REGAL
ASIAN INVESTMENTS

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25 January 2024

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Sydney NSW 2000

RG8 Investor Letter – Period to December 2023

Regal Asian Investments Limited (ASX:RG8) is pleased to make available the enclosed Investor Letter. The letter provides details on the performance of RG8 for the period to 31 December 2023 and commentary on current positioning.

AUTHORISED FOR RELEASE BY:

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ABOUT RG8

RG8 provides investors with access to an actively managed, concentrated portfolio, comprised of long investments and short positions in securities with exposure to the Asian region. In June 2022, portfolio management responsibilities for RG8 transitioned from the VGI Partners investment team to specialist alternatives investment manager Regal Funds Management (Regal) under an investment advisory agreement with Regal Asian Investments Management Pty Ltd. In November 2022, the Company changed its name and ticker from VGI Partners Asian Investments Limited (ASX:VG8) to Regal Asian Investments Limited (ASX:RG8) to reflect those changes. Utilising a fundamental, bottom-up investment approach, the portfolio leverages Regal's extensive experience, network and specialist investment team.

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Regal Asian Investments 2023 Annual Letter

January 2024

Dear fellow investors,

For the twelve months ended 31 Dec 2023 (CY23), Regal Asian Investments Limited (ASX:RG8) generated a net portfolio return of +2.9% after all fees. In the 18 months following the transition of portfolio management responsibilities to Regal Funds Management in June 2022, RG8's net portfolio return has been +12.5% after all fees and the total share price return was +26.5%.

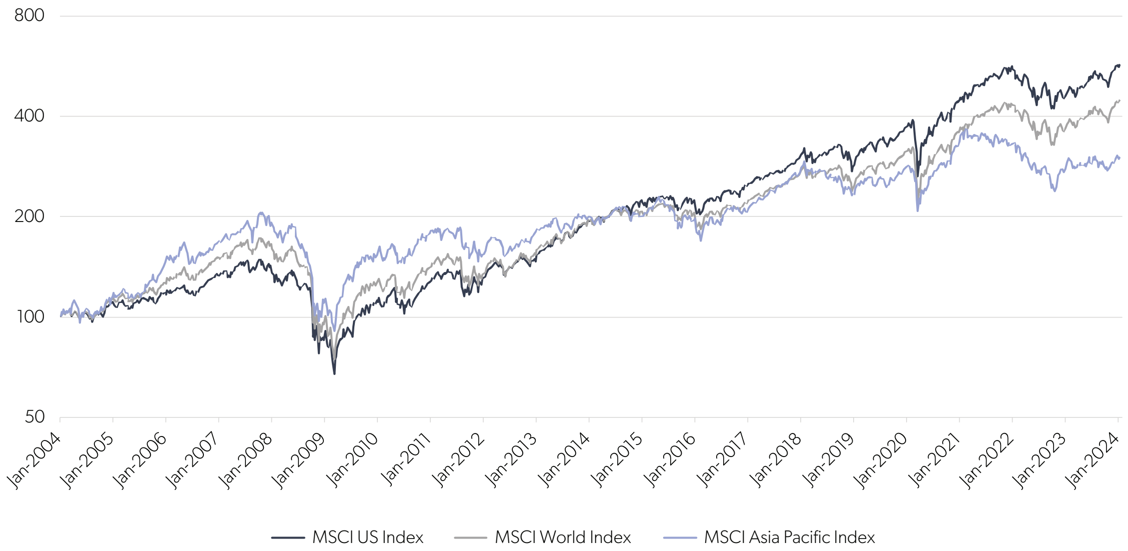
The board of directors of RG8 (the RG8 Board) recently approved a new large-scale on-market share buyback program for RG8 of up to 25% of the shares on issue over the next 12 months, while the dividend policy is to target a dividend of at least 5 cents per share on a six-monthly basis. Both initiatives are intended to address the current RG8 discount to net tangible assets (NTA).

We see the outlook for Asian equities as increasingly positive amidst attractive valuations, significant catalysts from new shareholder focused corporate initiatives, strong backing from certain authorities to raise earnings and policies to encourage Asian households to reallocate their large savings base towards investments in equities.

MARKET OBSERVATIONS

While the MSCI Asia Pacific Index has underperformed the MSCI Global Index over the past 10 years, it had outperformed global equities in the 10 years prior to that. We believe Asian equities can outperform once again, given what we see as an attractive starting point along with various catalysts to unlock value.

Index performance - rebased to 100 as of 1 January 2004 (net total return, log scale)



Source: Bloomberg

Note: Past performance is not a reliable indicator of future performance.

Our view is that Asian equities offer an attractive discount to global equity valuations on both an absolute price-to-earnings ratio and relative to local 10-year government bond yields.

Price-to-earnings (blended 12-month forward forecast)

Source: Bloomberg. Past performance is not a reliable indicator of future performance.

Equity risk premia (equity yield minus 10-year government bond yield)

Source: Bloomberg, Hang Seng Index, MSCI Japan Index, MSCI US Index. Past performance is not a reliable indicator of future performance.

In addition to the low absolute valuations in Asia, we believe there is also hidden value that should be unlocked in coming years.

1. We believe that many Asian companies have not optimised their profit margins to the extent of their US peers. This is however changing, particularly in Japan, where the Tokyo Stock Exchange recently began to 'name and shame' companies that do not sufficiently disclose plans to increase return-on-capital. Improving margins are also evident in Chinese technology companies, as we see them stepping back from loss leading land grabs to focus on their core areas with higher profitability. A further example is the Korean semiconductor manufacturing sector, which is seeing a marked improvement in the competitive environment following industry consolidation.

2. Many Asian companies have not optimised their balance sheets to the extent of US peers, with many sitting on significant unrealised asset gains and net cash buffers. This is also changing through increasing sell-downs, or distributions, of cross-shareholdings and share buybacks.

3. Improving governance and greater shareholder focus should attract foreign investors, who are largely underweight Asia, back to the region. In addition, we are seeing a range of policies to encourage households in Asia to increase their allocation to equities. Some examples of this include:

   a. Japan – increasing the limits of the tax advantaged Nippon Individual Savings Accounts (NISA). The government target is to increase NISA account balances by around 70% by 2027.

   b. Hong Kong – increasing the number of stocks approved for "Southbound" investment from mainland Chinese investors. A growing portion of the market is owned by mainland Chinese investors who are often willing to pay higher multiples than foreign investors.

   c. South Korea – President Yoon Suk Yeol is calling for tax reforms to improve returns for investors while the regulator is looking at ways to encourage companies to boost their earnings and share prices.

