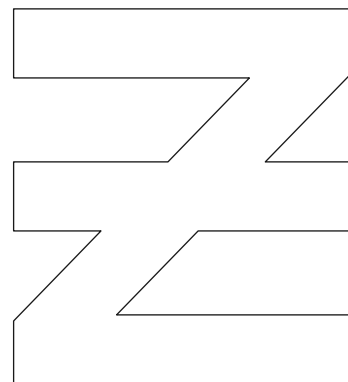


# Ellerston Asian Investments Limited (ASX: EAI)



## Monthly Newsletter, July 2021

### Key Information

Listing Date^^	4 September 2015
NTA (before tax)*	\$1.2878
NTA (after realised tax)^	\$1.2421
NTA (after tax)**	\$1.2304
Share Price at 30/07/21	\$1.17
EAI Market Capitalisation	\$153.2 Million
Average Management Fee	0.82%
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.



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### Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception^^ (p.a.)
Net^	-5.07%	-1.90	-2.49%	11.43%	11.31%	8.97%	8.05%
Benchmark*	-5.80%	-2.50	-2.28%	14.23%	9.78%	7.16%	8.53%
Alpha	0.72%	0.60	-0.21%	-2.80%	1.53%	1.82%	-0.47%

^ 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)

Ellerston Asian Investments (EAI) was down -5.07% (net) in July versus the MSCI Asia ex Japan Index which was down -5.80%. Year to date in 2021, EAI is up 1.74% versus the benchmark return of 2.2%.

EAI aims to have a sustainable dividend policy based on multiple years of profit reserves. As at the end of July 2021, EAI's dividend profit reserve was approximately 16.5 cents per share (includes FY22 profits).

### China Regulatory Crackdown

July was dominated by an escalation in China's ongoing crackdown on the country's technology platform companies. This round of regulatory tightening surprised the market in terms of the breadth and severity of the announced measures. Areas that faced new curbs included education, food delivery and ride hailing. This follows previously announced restrictions on fintech, ecommerce and online entertainment. The new measures resulted in the worst two day performance for the Hang Seng Index since the GFC.

There remains uncertainty with regards to the duration and the severity of the crackdown as well as China's overall policy 'end game'. Our view is that the Chinese Government is in the midst of a shift away from 'growth at any cost' towards sustainable growth that prioritises social equality, national security, self-sufficiency/innovation and decarbonisation. As such, there is the risk that further regulatory measures are announced to promote best practices across the industry that are consistent with these priorities. We, however, do not believe China's intention is to structurally impair its high profile technology companies. China understands that many of these companies will play an essential role in achieving its long term goal of doubling GDP by 2035. By that time, China will be the largest economy in the world. This growth ambition is the reason why China remains too big to ignore for investors despite the regulatory risks.

Investing in this uncertain environment requires a more selective and diversified approach. As such, we divide Chinese companies into three different categories: (1) those directly impacted by the recent regulations; (2) companies that are inconsistent with China's strategic goals and could be vulnerable to regulations in the future; and (3) companies that have limited regulatory risk or supported by government policies such as electric vehicles, green energy, semiconductors, fertility and sports. We reduced our exposure to the first two groups over the past month and increased our holdings in the third group.

Specifically, we lowered our exposure in overseas listed China internet ADRs. Alibaba however remains our biggest holding within the China internet space. Our positioning and conviction in Alibaba is based on a number of factors. Firstly, the company has already implemented a number of self-enforcement remedies to address anti-monopolistic concerns. Additionally, Alibaba has paid over RMB19bn (A\$4bn) in fines over the past 9 months relating to past anti-competitive behaviour. The company is therefore quite far down the regulatory path. Secondly, consumption is a pivotal driver of China's economic goals and ecommerce is an important enabler of that. Alibaba's market leading position in the China ecommerce space makes it the best proxy for the country's consumption growth story. Finally, Alibaba remains extremely undervalued even if a higher risk premium is applied for regulatory concerns and lower growth rates are assumed. On our conservative sum of the parts valuation scenario, the current market cap continues to value only the core ecommerce business and ascribes no value to the Ali Cloud business and other strategic investments such as Ant Financial. At current levels, we therefore see an appropriate margin of safety and significant upside on a multi-year view.

The extent of the market sell-off in July also presented an attractive opportunity to add high quality companies that are not directly impacted by China's regulatory tightening and were simply thrown out with the proverbial bathwater. Specifically, we added to companies in government promoted sectors such as CATL, which is the largest and most profitable EV battery maker in the world. We also added to our China consumer exposure through a greater weighting to Kweichow Moutai and also initiated a position in Li Ning, which is a leading sportswear apparel brand in China.

## COVID Update

The market moves in China and Hong Kong overshadowed a resurgence of COVID cases on the mainland during the month. The latest outbreak relates to the Delta variant and has spread to 18 provinces across the country. China has a zero tolerance approach towards COVID. As such, a number of cities have been placed into lockdown and travel between cities have been restricted. So far, the economic impact of these containment measures have been minimal and financial markets have remained calm. A key reason why investors have not panicked is China's high vaccination rate. China has reportedly administered 1.7bn vaccine shots, which suggests over half the population are likely to be fully vaccinated. Although the efficacy of Sinovac and Sinopharm vaccines against the Delta variant are unknown, we are optimistic that the high vaccine penetration along with China's hardline approach to controlling outbreaks will be sufficient to minimize the potential economic and global supply chain disruptions.

