

Ellerston Asian Investments (ASX: EAI)

Investment Update – July 2018

Performance

	1 Month	3 Months	6 Months	1 yr	2 Yr p.a	1 Nov 2015 [^]	Inception p.a
EAI Gross	0.7%	-4.2%	-3.8%	12.6%	12.4%	20.3%	8.4%
EAI Net*	0.6%	-4.5%	-4.3%	11.4%	11.1%	16.5%	7.1%
MSCI Asia ex Japan (AUD)	-0.3%	-5.0%	-4.2%	10.4%	14.4%	24.1%	10.0%

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

[^]Performance fee commencement

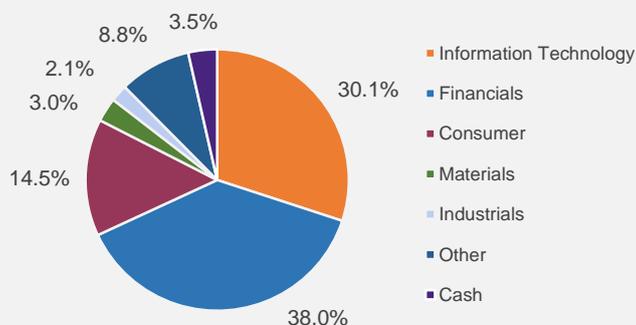
Key Facts

Listing date	Sept 2015
NTA (before tax)	\$1.1735
NTA Fully Diluted (before tax) *	\$1.1112
NTA (after realised tax) [^]	\$1.1314
NTA (after tax) **	\$1.1322
Share price at 31/7/2018	\$1.04
EAI Market Capitalisation	\$113.5m
Average Management Fee	0.85%
Performance Fee	15%
Option price (ASX: EAIO)	\$0.04
Exercise price	\$1.00

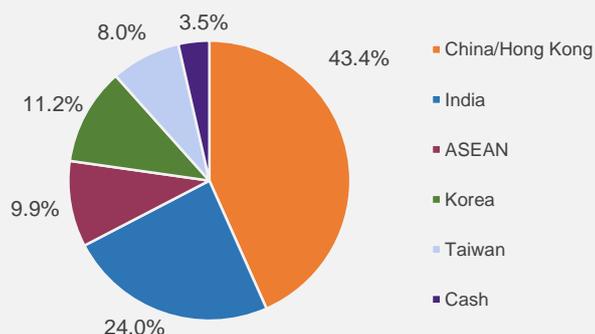
Top 10 Holdings

Top 10 Holdings	Weight
TENCENT HOLDINGS	6.8%
SAMSUNG ELECTRONICS	6.1%
TSMC	5.2%
PING AN INSURANCE GROUP	5.1%
ALIBABA GROUP HOLDING	4.7%
CHINA CONSTRUCTION BANK	3.9%
HONG KONG EXCHANGES & CLEARING	3.9%
RELIANCE INDUSTRIES	3.6%
DBS GROUP HOLDINGS	3.5%
MARUTI SUZUKI	3.4%

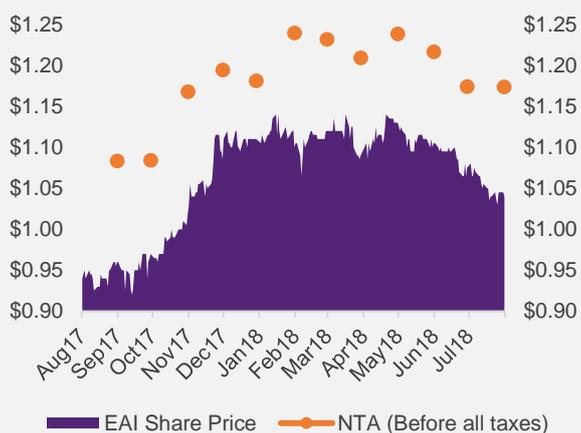
Sector Allocation



Geographic Exposure



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 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

Ellerston Asian Investments (EAI) started out the new fiscal year on a positive note. The Fund increased +0.7% gross during July, outperforming the benchmark by 1.0%.

In terms of country contribution, India was the biggest contributor during July. The SENSEX index continues to hit new all-time highs, up almost 6% (in AUD terms) in July alone. The strength of the Indian market is driven by strong fundamentals and steady inflows into domestic mutual funds. Interestingly, July witnessed a return of foreign institutional investor (FII) buying in India after a few months of outflows. India remains EAI's largest country overweight.

China was the biggest detractor from performance in July, which is not surprising given the headline risk around the trade war and the depreciation of the renminbi (RMB). Our view on the trade war remains that there are 3 possible outcomes: (1) tit for tat escalation; (2) a negotiated deal; or (3) extreme retaliation. We are currently witnessing tit for tat escalation with the US threatening tariffs on an additional \$200b of Chinese good and China responding with \$60b of tariffs on American goods.

The issue with tit for tat escalation is that given that American imports roughly \$500b of goods from China and China only imports \$125b from America, mathematically, China will run out of room first. They can then resort to non-tariff measures or the use of the RMB as a means of offsetting the impact of the tariffs.

This latter tactic has been used already with the RMB depreciated to an intra-day low of 6.9 to the USD in early August before the PBOC stepped in to stabilize the currency. However, the "weaponization" of RMB as a tool in the trade war carries significant risks for China. If the currency depreciates too far too fast, it could lead to capital flight which in the past has proved to be very destabilizing for the Chinese economy and Asian markets.

Together, this suggests that China is going to run out of options first and therefore has incentive to shift the situation from confrontation to negotiation. In terms of timing, the mid-term elections are coming up in the US in November and there is some speculation that Trump would rather go to the polls with a trade win than a trade war. In either case, we expect more clarity on the trade war situation by November. In the meantime, we have an exclusively domestic demand portfolio in China and are overweight domestic demand-centric countries (India, Singapore) that are largely outside the fray of the trade war.

In terms of stock contribution, the largest contributors to alpha in July were both Indian stocks, Reliance Industries and ICICI Bank. The detractors were Country Garden and Tencent. We believe a major buying opportunity is developing in Tencent for fundamental investors. The stock has fallen over 20% from its high and is now trading at very attractive valuations, particularly on a Sum of the Parts (SOTP) basis.

Finally, EAI's FY18 annual results will be coming out soon and we will be announcing our dividend policy in conjunction with these results. We look forward to communicating with you then and to seeing you at our annual roadshow in November.

Regards

Mary Manning

Contact

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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

July 2018

Ellerston Asian
Investments Limited
ACN 606 683 729

13th August 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 July 2018:

NTA per share	31 July 2018
NTA before tax	\$1.1735
NTA after realised tax *	\$1.1314
NTA after tax ^	\$1.1322

The NTA is based on fully paid share capital of 109,172,330

* **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 +0.65%.

Option Conversion - During the month, 708,357 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 July 2018, the fully diluted NTA before tax would have been **\$1.1112** 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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