JAPAN

We believe Japan is currently one of the most attractive markets globally, given the increasingly positive moves by the government, the Tokyo Stock Exchange and activist investors to unlock significant hidden value across many companies. We note the number of activist funds and shareholder proposals has doubled over the past few years.

Foreign investors have been increasing their allocations to Japan and were large net buyers of Japanese stocks in 2023. In recent years, Warren Buffett has used the wide spread between Japan's low interest rates and the far higher earnings yields of its stocks to borrow in Yen and buy Japanese equities. Buffett said last year that he was "confounded" by the spread and that Japanese people were "investing their money in a quarter of a percent or nothing" in cash while they could receive far higher earnings yields in equities with growing earnings (CNBC, 2023).

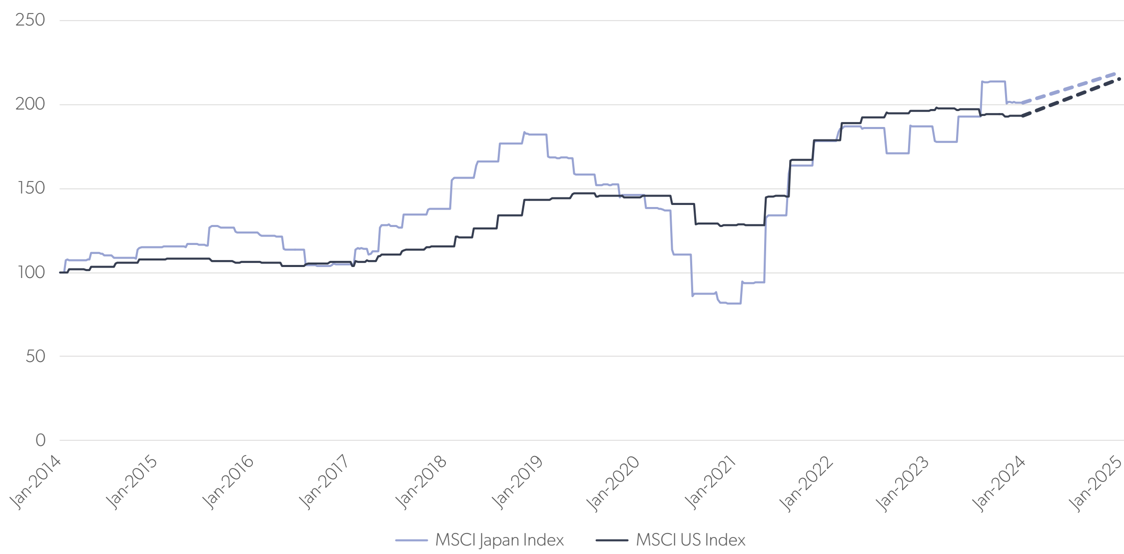
Japanese equity and bond yields

US equity and bond yields

Source: Bloomberg, MSCI Japan Index, MSCI US Index. Past performance is not a reliable indicator of future performance.

While Japan has historically been seen as having lower growth than other markets, its earnings-per-share (EPS) growth has actually exceeded that of US equities over the last decade. Furthermore, Japanese companies still have significant self-help initiatives to drive further earnings expansion.

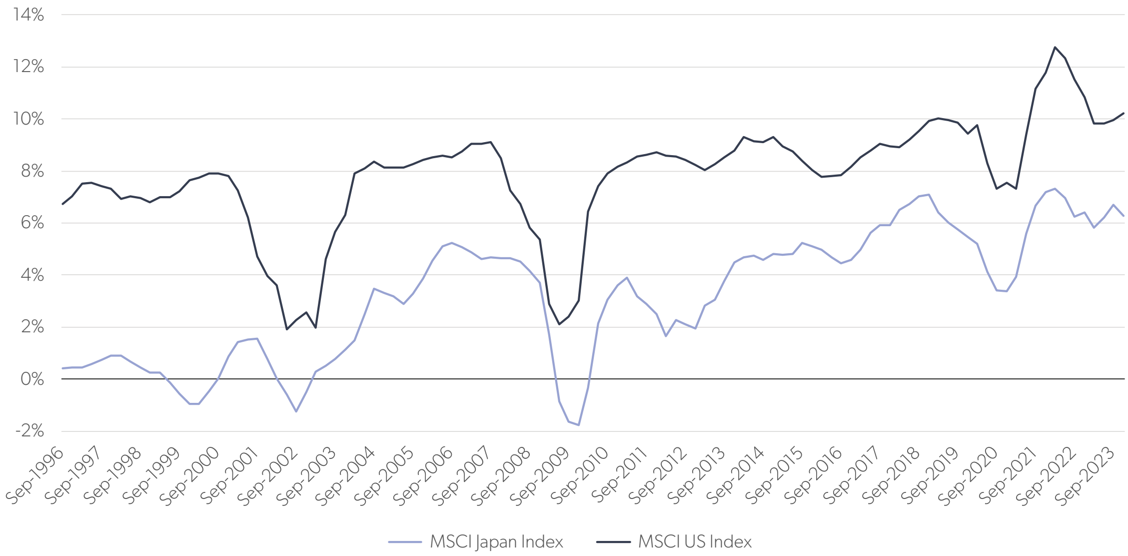
Japanese and US earnings per share (historical trailing 12 month and consensus analyst forecast next 12 months)



Source: Bloomberg – Rebased to 100 as of 1 Jan 2014.

The outlook for EPS growth in Japan continues to be favourable given the increasing focus on shareholder friendly initiatives which should lead to higher margins and EPS growth. Japanese companies have in the past put a relatively higher focus on other stakeholders like employees and customers versus other major markets like the US. This often led to lower margins, but the trend has changed in recent years, with margins beginning to rise toward US levels.

