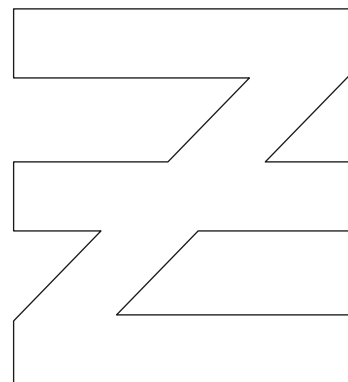


Ellerston Asian Investments Limited (ASX: EAI)



Monthly Newsletter, March 2022

Key Information

Listing Date^^	4 September 2015
NTA (before tax)*	\$0.9823
NTA (after realised tax)^	\$0.9823
NTA (after tax)**	\$1.0245
Share Price at 31/03/2022	\$0.900
EAI Market Capitalisation	\$115.4 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 a Tax Asset of 4.213 Cents per share relating to realised and unrealised losses.

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception^^ (p.a.)
Net^	-6.81%	-11.84%	-13.54%	-16.49%	1.92%	5.29%	4.38%
Benchmark*	-6.20%	-11.14%	-13.02%	-14.93%	1.08%	4.80%	5.27%
Alpha	-0.60%	-0.70%	-0.52%	-1.56%	0.84%	0.49%	-0.89%

^ 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 6.81% (net) in March versus the MSCI Asia ex Japan Index which was down 6.20%.

EAI aims to have a sustainable dividend policy based on multiple years of profit reserves. On March 30, EAI paid a dividend of 3 cents per share fully franked. As at the end of March 2022, EAI's dividend profit reserve was approximately 13.6 cents per share (includes FY22 profits) and accounts for the latest dividend payment.

March 2022 was one of the most volatile months for Asian markets in recent memory driven primarily by geopolitical and COVID related concerns in China.

China Fears

During the month, Chinese ADR stocks were sold off heavily after the US Securities and Exchange Commission (SEC) began enforcing the Holding Foreign Companies Accountable Act (HFCAA). Specifically, the SEC formally notified 11 Chinese companies listed in the US on their failure to comply with auditing requirements, which could see them forcibly delisted within 3 years if additional audit disclosures are not provided. We expect all 200+ Chinese ADR companies, including Alibaba, JD.com, PDD, Baidu and Netease to eventually be notified by the SEC over this matter. Given foreigners are major shareholders of Chinese ADR companies, delisting could force many of these investors to offload their shares. Even for companies that are dual-listed in both the US and HK, delisting could still see selling from foreign investors that are either unable or unwilling to hold HK-listed shares. The prospects of US-listed Chinese stocks being 'cancelled' and the subsequent liquidity event was a primary trigger for the worst three day decline in the Hang Seng Index since 2011. We think it is important to highlight that the exchange on which a company is listed does not affect the underlying fundamentals of a company. EAI has always focused on the bottom-up fundamentals because we see ourselves as part owners of companies. All of the dual-listed Chinese companies that we own are profitable, have good earnings growth and solid balance sheets and generate significant free cash flows. We used the sell-off in March as an opportunity to selectively add to our core holdings in China/HK.



On COVID, the spread of the Omicron variant has forced over 20 cities across China notably Shenzhen, Dongguan, Jilin and Shanghai into some form of localised lockdown. This unfortunately will again result in near term economic and supply chain impacts. We had initially expected this round of lockdowns to be shorter in duration given Jilin and Shenzhen were cleared within 7 days. The Shanghai lockdown however has so far lasted over two weeks. Similar to experiences overseas, the highly contagious nature of Omicron has proven difficult to contain and raised doubts over the practicalities of China's headline COVID policy. We believe a key reason why China remains committed to its COVID-zero policy is the low vaccination rate of the country's elderly population. Only about 50% of people aged over 80 in China are fully vaccinated. The Government is likely trying to avoid a repeat of the recent Hong Kong outbreak, where the mortality rate of the city's unvaccinated elderly population was amongst the highest in the world. Further, there are question over the efficacy of the domestic Sinovac vaccine in protecting against Omicron. That said, we expect the Chinese Government to reassess its COVID policy after this current outbreak is controlled and progressively move towards a 'COVID-light' model throughout this year. The approved use of Pfizer's Paxlovid COVID anti-viral pill in February could provide the catalyst for China to gradually reopen.

The latest wave of COVID will necessitate more fiscal and monetary stimulus in order to meet China's 5.5% GDP growth target for this year. Indeed during the month, Premier Li Keqiang and Vice Premier Liu He announced a number of measures and commitments to support the economy and financial markets. As such, we expect targeted rate cuts and fiscal measures such as rebates/subsidies and increased investments to be announced in the coming weeks. This should be supportive for Chinese equities and we continue to have a large portion of our portfolio allocated to China/HK.

Portfolio Performance Summary

India and Singapore were the largest contributors to alpha during the month. Whilst, Taiwan and South Korea were the largest detractors. At a sector level, Energy and Materials were the biggest contributors to performance. Meanwhile, Consumer Staples and Consumer Discretionary were the worst performers.

At a company level, Reliance Industries and JSW Steel were the main alpha generators for the portfolio. The positive performances from Reliance and JSW Steel were driven by rising refining margins and steel prices respectively due to the impacts of the Russia/Ukraine conflict and global (ex-China) re-opening demand.

