

# ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

15 December 2020

Company Announcements Office  
ASX Limited  
Level 4, Exchange Centre  
20 Bridge St  
SYDNEY NSW 2000

## ELLERSTON ASIAN INVESTMENTS LIMITED PRESENTATION

Ellerston Asian Investments Limited (**ASX: EAI**) encloses the presentation for the upcoming Investor Update Webinar.

The Ellerston Asia Investment Update will take place on Tuesday 15 December at 10am AEDT. Shareholders and investors can register for the webinar at the following link:

[Register your attendance here](#)

For any further enquiries please contact Link Market Services on 1300 551 627 or Ellerston Capital Limited Investor Relations on 02 9021 7701.

Yours sincerely,



Ian Kelly  
Company Secretary



ELLERSTON ASIA

# Ellerston Asian Investments

Investor Update December 2020

# Performance

## PERFORMANCE TO 30 NOVEMBER 2020

- EAI was up 0.05% during the month versus the benchmark which was up 2.91%.
- CYTD in 2020 EAI is up 10.6% and has outperformed the benchmark by 1.0%.
- MTD in December EAI has generated positive absolute returns and positive alpha.
- The most recent NTA (December 11<sup>th</sup>) is \$1.2998.

%	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
<b>EAI Net</b>	0.05%	7.59%	17.25%	14.50%	16.79%	8.43%
<b>Benchmark*</b>	2.91%	9.50%	18.42%	12.22%	12.91%	8.84%
<b>Alpha</b>	-2.87%	-1.91%	-1.17%	2.29%	3.88%	-0.41%

. \* 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**.
- As at the end of November EAI's dividend profit reserve was approximately 12.05\* cents 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%

\* includes FY21 profits

## DISSECTING NOVEMBER MARKET MOVEMENTS

- Overall market movements in November belie extreme underlying volatility across sectors and countries.
- There has been a lot of commentary about market “rotation” in November.
- Markets rotation from growth to value is typically difficult for EAI given our strategy and our strict growth oriented investment criteria.
- In addition to the growth/value nexus, there were multiple other rotations that occurred during the month.
- The big question now is how long will these rotations last?

Catalyst	Rotation From	Rotation To
US Election	Blue Sweep Plays	Divided Govt Plays
Vaccine Results	Stay at Home Plays	Re-Opening Plays
Vaccine Results	Countries with COVID under control	Countries in 1 <sup>st</sup> /2 <sup>nd</sup> /3 <sup>rd</sup> wave of COVID
US Election & Vaccine Results	Growth	Value
China Internet Regulation*	Mega Cap Eco-System Plays	Non-Eco-system Challengers
Weak USD and Commodity Prices	Good ESG	Bad ESG
All of the Above	Leaders	Laggards

\* Cancellation of Ant IPO and China internet anti-trust regulation.

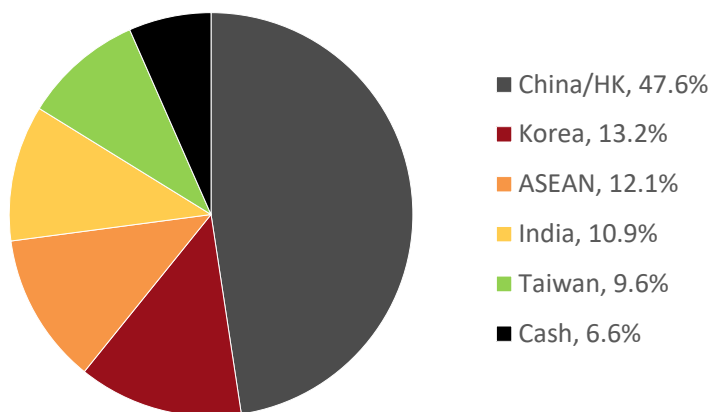
## CHANGES TO POSITIONING DURING LATE OCTOBER & NOVEMBER