Japanese and US profit margins (trailing 12 months)

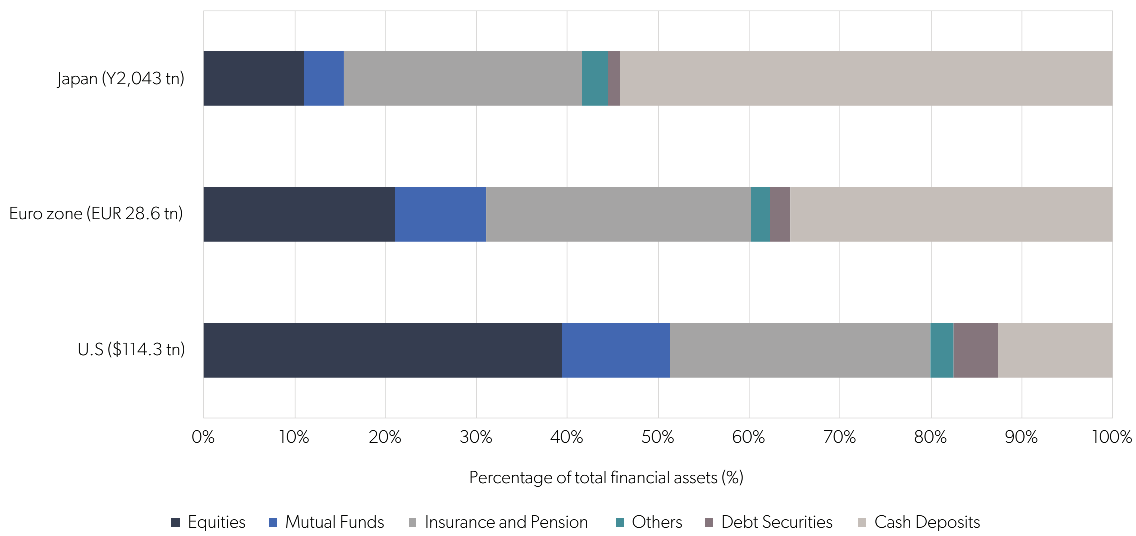


Source: Bloomberg. Past performance is not a reliable indicator of future performance.

There is continued support from the authorities in Japan to see corporate earnings increase, in part due to the high ownership of Japanese equities by major government entities like the Government Pension Investment Fund (GPIF) and Bank of Japan (BOJ). These entities now own over 20% of Japanese equities outstanding, a roughly five-fold increase in this percentage over the last decade – and raising returns on these investments is critical in helping Japan cover the pension obligations of its aging population.

Prime Minister Kishida also aims to double the financial assets owned by households while increasing their weighting towards equities, which is currently well below that of Euro Zone and US households.

Comparison of household financial assets between Japan, the Euro Zone and the US



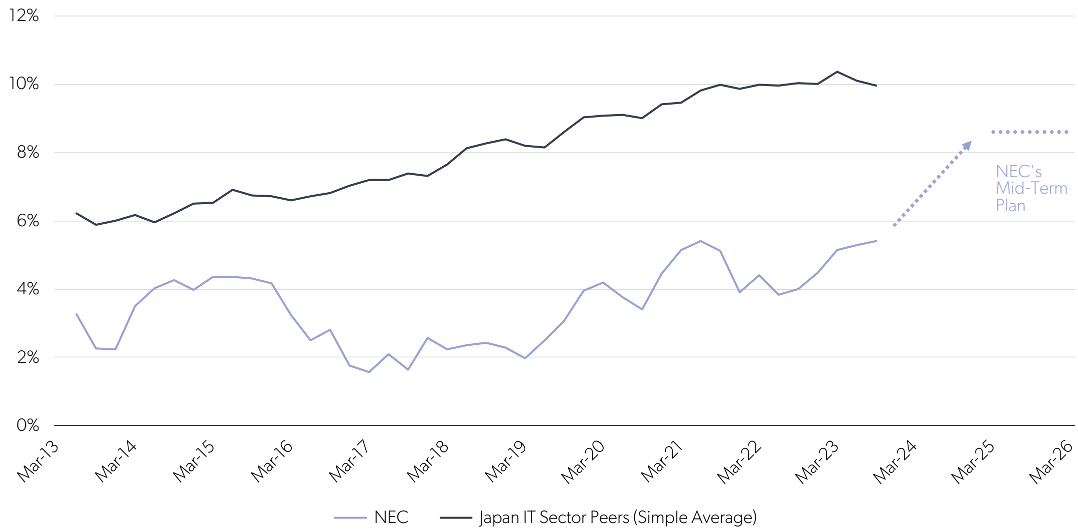
Source: Bank of Japan, SMBC Nikko.

We continue to see Japan as a market that offers both appealing long opportunities, like NEC Corp, and short opportunities, like Konica Minolta.

NEC Corp (6701 JP), a winner from digitisation

NEC Corp (NEC), one of Japan's leading IT solutions providers, is an example of a company that historically focused on client satisfaction at the expense of margins. NEC Corp often responded to client requests for further customisation by adding software developer hours and costs until margins on projects fell to mid-to-low single digits. However, NEC's new CEO has responded to the Tokyo Stock Exchange's request to increase return-on-capital with a focus on profitable projects and plans to raise margins towards industry standards. The stock price has doubled over the last year as a result.

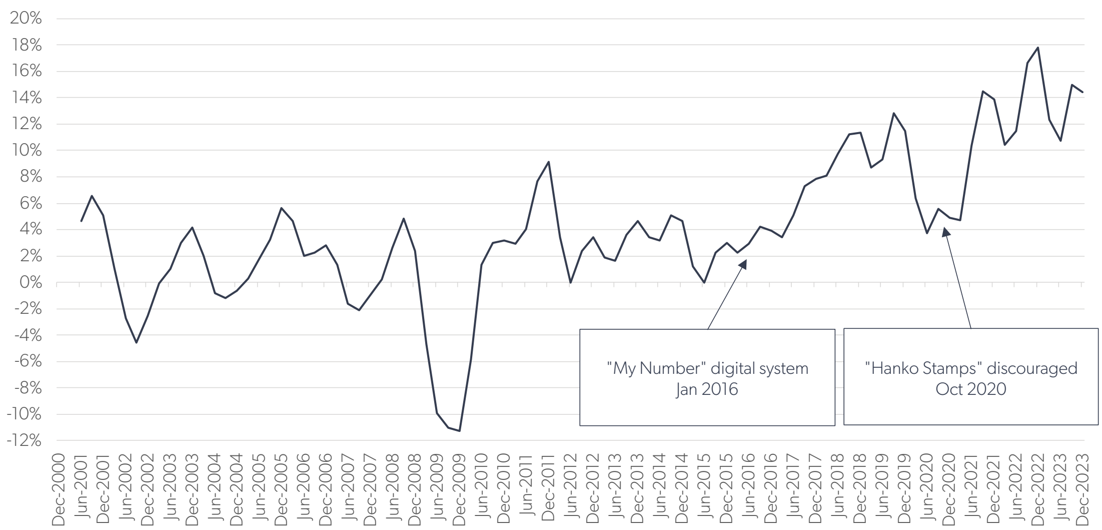
NEC operating profit margin vs peers (historical trailing 12-month average and NEC's mid-term plan)



Source: Bloomberg and company data. Past performance is not a reliable indicator of future performance.

