REGAL
ASIAN INVESTMENTS

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2 February 2023

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RG8 Investor Letter – Year to December 2022

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 twelve months ended 31 December 2022 and commentary on current positioning.

AUTHORISED FOR RELEASE BY:

Ian Cameron, Company Secretary

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ABOUT RG8

RG8 provides investors with access to an actively-managed, concentrated portfolio, comprising 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 (ASX:VG8) to Regal Asian Investments (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.

ABOUT REGAL FUNDS MANAGEMENT

Regal Funds Management, a wholly owned business of Regal Partners Limited, is a multi-award winning, specialist alternatives investment manager, led by Chief Investment Officer Philip King. Founded in 2004 and with offices located in Sydney, Singapore and New York, the business has a long history of successfully investing in Asian equity markets, supported by one of the largest fundamental investment teams in the region, comprising over 25 investment professionals.

ABOUT REGAL PARTNERS LIMITED

Regal Partners Limited (ASX:RPL) is an ASX-listed, specialist alternatives investment manager with approximately A$5.1bn in funds under management.[1] Formed on 3 June 2022 following the merger of VGI Partners Limited and Regal Funds Management, the Group manages a diverse range of investment strategies covering long/short equities, private markets, real and natural assets and capital solutions on behalf of institutions, family offices, charitable groups and private investors. The Group houses four dedicated alternative investment management businesses – Regal Funds Management, VGI Partners, Kilter Rural and Attunga Capital – together employing approximately 100 employees and over 45 investment professionals.

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[1] Unaudited management estimate as at 31 December 2022. Funds under management for the group (including 100% of Kilter Rural and Attunga Capital) includes non-fee earning funds.

2 February 2023

Investor Letter
Year to December 2022

“Our goal is to increase the middle-income population to more than 800 million in the next 15 years, and promote the sustained growth of our super-sized market.”

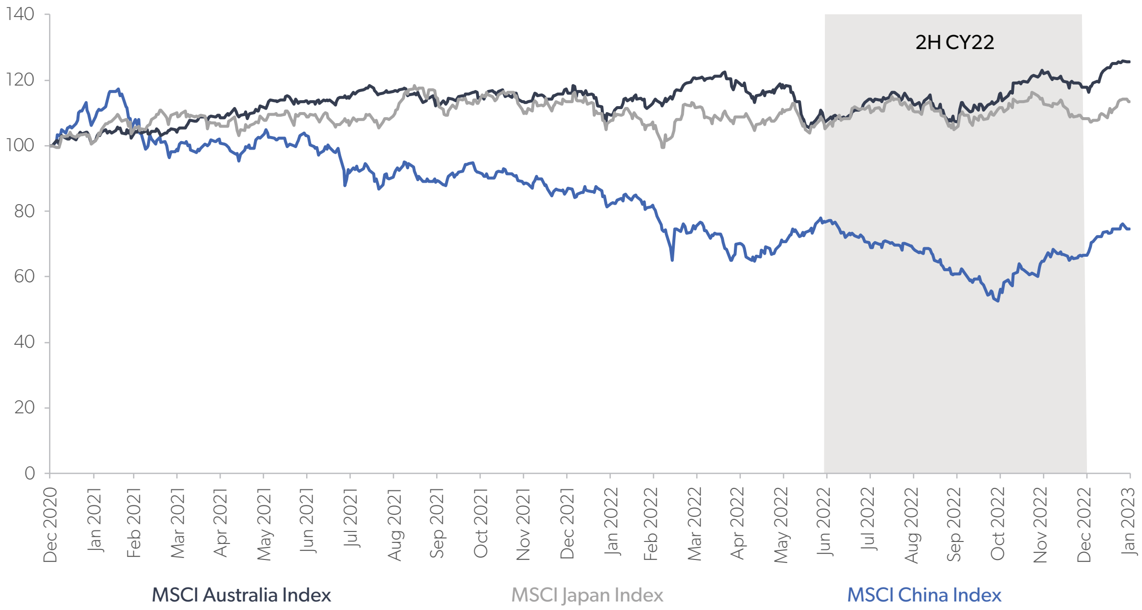
Xi Jinping, President of the People’s Republic of China, November 2022

Dear Fellow Investors,

For the twelve months ended 31 December 2022 (CY22), Regal Asian Investments Limited (ASX:RG8) generated a net portfolio return of -5.3% after all fees.[1] For the second half of the year (2H CY22), which also marked the first semi-annual period for RG8 under the management of Regal Funds Management, the net portfolio return after all fees was +9.5%.

While we do not benchmark to any indices, we note the MSCI Asia Pacific All Country Index (local currency) returned -0.4% over 2H CY22. Within Asia, there was great divergence of returns, with the MSCI Australia Index returning +10.6% in 2H CY22, MSCI Japan Index +1.7% and the MSCI China Index -12.4%. The graph below shows the scale of MSCI China’s underperformance over a two-year period.

Index Performance - Rebased to 100 as at 31 December 2020



Source: Bloomberg

In this letter we discuss some of the regional themes impacting our investment decisions and a few key stocks of note. Before delving into the portfolio, it is also worth providing an update on some recent corporate activities of relevance to RG8.

1 Past performance is not a reliable indicator of future performance and should not be relied upon as an indication of the future performance of any fund or strategy.

As many shareholders would be aware, RG8 was formerly known as VGI Partners Asian Investments (VG8) and managed by the investment team of VGI Partners. On 3 June 2022, VGI Partners and Regal Funds Management merged, with the new combined entity renamed "Regal Partners". Later that month, portfolio management responsibilities for VG8 were transitioned to the Regal Funds Management team, led by Chief Investment Officer Philip King. These changes provided VG8 shareholders the opportunity to benefit from Regal's strong investment experience in the Asia Pacific region, including members of Regal's Singapore team, and for VG8 to access Regal's operating infrastructure and investor relations team. Following shareholder approval at the November 2022 Annual General Meeting, the company's name and ticker were changed from VGI Partners Asian Investments (VG8) to Regal Asian Investments (RG8) to reflect the corporate changes. Regal Partners, its founders and staff have a material stake in RG8's shares and this has continued to rise in recent months.

