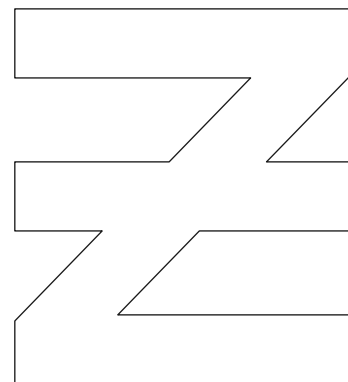


Ellerston Asian Investments Limited (ASX: EAI)



Performance Report

Key Information

Listing Date	4 September 2015
NTA (before tax)*	\$1.3579
NTA (after realised tax)^	\$1.3165
NTA (after tax)**	\$1.2863
Share Price at 31/01/21	\$1.24
EAI Market Capitalisation	\$163.5 Million
Average Management Fee	0.82%
Performance Fee	15%

* NTA (before tax) – Includes taxes that have been paid.

^ 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.



Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.)
Net^	-0.36%	5.65%	13.67%	14.63%	8.38%	9.12%
Benchmark*	0.31%	6.80%	16.95%	15.74%	7.02%	9.72%
Alpha	-0.68%	-1.15%	-3.28%	-1.10%	1.36%	-0.61%

^ The net return figure is calculated before all tax provisions, after fees & expenses, includes the effects of the share buyback, and excluding the effects of option exercise dilution. Past performance is not a reliable indication of future performance

*MSCI Asia ex Japan (non-accumulation) (AUD)

Portfolio Commentary

Ellerston Asian Investments (EAI) was down -0.36% (net) during February versus the benchmark which was up 0.31%. Financial year to date in 2021, EAI is up 19.73%.

Ellerston Asian Investments aim is to have a sustainable dividend policy based on multiple years of profit reserves. Last month we announced a 2.5 cent fully franked dividend per share payable on April 7, 2021, which is in line with the 2.5 cent dividend per share paid in October 2020.

As at the end of February 2021, EAI's dividend profit reserve was approximately 18.55 cents per share (includes FY21 profits - 2.5 cent April 7, 2021 div. inclusive).

Market Outlook

The main driver of global markets in February was the spike in US bond yields and the implications for factor, country and sector allocation. In Asia, China's "two sessions" shed some light on how the leadership is looking at growth going forward. Commodity prices and the global chip shortage are also important to note. These issues are discussed in detail below.

TAPER TANTRUM 2.0

In May of 2013, then Fed Chairman Ben Bernanke announced that the Fed would, by the end of the year, reduce the volume of its bond purchases. The market reactions across equities, bonds and FX was violent. Bond yields spiked immediately with the US 10 year rising from less than 2% in mid-May to 2.75% by the end of June and 3% by the end of CY13.

Equities slumped across the world with some notable divergences: the US outperformed almost all other markets, DM outperformed EM (except Japan which was down 20% in less than a month), Asia outperformed EM as a whole, and large caps outperformed small caps in most markets.

The sell-off was short lived (~ 1 month) and the rebound was sharp but not uniform across markets. By the end of 2013, US markets were back up well above their pre-Taper Tantrum highs while MSCI World was almost 7% higher. Asia and Emerging Markets were mixed with high current account deficit countries generally under-performing on both the sell off and the rebound.

Late February and early March 2021 have witnessed a minor tantrum but without the Fed saying anything about tapering. Obviously Fed language could change if inflation expectations continue to creep up or if inflation itself becomes an issue. The following factors could combine to generate inflation in the short term:

- Base effects for CPI which kick in at the end of 1Q21 and beginning of 2Q21;
- Vaccine roll out and return to normal business activity, particularly in the services sector;
- Impact of simultaneous fiscal and monetary stimulus in the US;
- Supply chain disruptions and the impact on prices of semiconductors, wood products, pharma products, oil, etc.

Apart from base effects, much of the Fed commentary is around whether the return of inflation is structural or cyclical. Dallas Fed Chairman Kaplan has said he expects the “cyclical elements of inflation to build” in early 2021 but that the drivers of this inflation may not be “persistent”. Over the medium term, the structural forces technological disruption combined with demographics may outweigh the upward price pressure caused by cyclical factors.

Our view is that the Fed would be reluctant to taper on base effects alone but would need to see evidence of a recovering labour market to taper. To actually raise rates they would have to see some of “persistent” elements return to CPI. However, the late February mini-tantrum has shown that the market may move ahead of the Fed. Our very high overweight in financials (~11% overweight versus the benchmark) is in place to protect returns in the event of another taper tantrum and a spike in bond yields. Our country allocation, namely zero or underweight current account deficit countries with volatile currencies, is also in preparation for a potential taper.

TWO SESSIONS IN CHINA

In early March, over 5000 members of China political elite met in Beijing for the annual gatherings of the Chinese People’s Political Consultative Conference (CPPCC) and the National People’s Congress (NPC), also known as the Two Sessions. The main headline to come out of the two sessions thus far is that China has revised its GDP growth target to “above 6%” for 2021. This is lower than consensus which had China growing at over 8%. Chinese leadership emphasized quality growth which focuses on employment and carbon neutrality. Specifically, the government is targeting a 13.5% reduction in energy consumption per unit of GDP and an 18% reduction in CO₂ emissions during the 14th FYP. We continue to research ways to best reflect the China Net Zero theme in the portfolio.

CHIP SHORTAGE

For the past 3-4 months the semiconductor industry has been facing severe supply constraints across a number of different applications, most notably automotive chips. This chip shortage situation has been caused by three main factors: (1) US sanctions against Chinese companies such as Huawei and SMIC; (2) The resilience of consumer tech throughout the COVID pandemic; and (3) The recovery in auto related demand. Overall this is a positive for some of our technology positions, namely TSMC and UMC.

