



ELLERSTON ASIA

# Ellerston Asian Investments

Investor Update June 2020

# Performance

## PERFORMANCE TO 31 MAY 2020

- May was a good month for alpha generation (1.49% net).
- This performance was despite a high cash balance and global markets rotating from growth to value.
- We remain cautious on markets. The risk/reward outlook favours taking profits more so than deploying cash.
- Cash as of the end of May was 17.3%.
- The most current NTA (June 15<sup>th</sup>) is \$1.1165.
- The fully franked dividend profit reserve as of May 2020 is 5.84 cents per share.

%	1 Month	CYTD	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
<b>EAI Net</b>	-1.28%	-5.70%	-2.34%	7.93%	1.83%	5.75%
<b>Benchmark*</b>	-2.77%	-7.46%	-5.24%	2.02%	-1.67%	5.97%
<b>Alpha</b>	1.49%	1.76%	2.89%	5.91%	3.50%	-0.22%

\* Benchmark is MSCI Asia ex Japan (non-accumulation) Index in AUD. Inception is Sept 2015.

\*\*Figures are unaudited and preliminary.



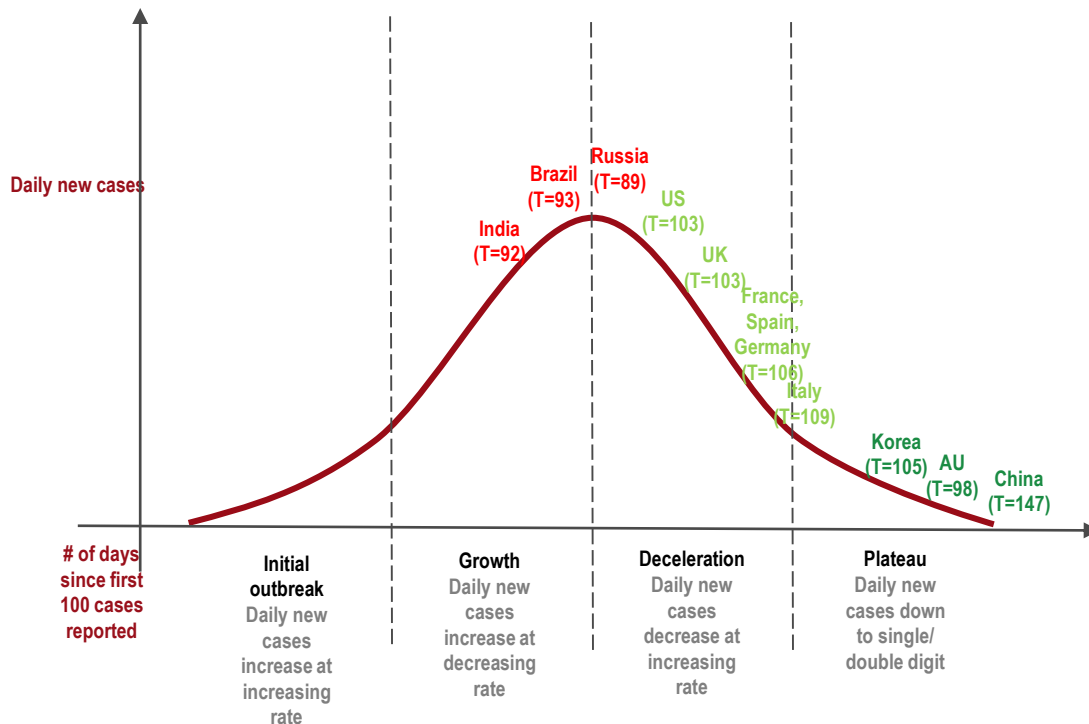
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Asian Market Outlook