We believe the outlook for profit growth at NEC is not yet fully priced in by the market and will be further supported by strong growth in software demand. Changes over the past decade, which removed the requirement for physical Hanko stamps on documents and encouraged use of the digital My Number system, have been a key driver behind increased growth rates in software investment. We believe growth will remain elevated for many years as the system catches up to to digitisation levels seen in other nations. NEC Corp is also a leader in artificial intelligence in Japan which allows it to develop programs more easily and provide new solutions to a wide range of entities suffering from labour shortages across Japan.

Japanese enterprise software investment (yoy growth, trailing 12-month average)

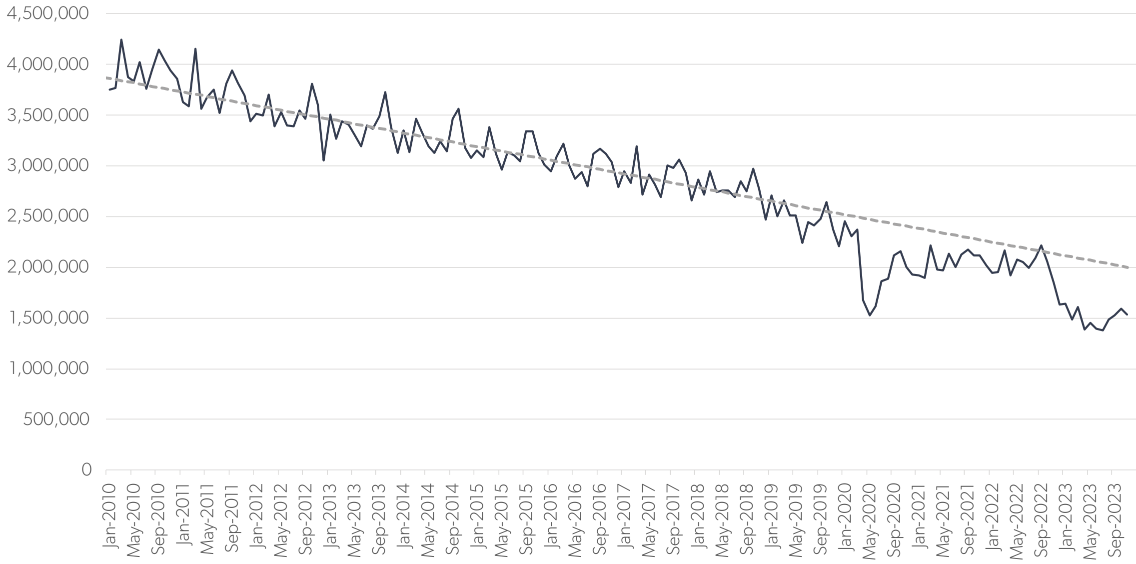


Source: BOJ Tankan Survey. Past performance is not a reliable indicator of future performance.

Konica Minolta (4902 JP), a loser from digitisation

Konica Minolta, a photocopier/printer manufacturer that relies heavily on toner sales via "cost-per-click" contracts, is suffering from the shift away from physical documents towards digitised workflow. This is not only occurring in Japan, but we believe can also clearly be seen in the recent collapse in demand for "printing and writing" paper in the key export markets of North America and Western Europe following Covid-19. This coincides with an increasing adoption of e-signatures and "working-from-home".

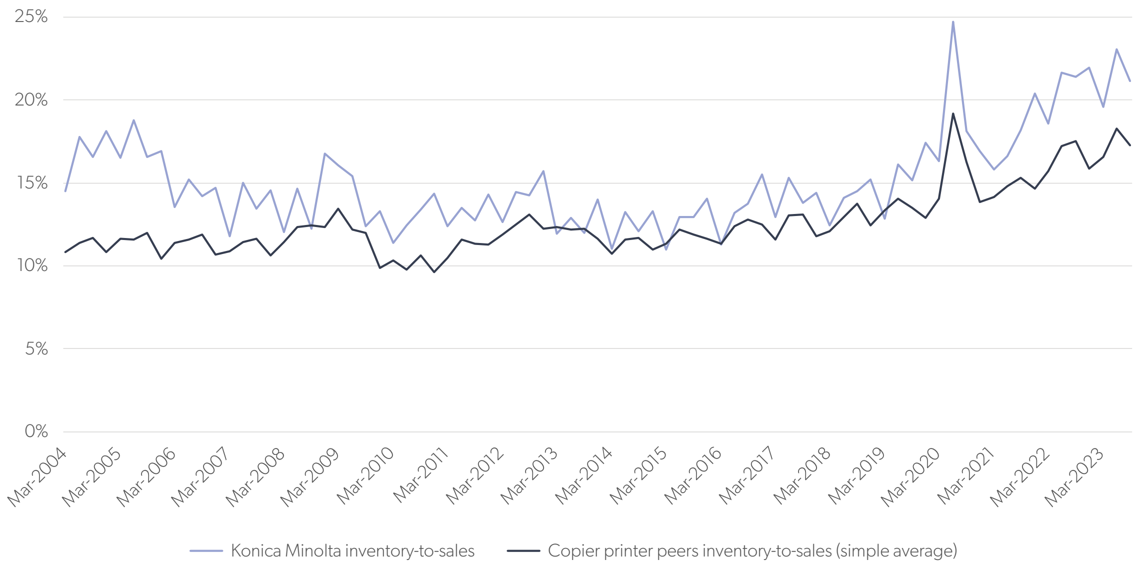
Printing and writing paper demand (North America and Western Europe, metric tonnes)



Source: Bloomberg, Pulp and Paper Products Council

Konica Minolta not only faces weaker demand but is also likely to face elevated competition as it, and its peers, look to clear extreme levels of inventory.

Inventory-to-sales ratios are at extreme levels



Source: Company data via Bloomberg, quarterly inventory / quarterly sales annualised.

Konica Minolta has a highly leveraged balance sheet, following a number of failed acquisitions, and is not in a position to meaningfully increase shareholder returns.

