

Ellerston Asian Investments Limited (ASX:EAI)

Performance Report | July 2020

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net [^]	5.16	7.41	1.39	11.20	8.95	7.38
Benchmark*	3.71	4.88	-0.50	5.50	5.95	7.40
Alpha	1.45	2.53	1.88	5.69	3.00	-0.02

Source: Ellerston Capital

[^] 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

July performance was a strong start to the new Financial Year. Ellerston Asian Investments (EAI) was up 5.16% during July and outperformed the benchmark by 3.71% (net). Year to date in calendar 2020, EAI is up 2.60% and has outperformed the benchmark by 2.78% (net) and has significantly outperformed the ASX 200 which is down 9.97%. The dividend profit reserve as of 31 July 2020 was 8.66 cents.

MARKET OUTLOOK

We remain concerned about the apparent disconnect between the market movements and underlying economic fundamentals. This disconnect is more pronounced in Developed Markets (DM) than in Asia, but Asia would not be immune to a market correction in the US. Cash levels remain elevated for EAI at 16.8%.

COVID

The Asian region has bifurcated into countries that have been successful at containing the virus (and second waves) and those that have not. Taiwan, China and Korea are in the former category while India, Indonesia and the Philippines are in the latter.

The situation in India is particularly disheartening. India now has the third highest number of COVID cases globally, yet our contacts on the ground report that basic measures to contain the virus are not being enforced. Given the underdevelopment of the health system, efforts to effectively track and trace positive cases are severely limited versus other countries in Asia and around the world.

In addition, the ability of India, Indonesia and the Philippines to stimulate themselves out of a COVID-related economic downturn like the US and Australia, is limited due to high debt/deficit levels and currency considerations. From a country allocation perspective, we retain our strong preference for North Asia over India and ASEAN.

US-China Relations: TikTok, WeChat and Sanctions

In previous monthly newsletters and webinars we have stated that the deterioration of US-China relations is an important risk that the market is not adequately pricing in. Relations deteriorated further in July and early August with President Trump signing Executive Orders to ban Chinese apps TikTok and WeChat, and China and the US both imposing sanctions on officials over Hong Kong.

The Executive Order to ban TikTok and WeChat was not unexpected given the chatter in previous weeks. We vigorously reviewed our Tencent model in anticipation of such an event and concluded that banning of WeChat in the US would have a very minimal impact on Tencent's revenues or profitability. WeChat has over a billion daily active users, while only approximately 19 million of them are in the United States. The issue however is that the Executive Order is very vague and it is unclear what is included in the ban on "transactions" between US entities, WeChat, TikTok and their parent companies Tencent and ByteDance, respectively. The Secretary of Commerce has 45 days to clarify the ban before it comes into effect in September.

The timing of the ban (prior to a meeting on trade and when Trump is lagging in the polls) and the method (Trump invoked the International Emergency Economic Powers Act (IEEPA)), are classics from the Trump playbook. Numerous times in the last 3 years we've seen Trump threaten something against China prior to a meeting to improve bargaining power on a range of issues. Using emergency powers of potentially questionable legality to make a point and then letting the issue get tied up in court has also been used before (i.e. Huawei's CFO is still in Canada and has not been extradited to the US). TikTok's rebuttal to the ban is telling: "We will pursue all remedies

Key Facts

Listing Date	4 September 2015
NTA (before tax)*	\$1.2127
NTA (after realised tax)[^]	\$1.2074
NTA (after tax)**	\$1.1815
Share Price at 31/07/20	1.01
EAI Market Capitalisation	\$126.9 Million
Average Management Fee	0.83%
Performance Fee	15%

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

[^] 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.

available to us in order to ensure that the rule of law is not discarded and that our company and our users are treated fairly - if not by the administration, then by the US courts.”

We have trimmed our Tencent position slightly until there is clarification as to what “transactions” the ban covers and until there is more clarity as to whether the Trump administration plans to go after Tencent assets in the US other than WeChat. Despite the trim, we retain an overweight position versus the benchmark.