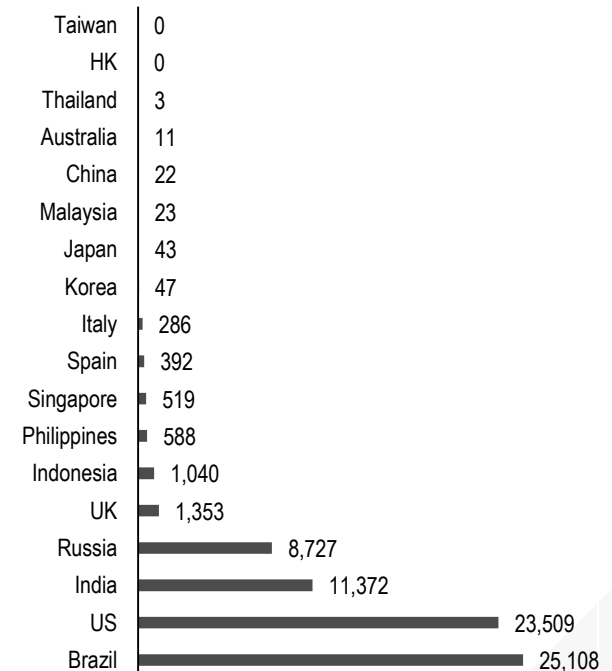
# Coronavirus Update

## ECONOMIC RE-OPENING AND WATCHING FOR A SECOND WAVE

- The focus of the market has shifted from virus outbreak to economic re-opening, with many countries starting to ease restrictions gradually. India is the only major market in our universe that is still on the left hand side of the curve.
- The China re-opening experience has suggested that supply recovered sooner than demand. China reopening does not suggest a V shaped recovery post-COVID.
- Many countries are re-opening their economies with elevated daily new case count. The first wave is not over in the US and the risk of a second wave in Asia is very real.



5D Avg Daily new cases

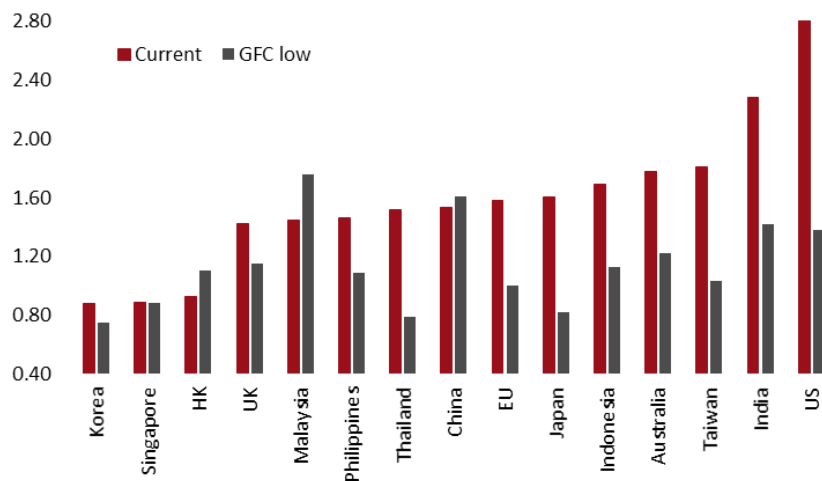


# Valuations and Technicals

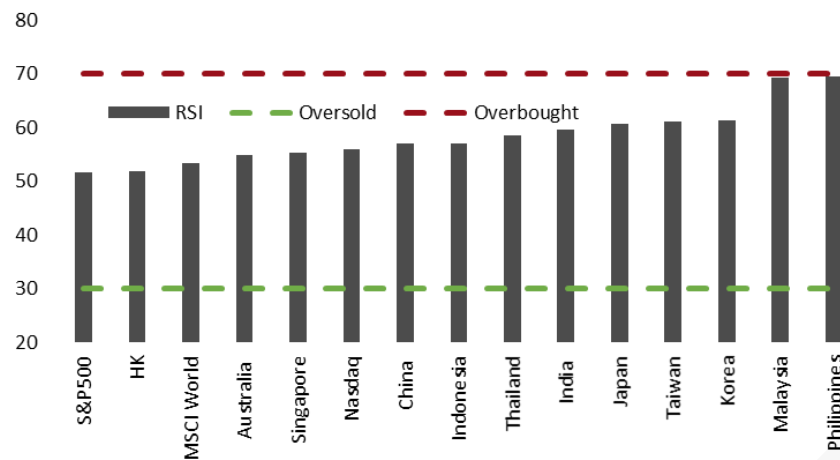
## VALUATIONS AND TECHNICAL LEVELS APPEAR EXTENDED

- Most markets globally entered bear market territory in mid March, but have since staged a very strong recovery initially led by ‘lockdown beneficiaries’ and then in recent weeks, ‘reopening beneficiaries’.
- Valuations are no longer attractive but most Asian markets remain more reasonably valued than the US, Australia, EU and Japan.
- A number of global and Asian markets are now close to overbought (i.e. RSI > 70).
- We remain cautious.