SOUTH KOREA

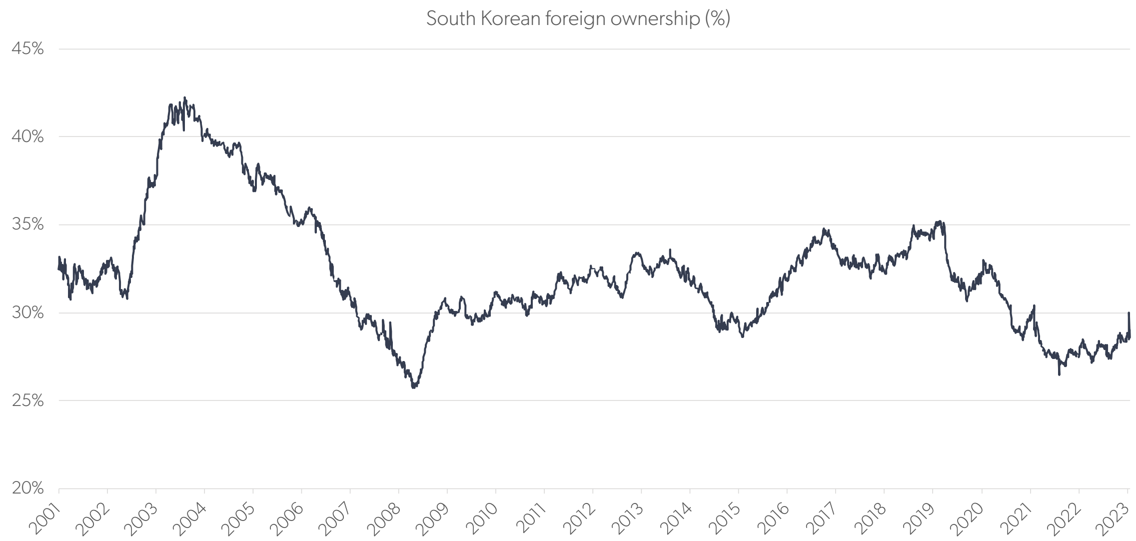
South Korea is another market where we believe there are numerous attractive opportunities. South Korea's aggregate market EPS has tended to be highly cyclical given the semiconductor industry-focus of its largest listed companies.

Market is cyclical – opportunity to buy into an upturn

Source: Bloomberg – Kospi Index EPS rebased to 100 as of March 2010 and consensus analyst forecasts.

In our view, it is far better to buy the South Korean market as the cycle is improving while foreign ownership is low and rising, both of which appear to be happening at the moment.

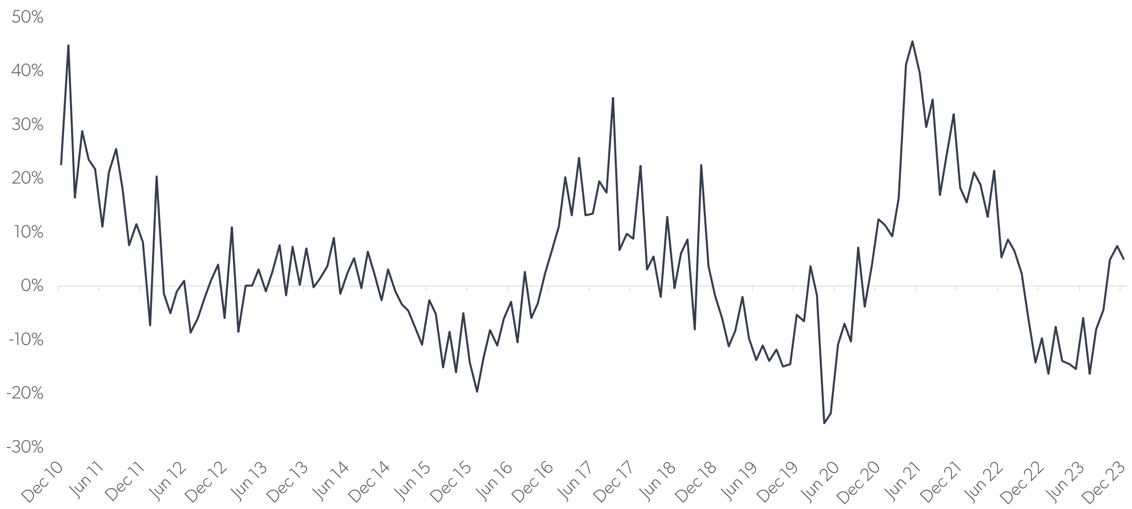
Foreign ownership of the South Korean equity market close to GFC lows, although improving



Source: CheckExpert.

Historically, export growth has coincided with earnings upgrades by research analysts, along with strong South Korean market performance. Exports recently turned positive after a year of negative growth, along with semiconductor prices and semiconductor exports bottoming.

South Korean export growth (yoy percentage change)

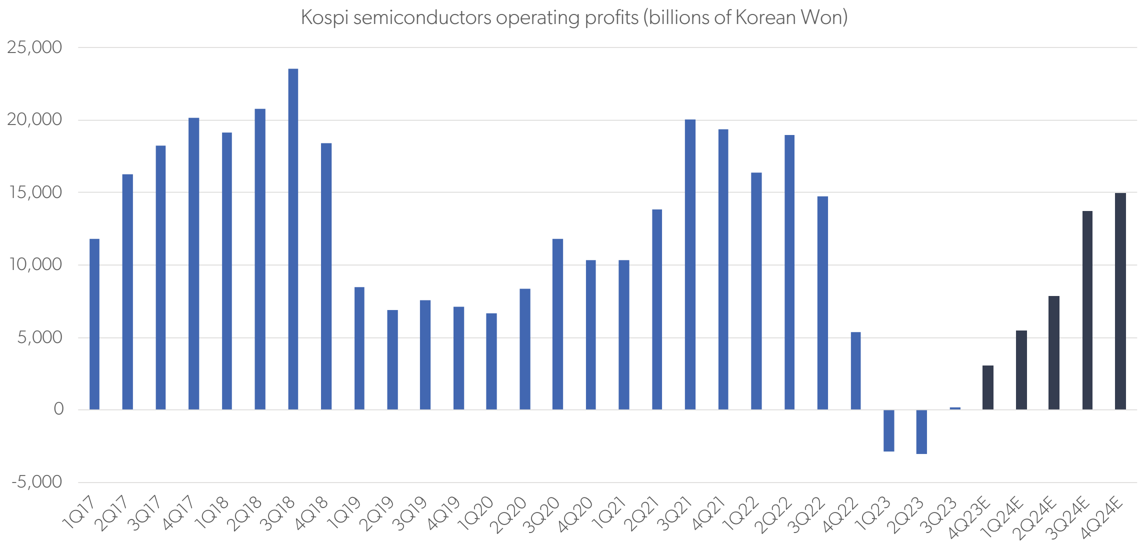


Source: Bloomberg.