Reposition	Rationale	Stocks
Add Financials	Yield curve steepening, COVID NPL cycle benign, banks are low PE stocks with good ESG	Singapore banks, BBRI, Shinhan, China Merchants Bank, MBT
Add ASEAN	ASEAN markets are significant regional laggards CYTD, beneficiaries of vaccines, beneficiaries of weak USD	ASEAN Banks, IVL, Telkom Indonesia
Reduce Alibaba, add PDD, keep Meituan and JD	BABA clearly targeted post-Ant, larger more diversified internet companies have more anti-trust risk, Trump/SEC decision on ADRs	BABA, PDD, JD, Meituan
Add limited exposure to materials	Trump bump lasted 3 months, growth vs value positioning was extreme and may not be totally unwound	IVL, CR Cement, JSW Steel
Add some re-opening plays	Vaccine news to continue to trickle out with positive implications for re-opening plays	Budweiser APAC, Thailand (most tourism heavy market in Asia)

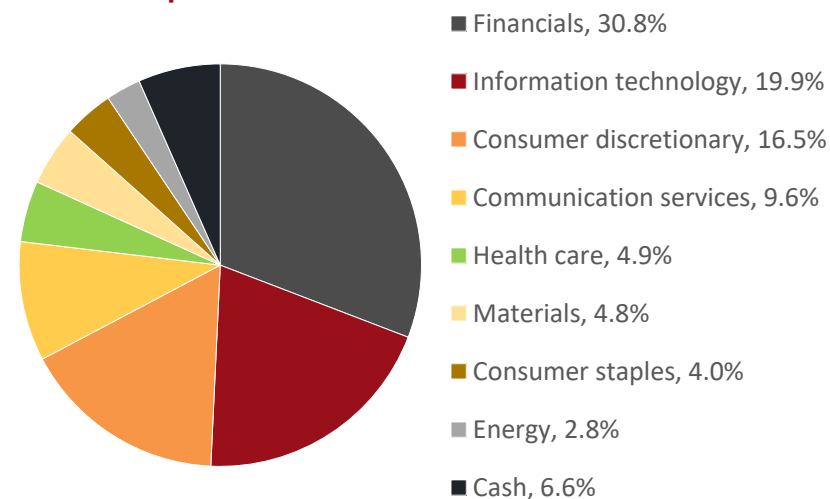
# Portfolio Positioning

PORTFOLIO CHARACTERISTICS AS OF 30 NOVEMBER 2020

## Country Exposure



## Sector Exposure



Top 10 Holdings	Portfolio Weight (%)
Samsung Electronics	7.9%
Taiwan Semiconductor Manufacturing	7.6%
Alibaba	7.6%
Tencent	7.6%
China Merchants Bank Co.	4.5%
Hong Kong Exchanges & Clearing	4.2%
Ping An Insurance (Group)	3.3%
DBS Group Holdings	3.1%
Reliance Industries	2.8%
United Overseas Bank	2.3%
<b>Total</b>	<b>51.0%</b>



ELLERSTON ASIA

# Outlook for Asian Markets in 2021



# COVID-19 Update

## REOPENING, SECOND WAVES AND VACCINES

- Most countries in Asia were in the COVID deceleration phase including India but most recently we saw several countries such as Japan, HK and Korea dealing with second/third waves. This is within our expectation given the unpredictable nature of the virus.
- Our call that COVID would be FIFO (First In First Out) in nature has informed country allocation for large part of 2020, with a preference for North Asia over ASEAN and India.
- With the positive vaccine news in recent weeks, countries (i.e. South Asia) that are more impacted by COVID should see greater benefits hence we have added more ASEAN to the portfolio.