Elsewhere in Asia, South East Asian countries such as Thailand, Philippines and Vietnam continue to see rising cases. Vaccine penetration rates in these countries remain below 10%, which means they are many months away from reaching any level of herd immunity. These markets have been amongst the worst performing in the region over the past quarter and could continue to underperform unless vaccination rates improve dramatically. We continue to have no exposure to South East Asian countries outside of Singapore.

## Portfolio Performance

China, Hong Kong and Singapore were the largest contributors to alpha during July. Whilst, India was the largest detractor. At a sector level, Financials, Materials and Industrials were our biggest positive drivers of performance. Meanwhile, Communication Services and Information Technology were the major negatives. At a stock level, Ganfeng Lithium, Hong Kong Exchanges and DBS were the biggest contributors to outperformance. Whilst, Baidu, Kweichow Moutai and Wuxi Biologics were the biggest drags.

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

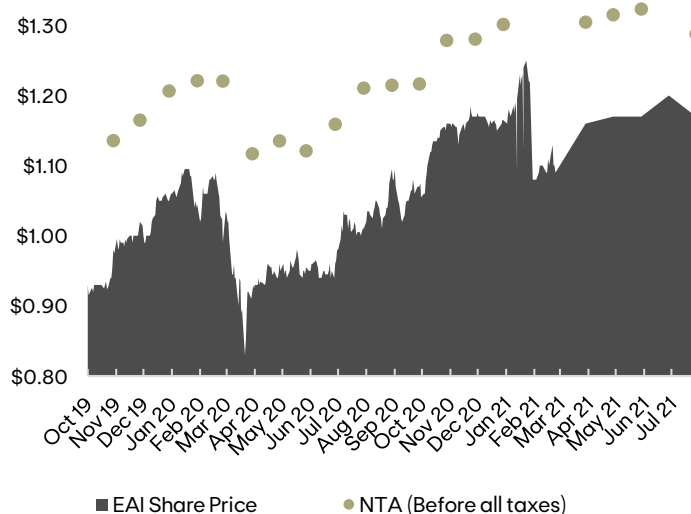
Kind Regards,  
Fredy Hoh

## PORTFOLIO CHARACTERISTICS

### TOP 10 HOLDINGS

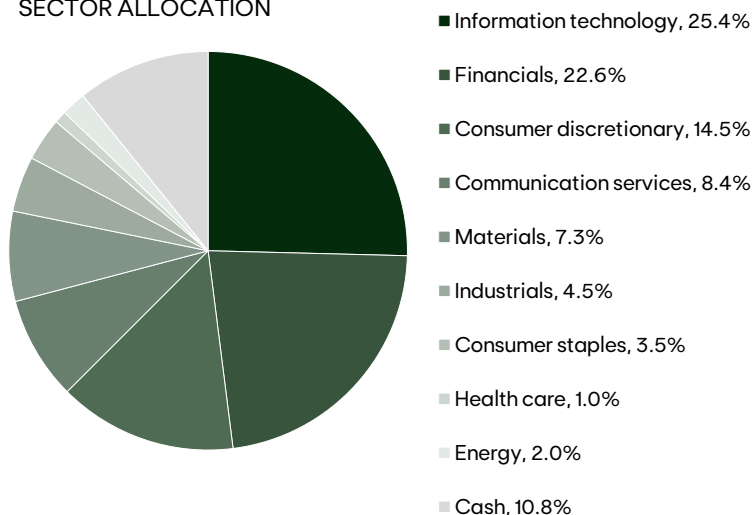
<b>TSMC</b>	9.4%
<b>Alibaba</b>	8.0%
<b>Tencent</b>	6.0%
<b>Samsung</b>	5.1%
<b>Hong Kong Exchanges</b>	3.4%
<b>DBS Group</b>	3.2%
<b>Contemporary Amperex Technology</b>	2.4%
<b>AIA Group</b>	2.3%
<b>Kweichow Moutai</b>	2.3%
<b>Naver</b>	2.3%

### EAI SHARE PRICE VS NTA



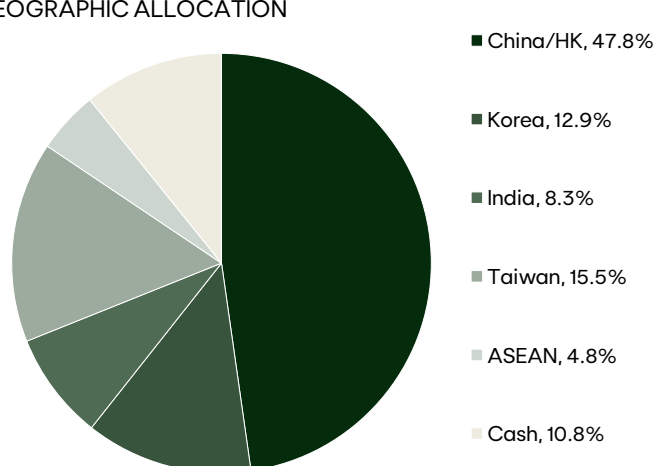
Source: Ellerston Capital.

### SECTOR ALLOCATION



Source: Ellerston Capital.

### GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

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#### Find out more

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

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

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