The RG8 Board has also taken additional steps to assist shareholders. For example, in early 2022 the Board approved the launch of an on-market share buy-back, allowing RG8 to purchase shares when they trade at a discount to Net Tangible Assets (NTA). Buy-backs are beneficial as they provide greater liquidity and can also be highly accretive for shareholders. Over 17.5m shares, or approximately 8% of the company's stock, have been bought back since the program began. The Board also refined RG8's dividend policy in August 2022 – the new policy is to target a dividend of at least 5c each six months. This is in line with RG8's recent payment profile, given RG8 paid two dividends in CY22: 5c in April 2022 and a further 5c in September 2022.

It was pleasing to see RG8's share price discount to NTA close materially during 2H CY22 and, combined with the positive portfolio performance, gave RG8 shareholders a total share price return of +24.4% over the six months to December 2022. We look forward to providing further updates through future investor briefings and reports.

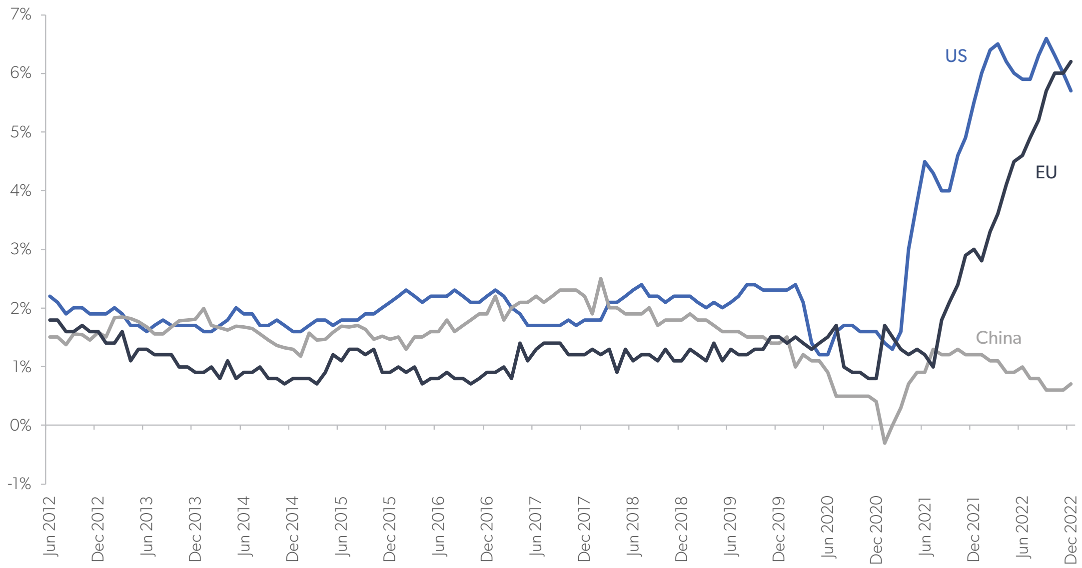
PORTFOLIO UPDATE

RG8 began the second half of the year with Japan and Australia as its largest weightings and continued to hold a low weighting in China. Over the course of the second half, we increased the Australian weighting, reduced Japan and, toward the end of the half, increased our exposure to China. We discuss each market separately below.

China

Over recent years, China has deviated heavily from trends seen in other major global markets, largely due to differing government policies. While Western nations have embraced unprecedented fiscal and monetary stimulus, and now grapple with high inflation, the Chinese government implemented policies that slowed the economy and brought about disinflationary pressures.

Consumer Price Index (excluding Food and Energy, YoY % change)

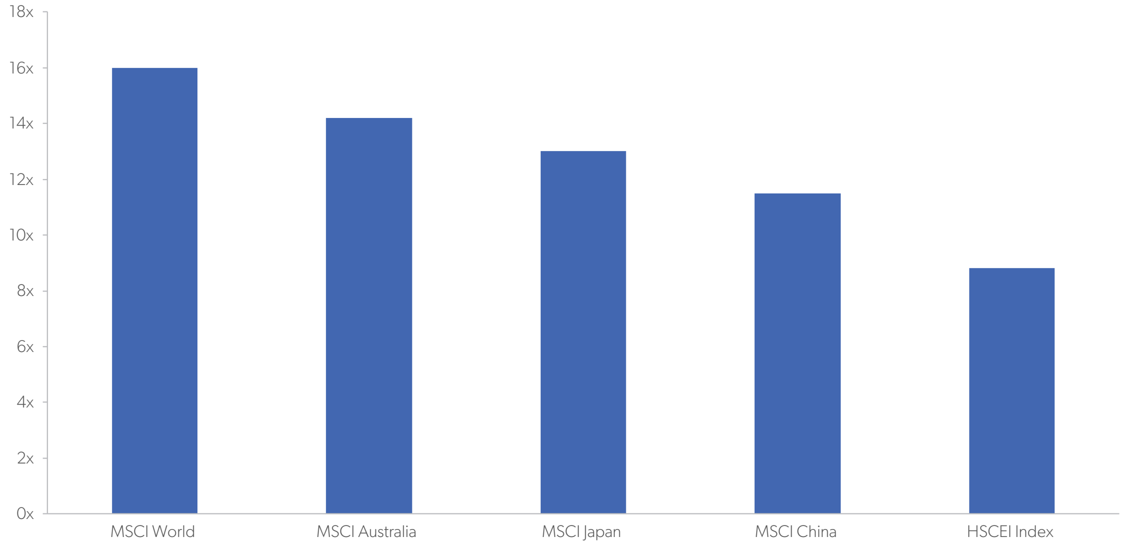


Source: Bloomberg

As we enter 2023, Western nations are tightening policy to contain inflation while China is loosening policy to reinvigorate growth. Importantly for investors, China has also already seen a substantial bear market, with the MSCI China Index still down -44% from its 2021 peak at the time of writing.