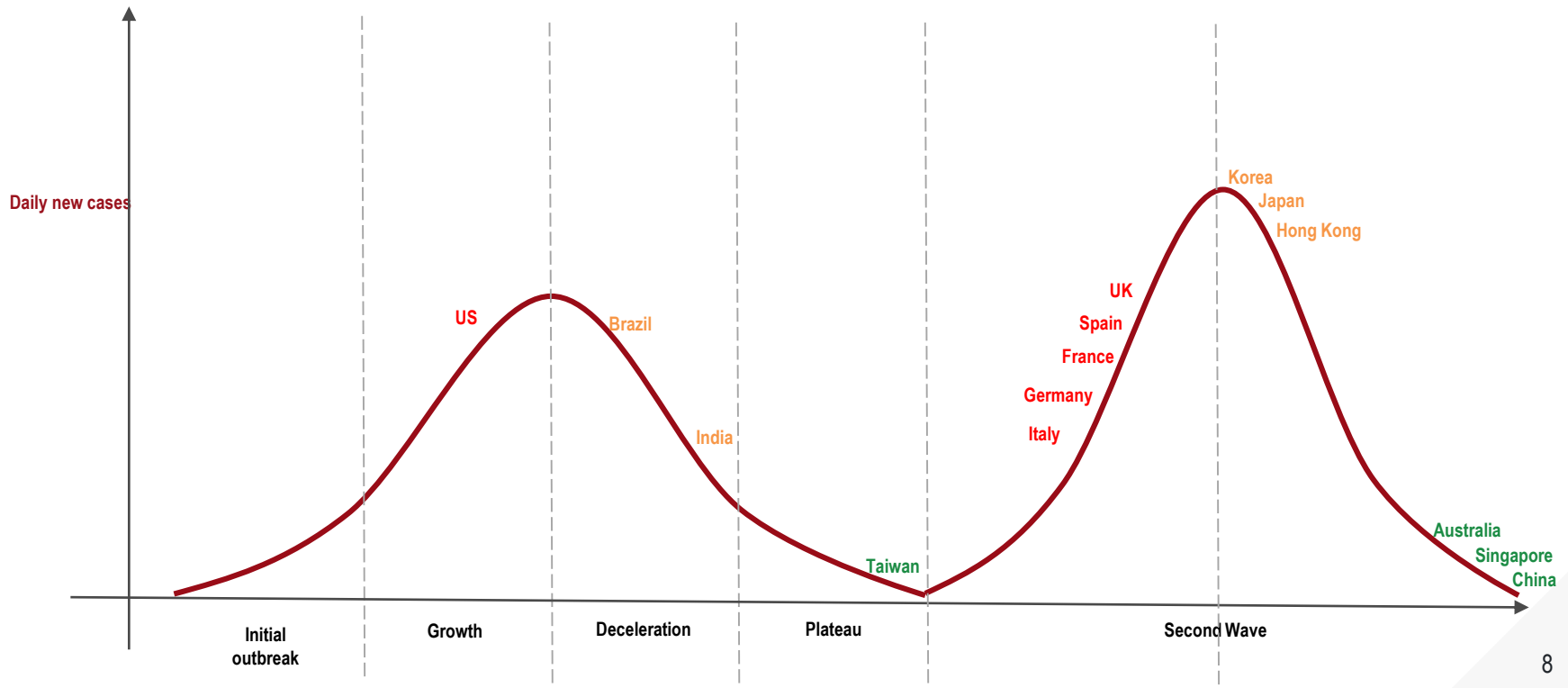


Diagram illustrative and not to scale. Source: Ellerston Asia and John Hopkins Data on COVID cases as of Dec 12.

# Post-COVID Macroeconomic Outlook

## ASIA BOASTS THE BEST GROWTH OUTLOOK IN THE WORLD

- COVID has accelerated the Japanification of Developed Markets but Asia is already enjoying a post-COVID cyclical upswing and the long term structural growth story remains intact.
- Second waves in Asia are contained, economies are returning (or have already returned) to normal and no Asian country is at the zero bound of interest rates. Policy makers have optionality.
- Conversely, the first wave in the US is still not under control and most of Europe is the midst of an accelerating second wave. Policy optionality in most developed markets is limited as interest rates are already at the zero bound and deficits are already stretched.
- China's economy is among the strongest in the world and is expected to grow at 2% in 2020 and 8.2% in 2021. Asia ex Japan is expected to growth at 0.7% in 2020 and 5.4% in 2021, while the major developed markets have sharply negative growth this year and weak rebounds in 2021.

