

Establishment Investment Trust plc

REVIEW

The share price fell by 2.5% in December while the Net Asset Value declined by 3.9% rounding off what can only be described as a very challenging year. In comparison, the MSCI AC Asia ex Japan Index fell by 2.7%, the MSCI AC World Index declined by 7.0% and the FTSE UK Private Investor Balanced Index fell 3.1%.

For calendar year 2018 the share price fell by 5.5% (-10.1% excluding dividends) while the Net Asset Value declined by 17.9%. In comparison, the MSCI AC Asia ex Japan Index fell by 9.2%, the MSCI AC World Index declined by 3.9% and the FTSE UK Private Investor Balanced Index fell 2.8%.

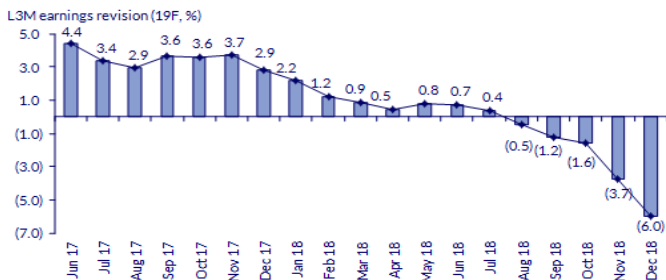
Finetex (fraud) and Silver Heritage (continued liquidity concerns while ramping up the new Nepalese integrated resort) cost the portfolio a combined 4.8% while the savage derating of British American Tobacco cost a further 2.4%. Three Chinese holdings - Samsonite, Minth and Johnson Electric - impacted the portfolio by over 1% each.

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

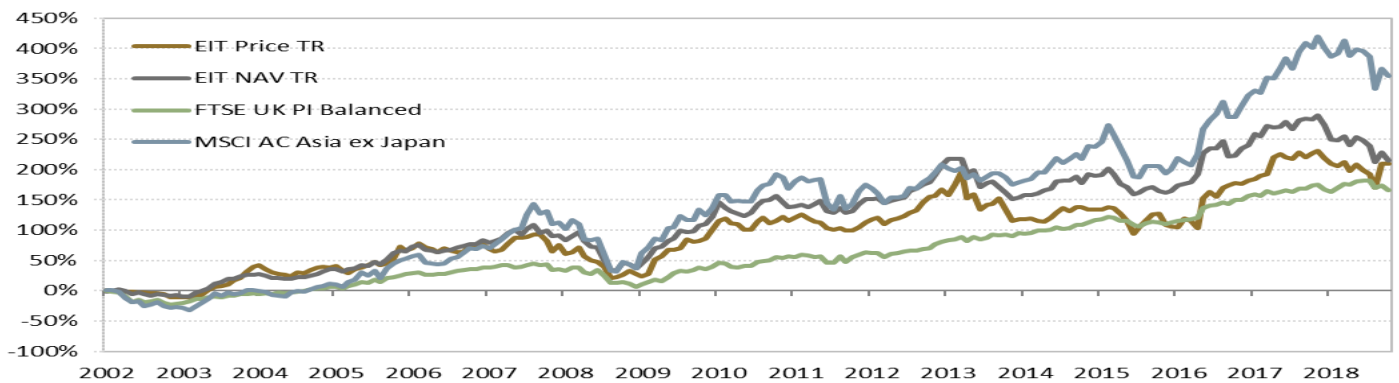
REASONS TO BE CHEERFUL

The sharp decline in US equities in the fourth quarter was overdue, all other equity markets - developed and emerging - have been struggling since early 2018. The combination of a stronger dollar, rising short term dollar interest rates, a contracting Federal Reserve balance sheet and increased trade tensions have taken their toll. It is also abundantly clear that economic growth in major global economies such as Germany, Japan and China has slowed considerably. The latest purchasing managers index released across the Asian region suggest the first quarter of 2019 will be hard work. While economic growth rates in America remain robust, there is plenty of evidence to suggest that interest rate sensitive sectors, such as housing, are feeling the pain of rising rates. The bickering between President Trump and Jerome Powell has been a further distraction while Powell's comment last month that the balance sheet reduction was on 'auto pilot' was simply unnerving.

