

Ellerston Asian Investments (ASX: EAI)

Investment Update – March 2018

Performance

	1 Month	3 Months	6 Months	1 Year	2 Years p.a	1 Nov 2015 [^]	Inception p.a
EAI Gross	-1.6%	2.8%	12.4%	23.2%	18.0%	22.3%	10.2%
EAI Net*	-1.7%	2.6%	11.8%	21.8%	16.6%	18.9%	9.0%
MSCI Asia ex Japan (AUD)	-0.1%	2.4%	10.9%	22.4%	19.0%	27.8%	12.6%

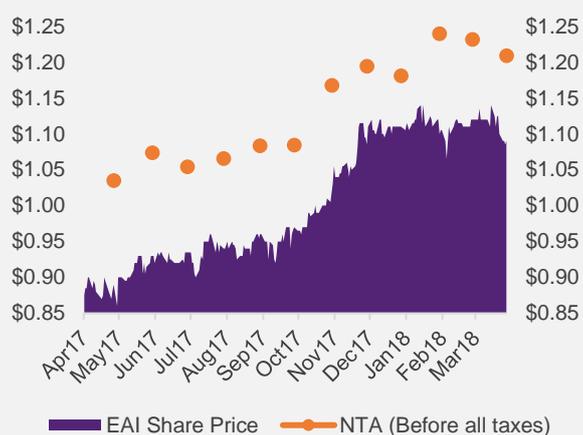
*Before all taxes and after fees. Includes the effects of the share buyback

[^]Performance fee commencement

Key Facts

Listing date	Sept 2015
NTA (before tax)	\$1.2091
NTA Fully Diluted (before tax) *	\$1.1308
NTA (after realised tax) [^]	\$1.1834
NTA (after tax) **	\$1.1562
Share price at 31/3/2018	\$1.09
EAI Market Capitalisation	\$116.1m
Average Management Fee	0.85%
Performance Fee	15%
Option price (ASX: EAIO)	\$0.07
Exercise price	\$1.00

EAI Share Price vs NTA (Before all taxes)



* NTA Fully Diluted (before tax) – Calculated as if all of the remaining 2019 options had been exercised by 30 November 2017.

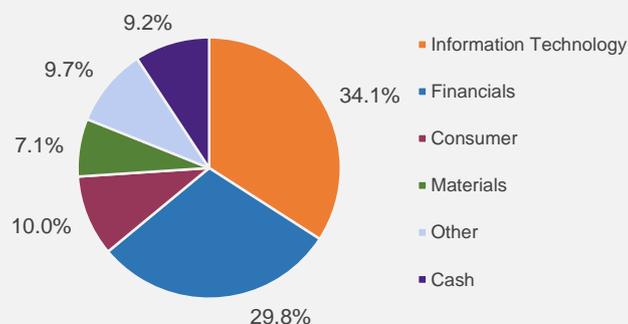
[^] NTA after realised tax - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

** NTA after tax - Includes any tax on unrealised gains and deferred tax.

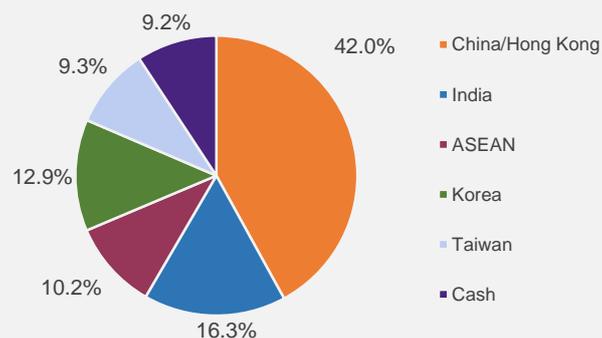
Top 10 Holdings

Top 10 Holdings	Weight
TENCENT HOLDINGS	6.6%
SAMSUNG ELECTRONICS	6.6%
ALIBABA GROUP HOLDING	6.3%
TSMC	6.1%
PING AN INSURANCE GROUP	5.4%
MARUTI SUZUKI	4.1%
CHINA CONSTRUCTION BANK	4.0%
LARSEN AND TOUBRO	3.2%
HDFC	3.1%
DBS GROUP HOLDINGS	3.0%

Sector Allocation



Geographic Exposure





Commentary

March was an extremely volatile month for global markets. The fund was down -1.6% Gross in March versus the benchmark which fell by -0.1%, whilst the NTA as of March 30th was \$1.2091. There were 2 main factors responsible for the March sell off: (1) the threat of a trade war; and (2) the global sell off in technology stocks due to concerns about Facebook and Amazon.

