

# Establishment Investment Trust plc

## REVIEW

The share price rose 1.5% in May while the Net Asset Value slipped 0.6%. The MSCI AC Asia ex Japan Index gained 2.2%, the MSCI AC World Index rose 3.7% and the FTSE UK Private Investor Balanced Index advanced by 2.2%.

China (+5.5%) and Taiwan (+3.4%) outperformed while Malaysia (-4.9%) and Thailand (-1.5%) underperformed. By sector, Energy (+4.2%) continued its good run and Consumer Staples (+4.0%) also moved smartly higher while Telecoms (-2.2%) and Industrials (-0.2%) lagged.

All figures above are total return and in sterling terms. Source: Bloomberg.

## THE COME-BACK KING

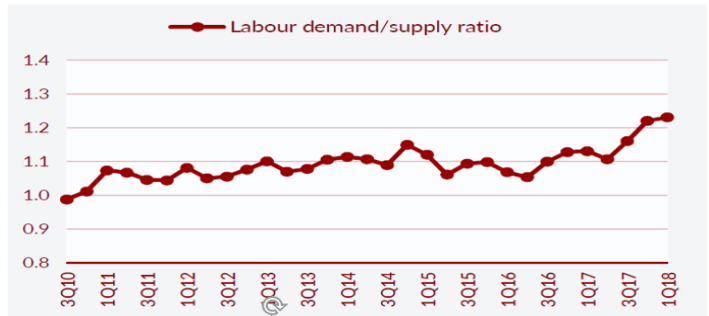
While there was little doubt that Prime Minister Najib was unpopular following the 1MDB debacle, the victory by 92 year old Tun Dr. Mahathir Bin Mohamad's Pakatan Harapan (PH or the "Alliance of Hope") coalition in the recent Malaysian election was unexpected to say the least. PH and its allies captured 122 (50.9%) seats in the general election last month compared to the 79 won by Barisan Nasional who had held power continuously since independence (August 1957). Mahathir, a controversial figure, needs no introduction having been Prime Minister from 1981 to 2003 winning five consecutive general elections. He turns 93 next month!

Mahathir campaigned on a populist platform - abolish the recently introduced Goods and Services Tax, reintroduce selective fuel subsidies, increase and standardise the minimum wage and provide healthcare access for low income groups. A Royal Commission is to be established to investigate 1MDB (Mr Najib's passport has been revoked) and all large infrastructure projects are to be reviewed. Two substantial rail projects have already been cancelled.

Markets don't like uncertainty and, as noted earlier, the Malaysian market fell sharply after the election result. Construction stocks were particularly hard hit including portfolio holding IJM Corp which subsequently reported rather light results for the 4Q of their financial year (to March) in late May. IJM is a diversified concern with interests in property, plantations and infrastructure but the market chose to focus on the construction and related industrial businesses (combined they account for roughly half revenues and pre-tax profits). Rising commodity prices impacted margins in the industrial division but the huge construction order book (which amounts to circa four years revenues and is reassuringly diversified) and stronger property presales suggest better times lie ahead. The Company certainly thinks so - it has been purchasing its own shares repeatedly of late.

The bigger question for the country is when and if Mahathir, who has quickly followed through with his campaign promise to pardon Anwar Ibrahim (his former deputy in the 1990s), will step aside. Anwar is highly respected by the international community and his elevation to high public office would be very positively received. Anwar's wife, Wan Azizah Wan Ismail, has been appointed Deputy Prime Minister and is the first female to hold this position.

