

# Establishment Investment Trust plc

## REVIEW

The share price rose by 0.5% in January while the Net Asset Value climbed 2.2%. In comparison, the MSCI AC Asia ex Japan Index rose 4.2%, the MSCI AC World Index gained 4.8% and the FTSE UK Private Investor Balanced Index climbed 2.8%.

China (+7.9%) and South Korea (+7.1%) led the way while Taiwan (-1.2%) and India (-4.7%) lagged. By sector, consumer discretionary (+9.9%) and real estate (+8.1%) outperformed while materials (+0.1%) and utilities (-1.3%) underperformed.

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

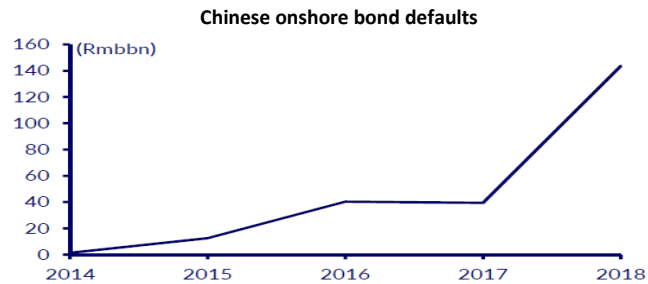
## VOLTE-FACE

*"Funny how things change when Powell is staring down the barrel of a stock market decline that seemed to be spiralling out of control (this time not as a Fed governor, but rather the Chairman). The late December swoon proved too much for Powell to bear, and since then he has folded like a lawn chair on almost all of his hawkish guidance."*

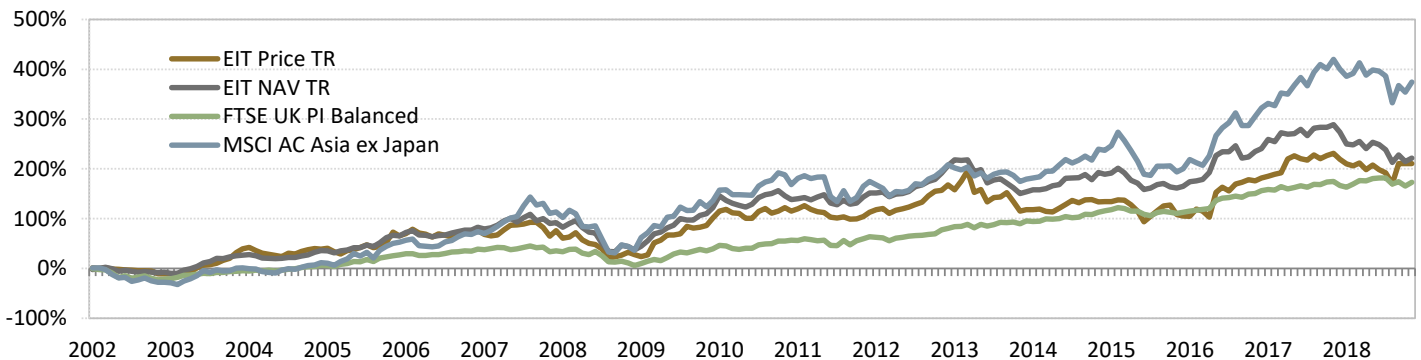
CLSA's Damian Kestel neatly sums up the about turn at the Federal Reserve. The market is now pricing in a cut in interest rates this year - an event not forecast by a single Federal Reserve Board member in the most recent 'dot plots' - while Bill Gross, in announcing his retirement, predicted that the Federal Reserve will end quantitative tightening later this year. The lack of any inflationary pressures remains in large part a consequence of the massive build up of debt over the past decade. This debt burden is inherently deflationary in nature.

## CHINA - CORPORATE DEBT

We discussed the deleveraging agenda of the Chinese authorities last month and believe it is still fair to say that the worst excesses in shadow banking have been unwound or contained. That said, total non-financial sector debt to GDP rose from circa 140% to 260% over the past decade and CLSA's Patricia Cheng's recent report highlights the challenges facing both the onshore and offshore bond markets.



