.



- Stock level returns since inception are up 22% in local currency.
- However, the appreciating AUD has been a headwind for absolute performance in AUD.
- How should investors think about currency in the context of EAI?
  - A weak AUD that is specific to the AUD is good for EAI returns.
  - A weak AUD because of a strong USD is generally a positive for EAI returns.
  - A weak AUD because China is weak is a negative for EAI returns, although a weaker AUD would cushion stock level declines.

Performance (%)	3 Months	CYTD 2017	Since Inception
Gross stock returns (Local FX)	5.6%	20.0%	22.2%
Gross returns (AUD)	3.2%	14.3%	14.4%

Note: Returns as at 30 September 2017. Performance figures are all pre-tax. Inception is September 2015. Gross stock returns are calculated by subtracting all FX impacts during each time frame.

Performance %	3 Months	6 Months	CYTD 2017	FY 2017	Since Inception
Gross returns	3.2%	9.6%	14.3%	14.5%	14.4%
Net returns	2.9%	8.9%	13.3%	13.1%	11.7%
MSCI AC Asia Ex Japan (AUD)	3.3%	10.4%	18.6%	20.5%	22.5%

Note: Data as at 30 September 2017. Performance figures are all pre-tax.  
 Net performance since Sept 2016 also includes the effect of the buy back. Inception is September 2015.

### 3. Resolutions

## Resolution 1 – Remuneration Report

*“To adopt the Remuneration Report of the Company for the year ended 30 June 2017.”*

### Proxy Voting Results - Resolution 1

	NUMBER	PERCENTAGE
FOR	16,192,691	96.79%
AGAINST	196,000	1.17%
OPEN	341,200	2.04%

## Resolution 2 – Election of Director

*“That Paul Dortkamp, who retires as a Director pursuant to the requirement in ASX Listing Rule 14.5 and section 63 of the Company’s Constitution and being eligible be elected as a Non-executive Director”.*

## Proxy Voting Results - Resolution 2

	NUMBER	PERCENTAGE
FOR	16,344,691	97.67%
AGAINST	15,000	0.09%
OPEN	375,200	2.24%

## 4. Portfolio Overview and Market Outlook

## High Growth

- Asia is a high growth region and remains attractively valued.
- The EAI portfolio has average EPS growth of 18% and a PEG ratio of <1x.

## Large Cap

- Large cap stocks offer the best risk reward in Asia.
- The average market cap of the EAI portfolio is over \$90 billion and the average of the top 10 holdings is over \$130 billion.

## Concentrated

- Only 50 stocks.

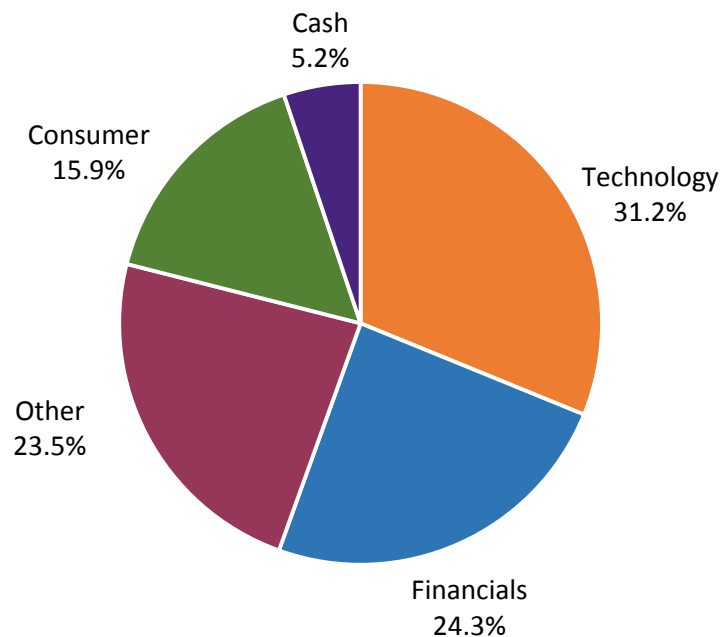
## Diversified

- We are invested in 9 different Asian countries.
- Technology, a sector with very little representation domestically, is the largest sector weight in EAI.

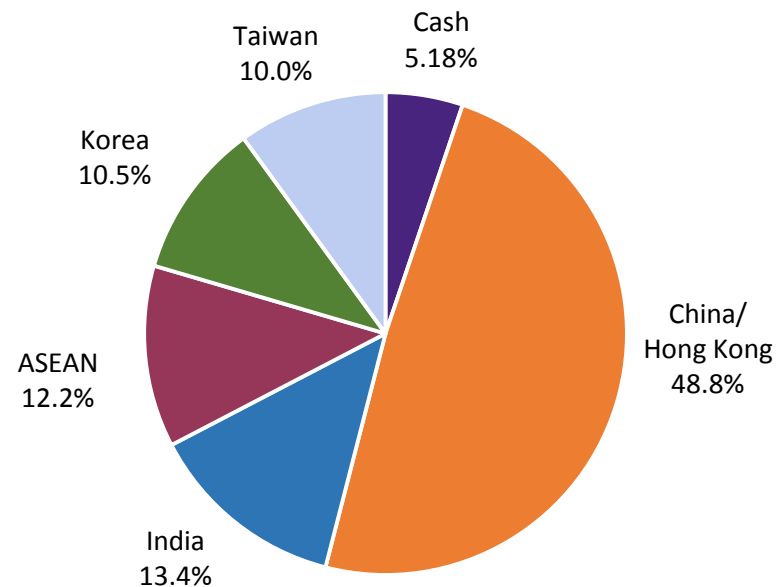
# CURRENT POSITIONING

- EAI's sector allocation is overweight Tech and Financials.
- The portfolio is more diversified than before given the possibility reflation trade redux.
- Geographic allocation is overweight India and underweight Korea.

