

Ellerston Asian Investments (ASX: EAI)

Investment Update – May 2018

Performance

	1 Month	3 Months	6 Months	1 yr	2 Yr p.a	1 Nov 2015 [^]	Inception p.a
EAI Gross	-1.6%	-0.6%	2.9%	15.1%	15.7%	23.6%	10.0%
EAI Net*	-1.7%	-0.9%	2.3%	13.8%	14.3%	19.9%	8.7%
MSCI Asia ex Japan (AUD)	-1.9%	0.2%	2.2%	12.8%	17.2%	28.2%	11.9%

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

[^]Performance fee commencement

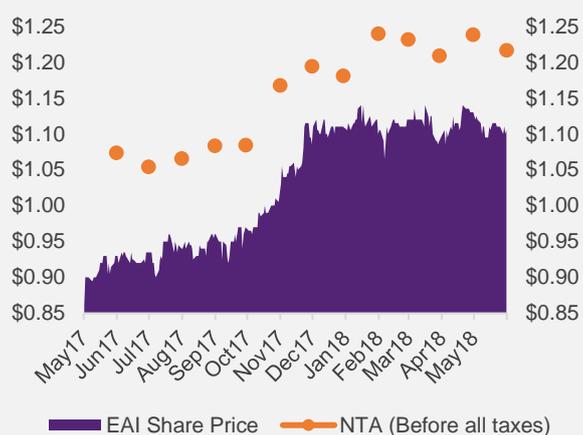
Key Facts

Listing date	Sept 2015
NTA (before tax)	\$1.2164
NTA Fully Diluted (before tax) *	\$1.1369
NTA (after realised tax) [^]	\$1.1743
NTA (after tax) **	\$1.1597
Share price at 31/5/2018	\$1.105
EAI Market Capitalisation	\$119.1m
Average Management Fee	0.84%
Performance Fee	15%
Option price (ASX: EAIO)	\$0.095
Exercise price	\$1.00

Top 10 Holdings

Top 10 Holdings	Weight
SAMSUNG ELECTRONICS	6.7%
TENCENT HOLDINGS	6.4%
ALIBABA	5.8%
PING AN INSURANCE GROUP	5.2%
TSMC	4.4%
HONG KONG EXCHANGES & CLEARING	4.1%
CHINA CONSTRUCTION BANK	3.9%
HDFC	3.0%
DBS GROUP HOLDINGS	3.0%
ICBC	2.9%

EAI Share Price vs NTA (Before all taxes)

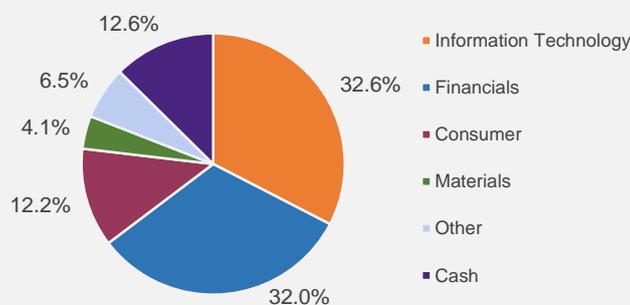


* NTA Fully Diluted (before tax) – Calculated as if all of the remaining 2019 options had been exercised.

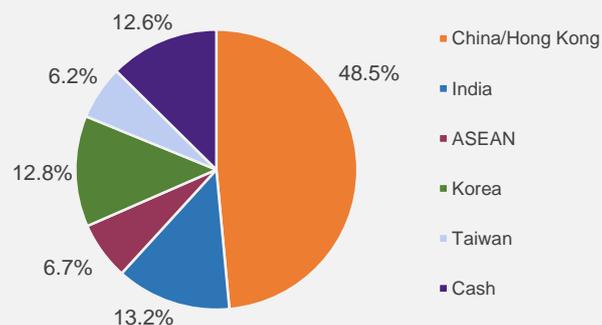
[^] NTA after realised tax - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

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

Sector Allocation



Geographic Exposure





Commentary

May was a down month for global equity markets including markets in Asia. Ellerston Asian Investments (ASX:EAI) was down 1.6% during the month outperforming the benchmark by 0.30% (gross). The NTA (before tax) as of May 31st was \$1.2164.