China's material underperformance was largely driven by central government decisions that impacted economic activity and created fear of uncertainty amongst foreign investors, particularly in Hong Kong- listed shares. The chart below shows that the Hang Seng China Enterprises Index (HSCEI), which includes China-focused companies listed in Hong Kong, currently trades on nearly half of the price-to-earnings multiple of the MSCI World Index. This ratio is based on analysts' forecasts for next year, which are potentially over-inflated in western markets facing recession, while not yet reflecting recovery signs in China, with many analysts yet to update their numbers.

Price-to-Earnings Ratios for MSCI World and Various Asia Pacific Indices



Based on consensus earnings forecasts for the next forward year.
Source: Bloomberg.

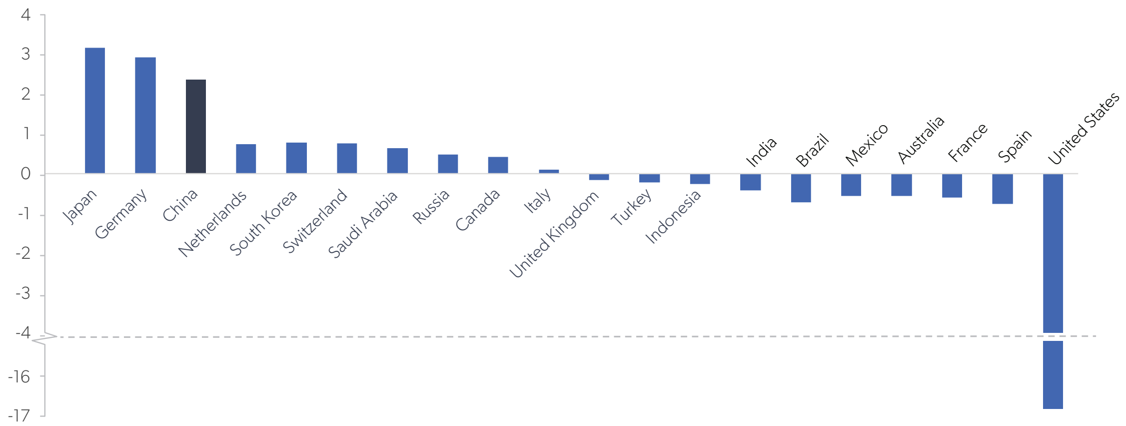
We believe that China may now materially outperform, as the impacts of the domestic government decisions abate, with Hong Kong-listed shares in particular able to generate long returns in 2023, even if conditions deteriorate in other global markets.

To elaborate further, two significant Chinese government domestic policies in recent years have been: (1) measures to deleverage real estate developers and (2) stringent zero-COVID policies that heavily impeded consumption. The economic impact of these was compounded by a rising sense of fear among foreign investors, initially over the increased enforcement of anti-monopolistic policies, and then by the rising political dominance of Chinese president Xi Jinping. We saw a regular stream of asset managers around the globe declaring China "uninvestable", potentially to avoid difficult conversations with their clients, which forced those asset managers to sell existing holdings at any price. This process came to a crescendo following the images of former President Hu Jintao being escorted out of the Communist Party Congress. In the weeks that followed, the sudden drop in the HSCEI Index triggered several large, structured product barriers that, in turn, created further forced selling.

Up until that point, RG8 had maintained a low weighting towards China, as we watched for an end to foreign investor capitulation. During the final stages of the sell-off, however, we began to see increasing evidence that the market was oversold and used the suppressed valuations to start building long positions in Chinese companies listed in Hong Kong (that we had been monitoring for some time). We then added further as the government moved to roll back the zero-COVID policies and loosened constraints on the real estate sector.

We acknowledge that risks remain within the Chinese real estate sector and we have avoided taking long positions in companies with significant direct exposure to the sector. RG8 currently has short positions in upstream building materials suppliers outside of China that suffer from a slowing rate of real estate construction in China. Moreover, we continue to closely monitor secondary risks from slowing real estate construction, including unrecognised non-performing loans (NPLs) within the financial system and the impact of slowing land sales on local government financing. We find some comfort in the structure of the Chinese financial system, where the Chinese government has significant influence, and that China is one of the wealthiest nations on earth in terms of its "Net International Investment Position" (NIIP) and thus less reliant on foreign capital.

Net International Investment Position (US$trn): China Ranks Highly



Data as at 30 September 2022.
Source: Bloomberg

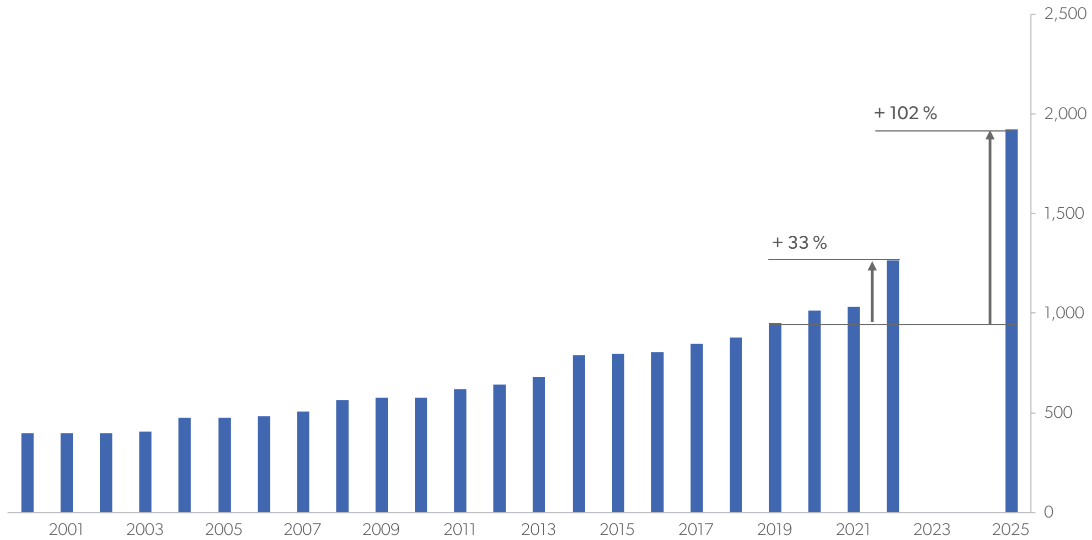
We also acknowledge that investing in China does come with higher political risk and, as such, target our investment towards companies that are aligned with governmental objectives, including TravelSky Technology Ltd (696 HK) and Baidu Inc (9888 HK), both of which we discuss briefly below.