South Korean semiconductor stocks

We have recently invested in two South Korean stocks where we expect to see strong earnings improvement within their semiconductor segments, particularly in DRAM memory where they are industry leaders.

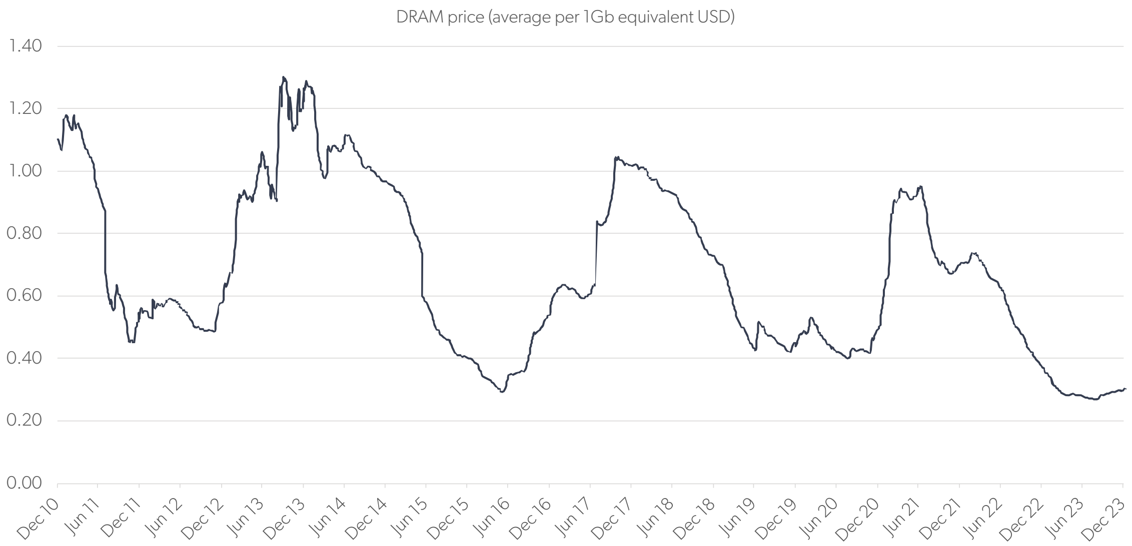
Operating profits of major Korean semiconductor stocks appear to have bottomed



Source: Bloomberg and Goldman Sachs analyst forecasts.

Global memory prices have been in a relatively long downcycle over the last 2 years. This downcycle was in part due to Covid-19 bringing forward demand as well as various supply chain issues impacting ordering trends and ultimately inventory levels, along with continued China weakness. However, the DRAM memory market now appears to be starting to bottom, with lower inventory levels and some demand recovery.

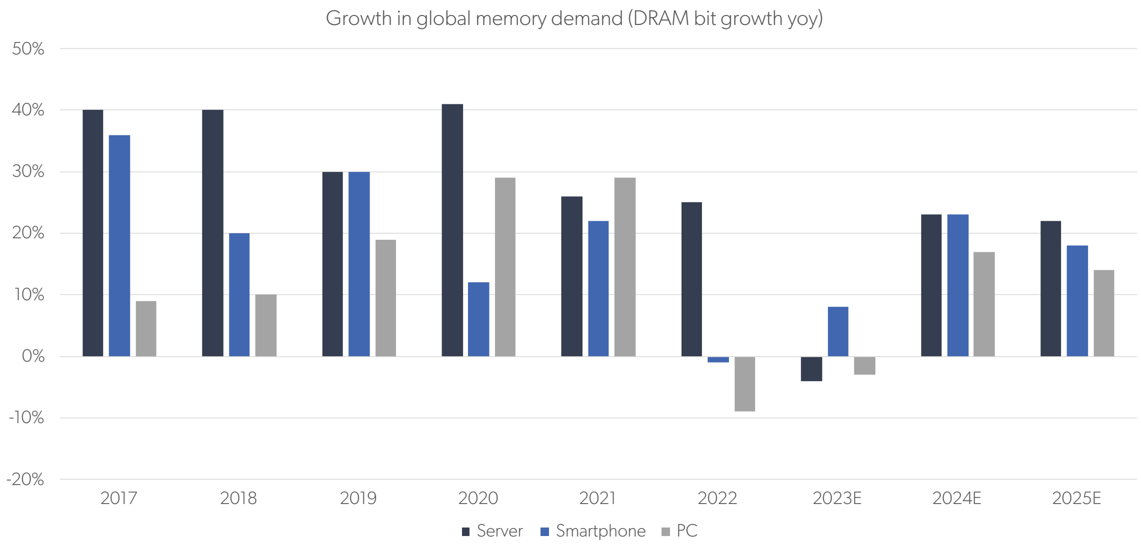
Memory prices (DRAM) have been falling for over 2 years, but are now bottoming



Source: DRAM Exchange, UBS Research.

Furthermore, demand in major end-markets such as servers, mobile phones and personal computers is also showing some signs of improvement.

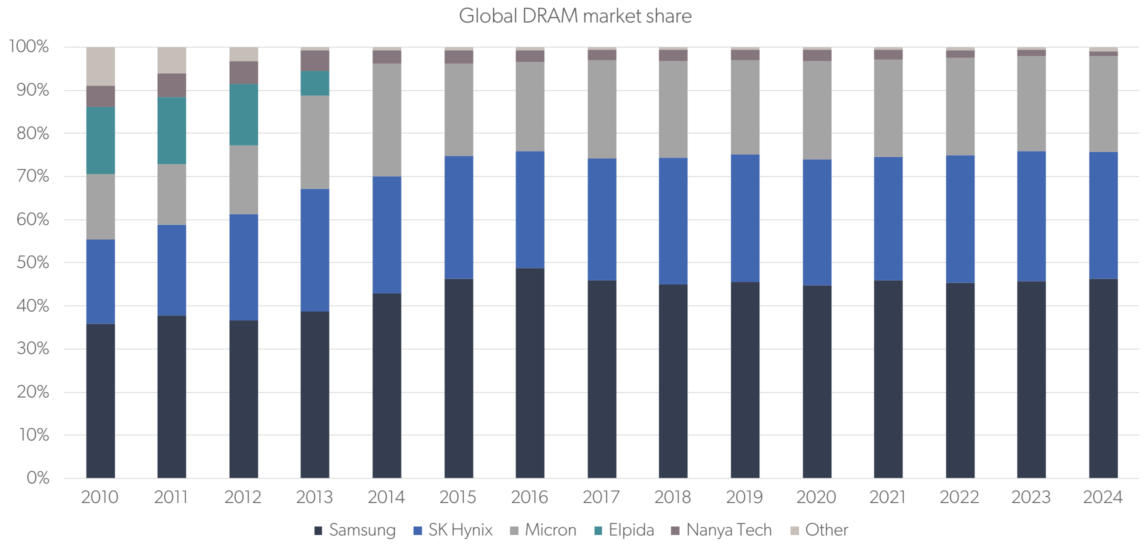
Global demand for memory in the major segments is starting to rebound



Source: Bloomberg and Bank of America analyst forecasts.

