

Ellerston Asian Investments (ASX: EAI)

Investment Update – April 2018

Performance

	1 Month	3 Months	6 Months	1 yr	2 Yr p.a	1 Nov 2015 [^]	Inception p.a
EAI Gross	2.6%	0.4%	7.0%	21.4%	19.4%	25.5%	11.0%
EAI Net*	2.5%	0.2%	6.4%	20.0%	18.0%	21.9%	9.7%
MSCI Asia ex Japan (AUD)	2.2%	0.8%	5.8%	20.2%	20.4%	30.7%	13.1%

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

[^]Performance fee commencement

sKey Facts

Listing date Sept 2015

NTA (before tax) \$1.2380

NTA Fully Diluted (before tax) * \$1.1499

NTA (after realised tax) ^ \$1.2104

NTA (after tax) ** \$1.1772

Share price at 30/4/2018 \$1.13

EAI Market Capitalisation \$121.3m

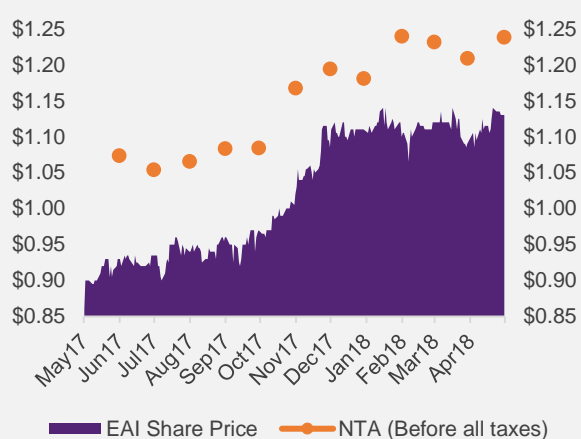
Average Management Fee 0.85%

Performance Fee 15%

Option price (ASX: EAIO) \$0.115

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.

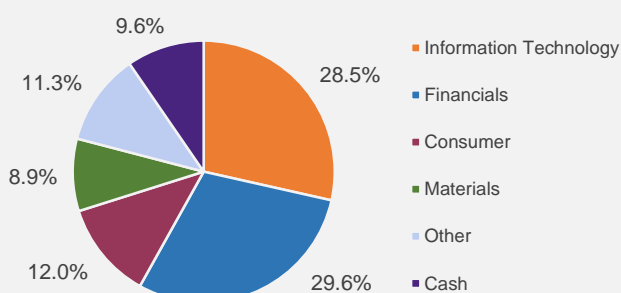
[^] NTA after realised tax - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

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

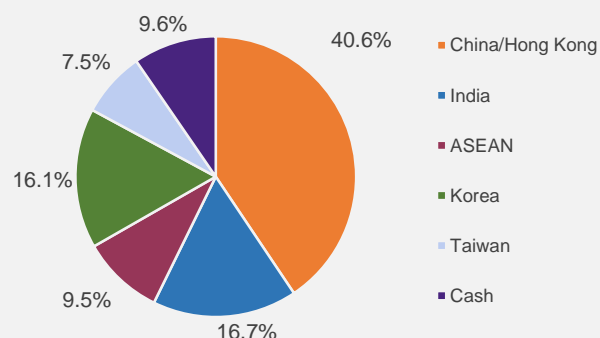
Top 10 Holdings

	Weight
SAMSUNG ELECTRONICS	7.1%
TENCENT HOLDINGS	6.4%
PING AN INSURANCE GROUP	5.3%
TSMC	4.5%
CHINA CONSTRUCTION BANK	4.2%
MARUTI SUZUKI	4.1%
POSCO	3.5%
DBS GROUP HOLDINGS	3.4%
LARSEN AND TOUBRO	3.3%
OVERSEAS CHINESE BANKING COPR	3.3%

Sector Allocation



Geographic Exposure





Commentary

April was another strong month. EAI was up 2.61% during the month, outperforming the benchmark by 0.38% (gross). The NTA as of April 30th was 1.2380, up 4.8% thus far in CY2018.