Country/Region	2020E GDP Growth	2021E GDP Growth
China	2.0%	8.2%
Asia ex Japan	0.7%	5.4%
USA	-3.6%	3.8%
EU	-7.7%	4.8%
Australia	-3.6%	3.2%

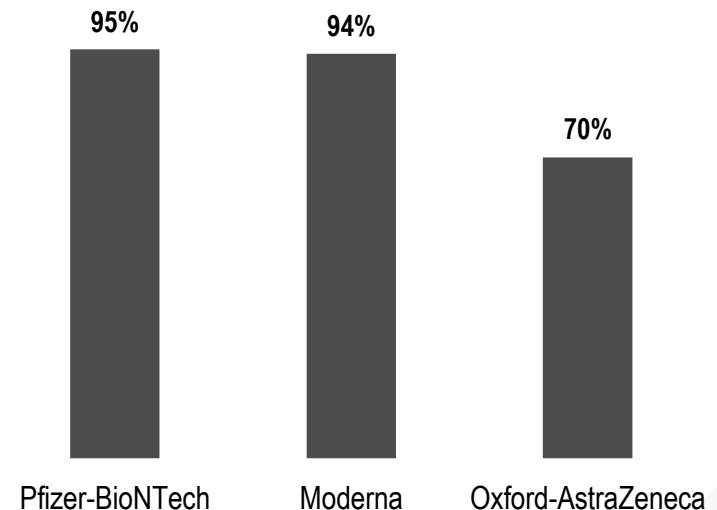
# Vaccine Implications for Asia

## PREFER DIRECT PHARMA PLAYS TO LOW QUALITY REOPENING PLAYS

- Since the start of COVID-19, multiple big pharma and biotech companies have been working around the clock to develop an effective vaccine. In November, we saw several announcements including better than expected efficacy (~95%) from Phase III trials of the Pfizer and Moderna vaccines and moderate efficacy for the Oxford-AstraZeneca vaccine.
- While the development of multiple effective vaccines and their deployment is undeniably positive for both public health and markets, we remain cautious on the near-term impact on economies in Asia, particularly low-income countries with underdeveloped health and logistics infrastructure.
- We prefer to hold direct vaccine beneficiaries as they offer a better risk/reward and better earnings certainty compared to re-opening plays like airlines and other travel related businesses. These include Shanghai Fosun Pharma and Wuxi Biologics in China and Dr Reddy's and Sun Pharma in India.

Normal Vaccine Development Timelines	Covid-19 Vaccine Development Timelines
Pre-Clinical Stage (18-30 months)	Pre-Clinical Stage (0 months)
Phase I (dozens of volunteers ~30 months)	Phase I (dozens of volunteers ~6 months)
Phase II (hundreds of volunteers ~36 months)	Phase II (hundreds of volunteers ~3 months)
Phase III (thousands of volunteers ~30 months)	Phase III (thousands of volunteers ~1 months)
Approval, Manufacture, Vaccination (12-24 months)	Approval, Manufacture, Vaccination (12-24 months)





### Expected Efficacy of Covid-19 Vaccine Candidates



# US-China Relations

## TAKING A LONG TERM VIEW

- The US is in hegemonic decline and China is in ascendancy yet global investment indices are still extremely US centric. This will converge over time providing inflows into Chinese equity markets.
- Tensions between these two superpowers will not totally disappear under a new President, but the flashpoints below may become more manageable and predictable in a Biden administration.