Market P/B vs GFC Low



RSI for Asian Markets



# Factor Rotation

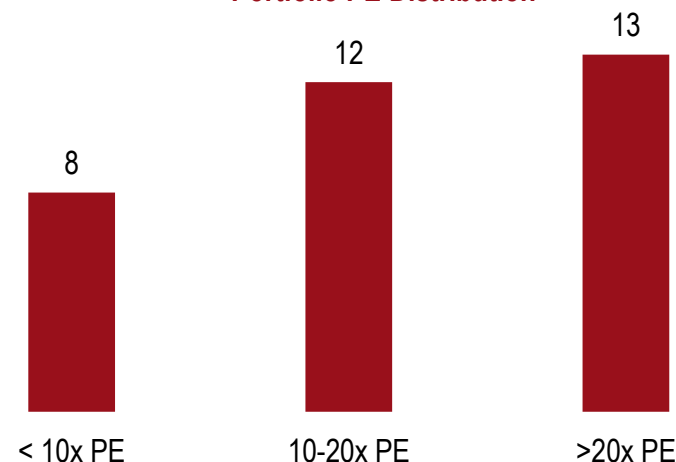
## GROWTH VS VALUE

- Since the end of the GFC, growth has outperformed value by a significant margin.
- Somewhat surprisingly, growth also outperformed value during the early stages of COVID and the sell off in March.
- Ellerston Asia is a growth Fund. Stocks have to meet specific growth criteria to enter the portfolio.
- We do not change our process or strategy to cater to short term market conditions.
- We have rotated into laggards however.
- The average PE of the portfolio is 19x but this includes a number of stocks with PE multiples <10x.

Growth vs Value Price Performance













Factor Index	5 Yrs	3 Yrs	1 Yr	CYTD	May 2020
MSCI AxJ Growth Price Index	53.8%	34.4%	17.3%	2.9%	-2.6%
MSCI AxJ Value Price Index	-6.5%	-7.4%	-12.9%	-13.3%	-1.1%

Portfolio PE Distribution



# Political Risk

ELEVATED POLITICAL RISK IS NOT REFLECTED IN ASSET PRICES

Country	Country	Comment
		US-China relations continue to deteriorate. Areas for further tension include capital markets, trade and foreign policy.
		The proposed National Security law is controversial. Protests continue. One Country Two Systems under threat.
		Cross border skirmish has resulted in casualties on both sides. Xi increasingly assertive on sovereignty issues.
		Relationship deteriorating. COVID inquiry. China retaliating to COVID inquiry via trade, travel and education. Tension to continue.
		North Korea increasingly aggressive towards South Korea. Gains made in 2018 Peace Talks appear a distant memory.
		America is a deeply divided nation on multiple fronts. Divisions could be exacerbated before and after the Presidential election in November.



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Thematics & Stock Discussion