With respect to trade, March saw initial shots fired across the bow. The United States Trade Representative (USTR) outlined a plan to impose 25% tariffs on \$50b of imports from China, and China quickly responded with its own tariffs on \$50b of US imports (including politically sensitive products like soybeans, aircraft and autos). The stakes ratcheted up further on April 6 when Trump announced that he has asked the USTR to look at an additional \$100b of goods to target with tariffs. Then on April 10th, President Xi made very conciliatory comments on the trade at the Boao Forum which were well received by the market.

Notably, at this point, these are all just proposals and none of the tariffs have actually been implemented. It is also important to note that there is a divergence between President Trump's seemingly inflexible stance on China trade and that of his advisors (Kudlow and Ross) who appear more willing to negotiate. We expect trade related volatility to continue in the 2Q18 and have therefore positioned the portfolio to focus on domestic demand countries (India, Thailand) and domestic demand sectors (financials, consumer).

With respect to the sell-off in global technology stocks, it would be naive to think the Asian internet giants like Alibaba and Tencent will completely decouple from the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google). However, we do not anticipate that Asian tech companies will come under the same regulatory scrutiny as their counterparts in the US.

However, we are concerned about potential multiple contraction in high PE tech stocks. If Facebook continues to trade at ~20x PE (versus its 5 year average of 39x PE), it will be increasingly difficult for Tencent to maintain its 35x PE multiple. We therefore have a portfolio bias to low PE mega cap tech stocks in Asia like Samsung (7x PE) and TSMC (14x PE).

There are currently 36 stocks in the portfolio. This is lower than in February as we took profits and/or sold out of small positions where we lacked strong long term conviction. We also added to existing high conviction investments in less volatile markets (Maruti Suzuki and HDFC in India, for example).

In terms of performance, China was the biggest detractor from performance in April costing EAI 0.66% of alpha over the month. We are benchmark independent and currently have no investments in Indonesia, Malaysia or the Philippines. These markets were therefore the largest contributors to alpha. From a sector perspective, financials and materials were the largest detractors from performance while underweight sectors like real estate and energy were the biggest contributors. Stock-wise, the most significant contributors to alpha during March were GlobalWafers (Taiwan) and Samsung Electronics (Korea) while the most significant detractors were Airtac (Taiwan) and Geely (China).

Regards,

Mary Manning

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Should investors have any questions or queries regarding the company, please contact our Investor Relations team on 02 9021 7797. All holding enquiries should be directed to our share registrar, Link Market Services on 1300 551 627 or EAI@linkmarketservices.com.au

DISCLAIMER

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Monthly NTA Statement

March 2018

Ellerston Asian
Investments Limited
ACN 606 683 729

11th April 2018

Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 31 March 2018:

NTA per share	31 March 2018
NTA before tax	\$1.2091
NTA after realised tax *	\$1.1834
NTA after tax ^	\$1.1562

The NTA is based on fully paid share capital of 106,504,187

* **NTA after realised tax** - Includes a provision for tax on realised gains from the Company's Investment Portfolio.
^ **NTA after tax** - Includes any tax on unrealised gains and deferred tax.

On September 18 2017, EAI announced a new on-market buy-back of up to 10% of its shares, commencing September 27 2017 and continuing for twelve months. Since 27 September 2016 a total of 14,814,262 shares had been bought back

The company's gross performance before tax for the month of March was -1.6%.

Option Conversion - During the month of March, 816,749 options were exercised and converted to shares which diluted the NTA before tax by **\$0.002** per share.

Options - If all of the remaining 2019 options had been exercised by 31 March 2018, the fully diluted NTA before tax would have been \$1.1308 per share.



Ian Kelly
Company Secretary

Important Note

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