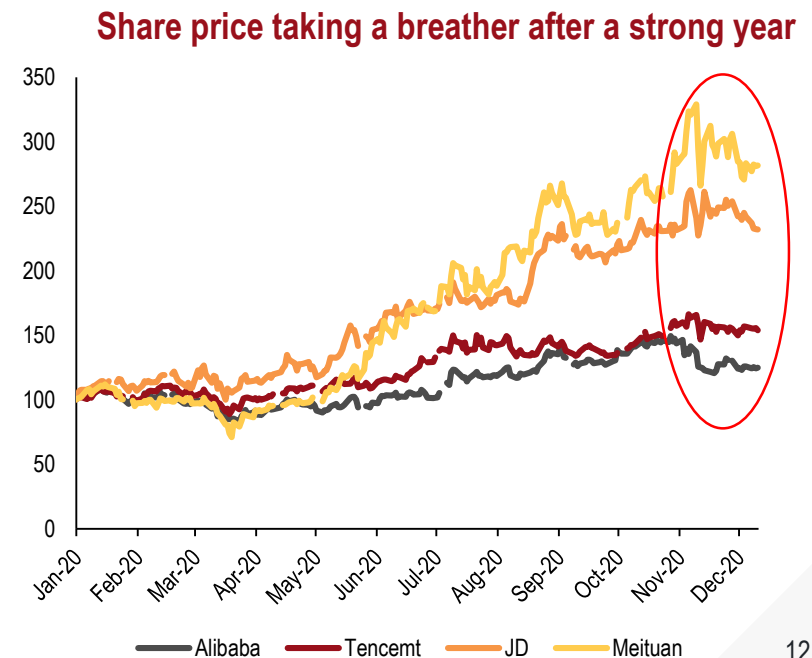
Flashpoint		Comment
Hong Kong		<ul style="list-style-type: none"><li>• Sanctions in the wake of National Security Law</li><li>• Implications for US companies operating in HK (Article 29)</li><li>• Increased military presence in South China Seas</li></ul>
Technology		<ul style="list-style-type: none"><li>• Ongoing crack down on Huawei / ZTE</li><li>• Additions to US Entity List</li><li>• Banning of Chinese Apps</li></ul>
Capital Markets		<ul style="list-style-type: none"><li>• Crack down on ADRs via the Holding Foreign Companies Accountable Act</li><li>• Banning US government pension funds from investing in ADRs or in China</li></ul>
Trade		<ul style="list-style-type: none"><li>• Formal cancellation of ongoing trade talks</li><li>• Repeal of Phase I and/or re-initiation of tariffs</li><li>• FX war and currency manipulation label</li></ul>

# Internet and Antitrust

## REDUCING OUR CHINA INTERNET EXPOSURE

- On Nov 10, the government issued a draft antitrust guideline which aims to curb monopolistic behaviour in the internet platform economy. The ultimate goal is to promote fair competition and provide opportunities for all players to grow regardless of their size.
- Elsewhere, we are also seeing increasing regulations on internet giants such as US FTC case against Facebook and DOJ against Google.
- Over the long run, we are bullish on Chinese internet leaders as the structural growth story remain intact. Near term regulatory risk is an overhang to short term share price with some names (i.e. eco-system vs pure plays) more affected by others.

Key issues	Companies most affected
Merchant exclusivity	Alibaba, Meituan
Promotion with unfair pricing	PDD, Alibaba
Counterfeit products	PDD
Bundled sales	Trip.com, Meituan
Market domination	Alibaba, Tencent