# Review of Portfolio Thematics

## 4 CORE THEMATIC SINCE INCEPTION

### Technological Disruption in Asia



### The Rise of the Asian Consumer



### Capital Market Liberalisation in China



### Structural Reform in India

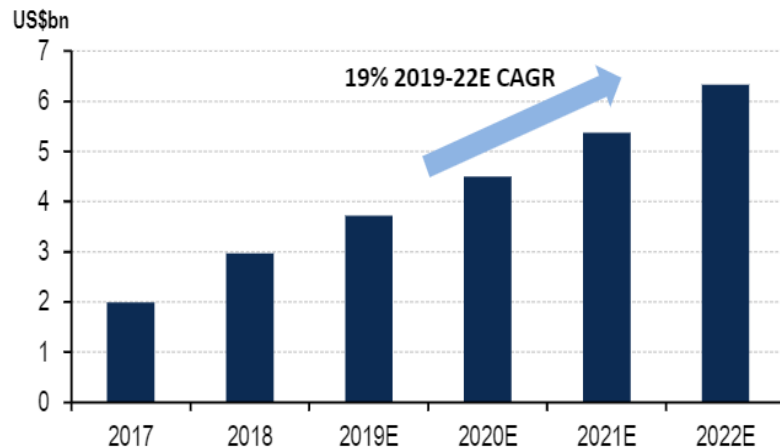


# Technological Disruption – Digital Infrastructure

## INSPUR

- Technology disruption is a core thematic for Ellerston Asia.
- Within this overall thematic we have identified a number of key sub-thematics including 5G, internet of things, artificial intelligence, digital infrastructure and “stay at home” tech.
- The demand for digital infrastructure has boomed since the onset of COVID-19 and this trend is unlikely to reverse.
- Inspur is an example of a stock that fits the digital infrastructure category. It is China’s largest server vendor with key customers including Baidu, Alibaba, Tencent, JD and large enterprise/government firms.
- Near term beneficiary of WFH trend and Huawei disruption. Long term beneficiary of increased data/cloud usage. Both mean higher demand for Inspur servers.
- Revenue/EPS growth of 19%/26% for next 3 years. Trading on 35x forward PE.