While overall performance in Asia was strong, there was a big variance between markets. For example, India's SENSEX was up a whopping 5.7% during April and Korea's KOSPI Index was up almost 3%. However, ASEAN markets like Indonesia and Philippines were down 4% and 3% during the month, respectively. This highlights the importance of getting country picks right in a pan-Asian portfolio. EAI is currently overweight India but has no investments in Indonesia or the Philippines.

During late April and early May, I travelled to Beijing and Hong Kong to get an on the ground view on the trade war. My main conclusions are as follows:

- The United States Trade Representative (USTR) going after ZTE and Huawei specifically was a game changer in the trade war because China cannot retaliate to this in the same manner we saw with tariffs.
- China's bargaining position is not as strong as generally believed because imposing high tariffs on agricultural imports would be inflationary, and selling US Treasuries and/or depreciating the RMB are not really viable long term options.
- The PBOC will smooth the macro impact of any trade related slowdown. The recent Reserve Requirement Ratio (RRR) cut and the extension of the time frame to comply with Wealth Management Product (WMP) rules are de facto easings in monetary policy.
- Be patient! Remember that the US has been renegotiating NAFTA for over a year now and in the 1980s the US trade war with Japan went on for years. So the market needs to stop expecting that the US/China situation can be resolved in one or two meetings. Resolution is going to take time.

In terms of performance, Korea was the biggest country contributor to alpha in April. As discussed in our recent report "Is Peace on the Korea Peninsula Really a Possibility?" (<https://ellerstoncapital.com/peace-korean-peninsula-really-possibility>) political factors in the US (mid-term elections) and dire economic conditions in North Korea have driven the US and North Korea to the negotiating table. The much anticipated meeting between Trump and Kim Jong Un may be a "buy the rumour, sell the news" event, but some of the reunification beneficiaries in South Korea are performing very strongly in the run up to the meeting. Hyundai E&C for example, is a stock we bought during April and it is already up 32%.

POSCO (also a North Korea play), DBS and CNOOC (China National Offshore Oil Company) were the largest contributors to alpha during the month. DBS performed well on account of strong 1Q earnings and the payment of a special dividend. We have since taken some profits in name. CNOOC also performed strongly during April as the oil price rose to the psychologically important level of \$70. The most significant detractor from alpha during April was Alibaba. We were underweight and the stock performed well. We have since increased our position on the back of strong quarterly results.

One administrative change to note, at the time of listing, EAI had maximum position size of 7%. During April the Board approved a resolution to change this maximum to 7% or 5% above the index weight, whichever is higher. This was done because earlier this year, mega caps like Tencent were approaching a 7% weight in our benchmark and we didn't want to be in a position where we were forced to be underweight stocks we like.

Regards,

Mary Manning

Contact

Andrew Seddon 0417 249 577
aseddon@ellerstoncapital.com

Simon Glazier 0410 452 949
sglazier@ellerstoncapital.com

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

This document has been prepared for Ellerston Asian Investments Limited by the investment manager Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. Any information has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this document, it is provided by Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

Monthly NTA Statement

April 2018

Ellerston Asian
Investments Limited
ACN 606 683 729

11th May 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 30 April 2018:

NTA per share	30 April 2018
NTA before tax	\$1.2380
NTA after realised tax *	\$1.2104
NTA after tax ^	\$1.1772

The NTA is based on fully paid share capital of 107,318,630

* **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 April was +2.61%.

Option Conversion - During the month of April, 814,443 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 30 April 2018, the fully diluted NTA before tax would have been **\$1.1499** per share.



Ian Kelly
Company Secretary

Important Note

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.

This document has been prepared for Ellerston Asian Investments Limited by the investment manager Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. Any information has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this document, it is provided by Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

Contact Details	Ellerston Asian Investments Limited	Address	Website	Investor Telephone
	ACN 606 683 729	Level 11, 179 Elizabeth Street Sydney 2000 NSW Australia	https://ellerstoncapital.com/ Email EAI@linkmarketservices.com.au	1300 551 627