TravelSky Technology Limited (696 HK)

TravelSky is the dominant provider of information technology solutions used by China's airline industry. Over 95% of domestic flight bookings are made using the company's computer reservation system which extracts a fee for each transaction. We like TravelSky for four key reasons:

- It is our view that the market is underestimating the outlook for domestic aircraft passenger volumes, a key driver of earnings, with many analysts simply assuming volumes will return to pre-COVID levels. However, in reality, the number of commercial flights prior to COVID was heavily constrained by regulators due to a lack of capacity at key hub airports. During the COVID outbreak from 2019 to 2022, China added 33% to passenger capacity at the 30 busiest airports and, by 2025, will have added 102% under current plans.

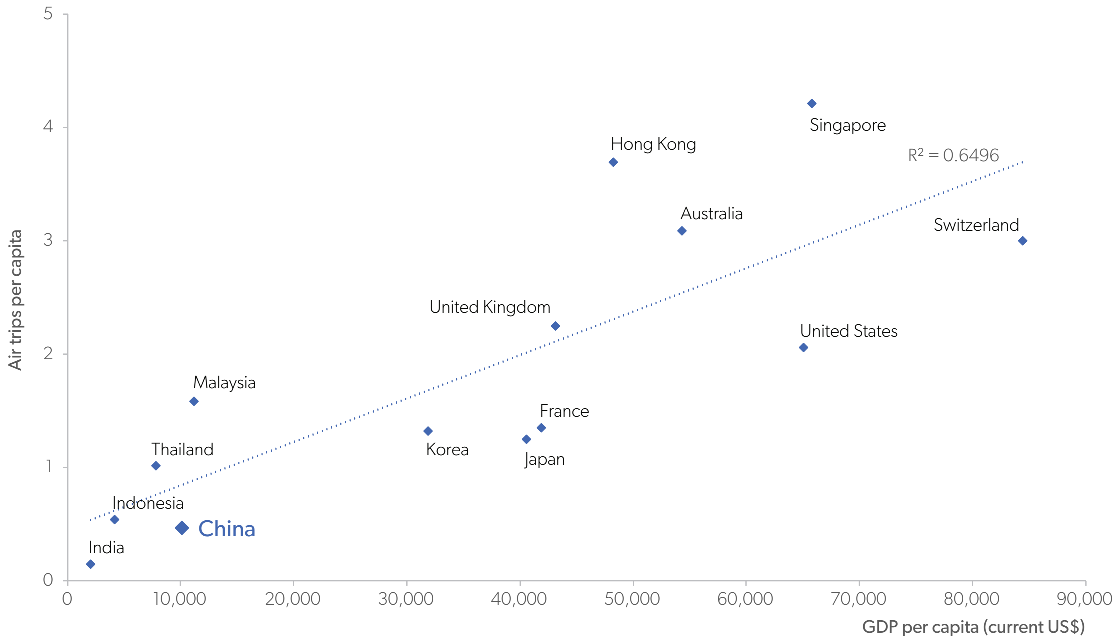
Top 30 Busiest Chinese Airports – Annual Passenger Capacity (m)



Source: Civil Aviation Administration of China (CAAC) data

- As shown in the chart below, air-travel is significantly underpenetrated in China relative to the nation's GDP-per-capita. Increased access to travel is a key objective of the central government to improve the lives of the Chinese population. Policies to remove air-travel bottlenecks, such as the aforementioned airport capacity expansion, should see a dramatic raise in penetration over coming years. Longer term, Xi Jinping's stated objective to "increase the middle-income population to more than 800 million in the next 15 years" should further increase GDP-per-capita. We see significant runway for TravelSky to grow, supported by government policies.

Chinese Air-Travel Set to Rise on Removal of Bottlenecks and Increase in Middle-Income Population



Data for 2019 (to reflect pre-COVID conditions).
Source: IMF, Our World in Data. Modified from BofA Global Research

- TravelSky is increasingly generating earnings outside of its traditional reservation system, establishing itself as a key supplier of departure control systems, as well as system integration services across the airline industry.

- Investors in TravelSky are highly aligned with its key customers - the major Chinese airlines (which own above 25% of outstanding shares) and the regulator - the Civil Aviation Administration of China - which created the foundations of TravelSky's platforms back in 1979 (before TravelSky was later spun out).

Baidu Inc. (9888 HK)

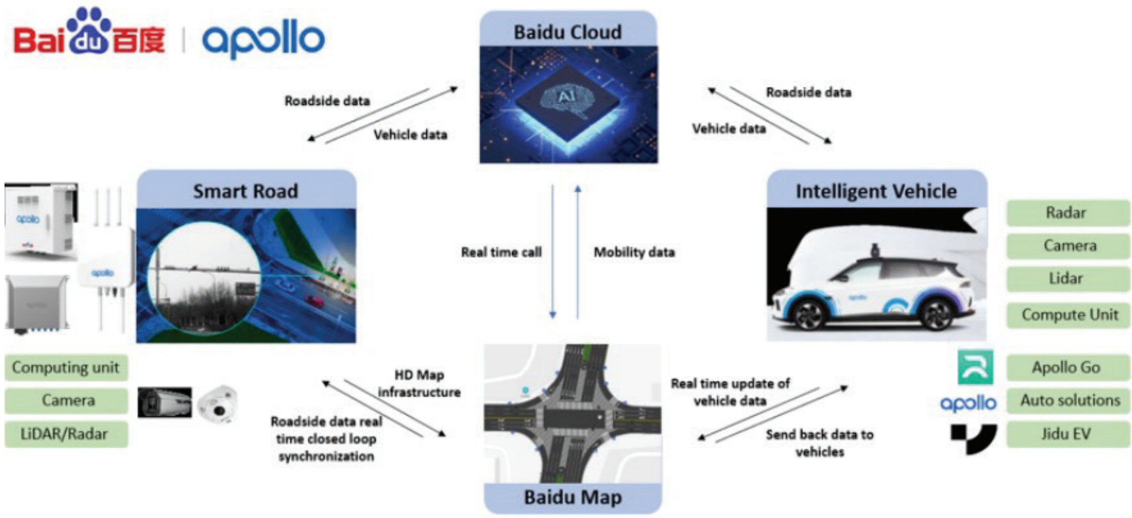
Baidu operates China's leading internet search engine, with 80% market share in mobile search, according to StatCounter. Baidu's shares were hit particularly hard by China's zero-COVID policies, given a key driver of its core earnings is online advertising that skews towards service businesses. Following the relaxation of zero-COVID policies, management has indicated that it is seeing continued improvement in advertising in cities that have already reached the peak of COVID infection. However, this is not just a recovery play; there are other structural reasons why we like Baidu:

- Baidu is well positioned to benefit from regulatory measures aimed at reducing anti-competitive practices amongst China's e-commerce platforms. Historically, these platforms have operated within "walled gardens" that restrict users from viewing their goods on Baidu's search engine. This would be the equivalent of Amazon or Kogan not allowing Australian users to compare their offerings on Google Search. The removal of "walled gardens" and improved interoperability between platforms, in line with stated government policies, would allow Baidu to provide a neutral platform for comparing goods for its 634 million monthly active users.

- Baidu's current valuation, of 14.5x price-to-earnings (consensus FY23 forecast), arguably ascribes negative value to Baidu's currently loss-making businesses, as they drag down near-term earnings estimates. These businesses however contain significant long-term value for shareholders and include a cloud computing service, AI Cloud, which leverages Baidu's leading artificial intelligence (AI) technology.

One area of AI expertise is in autonomous vehicles. Baidu's Apollo Go Autonomous Ride Hailing service had already provided over 1.4m rides - the most of any autonomous service on the globe - and is now operating without in-car safety drivers in select areas of a number of major Chinese cities, including Beijing. Baidu is well aligned with the government and its ACE smart transportation solutions have now been adopted by 63 cities. In addition to optimising traffic flow, Baidu is installing "smart road" equipment to communicate with its market-leading Baidu Map services and provide real time data to its own Jidu intelligent vehicle brand in addition to third-party automobile customers.

Baidu's holistic autonomous driving solution includes installing smart roads for the government



Source: UBS and Baidu

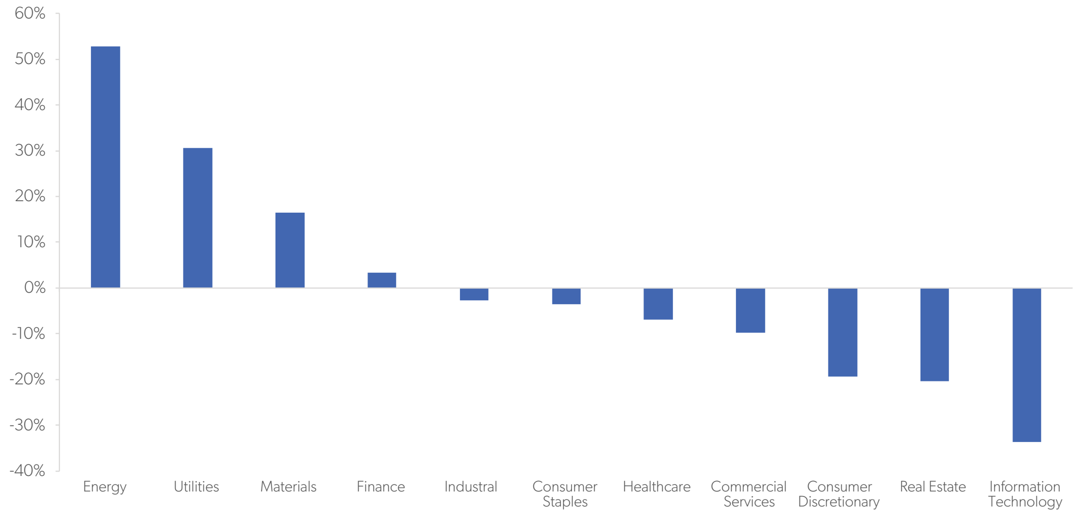
Given the potential safety and traffic flow benefits of autonomous vehicles, areas in which China arguably faces greater problems than western economies, it is not surprising that the China Daily reports the government is planning "commercialisation of highly autonomous vehicles in certain circumstances by 2025, according to a blueprint issued by the National Development and Reform Commission and 10 other ministries".

While our investment case in Baidu is not predicated on the success of its autonomous vehicle unit, it is an example of the type of long-term investment for which we believe the stock is currently being penalised. We also see nearer term potential for Baidu to unlock value for shareholders given past reports that it may spin off the autonomous driving unit.

Australia

There was a significant dispersion of returns in Australian equities in 2022. RG8 benefited from being net long in the energy and materials sectors while net short in the consumer discretionary and information technology sectors.