Industry structure has improved following a consolidation towards three key players, which has resulted in more rational behaviour such as greater capacity cuts in downturns than previous cycles, and which should also encourage more focus on investment for profits rather than market share in upcycles.

Consolidation of the global DRAM market to three key players



Source: UBS Research.

Going forward we expect the memory market to continue to rebound and for major Asian memory stocks to continue seeing further earnings upgrades and upside to share prices.

CHINA

The Chinese stock market has been challenging over the past decade, with the MSCI China Index back near levels seen in 2009 and other Hong Kong indices even worse. While the issues have changed over time, the current investor focus continues to be 1) the weak Chinese economy, with what we view as insufficient stimulus so far, 2) major issues in the property market, 3) high leverage, particularly at the local governments and property developers, and 4) geopolitical issues. While a lot of these issues appear to have mostly stabilised, or improved a little recently, we are not yet seeing a strong recovery in China and uncertainty remains.

There are a number of reasons why we continue to invest in some Chinese companies listed in Hong Kong including:

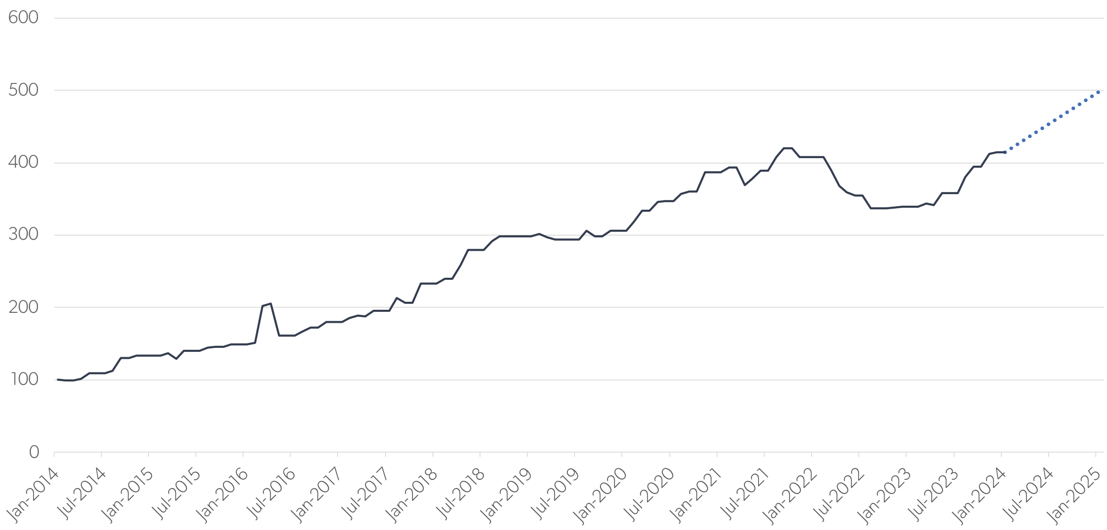
1. Cheap valuations with a near record equity risk premium that now far exceeds other major markets.

Equity risk premia (equity yield minus 10-year government bond yield)

Source: Bloomberg, Hang Seng Index, MSCI Japan Index, MSCI US Index. Past performance is not a reliable indicator of future performance.

2. Some sectors, such as the leading China technology companies, are seeing improving earnings per share. This is driven by some growth improvement following the Covid reopening, an increased focus on higher margin business and less aggressive competition for market share.

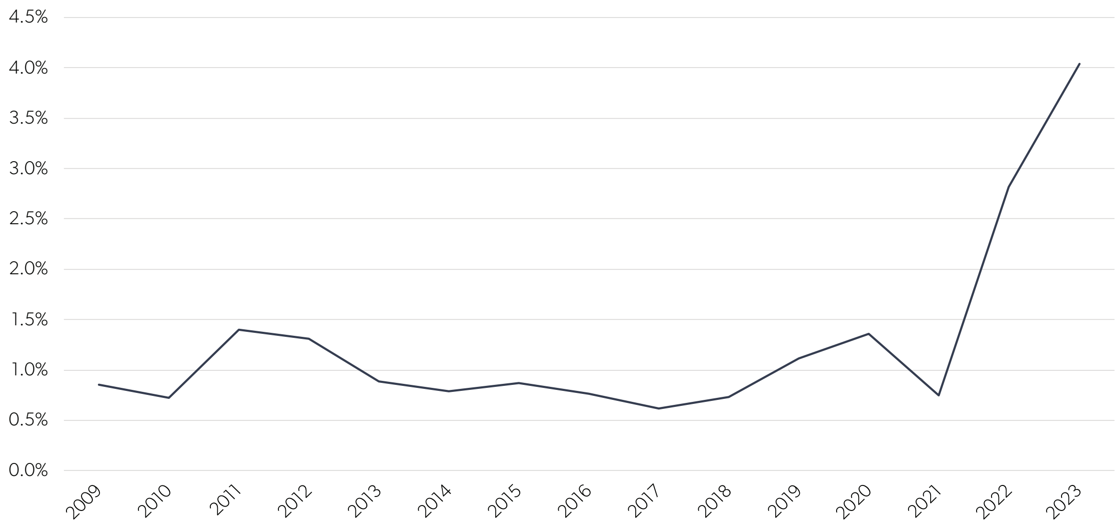
Earnings per share of RG8's Chinese technology stocks (historical trailing 12-month and consensus analyst forecast next 12 months)



Source: Bloomberg – based on Chinese technology holdings in RG8's portfolio that are listed in HK (using a simple average rebased to 100 in Jan 2014).