Emerging market performance during May was impacted by a so-called “triple tightening” comprised of higher interest rates, a higher oil price and a stronger US Dollar. Two of these issues have eased in June with WTI down from a peak of \$72 to its current level of \$66 and the US Dollar Index (DXY) retreating slightly from overbought levels. Non-Asian emerging markets such as Argentina, Brazil and Turkey sold off sharply during May and have continued to show signs of stress in June. While these are largely idiosyncratic, country specific factors unrelated to the Asian macroeconomic outlook, it doesn’t help overall sentiment for emerging markets.

One risk for emerging markets is that if the US continued to raise interest rates and shrink the balance sheet via Quantitative Tightening (QT), the USD will strengthen and funds will flow out of riskier assets in EM. Unlike Brazil and Turkey, where the currencies have plunged before any meaningful intervention or reaction by the central banks, Asian central bankers appear to be addressing this pro-actively. Indonesia’s new Governor, Perry Warjiya, called an off cycle meeting to raise rates (making it 2 hikes in 2 weeks). Similarly, Reserve Bank of India Governor, Urjit Patel, raised rates for the first time since 2014 and called on the Federal Reserve to go slow on QT to avoid causing undue stress in the dollar bond market.

In China, the much awaited A share inclusion at the end of May went off without any technical hitches (a concern given the magnitude of the flows executed via the Stock Connect). However, the inclusion itself did not generate significant single stock moves in either A shares or H shares. We remain invested in A shares like Moutai, Midea and Qingdao Haier, as we see these as high quality long term winners.

During May and early June analysts Fredy Hoh and Eric Fong travelled to Korea and China, respectively. In Korea, the June meeting between President Trump and Kim Jong Un paved the way for de-nuclearization on the Korean Peninsula. While historic, the outcome was slightly disappointing for markets given the lack of timeline and specifics. There is also considerable scepticism about America’s long term commitment to the deal given Trump recently pulled out of the Iran nuclear pact. Interestingly, the biggest winner from the Trump-Kim Summit in Singapore may be China because the “freeze for freeze” outcome (i.e. a freeze of nuclear ambitions for a freeze on war games) was the solution suggested by China all along. On stock specifics, after meeting management teams on the ground in Seoul, we remain confident in our positions in Samsung and POSCO. We have recently added a position in Samsung Electro-Mechanics (SEMCO).

In China, one of the main conclusions from Eric’s trip is that the US actions on trade are not just about reducing the trade deficit but are more broadly about stopping the rise of China. America is desperate to hang onto its hegemonic status which is why many of the trade policies are focused on derailing, or at least delaying, the China 2025 plan. China 2025 is a development blueprint to transform China’s economy into a high tech, highly innovative manufacturing powerhouse which has achieved technological self-sufficiency in core components. Our view is that the US is about 10 years too late to derail China on these initiatives and that pursuing isolationist trade and foreign policies will only serve to facilitate China’s relative rise. Elsewhere in China, the macro story remains on track but we have reduced our positioning in Chinese banks as the rerating of 2017 and early 2018 has largely played out. We continue to like insurance stocks like Ping An and AIA and Chinese large cap tech stocks like Tencent and Alibaba.

In India, we trimmed some of our exposure in May by taking profits in stocks that were at or near their price targets. During a triple tightening, current account deficit countries like India can significantly underperform as investors worry about long term currency stability. India is also very sensitive to higher oil prices as approximately 80% of its oil is imported. In addition, the outcome of the state elections in Karnataka suggests that Prime Minister Modi will not be able to coast to victory in the 2019 General Election, as was widely assumed.

In terms of performance, Alibaba, Global Wafers and CSPC Pharma were the largest contributors to absolute returns in May while Global Wafers and two A share stocks (Qingdao Haier and Wuliangye) were the largest contributors to alpha. Larsen & Toubro and Ultra Tech Cement were the biggest detractors.

Finally, a reminder to investors that Ellerston Asian Investments option expiry is coming up in February 2019. We will be in touch over the next few months in this regard.

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

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Monthly NTA Statement

May 2018

Ellerston Asian
Investments Limited
ACN 606 683 729

13th June 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 May 2018:

NTA per share	31 May 2018
NTA before tax	\$1.2164
NTA after realised tax *	\$1.1743
NTA after tax ^	\$1.1597

The NTA is based on fully paid share capital of 107,753,963

* **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 May was -1.57%.

Option Conversion - During the month of May, 435,333 options were exercised and converted to shares which diluted the NTA before tax by **\$0.001** per share.

Options - If all of the remaining 2019 options had been exercised by 31 May 2018, the fully diluted NTA before tax would have been **\$1.1369** 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.

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