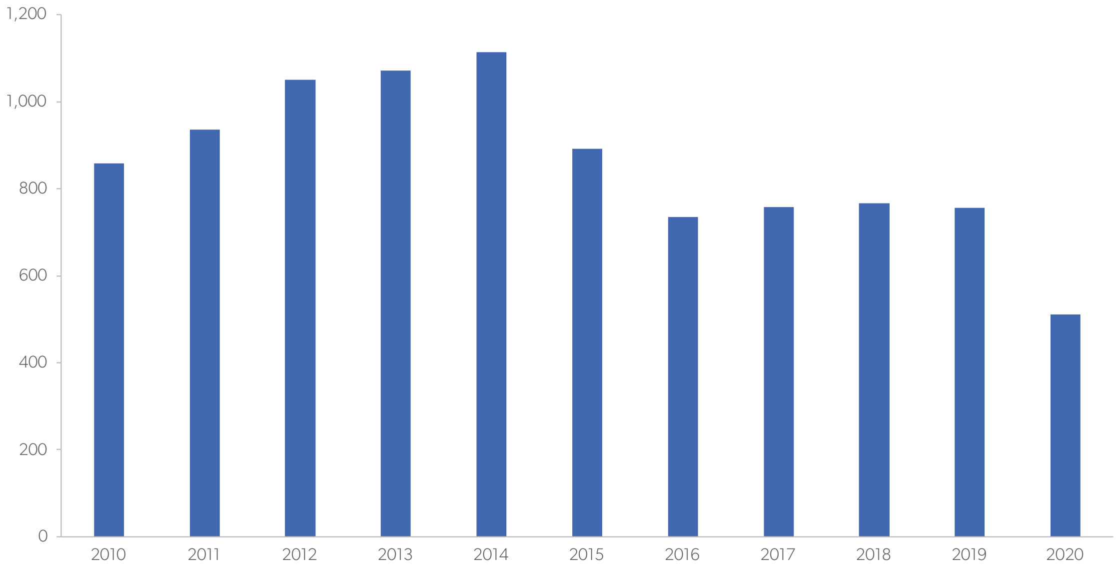
Australian Total Return By Sector in 2022



Source: Bloomberg using sub-indices of the S&P/ASX 200 Index

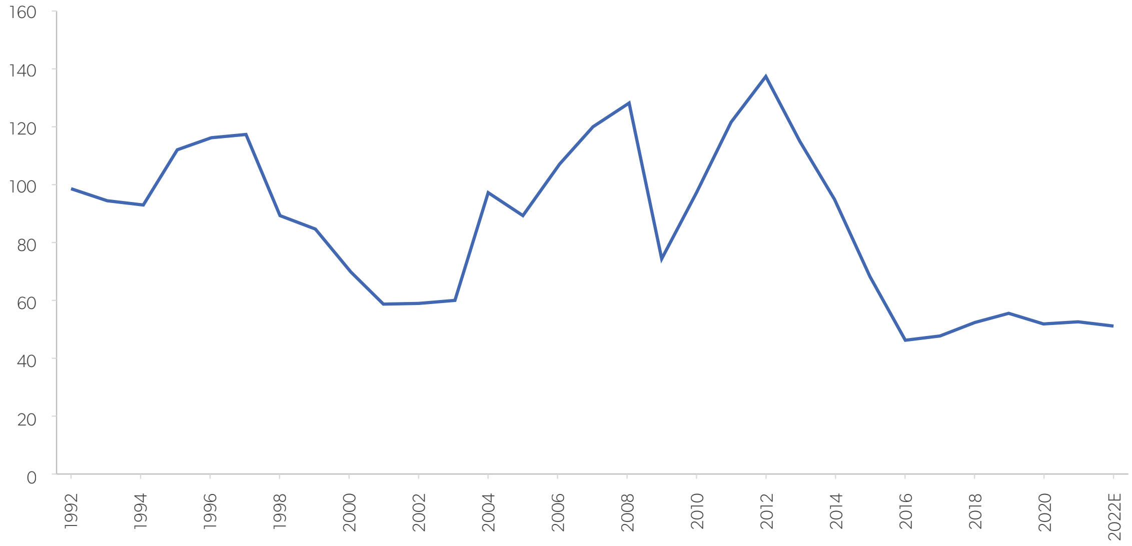
The Australia long portfolio continues to focus on positions in the energy and materials sectors. We remain of the view that the long-term supply/demand outlook for both sub-sectors remains favourable given the significant underinvestment in recent years, as shown in the following two charts.

Global Investment in Oil and Gas Supply, 2010-2020 (US$bn)



Source: International Energy Agency

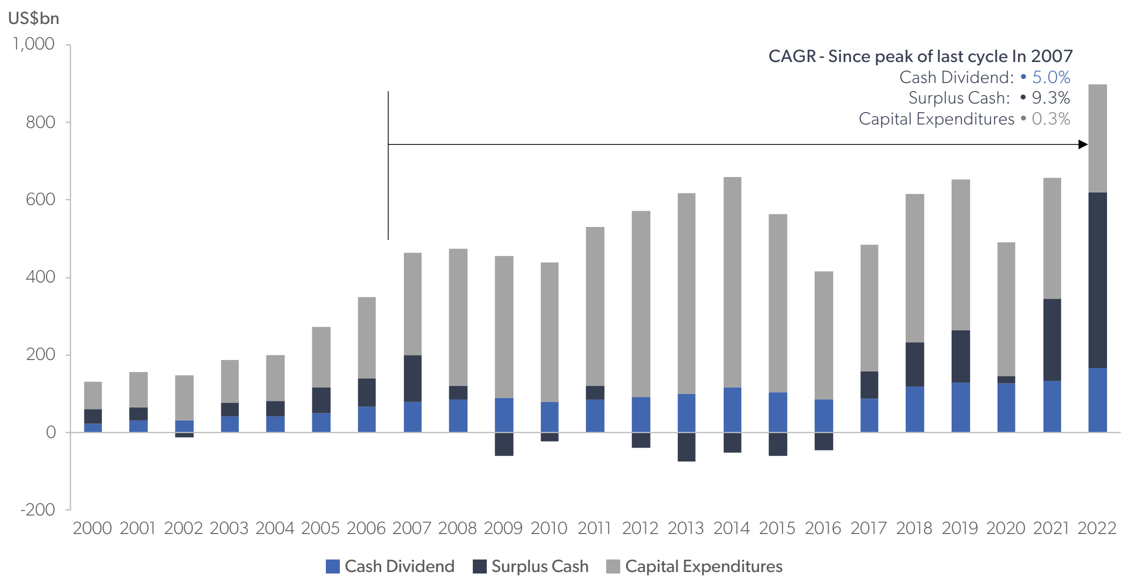
Real Global Mining Capital Expenditure (Indexed to 100 in 1992)