Mengniu Dairy and Mediatek were the biggest drags on performance. Mengniu's share price weakness was driven by the possible impact of rising animal feed prices on the cost of raw milk, which is a key input for the company's dairy products. Late in the month however, Mengniu management reaffirmed its 2022 guidance for 'low double digit' revenue growth and 30-50bps of operating margin expansion. The weakness in Mediatek's share price was due to concerns over potential order cuts from Chinese smartphone customers and increased competition from Qualcomm. Chinese smartphone sales have indeed been weak in 2022 (-23%YoY YTD) due to the recent resurgence of COVID and high base effect (1Q21 smartphone sales was +100%YoY). We however expect some normalization in China smartphone demand once the latest COVID wave is contained. Meanwhile, any step up in the competitive intensity of the mobile SoC space will likely prove temporary given Qualcomm and Mediatek both use TSMC as their primary foundry. As such, neither company has a cost advantage. Qualcomm will therefore need to abandon its margin expansion strategy in order to compete more aggressively with Mediatek. Mediatek currently trades on 10x forward PE, with low teens earnings growth and free cash flow yield of ~10%. So we believe these concerns have largely been discounted in the share price.

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.

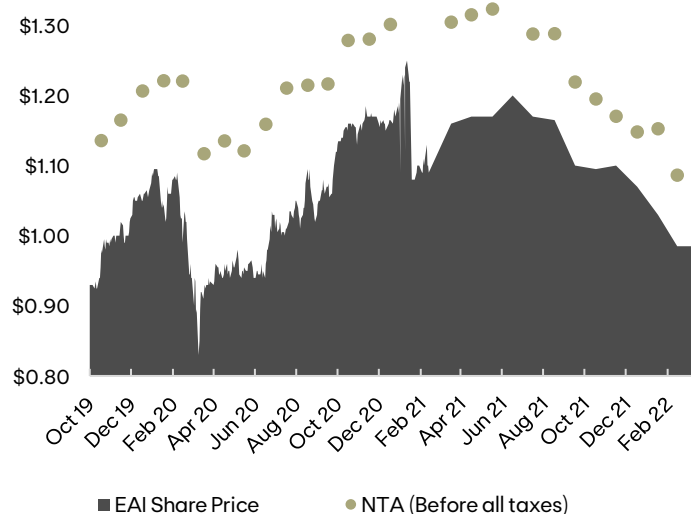
Kind regards,
Fredy Hoh

PORTFOLIO CHARACTERISTICS

TOP 10 HOLDINGS

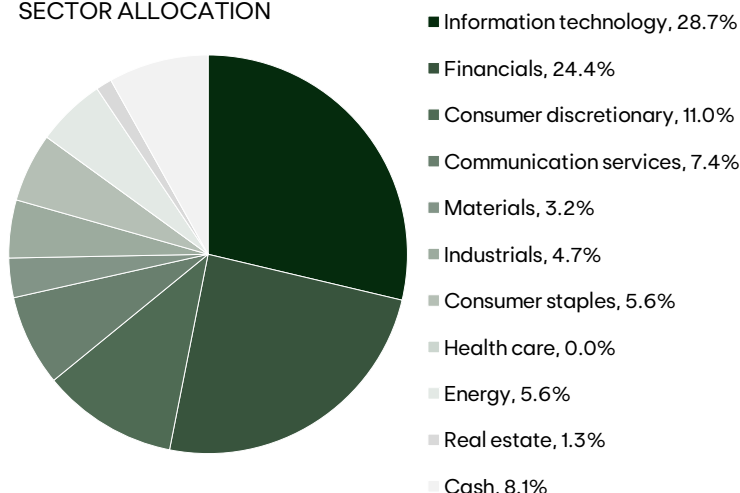
TSMC	11.2%
Samsung Electronics Co	7.6%
Tencent	5.8%
Reliance Industries	5.6%
DBS Group Holdings	4.6%
AIA Group	4.0%
Alibaba Group Holdings	3.8%
China Mengniu Dairy Co	3.2%
ICICI Bank	3.1%
Unimicron Technology	2.9%

EAI SHARE PRICE VS NTA



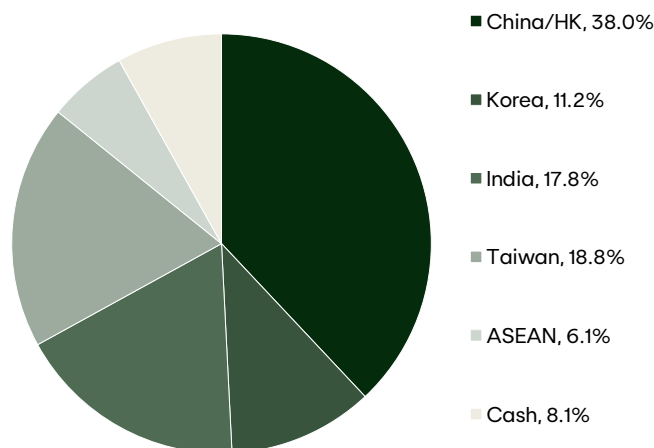
Source: Ellerston Capital.

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

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Find out more

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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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