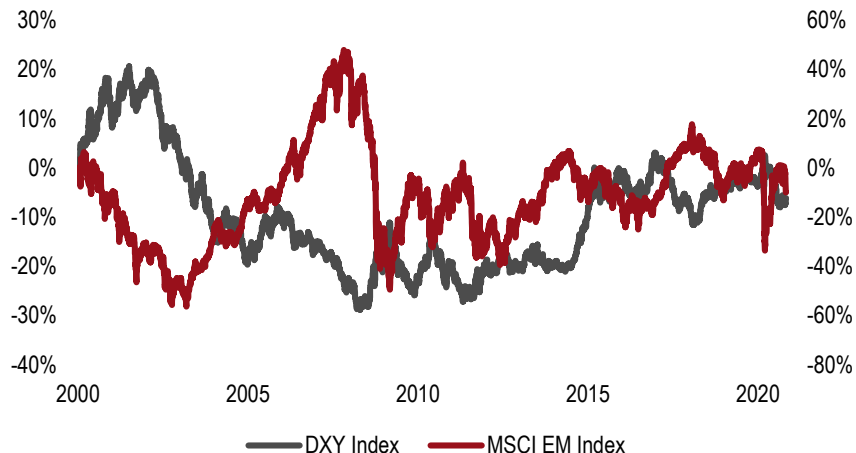
Source: Ellerston Asia, Bloomberg.

# USD Weakness and Commodity Prices

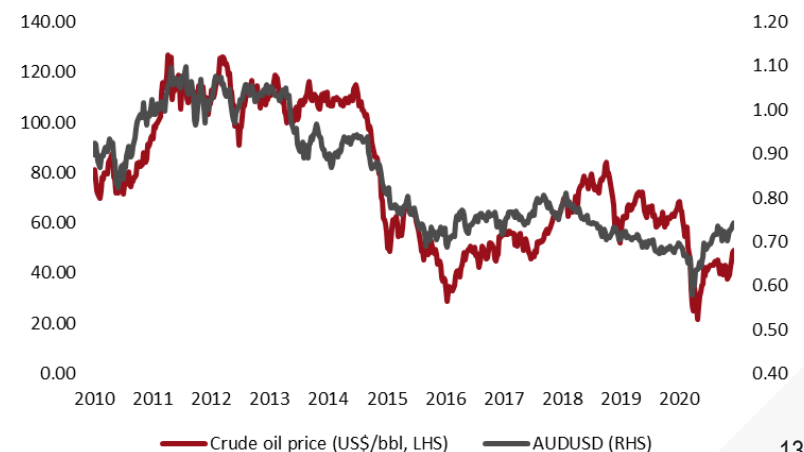
## IMPLICATIONS FOR EMERGING MARKETS IN ASIA

- Historically, there has been a strong inverse correlation between the USD and performance of Emerging Markets. However, this is changing for 3 reasons: (1) Asia is no longer the “factory of the world” where market performance is closely tied to exports. The majority of Asian markets are dominated by domestic demand stocks; (2) Current account and fiscal balances in Asia EM are much healthier than in the past; (3) Local capital markets are more developed so there is less reliance on USD denominated debt.
- India is the country where the USD has the largest impact on our positioning. When the USD is strong, overseas earning sectors like IT services and pharma typically outperform.
- The outlook for the AUD is more important for our absolute returns than the USD. The AUD typically depreciates in a risk off environment which provides a natural hedge for our portfolio returns.
- A weaker USD (and stronger AUD) driven by risk on sentiment is also supportive of higher commodity prices. Many commodity companies however don't meet Ellerston Asia's strict ESG criteria.