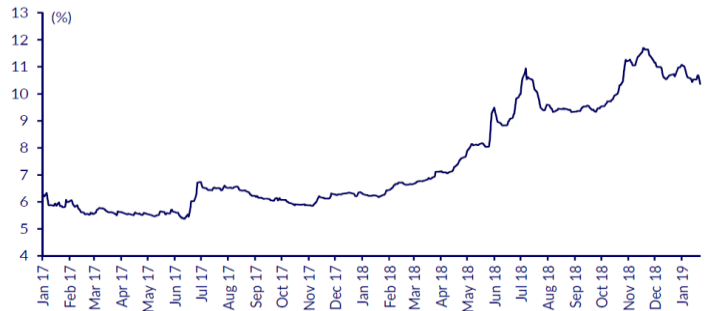
Source: Wind, CLSA



Net dividends reinvested, all data in sterling

Issued by Blackfriars Asset Management Limited which is authorised and regulated in the UK by the Financial Conduct Authority. The distribution of this document may be restricted by law and persons into whose possession it comes are required to inform themselves of and comply with any such restrictions. Readers of this document are therefore assumed to have the knowledge and experience in business and financial matters to enable them to evaluate the merits of, and risks of, investing in the Fund. Persons of any other description should not rely upon this document. This document does not constitute an offer or invitation to any person to subscribe for or purchase shares in the Fund. This document is for information only, the information and opinions contained have been compiled or arrived at from sources believed to be reliable and given in good faith but no representation or warranty is made as to their accuracy, completeness or correctness. All quoted returns are illustrative only. The Fund is an investment trust whose shares are quoted on the London Stock Exchange. The securities issued by investment trusts may trade in the market at prices which diverge from their net asset value per share. Investments may fall as well as rise and investors may lose a substantial portion or even all of their investment. Past performance is not necessarily a guide to future performance. In addition, changes in rates of exchange may be one of the causes for the value of investments to go up or down.

Effective yield for ICE BofAML Asian dollar high yield corporate China



Source: CLSA, Bloomberg

The first chart shows the rapid rise in onshore bond defaults from Rmb39bn to Rmb144bn last year. The defaulters are mainly private sector concerns in the industrial sector, many of which are listed on the A share market. Unsurprisingly the spread between AAA and A rated bonds has risen from 5% to 7% over the past year and the rating agencies are undoubtedly issuing many more downgrades than upgrades. The second chart depicts the sharp rise in offshore bond yields which has risen from 6-7% to 10-11% over the past twelve months. Issuers from the real estate sector dominate the offshore bond market.

Excluding Sovereign and financial bonds, onshore bond maturities in 2019 total Rmb5.3tn (US\$790bn) while offshore maturities total US\$100bn. Expect further cuts in reserve ratio requirements and more vocal exhortations from the authorities to the large state owned banks to increase lending to the SME sector.

The authorities are, of course, primarily focussed on trying to get a 'trade deal' with America over the line by the end of February but should they fail we can expect more aggressive stimulus measures with negative connotations for the currency. Fingers crossed.

## OUTLOOK

Developed markets spent January recouping December's losses while in Asia we have been encouraged by the fact that in late December the MSCI AC Asia ex Japan Index bounced neatly off the October lows and has started the year strongly.

The about turn by the Federal Reserve and the prospect of a more dovish monetary policy is, all other things being equal, a big positive for Asian equity markets and, despite the recent move, we note that valuations remain at attractive levels. There have been a number of trading statements from portfolio holdings in January, most of which met or beat expectations. There are many more to come in February.