Source: Wood Mackenzie, ABARE, EIA, China NBS, Johnson Matthey, Jefferies estimates

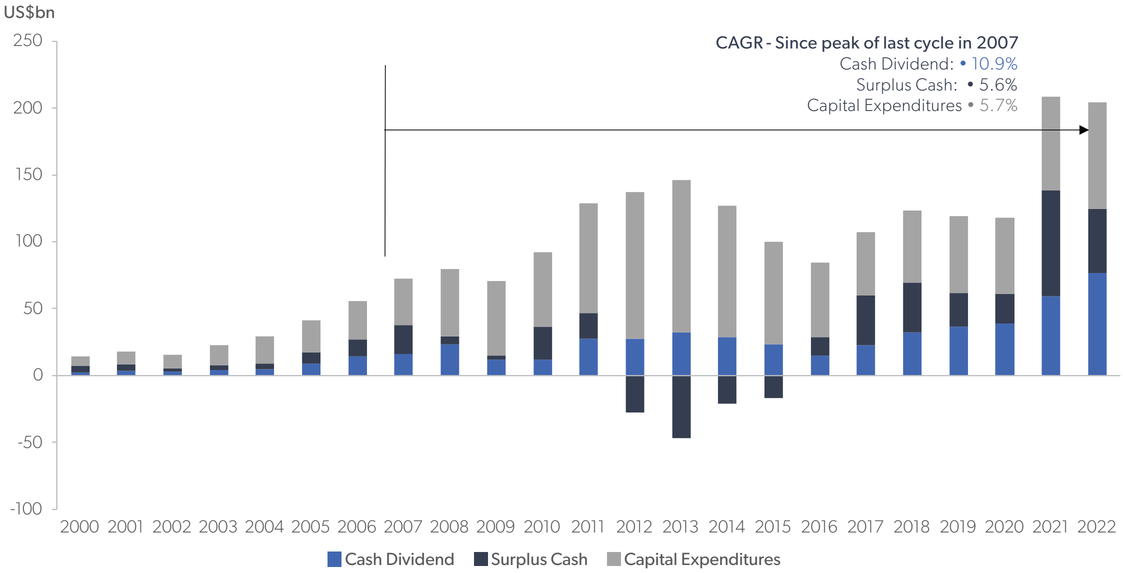
We also think the market is not fully appreciating the substantial improvement in industry structure that has been occurring in these sectors. As the following two charts show, larger amounts of operating cashflow are now being allocated to dividends and surplus cash, the latter of which can be utillised for balance sheet improvement or mergers and acquisitions.

Allocation of Operating Cashflow by 50 Largest Energy Companies Globally by Market Capitalisation



Source: Bloomberg

Allocation of Operating Cashflow by 50 Largest Mining Companies Globally by Market Capitalisation

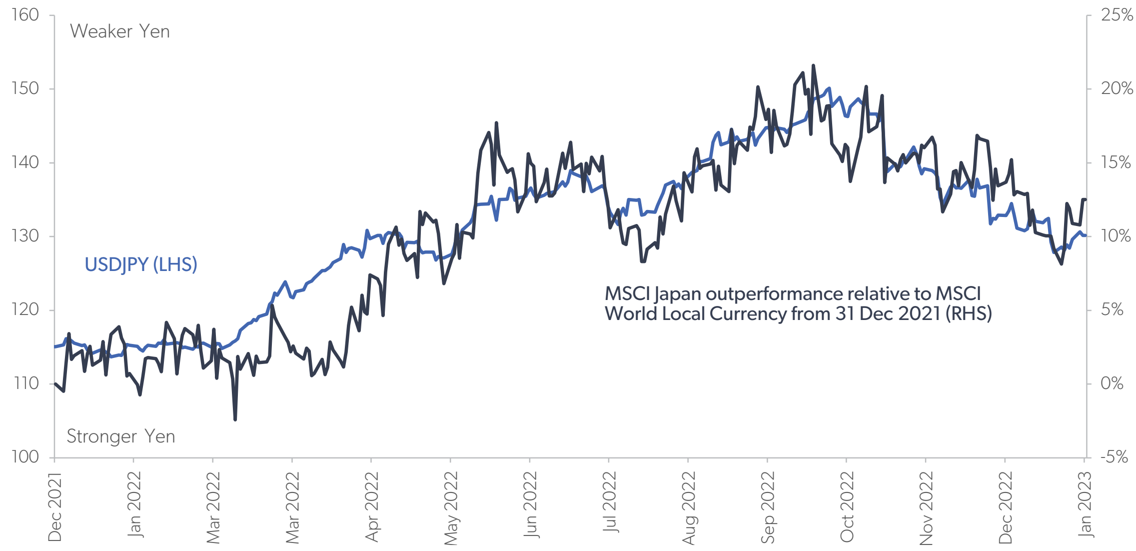


Source: Bloomberg

Japan

Japanese equities significantly outperformed global equities during 2022 in local currency terms. This outperformance largely coincided with the weakening of the Japanese Yen from March to September 2022, which raised the foreign earnings of Japanese exporters.