MSCI AsiaXJ - Rolling 3M earnings revision (19F)



Source: CLSA



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China bank asset and nominal growth



Source: PBOC, CEIC Data, National Bureau of Statistics

The credit markets reacted with spreads on high yield bonds spiking sharply while long term treasuries yields plummeted, pushing the yield curve close to inversion. Powell has subsequently backtracked and the threat of multiple further interest rate rises seems increasingly unlikely. Ceteris paribus, this is dollar negative which historically has been a big positive for Asian and emerging markets asset classes.

REASONS TO BE FEARFUL

Our view for many years has been that it is a mistake to underestimate the ability of the Chinese authorities to conjure up a solution to a seemingly intractable problem, perhaps the recent supply side reform in the iron and steel industry would be the best example. Russell Napier has recently pointed out that not only is the balance sheet of the Federal Reserve shrinking but so is that of the People's Bank of China (PBOC). While the authorities are talking of monetary easing (the reserve ratio requirement was cut again in early January), Napier notes that reserve money has fallen by 4.9% since December 2017. The contraction has been driven by PBOC transactions to keep the Renminbi within its target range and - in that sense - it is outside of the control of the authorities unless they abandon the exchange rate targeting regime.

The deleveraging agenda of the past few years has been generally well received and applauded - the shadow banking genie has been put back in the bottle - but the consistent decline in the growth rate of broad money is of concern. The chart above (from CLSA) shows that asset growth of banks remains well below nominal GDP growth. Needless to say, a pause - or about turn - by the Federal Reserve would be very well received at the PBOC.

The first chart illustrates the increased pace of downward earnings revisions by analysts in Asia, some of this will be simply be analysts 'following the market down' but it does underscore increased growth uncertainties. To state the obvious, a weaker Dollar and a trade deal would be most helpful for sentiment. Regional valuations - at 1.3x as measured by the price to book ratio - remain at very attractive levels. Looked at another way, 57% of the stocks covered by CLSA yield more than the 10 year US Treasury.