### China Private Cloud Server Market Size (US\$bn)



### Inspur made server for Baidu

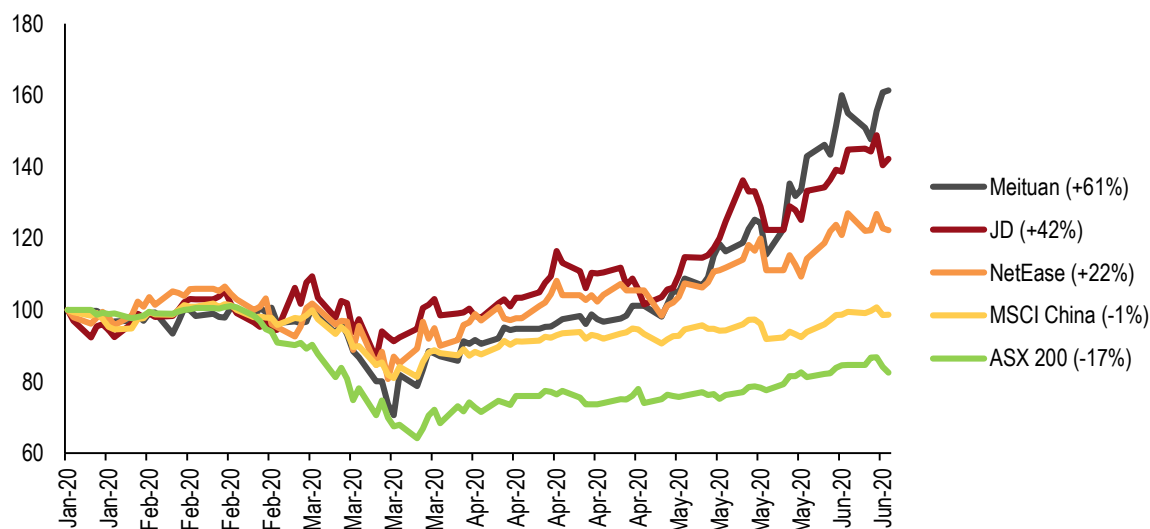


# Technological Disruption – “Stay at Home” Tech

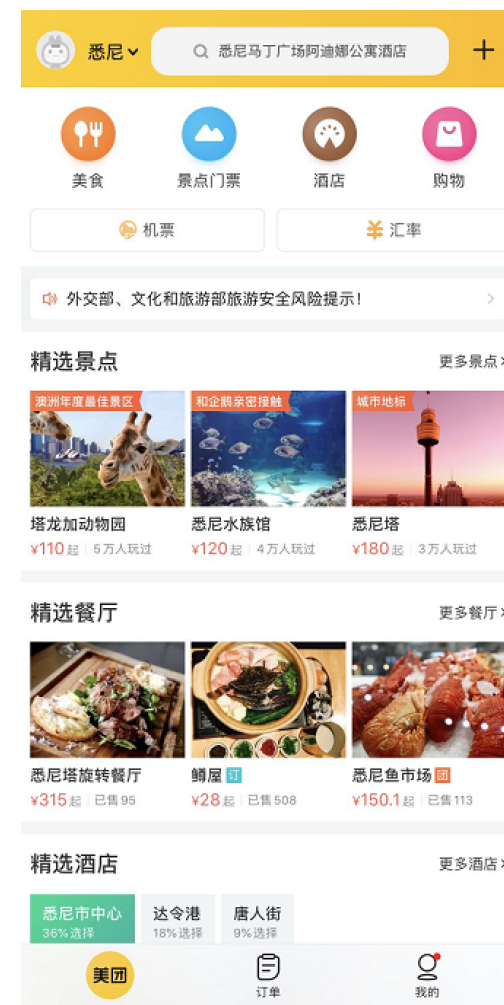
## MEITUAN

- COVID-19 has had a positive impact on many Chinese technology businesses that benefit from isolation and new social distancing norms.
- Our China portfolio has substantial exposures to these tech leaders including Tencent, JD, Alibaba, NetEase and Meituan.
- Meituan is China’s largest eCommerce platform for local services, primarily food delivery. “Eat Better, Live Better” is the company’s mission.
- Meituan is set to benefit from rising penetration of online consumer services with high monetisation potential and trends towards ordering in.
- EPS expected to 60%+ for next 2-3 years while valued at 56x forward PE.

Meituan Share Price Performance CYTD 2020



Source: Ellerston Asia, Bloomberg



# Chinese Capital Market Liberalization – ADRs

## HONG KONG EXCHANGE

- We have held HKEX in the portfolio since inception in 2015 on the basis of this thematic.
- HKEX has a near monopoly position on equity flows into and out of Hong Kong.
- One side of the HKEX coin is MSCI's increasing inclusion of A shares into major Indices.
- The other side is mainland investors increasingly investing in HK listed technology giants. Alibaba and NetEase have already listed and JD has filed to do so. We expect Baidu and PDD to follow.
- There are currently 33 Chinese ADRs with a total market cap of over \$A1.6 trillion.
- HKEX has 3 year EPS CAGR of over 10% and has a strong and sustainable dividend yield of approximately 3%.

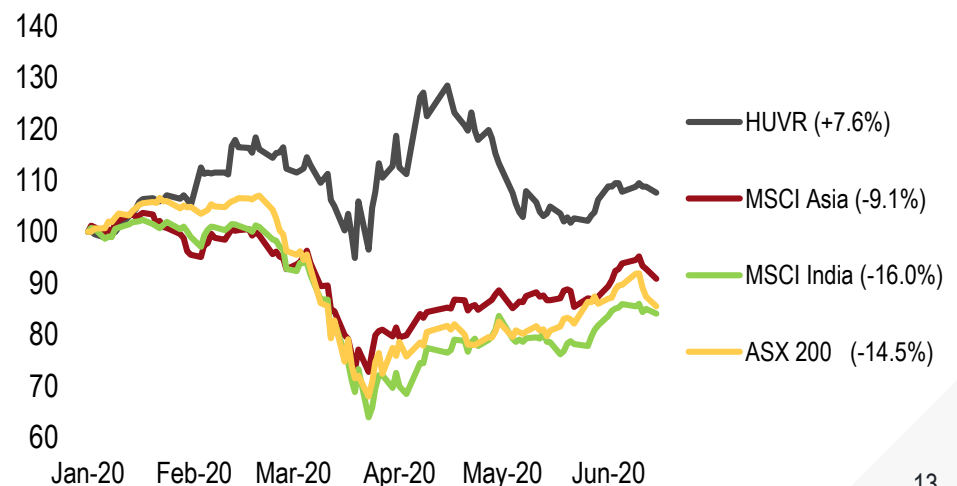
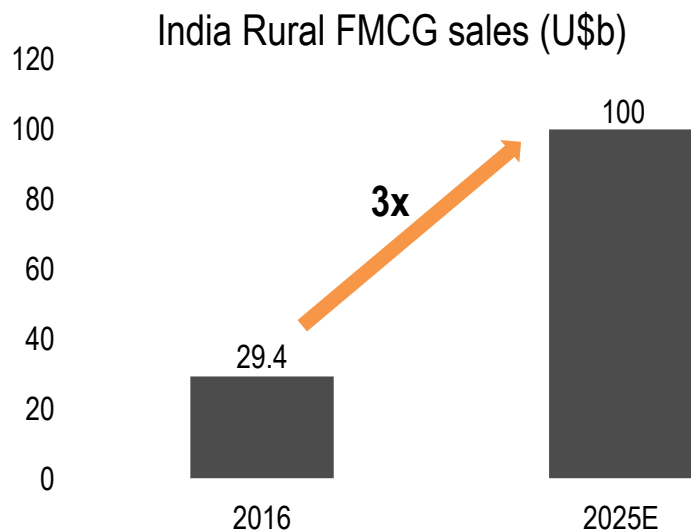
ADR*	Market Cap (AUD b)
Alibaba	\$837
JD	131
Pinduoduo	128
NetEase	75
Tal Education	55
Baidu	54
Other	3195
Total	\$1,650