USDJPY has had a Large Impact on Japan's Performance

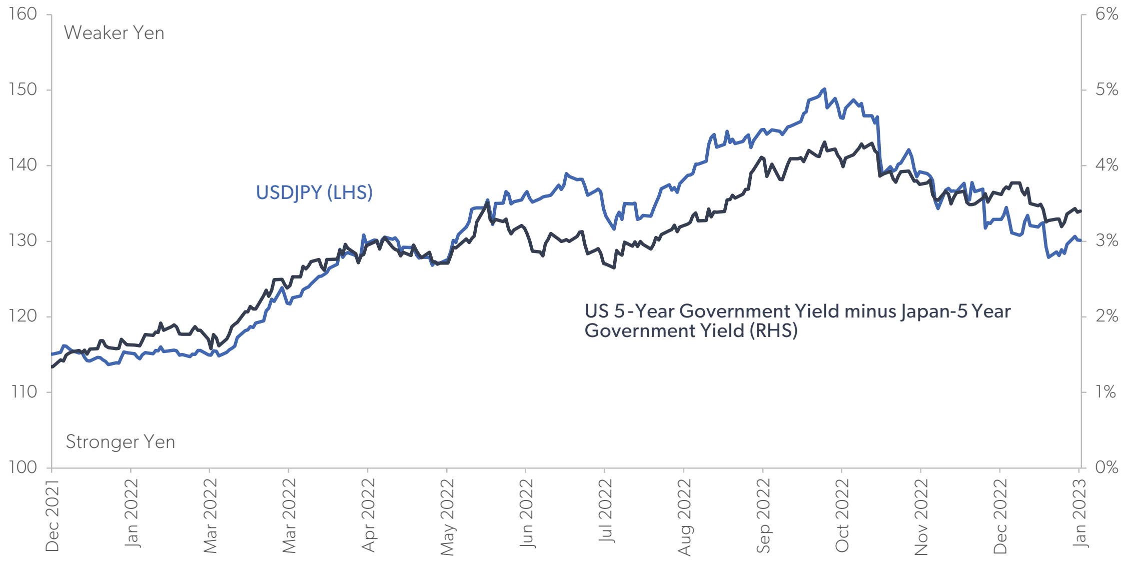


Source: Bloomberg

RG8 continued to maintain a large weighting to Japan throughout most of the Japan outperformance in 2022. However, we began to trim this back in August and then further into September just prior to Japan's relative outperformance beginning to reverse.

A key driver of USDJPY, and Japanese equities, is likely to be the trend in US government yields.

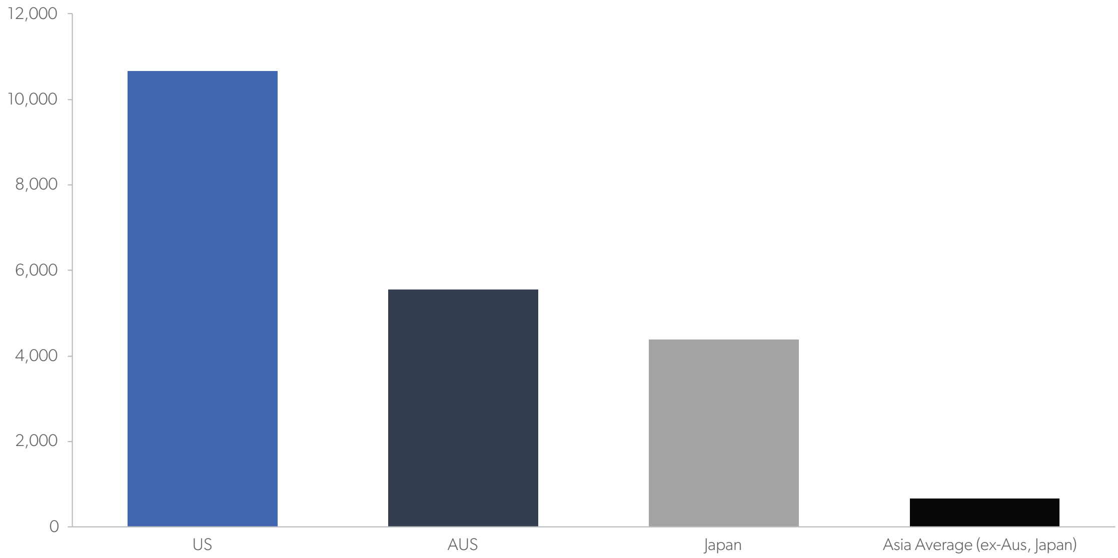
USDJPY has been Falling in Recent Months with Lower US Bond Yields



Source: Bloomberg

Given the uncertainty around interest rates in the US, RG8 is currently running a more balanced portfolio of long and short positions in Japan. The short book targets companies facing structural issues where we see valuations as excessive. The long book has a large weighting in Japanese companies that have spent decades building out distribution and strong market presence in Asian countries outside of Japan – and which should particularly benefit from the long-term rise in healthcare spend per capita that we expect to occur in that region.

Current Health Expenditure per Capita 2019 (US$)



Source: World Health Organisation (Global Health Expenditure Database)

Shimadzu Corporation (7701 JP)

Shimadzu is an example of a Japanese company leveraged to Asia's rising healthcare spend, given it is a leading provider of equipment used to test and develop pharmaceuticals in the region.

We like Shimadzu for two main reasons:

- A key area of growth for Shimadzu is Liquid Chromatography Mass Spectrometry (LCMS) equipment, which separates a sample into its components and then identifies each component. Historically, Shimadzu was seen as the "Toyota of LCMS", offering a good value product for laboratories but not the ultra-high-end. The company has, however, been closing in on the ultra-high-end in recent years and, with introduction of its latest model in June 2022, in many ways now offers the most advanced product on the market. The LCMS-9050 not only dramatically improves accuracy but, with a new proprietary innovation, users can now conduct positive and negative ion spectra analyses concurrently. The result for Shimadzu's customers is higher throughput, increased workflow efficiency, and an improved return on investment. For investors in Shimadzu, we expect the company to not only gain market share in the coming years but see an improvement in margins as its mix increasingly skews towards higher-end applications.

- The company is also expanding the sales ratio of consumables used in its machinery which can further increase margins and recurring revenues.

CURRENCY

RG8 is denominated in Australian Dollars (AUD). Since mid-CY20 currency exposures have been hedged. If net exposure to a particular currency exceeds 5% of the Fund's Net Asset Value (NAV), we will seek to manage the foreign currency risk in respect of that currency by hedging to AUD.

IN CLOSING

While we are disappointed with the result over the last twelve-month period, we are pleased to see strong alpha contribution in the second half following the transition of portfolio management responsibilities.

Looking forward, we continue to see RG8 as leveraged to the outsized growth on offer within the Asia Pacific region in the long portfolio, while also having the advantage of being able to selectively target short positions to augment those returns. We look forward to further engaging with investors in articulating our investment process and the favourable opportunity set we see going forward.

Once again, we thank you for your investment.

Yours faithfully,

Regal Partners