Ellerston Asian Investments

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ELLERSTON ASIAN INVESTMENTS OCTOBER NEWSLETTER - CORRECTION

Ellerston Asian Investments Limited (ASX:EAI) wishes to advise shareholders that the October Investment Update released to the ASX on 15 November 2021, incorrectly stated that the 31st October 2021 share price was $1.095 and the market capitalisation was $141.7m. The correct 31st October 2021 share price is $1.09 and the market capitalisation is $141.1m.

Please find enclosed an updated Investment Update.

Yours sincerely

Ian Kelly
Company Secretary

Ellerston Asian Investments Limited (ASX: EAI)

Monthly Newsletter, October 2021

Key Information

Listing Date^^	4 September 2015
NTA (before tax)*	$1.1952
NTA (after realised tax)^	$1.1522
NTA (after tax)**	$1.1573
Share Price at 31/10/2021	$1.090
EAI Market Capitalisation	$141.1 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.

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Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception^^ (p.a.)
Net^	-1.78%	-4.72%	-6.52%	-1.43%	7.57%	11.38%	6.88%
Benchmark*	-2.56%	-3.19%	-5.62%	3.66%	7.40%	9.46%	7.60%
Alpha	0.78%	-1.52%	-0.91%	-5.09%	0.18%	1.91%	-0.73%

^ 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)

Ellerston Asian Investments (EAI) was down 1.78% (net) in October versus the MSCI Asia ex Japan Index which was down 2.56%.

EAI aims to have a sustainable dividend policy based on multiple years of profit reserves. As at the end of October 2021, EAI's dividend profit reserve was approximately 13.4 cents per share (includes FY22 profits).

The key focus for investors in October were: (i) the ongoing China risks; (ii) the 3Q21 reporting season; and (iii) central bank tapering/tightening. We discuss these issues in detail below.

China Update

October saw a respite in market moving headlines out of China. However, issues such as regulatory reform, power outages, property sector leverage and COVID remain concerns for investors. We continue to see these factors as headwinds for economic growth into year end. We also believe the likelihood of aggressive stimulus is low given the strong growth recorded in 1H2021, high inflation and the resilience of the domestic A-share market this year. We therefore remain selective with regards to our China exposure. Specifically, our China portfolio is primarily overweight companies that operate in government promoted sectors and have limited direct exposure to the China property sector such as Mengniu, CATL and Li Ning.

On the regulatory front, the most significant development during the month was the RMB3.4bn (A$715m) fine issued to Meituan for unfair competitive practices. A number of other measures around data security and undesirable business practices across the broader internet space were also announced. There remains a risk of further policy announcements in the coming weeks with the Communist Party meeting in early November potentially providing an impetus for additional reforms. We note however that a number of important legislation such as the Data Security Law, Security Protection of Critical Information Infrastructure (i.e. Cybersecurity) Law and Personal Information Protection Law have already come into effect in recent weeks. As such, the overall pace of new policies could in fact slow significantly heading into 2022 given policymakers will likely need some time to monitor and assess the effectiveness of these new rules. A break in policy announcements along with the potential resumption of IPO, M&A and online games approval activity would signal a 'relaxation' in the regulatory crackdown and would be a positive catalyst for the Chinese internet names that we hold such as Alibaba, JD.com and Tencent.

With regards to the power shortage situation and the credit crunch in the property sector, the Government has displayed an increased urgency in resolving these issues. We therefore continue to believe that these risks are manageable and should not pose any systemic threat to the economy. We consider the recent resurgence in COVID cases across China to be the bigger near term risk to economic growth. The Government's continued zero tolerance approach to dealing with the virus has again resulted in widespread lockdowns. This is despite over 80% of the population fully vaccinated and no recorded COVID related deaths in over 10 months. China is likely to maintain this hard line approach until the Beijing Winter Olympics in February 2022. As such, domestic demand and global supply chains remain susceptible to COVID related disruptions.