Another area of relational deterioration is the sanctioning of US and Chinese officials over the situation in Hong Kong. In early August, the US announced sanctions on Hong Kong Chief Executive Carrie Lam and 10 other officials who have played a role in the drafting and implementation of the Hong Kong National Security Law. China retaliated by imposing sanctions on 11 Americans including Senators Marco Rubio and Ted Cruz. Marco Rubio has been a particularly vocal critic of Chinese ADRs.

Finally, as we’ve highlighted previously, many of the anti-China policies touted by the Trump administration may have a limited shelf life given the proximity of the November Presidential election.

PERFORMANCE

In July, Taiwan and Hong Kong were the largest country contributors to alpha while China was the largest detractor. IT and Financials were the largest sector contributors to alpha while Consumer Discretionary and Health Care were the largest detractor. TSMC and Hong Kong Exchange were the largest single stock contributors to alpha while VenusTech 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. We are hosting an update conference call on August 18 for Ellerston Asia investors, for which you can register [here](#).

Kind regards,

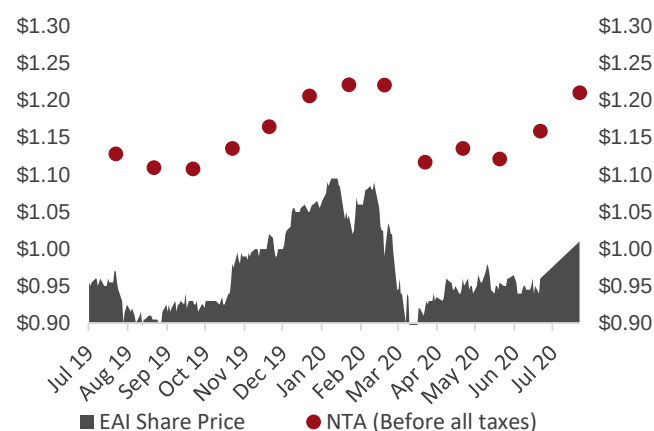
Mary Manning

PORTFOLIO CHARACTERISTICS

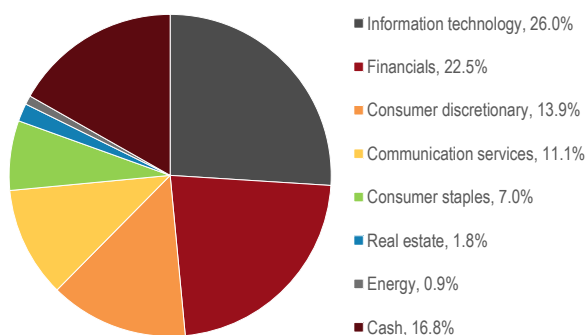
HOLDINGS

Top 10 holdings	%
Alibaba Group Holding Ltd.	10.7%
Tencent Holdings Ltd	8.8%
Samsung Electronics	8.2%
TSMC	7.9%
Ping An Insurance	6.5%
Hong Kong Exchanges & Clearing Ltd	5.3%
Hindustan Unilever Limited	2.9%
China Merchants Bank Co. Ltd.	2.7%
SK Hynix	2.6%
Infosys Limited	2.4%

EAI SHARE PRICE VS NTA

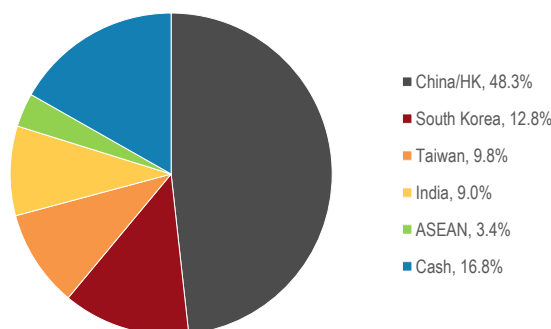


SECTOR ALLOCATION



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

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

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