DXY vs MSCI EM Since 2000



AUD vs oil price

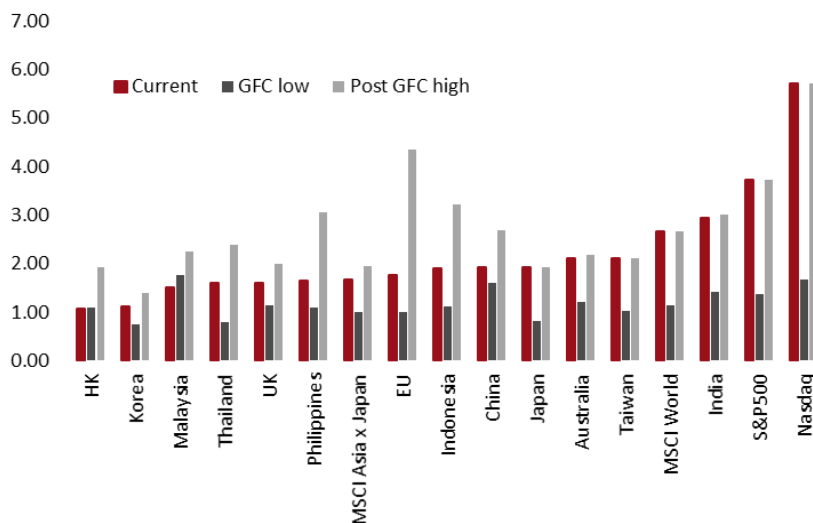


# Valuations and Technicals

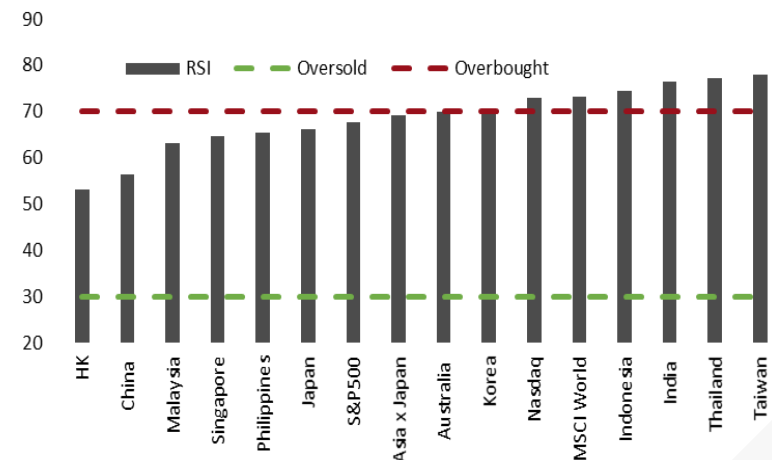
## TRACKING VALUATIONS AND TECHNICALS THROUGHOUT THE PANDEMIC

- Most markets globally entered bear market territory in mid March, but have since staged a very strong recovery initially led by 'lockdown beneficiaries' and over the past couple of months, 'reopening beneficiaries'.
- Valuations are no longer as attractive as they were 8-9 months ago. Some countries such as the US, Japan, Australia and India are trading at their highest levels since the GFC.
- Most markets around the world at or close to being overbought (i.e. RSI >70). We are therefore becoming more cautious.
- Our investment process and valuation methodologies have remained unchanged throughout and post the pandemic.

Market P/B vs GFC Low and Post GFC high



RSI for Asian Markets



# Asia's Capital Market Activity

## CAPITAL RAISINGS AND IPOs

- There have been many large, high profile capital raisings and IPOs in Asia in the last 2 months, some by companies that are net cash and FCF positive. Is this telling us something about levels and valuations?
- China is home 242 unicorns including 5 of the largest in the world. About half of the unicorns in China are affiliated with Alibaba, Baidu, Tencent, JD and Meituan – all stocks we own.
- India has 21 unicorns with a total value of over US\$70b. The 2 largest unicorns, Reliance Jio and Reliance Retail, are expected to be spun out from Reliance Industries – also a stock we own.

### Recent IPOs (\$140b combined market cap)



### Recent Capital Raisings (~\$11b raised from 5 companies below)



Rank	Company	Country	Est. Valuation (US\$bn)
1	Ant Group	China	200+
2	ByteDance	China	140
3	Reliance Jio	India	70
4	Didi Chuxing	China	60
5	Reliance Retail	India	60
6	Flipkart	India	25
7	Kuaishou	China	18
8	Paytm	India	16
9	Byjus	India	11
10	Oyo	India	8





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Q&A

# Ellerston Distribution & IR Team

ELLERSTON **ASIA**

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