Reporting Season Reality Check

There were two observable trends to emerge from the 3Q21 reporting season: (i) healthy top line growth for most companies across Asia; and (ii) margin pressure due to cost push inflation from surging raw material prices, higher wages and supply chain related issues. Management commentary suggests that these cost pressures are likely to persist for some time. In this environment, companies with the pricing power to pass on higher input costs are likely to do well. EAI is a quality biased portfolio. As such, we hold a number of companies such as TSMC, Mediatek, Samsung, CATL and Reliance with the ability to protect and even grow margins when costs are rising. Our financials and internet businesses should also fare relatively well in an inflationary environment.

Central Bank Tapering/Tightening

We've previously written about the risk to equity markets if central banks remove the liquidity 'punch bowl' and begin lifting interest rates. Indeed in early November, the US Federal Reserve (Fed) announced that it would begin tapering its US$120bn/month bond buying program and thus starting the process of monetary policy normalization. The pace of tapering suggests that interest rates could rise by as early as mid-2022. The Fed joins a number of central banks regionally such as South Korea, Singapore, Australia and New Zealand that have either tightened monetary policy or tapered its stimulus programs over the past few weeks.

The global equity market response to the start of Fed tapering has thus far been quite muted. We however remain cautious given the 2013/14 'Taper Tantrum' episode showed that the policy transition phase can be tricky for equity markets. If the recent uptick in global inflation proves to be more persistent than expected, central banks may be forced to tighten more quickly and this could be a catalyst for an equity market correction. This is a risk that as Howard Marks famously put it, "you can't predict, but you can prepare" for. As such, we maintain a barbell approach to portfolio positioning by holding high quality, low beta growth stocks within the tech and consumer staples sectors as well as rate sensitives such as financials. Cash at the end of October was 11.4%.

Portfolio Performance Attribution

China and India were the largest contributors to alpha during October. Whilst, Indonesia was the largest detractor. At a sector level, Industrials, Healthcare and Financials were the biggest contributors to performance. Meanwhile, Consumer Discretionary and Materials were the worst performers. At a stock level, CATL, BYD and ICICI Bank were the best alpha generators for the portfolio. CATL and BYD share prices were boosted by strong domestic electric vehicle sales (+148%yoy), reports of battery price hikes and potential new orders from Tesla. Meanwhile, ICICI Bank reported a very strong 2QFY22 result with 17%yoy loan growth and net interest income growth of +25%yoy. Conversely, Anta Sports and SK hynix were the biggest drags on performance. Anta was sold off on confirmation of a slowdown in its Fila business. Whilst SK hynix was negatively impacted by concerns over a cyclical downturn in the memory market. We exited both Anta and hynix during the month as we don't believe the underlying issues impacting both companies will be resolved quickly.

Ellerston Asia Team Update

The Ellerston Asia team has recently added investment personnel over the past month. Gaurav Pathak begins in November as a Senior Analyst. Gaurav brings 17 years of equity investment experience across Asia and will be a valuable addition to the team. Prior to joining Ellerston, Gaurav was a Portfolio Manager at JN Asia Fund, a boutique fund seeded by GIC. Prior to this, Gaurav was a Portfolio Manager at Eastspring Investments in Singapore.

In addition to Gaurav's appointment, Dejia Li will join in early December as an Investment Analyst. Dejia has 6 years of finance industry experience having previously worked as an Equity Research Associate at CLSA covering the Australian consumer sector and as an auditor at KPMG. Dejia brings deep, on the ground knowledge of Asian markets, having lived in China for 20 years. Dejia holds both CFA and CA designations and is fluent in Mandarin.

Eric Fong and Vinay Chhoda have both recently departed Ellerston. We thank Eric and Vinay for their contributions.

As always, if you have any questions regarding any aspect of the Fund or the portfolio, please feel free to contact us at info@ellerstoncapital.com.

