

ELLERSTON ASIAN
INVESTMENTS LIMITED
ACN 606 683 729

3 December 2018

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

LETTER TO SHAREHOLDERS – ASIA UPDATE POST THE G20: A 90 DAY TRUCE

Dear Sir/Madam

Please find **enclosed** a letter from Mary Manning, Portfolio Manager of Ellerston Asian Investments, which was sent to shareholders today.

Yours sincerely



Ian Kelly
Company Secretary
Phone: 02 9021 7797

Asia update post the G20: A 90 day truce

Mary Manning, Portfolio Manager, Ellerston Asia | December 18

3 December 2018

Dear Shareholder,

During our recent roadshow (Link embedded here: <https://youtu.be/8yfADLTmnY>) I highlighted that Asian markets had corrected significantly in 2018 and are at very attractive valuations, but needed a catalyst to reverse course. Chart 1 as an illustration below, looks at the comparative (under) performance of the Shanghai Index vs the S&P 500 in the US from January 2018.

I wanted to share with you two recent catalysts. First of all, the much anticipated meeting between Presidents Trump and Xi at the G20 in Buenos Aires, which was highly successful with the leaders agreeing to halt new tariffs and the US agreed to leave the tariff rate on the existing \$200b of goods at 10% for 90 days rather than increasing the rate to 25% on 1st January. The personal relationship between Trump and Xi appears very strong which bodes well for further negotiations.

The second catalyst, which has received much less attention but is also important, is the dovish statements by Fed Chairman Powell last week. While the trade war was the main culprit for the selloff in Chinese and Hong Kong markets, the rest of Asia and Emerging Markets have also been weak due to the trajectory of interest rates in the US and the strong US Dollar (USD) which I note in Chart 2. Powell's comments suggesting that US rates are now near neutral, provide relief from these pressures and is a strong positive indicator for Emerging Markets as an asset class.

The sum of these events suggests "Risk On" for Asian markets going into year end. Risk On is an investment setting in which price behavior responds to and is driven by changes in investor risk tolerance; in this case risk is perceived as low and investors engage in higher risk investments. We have positioned the Ellerston Asian Investments portfolio for this over the last week, increasing our weighting in large Chinese holdings, adding technology supply chain stocks and reducing cash weights. Our November monthly newsletter will be released in the next few weeks where I look forward to providing additional details and market commentary.

I would like to thank all EAI shareholders for their ongoing support and remind you that EAI options expire in February 2019 with an exercise price of \$1.00. The unaudited, estimated NTA (before tax) as of 30 November was \$1.0677.

Yours Sincerely,
Mary Manning

Chart 1: Shanghai Composite vs S&P 500



SOURCE: BLOOMBERG

Chart 2: USD and Emerging Markets Performance



SOURCE: BLOOMBERG

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