3. Increasing shareholder returns from leading Chinese technology companies is another sign of improving focus on investors.

Total shareholder return of RG8's Chinese technology stocks (dividends, buybacks and in-specie distributions)



Source: Bloomberg and company data - based on Chinese technology holdings in RG8's portfolio that are listed in HK (using a simple average).
Past performance is not a reliable indicator of future performance.

AUSTRALIA

In Australian equities, we have increased our exposure to the resources sector, which largely exports to the broader Asian region.

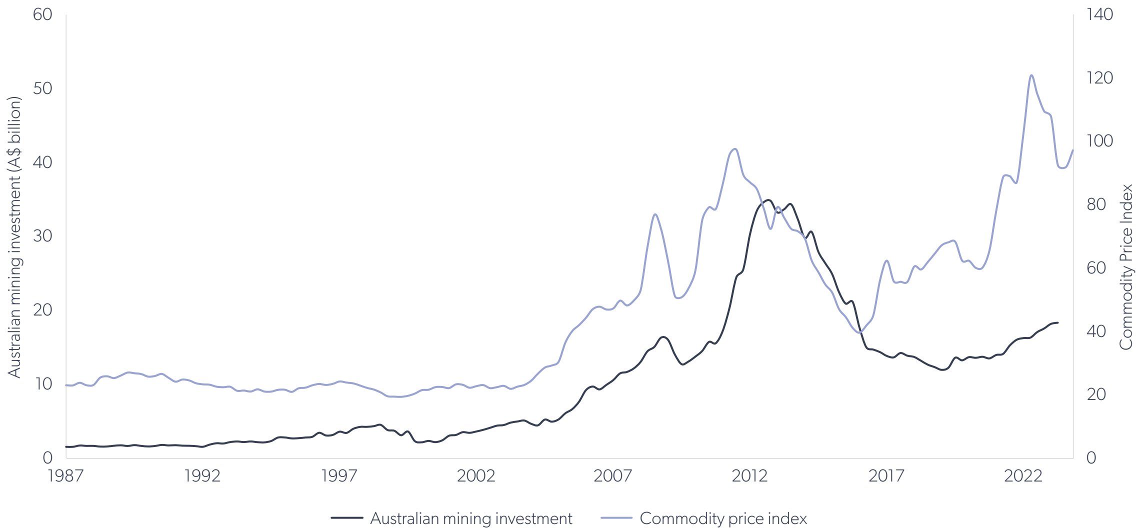
Valuations in the sector remain around 16% below the 20-year average, with sell-side analysts, in our view, continuing to use unrealistically low long-term commodity price forecasts.

ASX 200 Resources trading at forward EV/EBITDA of 6.1x, 16% below the 20 yr average

Source: FactSet, Goldman Sachs research. Past performance is not a reliable indicator of future performance.

Similar to our long positions in other Asian markets, we are excited by an increasing focus on profits for shareholders within the Australian resources sector. With a more disciplined supply response to higher commodity prices, we expect profits will likely stay higher for longer.

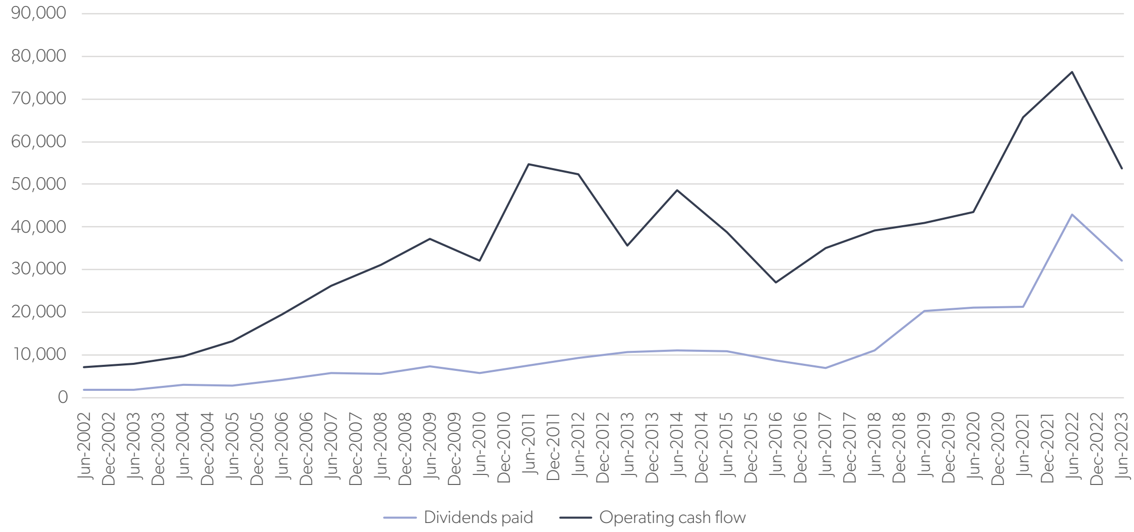
Australian mining investment is showing discipline against the backdrop of higher commodity prices



Source: Minack Advisors. Note: 1. Annual data interpolated using quarterly new capital expenditure data. 2. RBA non-rural commodity index in special drawing rights (SDR) terms — leading by 3 quarters. Past performance is not a reliable indicator of future performance.

Furthermore, in our view, the improved supply discipline is also leading to higher shareholder returns as Australian resources companies can allocate a far greater portion of operating cash flow to dividends.

Australian mining sector operating cash flows and dividends paid (A$ million)



Source: Bloomberg, sum of the S&P/ASX 300 Metal and Mining Index members that have reported continuously since 2002.

SUMMARY AND OUTLOOK

We believe the outlook for Asian equities is positive in 2024, starting from a position of highly attractive valuations, heavy underperformance versus global equities and broad under-ownership. As we have outlined in this letter, we anticipate a variety of catalysts for value to be released and for Asian equities to outperform.

Some of these catalysts include shareholder friendly initiatives, resilient earnings growth, policies to increase domestic equities investments and international fund flows towards a region that stands out for valuation appeal.

We believe our high conviction stock-picking in Asian equities will be rewarded and the RG8 portfolio is well positioned to capture the opportunity set.

The RG8 Board has also recently approved a new large-scale on-market share buyback program for RG8 of up to 25% of the shares on issue over the next 12 months, while the dividend policy is to target a dividend of at least 5 cents per share on a six-monthly basis. Both initiatives are important mechanisms intended to address the current RG8 discount to NTA.

We thank you for your continued support and look forward to the year ahead.