# Rise of the Asia Consumer – Rural Over Urban

## HINDUSTAN UNILEVER

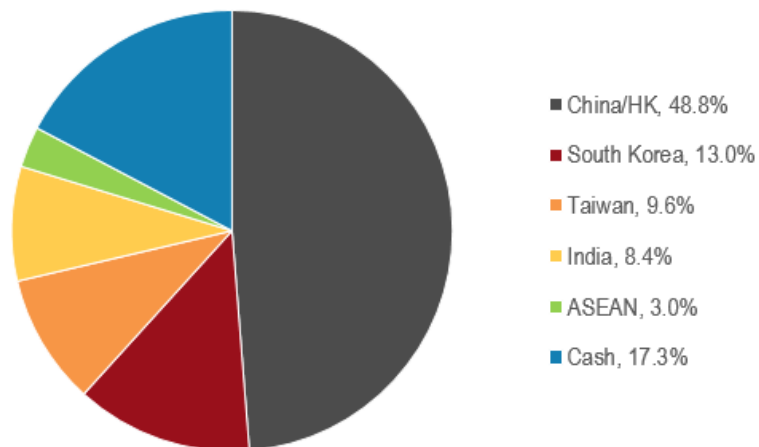
- While overall consumer confidence and consumption in India has been impacted by COVID-19, the rural economy, which contributes 45% of GDP, remains largely unaffected.
- Forecast of a normal monsoon, good harvest season and a U\$20b stimulus targeting rural workers will be the key drivers of growth (>40% of revenues come from rural).
- Hindustan Unilever (HUVR) is India's largest FMCG business and has one of the largest exposures to rural (~40% of revenues).
- HUVR's "Winning in Many India's" (WiMi) strategy allows management to cater products and distribution to local areas. CYTS that stock is up ~8% and has outperformed peers and relevant indices.
- FMCG continues to remain a structural growth story in India driven by low per capita FMCG spends vs other markets like China (4x) and developed markets (6x).



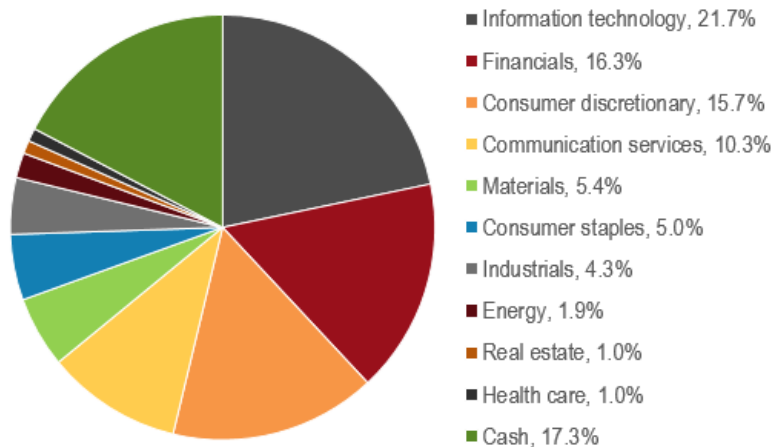
# Portfolio Overview

PORTFOLIO AS OF 31 MAY 2020

## Country Allocation



## Sector Allocation



Top 10 Holdings	Portfolio Weight (%)
Alibaba	10.01%
Samsung Electronics	8.13%
Tencent	7.32%
TSMC	6.90%
Hong Kong Exchange	5.07%
Ping An Insurance	3.79%
Anhui Conch	3.40%
Larsen & Toubro Ltd.	3.23%
China Merchants Bank	3.13%
Hindustan Unilever Limited	3.10%
<b>Total</b>	<b>54.07%</b>

# Investment Team Activity Update

## NOT ON THE GROUND, BUT STILL BUILDING RELATIONSHIPS WITH COMPANIES

- Last year we did 9 overseas research trips with over 300 company contact points.
- Eric Fong visited China in January 2020 prior to the outbreak of COVID.
- Since then, COVID has obviously restricted our ability to be on the ground but our level of company engagement has actually increased in 2020.
- CYTD the team has had 281 company contact points - roughly double our normal run rate.

Date	Calls/VC/Zoom
HK/China	140
India	93
North Asia	37
ASEAN & Other	11
Total	281





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Q&A



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