

Ellerston Asian Investments (ASX: EAI)

Investment Update – June 2018

Performance

	1 Month	3 Months	6 Months	1 yr	2 Yr p.a	1 Nov 2015 [^]	Inception p.a
EAI Gross	-3.3%	-2.3%	0.4%	13.3%	13.9%	19.5%	8.4%
EAI Net*	-3.4%	-2.6%	-0.1%	12.0%	12.5%	15.8%	7.1%
MSCI Asia ex Japan (AUD)	-2.9%	-2.6%	-0.3%	11.6%	16.0%	24.5%	10.4%

*Before all taxes and after fees. Includes the effect of the share buyback & excludes option dilution
[^]Performance fee commencement

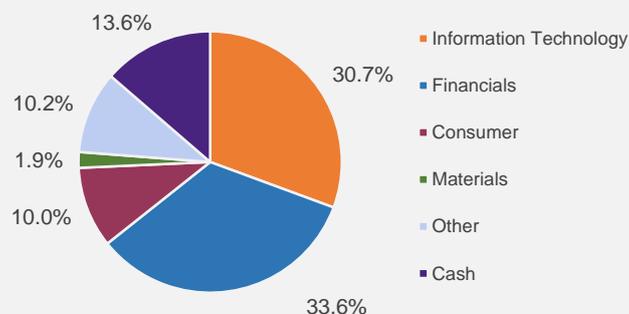
Key Facts

Listing date	Sept 2015
NTA (before tax)	\$1.1737
NTA Fully Diluted (before tax) *	\$1.1106
NTA (after realised tax) ^	\$1.1257
NTA (after tax) **	\$1.1290
Share price at 30/6/2018	\$1.07
EAI Market Capitalisation	\$116.1m
Average Management Fee	0.84%
Performance Fee	15%
Option price (ASX: EAIO)	\$0.075
Exercise price	\$1.00

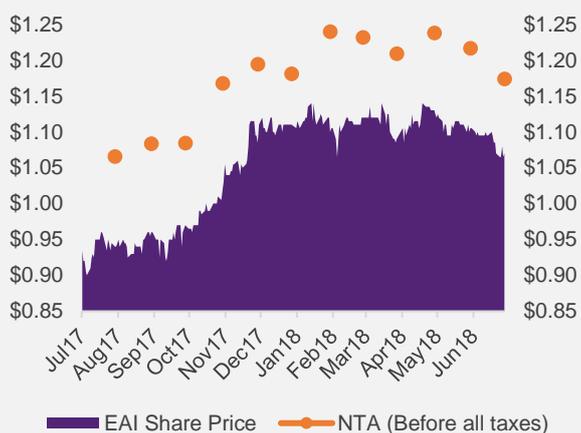
Top 10 Holdings

Top 10 Holdings	Weight
TENCENT HOLDINGS	7.6%
SAMSUNG ELECTRONICS	6.3%
PING AN INSURANCE GROUP	5.2%
ALIBABA	4.7%
HONG KONG EXCHANGES & CLEARING	4.0%
TSMC	3.7%
DBS GROUP HOLDINGS	3.5%
HDFC	3.2%
MARUTI SUZUKI	3.2%
RELIANCE INDUSTRIES	3.0%

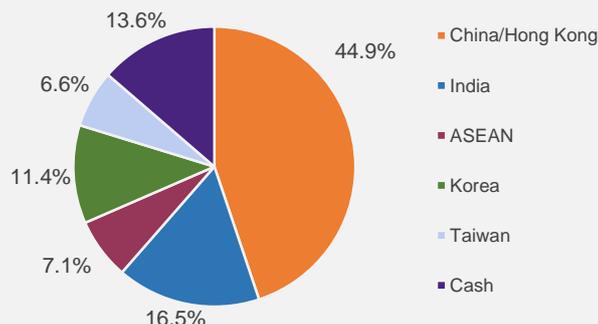
Sector Allocation



EAI Share Price vs NTA (Before all taxes)



Geographic Exposure



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

[^] 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.