# Establishment Investment Trust plc

LISTED EQUITIES	MARKET	SECTOR	95.4%		
UNILEVER	UK	CONSUMER STAPLES	3.9%		
SAMSUNG ELECTRONICS	KOREA	TECHNOLOGY	3.7%		
BATS	UK	CONSUMER STAPLES	3.3%		
IMPERIAL BRANDS	UK	CONSUMER STAPLES	3.2%		
TSMC	TAIWAN	TECHNOLOGY	3.2%		
HDFC	INDIA	FINANCIAL	3.2%		
GLAXOSMITHKLINE	UK	HEALTH CARE	3.1%		
LAND & HOUSES	THAILAND	REAL ESTATE	3.1%		
MINTH GROUP	CHINA	INDUSTRIALS	3.0%		
SANDS CHINA	CHINA	CONSUMER DISCRETIONARY	2.9%		
SIAM CITY CEMENT	THAILAND	MATERIALS	2.8%		
ASTRA INTERNATIONAL	INDONESIA	CONSUMER DISCRETIONARY	2.8%		
TENCENT	CHINA	COMMUNICATIONS	2.8%		
CHINA OVERSEAS LAND	CHINA	REAL ESTATE	2.8%		
SHINHAN FINANCIAL	KOREA	FINANCIAL	2.8%		
IND & COMM BANK OF CHINA	CHINA	FINANCIAL	2.7%		
SAMSONITE	CHINA	CONSUMER DISCRETIONARY	2.5%		
AYALA CORP	PHILIPPINES	FINANCIAL	2.5%		
JOHNSON ELECTRIC	CHINA	INDUSTRIALS	2.4%		
ITC	INDIA	CONSUMER STAPLES	2.3%		
UNI-PRESIDENT	TAIWAN	CONSUMER STAPLES	2.1%		
JNBY	CHINA	CONSUMER DISCRETIONARY	2.0%		
ZEE ENTERTAINMENT	INDIA	CONSUMER DISCRETIONARY	2.0%		
HAIER ELECTRONICS	CHINA	CONSUMER DISCRETIONARY	1.7%		
MEGAWIDE CONSTRUCTION	PHILIPPINES	INDUSTRIALS	1.6%		
LARSEN & TOUBRO	INDIA	INDUSTRIALS	1.6%		
HYNIX SEMICONDUCTOR	KOREA	TECHNOLOGY	1.5%		
KB FINANCIAL	KOREA	FINANCIAL	1.4%		
ALIBABA	CHINA	CONSUMER DISCRETIONARY	1.4%		
MY EG	MALAYSIA	TECHNOLOGY	1.4%		
SUNNY OPTICAL	CHINA	TECHNOLOGY	1.3%		
EMEMORY	TAIWAN	TECHNOLOGY	1.3%		
HANON SYSTEMS	KOREA	INDUSTRIALS	1.2%		
CHINA CONSTRUCTION BANK	CHINA	FINANCIAL	0.8%		
ACCESS ENGINEERING	SRI LANKA	INDUSTRIALS	0.6%		
SILVER HERITAGE	NEPAL	CONSUMER DISCRETIONARY	0.4%		
BLACKFRIARS ORIENTAL FOCUS FUND			13.8%		
<b>LIQUIDITY</b>			<b>4.6%</b>		
<b>COUNTRY BREAKDOWN (all equity positions)</b>			<b>95.4%</b>		
CHINA/HK	26.4%	NEPAL	0.4%	TAIWAN	6.6%
INDIA	9.1%	PHILIPPINES	4.1%	THAILAND	5.9%
INDONESIA	2.8%	SINGAPORE	0.0%	UK	13.5%
KOREA	10.7%	SRI LANKA	0.6%	ASIA EX JAPAN REGIONAL <sup>~</sup>	13.8%
MALAYSIA	1.4%			<sup>~</sup> via investment vehicle	
<b>SECTOR BREAKDOWN (directly held equities only)</b>			<b>81.6%</b>		
COMMUNICATIONS	2.8%	FINANCIAL	13.4%	REAL ESTATE	5.9%
CONSUMER DISC.	15.9%	HEALTH CARE	3.1%	TECHNOLOGY	12.5%
CONSUMER STAPLES	14.8%	INDUSTRIALS	10.4%	UTILITIES	0.0%
ENERGY	0.0%	MATERIALS	2.8%		

**Compound Annual Growth Rate since Inception (total return)**

**Share Price** **6.9%**

18th March 2002 - 31st January 2019

**Net Asset Value** **7.2%**

18th March 2002 - 31st January 2019

### Market Data

Share Price	198.00p
Net Asset Value	216.92p
Premium / (Discount)	(8.7%)
Shares Outstanding (mn)	20.0
Market Capitalisation (mn)	£39.6
Historic Yield (incl special div)*	5.2%
Ongoing Charges	1.3%
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	Telephone
London EC4V 3DB	+44 (0) 20 7653 9690

<b>Directors</b>	Harry Wells (Chairman)
	Jim Ryall
	Gregory Shenkman
	Susan Thornton
	Thomas Waring

<b>Corporate Broker</b>	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

<b>Financial Year</b>	31st March
-----------------------	------------

Annual Returns % (GBP)	31/01/2019											Performance Data
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Price	44.14	17.80	-7.27	25.42	-7.84	3.02	-4.42	22.58	17.60	-5.45	0.51	Source: <a href="http://www.morningstar.co.uk">www.morningstar.co.uk</a>
NAV	38.06	24.63	-9.81	19.88	-5.45	6.71	-2.90	19.33	18.50	-17.85	2.17	Category: Flexible
Cat Price†	-	-	-	-	-	-	-	-	-	-	1.94	Benchmark: ‡ FTSE World TR
Cat NAV†	28.25	16.37	-1.50	10.72	6.46	4.78	1.85	12.73	12.97	-6.08	2.72	
Benchmark‡	19.64	16.28	-5.79	11.83	22.36	11.29	4.34	29.59	13.34	-3.09	4.38	

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

Issued by Blackfriars Asset Management Limited which is authorised and regulated in the UK by the Financial Conduct Authority. The distribution of this document may be restricted by law and persons into whose possession it comes are required to inform themselves of and comply with any such restrictions. Readers of this document are therefore assumed to have the knowledge and experience in business and financial matters to enable them to evaluate the merits of, and risks of, investing in the Fund. Persons of any other description should not rely upon this document. This document does not constitute an offer or invitation to any person to subscribe for or purchase shares in the Fund. This document is for information only, the information and opinions contained have been compiled or arrived at from sources believed to be reliable and given in good faith but no representation or warranty is made as to their accuracy, completeness or correctness. All quoted returns are illustrative only. The Fund is an investment trust whose shares are quoted on the London Stock Exchange. The securities issued by investment trusts may trade in the market at prices which diverge from their net asset value per share. Investments may fall as well as rise and investors may lose a substantial portion or even all of their investment. Past performance is not necessarily a guide to future performance. In addition, changes in rates of exchange may be one of the causes for the value of investments to go up or down.