Sector Allocation (September 30)



Geographical Exposure (September 30)





## TOP PORTFOLIO HOLDINGS

Company	%	Country
Tencent Holdings Ltd	6.5	China
TSMC	5.7	Taiwan
Alibaba	4.7	China
DBS Group Holdings	4.7	Singapore
Samsung Electronics	4.4	Korea
ICBC	3.3	China
China Construction Bank Corp	3.1	China
Larsen and Toubro	3.0	India
Maruti Suzuki India	2.6	India
Ping An Insurance Group	2.3	China

As at 30 September 2017



- 19<sup>th</sup> Party Congress
- More focus on structural reform



- iPhone 8/X sell through for supply chain
- Will FAANG roll over? Implications for STAT.



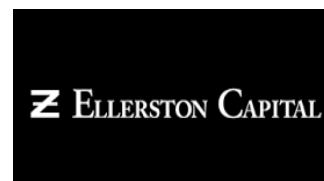
- GST disruption
- Demonetization anniversary
- 2019 pre-election policies



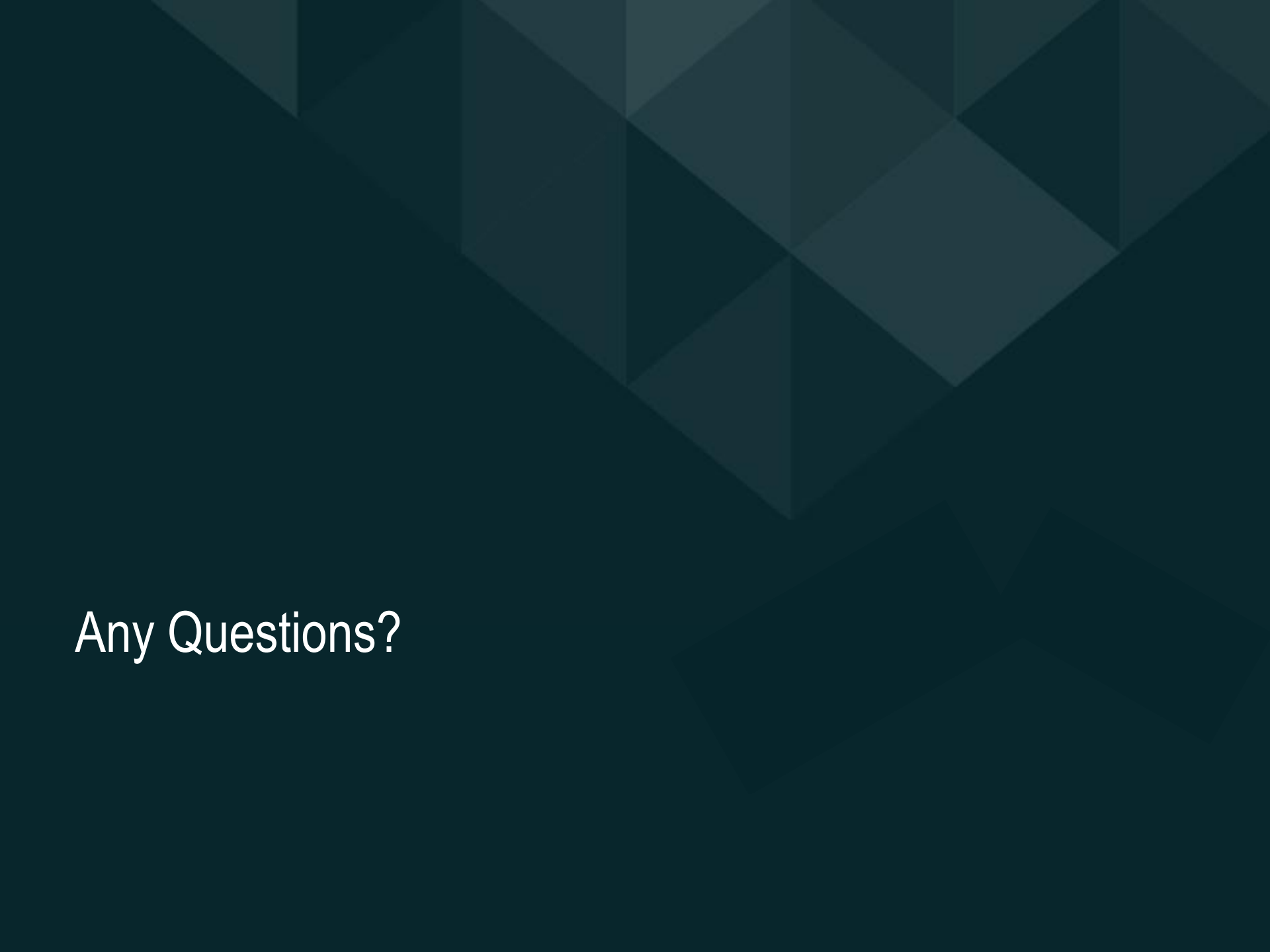
- Interest rate trajectory in the US and QT
- Tax reform and reflation trade redux



- Base case is ongoing brinkmanship
- Risk hedging strategy



- EAI Roadshow Oct 30-Nov 2



Any Questions?

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