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LISTED EQUITIES	MARKET	SECTOR	95.0%		
UNILEVER	UK	CONSUMER STAPLES	4.1%		
HDFC	INDIA	FINANCIAL	3.8%		
SAMSUNG ELECTRONICS	KOREA	TECHNOLOGY	3.5%		
TSMC	TAIWAN	TECHNOLOGY	3.5%		
GLAXOSMITHKLINE	UK	HEALTH CARE	3.2%		
BATS	UK	CONSUMER STAPLES	3.1%		
IMPERIAL BRANDS	UK	CONSUMER STAPLES	3.1%		
LAND & HOUSES	THAILAND	REAL ESTATE	2.9%		
SIAM CITY CEMENT	THAILAND	MATERIALS	2.7%		
CHINA OVERSEAS LAND	CHINA	REAL ESTATE	2.7%		
SHINHAN FINANCIAL	KOREA	FINANCIAL	2.7%		
IND & COMM BANK OF CHINA	CHINA	FINANCIAL	2.7%		
KB FINANCIAL	KOREA	FINANCIAL	2.6%		
SAMSONITE	CHINA	CONSUMER DISCRETIONARY	2.6%		
ITC	INDIA	CONSUMER STAPLES	2.5%		
SANDS CHINA	CHINA	CONSUMER DISCRETIONARY	2.4%		
ZEE ENTERTAINMENT	INDIA	CONSUMER DISCRETIONARY	2.4%		
ASTRA INTERNATIONAL	INDONESIA	CONSUMER DISCRETIONARY	2.4%		
AYALA CORP	PHILIPPINES	FINANCIAL	2.3%		
MEGAWIDE CONSTRUCTION	PHILIPPINES	INDUSTRIALS	2.2%		
MINTH GROUP	CHINA	INDUSTRIALS	2.1%		
CHINA CONSTRUCTION BANK	CHINA	FINANCIAL	2.1%		
HAIER ELECTRONICS	CHINA	CONSUMER DISCRETIONARY	2.1%		
UNI-PRESIDENT	TAIWAN	CONSUMER STAPLES	2.0%		
JNBY	CHINA	CONSUMER DISCRETIONARY	2.0%		
LARSEN & TOUBRO	INDIA	INDUSTRIALS	1.9%		
JOHNSON ELECTRIC	CHINA	INDUSTRIALS	1.9%		
HYNIX SEMICONDUCTOR	KOREA	TECHNOLOGY	1.8%		
TENCENT	CHINA	TECHNOLOGY	1.5%		
MY EG	MALAYSIA	TECHNOLOGY	1.4%		
EMEMORY	TAIWAN	TECHNOLOGY	1.2%		
SUNNY OPTICAL	CHINA	TECHNOLOGY	1.2%		
HANON SYSTEMS	KOREA	INDUSTRIALS	1.1%		
ACCESS ENGINEERING	SRI LANKA	INDUSTRIALS	0.6%		
SILVER HERITAGE	NEPAL	CONSUMER DISCRETIONARY	0.6%		
BLACKFRIARS ORIENTAL FOCUS FUND			14.1%		
LIQUIDITY			5.0%		
COUNTRY BREAKDOWN (all equity positions)			95.0%		
CHINA/HK	23.1%	NEPAL	0.6%	TAIWAN	6.7%
INDIA	10.6%	PHILIPPINES	4.5%	THAILAND	5.6%
INDONESIA	2.4%	SINGAPORE	0.0%	UK	13.5%
KOREA	11.7%	SRI LANKA	0.6%	ASIA EX JAPAN REGIONAL [~]	14.1%
MALAYSIA	1.4%			[~] via investment vehicle	
SECTOR BREAKDOWN (directly held equities only)			80.9%		
COMMUNICATIONS	0.0%	FINANCIAL	16.1%	REAL ESTATE	5.6%
CONSUMER DISC.	14.5%	HEALTH CARE	3.2%	TECHNOLOGY	14.1%
CONSUMER STAPLES	14.8%	INDUSTRIALS	9.8%	UTILITIES	0.0%
ENERGY	0.0%	MATERIALS	2.7%		

Compound Annual Growth Rate since Inception (total return)	
Share Price	7.0%
18th March 2002 - 31st December 2018	
Net Asset Value	7.1%
18th March 2002 - 31st December 2018	

Market Data	
Share Price	197.00p
Net Asset Value	212.32p
Premium / (Discount)	(7.2%)
Shares Outstanding (mn)	20.0
Market Capitalisation (mn)	£39.4
Historic Yield (incl special div)*	5.2%
Ongoing Charges	1.3%
Listed	London Stock Exchange
Bloomberg Ticker	ET/ LN <Equity>
ISIN	GB0031336919
Website	www.blackfriarsam.com

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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)	31/12/2018										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	-5.45	Source: www.morningstar.co.uk
NAV	-26.77	38.06	24.63	-9.81	19.88	-5.45	6.71	-2.90	19.33	18.50	-17.85	Category: Flexible
Cat Price†	-	-	-	-	-	-	-	-	-	-	-5.43	Benchmark: ‡ FTSE World TR
Cat NAV†	-20.89	24.36	16.29	-2.00	7.11	6.74	3.54	1.06	13.13	11.26	-6.76	
Benchmark‡	-18.18	19.64	16.28	-5.79	11.83	22.36	11.29	4.34	29.59	13.34	-3.10	

*Based on interim, final and special dividend approved by EIT Board for FY2018.

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