Commentary

June was a difficult month for Asian equity markets as they digest the implications of higher US rates and the possibility of a full blown trade war. Ellerston Asian Investments (EAI) was down 3.3% (gross) during the month versus the benchmark which was down 2.9%. The NTA (before tax) as of June 30 was \$1.1737. The end of June also brought FY18 to a close and we are pleased to announce that the net performance was up 12.0%, outperforming the benchmark by 0.4%.

Looking forward to FY19, the two most critical issues for EAI are: (1) Will emerging markets (EM) come under increasing pressure as the US continues to raise interest rates and QE related carry trades unwind? (2) How will the trade war between the US and China play out?

On the EM sell off, it is important to highlight that emerging markets are already significantly off their highs down 16% since its January high. Some more fragile emerging markets like Brazil, Turkey and Argentina are down even more. In Asia, China, Philippines and Hong Kong are the worst performing markets in Asia down 21%, 20% and 13%, respectively. (Note, we have no exposure to the Philippines and slightly underweight China/Hong Kong).

On the trade war, we have stated a number of times that this is not just about trade and is more about approaching the cross over point in the hegemonic decline of America and the rise of China. We think that China is much further ahead in the technology arms race than most market participants give them credit for, certainly further ahead than American politicians give them credit for. As such, current measures to crack down on technology investment and components are possibly too little too late and will primarily serve to damage US tech companies with large portions of their sales in Asia. Trade tensions could continue to escalate until the mid-term elections in November, we have positioned the portfolio to focus on domestic demand countries (India) and domestic demand sectors (financials, consumer, and internet).

FY19 will also be a year of some interesting IPOs in China. Unicorns is a term used for unlisted companies with valuations greater than \$1 billion and there are currently over 150 of them in China with total value of over \$600 billion. That's greater than the market caps of CBA, Westpac, ANZ, NAB and BHP combined! The Xiaomi IPO in early July was the first unicorn out of the gate and disappointed slightly, opening as much as 6% below its issuance price. Many of the other Chinese unicorns expected to list in FY19 or FY20 are subsidiaries of companies we already own like Alibaba, Tencent, and Ping An. Although the Xiaomi IPO makes us a little nervous around subsequent listings, we nonetheless look forward to investing in these companies when they list given the extent to which the listings will crystalize the value of these investments for the parent.

During June, new EAI analyst Vinay Narsi spent time on the ground in India where he had over 20 corporate meetings and site visits. We remain comfortable with the outlook for our Indian investments including Maruti Suzuki, Reliance, HDFC and ICICI after updates from management. Also in India, the Indian General Election is occurring in FY19. While Modi's accomplishments in the first term are impressive (demonetization, GST, infrastructure build out, housing for all) as well as presiding over an economy that is growing at over 7% per year, there is some concern that the BJP will not fare as well in the upcoming election and will be unable to form a majority government. We are monitoring this risk closely given our consistent overweight positioning in India.

In terms of performance, during June the biggest contributors to performance were Samsung Electro-Mechanics, Maruti Suzuki and HDFC. The biggest detractors were Country Garden, Samsung Electronics and Hong Kong Exchange.

You may recall that EAI did not pay a dividend in FY17. This was due to not having enough franking credits to pay a fully franked dividend and feedback from investors was that they strongly prefer fully franked. Secondly, we want to have a **sustainable** dividend policy based on multiple years of profit reserves. In FY18 we have been very vigilant about realising gains and will announce our dividend policy in conjunction with the FY18 results in August.

Finally, another 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

Contact

Investor Relations - 02 9021 7797

info@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

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Monthly NTA Statement

June 2018

Ellerston Asian
Investments Limited
ACN 606 683 729

12th July 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 June 2018:

NTA per share	30 June 2018
NTA before tax	\$1.1737
NTA after realised tax *	\$1.1257
NTA after tax ^	\$1.1290

The NTA is based on fully paid share capital of 108,463,973

* **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 was -3.3%.

Option Conversion - During the month, 710,010 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 30 June 2018, the fully diluted NTA before tax would have been **\$1.1106** 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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