OIL PRICE

The oil price rose approximately 10% in the last month. EAI currently has no direct exposure to the energy sector other than via conglomerate Reliance Industries. However, we still watch the oil price closely as it has implications for country weightings given some countries in Asia are significant oil importers (India) and some are major oil exporters (Malaysia).

The key events impacting the oil price last month were: the Saudi military intercepting drones and missiles launched from neighbouring Yemen that were targeting key Aramco facilities; US Crude production saw its biggest ever decline of about 1mbpd; and the Texas freeze event which shut down 18 US oil refineries. Finally, OPEC+ surprised the markets by choosing not to increase their production output as the market was expecting and instead announced an increase of about 1mbpd of production.

In terms of country impact, India’s oil import bill could be US\$22b higher than budget estimates if crude continues to remain at current levels. This is a potential negative for the Indian currency and it could prompt the RBI to intervene in the forex markets and could add pressure to India’s double deficit problem (current account and fiscal).

PERFORMANCE

In February, India and Singapore were the largest country contributors to alpha while Hong Kong was the largest detractor. Communication Services and Financials were the largest sector contributors to alpha while Materials was the largest detractor. Kuaishou Technology and SK Hynix were the largest single stock contributors to alpha, while our position in LG Chem was the largest detractor.

As always, if you have any questions regarding any aspect of EAI or the portfolio, please feel free to contact us at info@ellerstoncapital.com. We invite you to join us for our quarterly investment update on March 16 by registering [here](#).

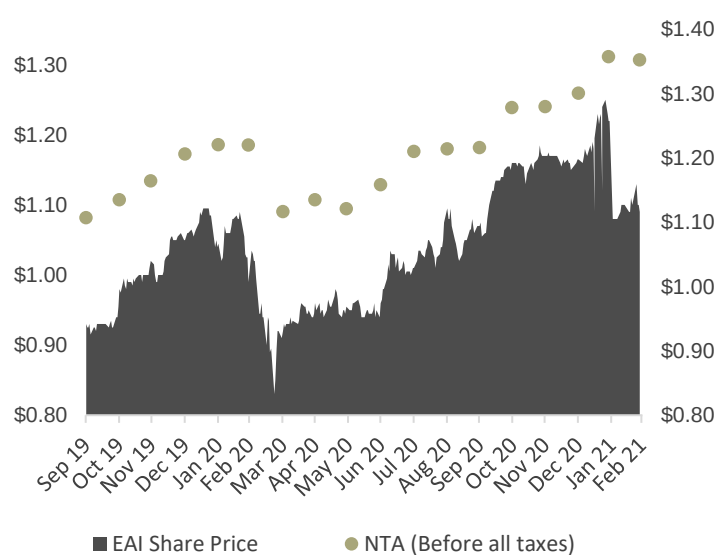
Kind regards,
Mary Manning

Portfolio Characteristics

Top 10 Holdings

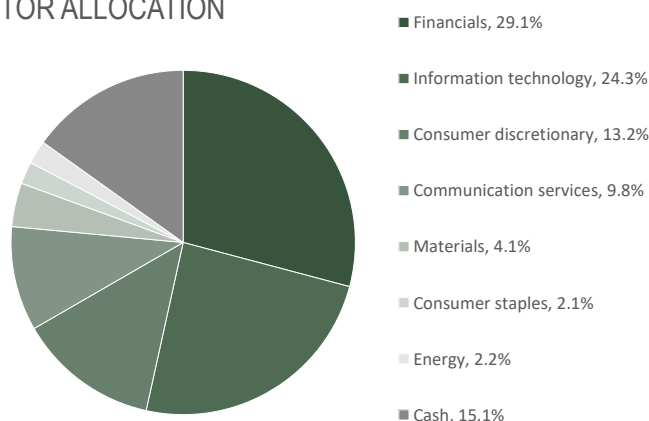
TSMC	9.9%
Tencent Holdings Ltd	7.8%
Samsung Electronics	7.2%
Alibaba Group Holding Ltd	7.2%
Ping An Insurance	4.2%
United Overseas Bank Singapore	3.3%
DBS Group Holdings Ltd	3.2%
OCBC Ltd	3.2%
Hong Kong Exchanges & Clearing Ltd	3.0%
China Construction Bank Corp	2.6%

EAI SHARE PRICE VS NTA

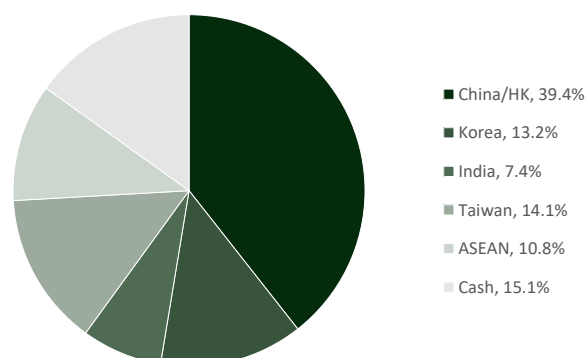


Source: Ellerston Capital

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Contact Us Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Melbourne

Level 4, 75-77 Flinders Lane,
Melbourne, VIC 3000
+612 9021 7701
info@ellerstoncapital.com

Find out more

All holding enquiries should be directed to our register, Link Market Services on **1300 551 627** or EAI@linkmarketservices.com.au

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on **02 9021 7701** or info@ellerstoncapital.com or visit us at ellerstoncapital.com

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