China's labour demand to supply ratio in 100+ cities



Source: Ministry of Human Resources and Social Security

## CHINA - OOZING CONFIDENCE

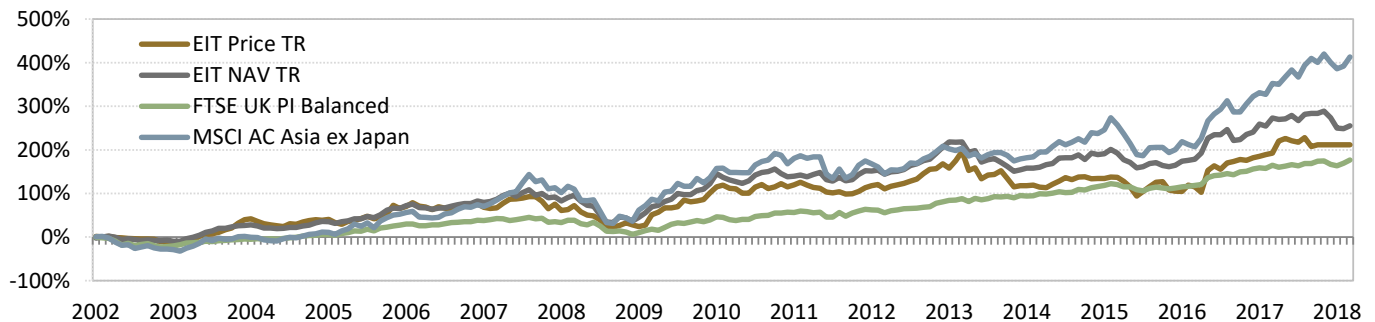
While the chat in markets continues to revolve around the threat of trade wars and the like, a rather different perspective was observed while attending an investor conference in the beautiful city of Hangzhou last month. Held by CITIC securities and their subsidiary CLSA the opening address was attended by circa 2,000 investors, the vast majority locals. The word is confidence. Not over-confidence in equity markets (although there was a bit of that) but confidence in the destiny of China and the wealth of opportunities out there for China's burgeoning ranks of entrepreneurs. Everyone is looking inward not outward as China's growth path is increasingly dominated by the rapid growth in domestic consumption.

The speed with which workers previously employed in 'old' industries such as steel and coal have found employment in the service sector is breath-taking. Meituan - an online food review and delivery company backed by Tencent - employs 1.7mn scooter drivers and estimates that almost one third were previously employed in industries impacted by supply side reform. 80% work in tier 1 cities, over 70% are migrants.

China's deteriorating demographic profile (for example the female population between 20-29 has fallen from 115mn to 105mn over the last five years and is forecast to fall to 75mn over the next five years!) and the rapid growth in the service sector is leading to an ever tighter labour market (see chart above) especially for skilled workers. Perhaps reacting to this fact, the reform of the Hukou system appears to be accelerating rapidly with 28 of the 32 tier 2 cities loosening Hukou policies over the past year. Unsurprisingly the authorities in each city are targeting younger, educated and skilled migrants.

## OUTLOOK

Bank Indonesia raised rates twice last month, Bankgo Sentral (Philippines) raised rates once. Both are likely to raise rates further. Additional rate raises by the Federal Reserve may keep investors nervous of the perceived weaker ASEAN economies.



Net dividends reinvested, all data in sterling

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LISTED EQUITIES	MARKET	SECTOR	97.9%		
BATS	UK	CONSUMER STAPLES	4.2%		
LAND & HOUSES	THAILAND	REAL ESTATE	4.0%		
SAMSUNG ELECTRONICS	KOREA	TECHNOLOGY	4.0%		
JNBY	CHINA	CONSUMER DISCRETIONARY	3.9%		
UNILEVER	UK	CONSUMER STAPLES	3.5%		
IMPERIAL BRANDS	UK	CONSUMER STAPLES	3.0%		
HDFC	INDIA	FINANCIAL	3.0%		
CHINA PETROLEUM & CHEMICAL	CHINA	ENERGY	3.0%		
TSMC	TAIWAN	TECHNOLOGY	2.9%		
GLAXOSMITHKLINE	UK	HEALTH CARE	2.8%		
SANDS CHINA	CHINA	CONSUMER DISCRETIONARY	2.8%		
SUN ART RETAIL	CHINA	CONSUMER STAPLES	2.8%		
UNI-PRESIDENT	TAIWAN	CONSUMER STAPLES	2.6%		
SIAM CITY CEMENT	THAILAND	MATERIALS	2.6%		
SAMSONITE	CHINA	CONSUMER DISCRETIONARY	2.6%		
IND & COMM BANK OF CHINA	CHINA	FINANCIAL	2.5%		
ITC	INDIA	CONSUMER STAPLES	2.5%		
MINTH GROUP	CHINA	INDUSTRIALS	2.5%		
ZEE ENTERTAINMENT	INDIA	CONSUMER DISCRETIONARY	2.4%		
SHINHAN FINANCIAL	KOREA	FINANCIAL	2.4%		
JOHNSON ELECTRIC	CHINA	INDUSTRIALS	2.3%		
NATIONAL GRID	UK	UTILITIES	2.3%		
CHINA CONSTRUCTION BANK	CHINA	FINANCIAL	2.1%		
AYALA LAND	PHILIPPINES	REAL ESTATE	2.0%		
AYALA CORP	PHILIPPINES	FINANCIAL	2.0%		
SK TELECOM	KOREA	COMMUNICATIONS	2.0%		
ASTRA INTERNATIONAL	INDONESIA	CONSUMER DISCRETIONARY	1.7%		
TENCENT	CHINA	TECHNOLOGY	1.5%		
EMEMORY	TAIWAN	TECHNOLOGY	1.4%		
KB FINANCIAL	KOREA	FINANCIAL	1.3%		
IJM CORP	MALAYSIA	INDUSTRIALS	1.2%		
LARSEN & TOUBRO	INDIA	INDUSTRIALS	1.1%		
HANSSEM	KOREA	CONSUMER DISCRETIONARY	1.1%		
ACCESS ENGINEERING	SRI LANKA	INDUSTRIALS	0.8%		
SILVER HERITAGE	NEPAL	CONSUMER DISCRETIONARY	0.7%		
BLACKFRIARS ORIENTAL FOCUS FUND			14.2%		
<b>LIQUIDITY</b>			<b>2.1%</b>		
<b>COUNTRY BREAKDOWN (all equity positions)</b>			<b>97.9%</b>		
CHINA	26.0%	MALAYSIA	1.2%	TAIWAN	7.0%
HONG KONG	0.0%	NEPAL	0.7%	THAILAND	6.6%
INDIA	9.0%	PHILIPPINES	4.0%	UK	15.9%
INDONESIA	1.7%	SINGAPORE	0.0%	ASIA EX REGIONAL <sup>~</sup>	14.2%
KOREA	10.7%	SRI LANKA	0.8%	<sup>~</sup> via investment vehicle	
<b>SECTOR BREAKDOWN (directly held equities only)</b>			<b>83.7%</b>		
COMMUNICATIONS	2.0%	FINANCIAL	13.3%	REAL ESTATE	6.0%
CONSUMER DISC.	15.2%	HEALTH CARE	2.8%	TECHNOLOGY	9.8%
CONSUMER STAPLES	18.7%	INDUSTRIALS	8.0%	UTILITIES	2.3%
ENERGY	3.0%	MATERIALS	2.6%		