Kind regards,

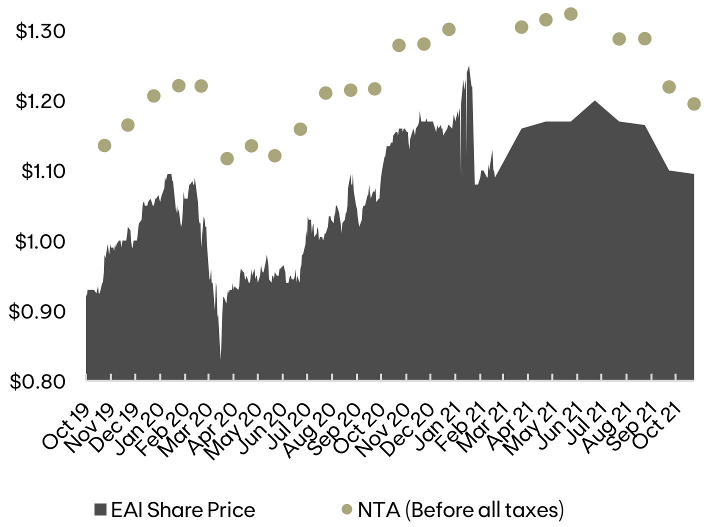
Fredy Hoh

PORTFOLIO CHARACTERISTICS

TOP 10 HOLDINGS

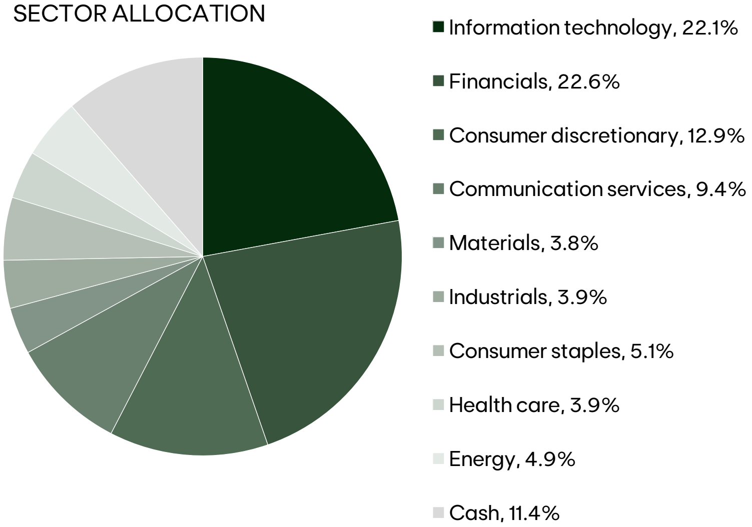
TSMC	10.4%
Alibaba Group Holdings	6.3%
Tencent Holdings	5.7%
Samsung Electronics Co	5.2%
Reliance Industries	4.9%
DBS Group Holdings	4.1%
China Mengniu Dairy Co	3.0%
AIA Group	2.9%
Hong Kong Exchanges & Clearing	2.5%
ICICI Bank	2.4%

EAI SHARE PRICE VS NTA



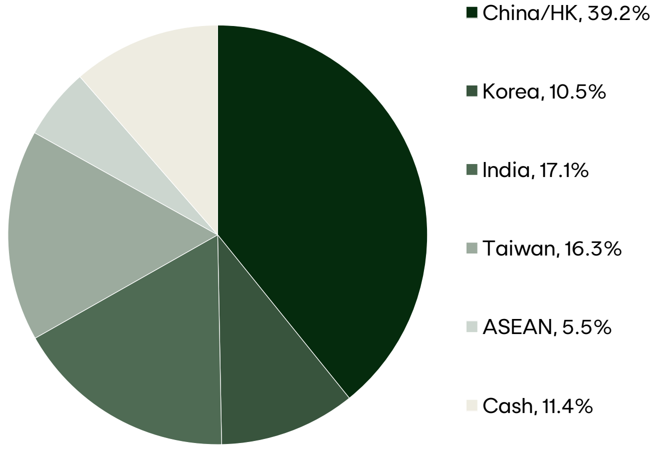
Source: Ellerston Capital.

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

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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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