Compound Annual Growth Rate since Inception (total return)	
Share Price	7.3%
18th March 2002 - 31st May 2018	
Net Asset Value	8.0%
18th March 2002 - 31st May 2018	

Market Data	
Share Price	209.00p
Net Asset Value	246.19p
Premium / (Discount)	(15.1%)
Shares Outstanding (mn)	20.0
Market Capitalisation (mn)	£41.8
Historic Yield (incl special div)*	4.8%
Ongoing Charges	1.2%
Listed	London Stock Exchange
Bloomberg Ticker	ET/ LN <Equity>
ISIN	GB0031336919
Website	<a href="http://www.blackfriarsam.com">www.blackfriarsam.com</a>

Investment Manager	
Blackfriars Asset Management Ltd	
9 Cloak Lane	
London	Telephone
EC4R 2RU	+44 (0) 20 7332 2270
Administrator	
Praxis IFM Fund Services (UK) Limited	
3rd Floor, Mermaid House	
2 Puddle Dock	
London EC4V 3DB	Telephone
	+44 (0) 20 7653 9690
Directors	
Harry Wells (Chairman)	
Jim Ryall	
Gregory Shenkman	
Susan Thornton	
Thomas Waring	
Corporate Broker	
Stockdale Securities	

Investment Objective	
To achieve long-term capital growth from a managed international portfolio of securities.	
Management Fee	
One per cent of the market capitalisation per annum	
Financial Year	
31st March	

Annual Returns % (GBP)	31/05/2018											Performance Data
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Price	-30.31	44.14	17.80	-7.27	25.42	-7.84	3.02	-4.42	22.58	17.60	-4.68	Source: <a href="http://www.morningstar.co.uk">www.morningstar.co.uk</a>
NAV	-26.77	38.06	24.63	-9.81	19.88	-5.45	6.71	-2.90	19.33	18.50	-8.84	Category: Flexible
Cat Price†	-17.85	20.37	16.77	0.66	-1.38	9.59	7.99	13.61	11.59	11.33	1.32	Benchmark: ‡ FTSE World TR
Cat NAV†	-16.16	11.35	17.61	-5.16	5.21	12.83	5.87	6.35	10.45	7.68	0.86	
Benchmark‡	-18.18	19.64	16.28	-5.79	11.83	22.36	11.29	4.34	29.59	13.34	1.96	

\* Based on interim, final and special dividend approved by EIT Board for FY2017.

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