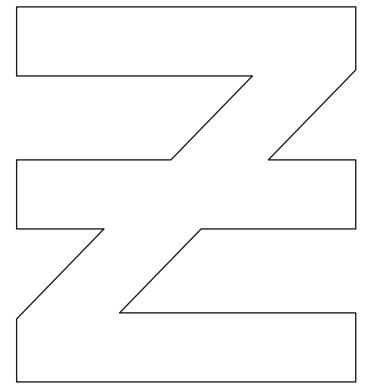


Ellerston Asian Investments Limited (ASX: EAI)



Monthly Newsletter, September 2022

Key Information

Listing Date ^{^^}	4 September 2015
NTA (before tax)*	\$0.8310
NTA (after realised tax) [^]	\$0.8310
NTA (after tax)**	\$0.8582
Share Price at 29/09/2022	\$0.690
EAI Market Capitalisation	\$86.2 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 2.33 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 [^]	-5.70%	-9.18%	-12.35%	-24.22%	-2.91%	0.81%	2.15%
Benchmark*	-7.17%	-8.63%	-10.04%	-21.76%	-1.78%	0.60%	3.33%
Alpha	1.47%	-0.55%	-2.31%	-2.46%	-1.12%	0.22%	-1.18%

[^] 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 5.7% (net) in September versus the MSCI Asia ex Japan (MXASJ) Index which was down 7.2%.

EAI aims to have a sustainable dividend policy based on multiple years of profit reserves. On September 23, EAI paid a final dividend of 3 cents per share fully franked. Reflecting this, the dividend profit reserve as at the end of September 2022 was approximately 10.95 cents per share.

Global equity markets were sold off heavily during the month as higher-than-expected inflation in the US and a more hawkish US Federal Funds rate 'dot plot' exacerbated global recession concerns. Asia was not spared with exporting countries such as Taiwan and Korea faring relatively worse.

Financial markets continue to be driven overwhelmingly by the macro outlook and data. The macro backdrop is currently the inverse of goldilocks with most major economies fighting high inflation, rising interest rates, and the prospects of a significant economic slowdown. Even in China, where we recently turned positive, the macro environment is being negatively impacted by the ongoing zero-COVID policy. In this environment, we believe a selective and patient approach to investing is required. The EAI portfolio is currently skewed towards quality companies trading at reasonable valuations (portfolio PEG ratio of <1x) that we want to own through the cycle. Cash as at the end of September was 10.1%, which we will selectively deploy if opportunities arise amidst the volatility.

China Musings

Whilst all Asian markets were down during September, the China on-shore index (CSI300) performed relatively more resiliently driven by support from domestic funds and also a number of positive policy announcements.

On the fiscal front, policymakers rolled out additional measures to support both the supply and demand sides of the property sector. The measures such as the mandate for SOE banks to provide RMB600bn of net financing by the end of 2022, the establishment of a RMB200bn real estate relief fund, reduction of down payment restrictions and removal of purchase/resale restrictions are aimed at ensuring the completion of stalled projects and to restore buyer sentiment. Meanwhile, policymakers also announced an extension to current tax exemptions for electric vehicle purchases until the end of 2023. It should be noted that since the Beidaihe meeting in August, the amount of fiscal and monetary stimulus measures

that have been announced has increased significantly and equated to ~1.8% of GDP. This bodes well for the growth outlook in the coming months, as long as policy follow-through and implementation are prioritized.

There were also incrementally positive developments on the COVID front with Hong Kong removing hotel quarantine restrictions, which we believe is a key step in restoring the city's competitiveness as a regional financial hub. Meanwhile, Macau resumed e-Visa issuances and will allow tour groups from mainland China by the end of the year. We view both cities as potential pilot programs for the Chinese government to assess how to effectively manage a reopening on the mainland. Further, the development of domestic mRNA-based vaccines was given a boost in late September with the Walvax/Abogen vaccine approved for emergency use in Indonesia. We believe an effective indigenous mRNA vaccine is another important pre-condition to facilitate a China reopening.

Investor attention in the coming month will be on the 20th National Party Congress starting on October 16. This meeting will have important ramifications for China's economic outlook for the next 5 years. Whilst we expect Xi to be elected for another term, personnel changes within the Politburo and the Standing Committee will provide read-throughs on the potential policy direction. We believe the appointment of more progressive politicians to the Standing Committee is necessary to give balance to the policy-setting process. In particular, a progressive replacement for outgoing Premier Li Keqiang could help facilitate more open and supportive economic and market reforms. As for the overarching policy priorities coming out of Congress, focus areas of the past couple of years such as common prosperity, green energy, self-sufficiency, and manufacturing upgrading are likely to be reiterated. Whilst the policy focus may not change materially, we believe the conclusion of the Congress should allow President Xi to focus more on managing the country with an economic rather than a political agenda. This could drive better economic policy coordination and implementation, which would help to support growth heading into 2023. We remain overweight China given the easing policy environment, signs that earnings downgrades have bottomed out, cheap valuations, and low investor sentiment towards the region.

Portfolio Performance Summary

China and Korea were the largest contributors to alpha during the month. Whilst, India, and Hong Kong were the largest detractors. At a sector level, Financials was the biggest contributor to relative performance. Meanwhile, Consumer Discretionary and Materials were the worst performers.

At a company level, DBS, Bank of Mandiri, and Moutai were the biggest contributors to relative performance during the month. South East Asian financials were well supported by optimism around the post-pandemic economic rebound across the region. Moutai meanwhile performed resiliently amidst the broader market weakness given its defensive earnings growth driven by industry leadership, brand strength, and healthy supply/demand dynamics.

JD.com and BYD were the biggest drags on alpha. The weakness in JD.com shares reflects concerns over the impact of recent COVID-related disruptions on consumption demand. Meanwhile, BYD's share price continued to be impacted by the liquidity overhang created by the sell-down of Berkshire Hathaway (BYD's largest shareholder) in late August/early September. However as written in last month's commentary, we remain positive on the business outlook for BYD with earnings forecast to double over the next two years due to strong demand for its mass-market electric vehicles (EV) as well as outsourcing opportunities for its EV batteries. In the near term, the company has 4 months of order backlog and has exhibited commendable pricing power by increasing prices for its vehicles multiple times this year.

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.

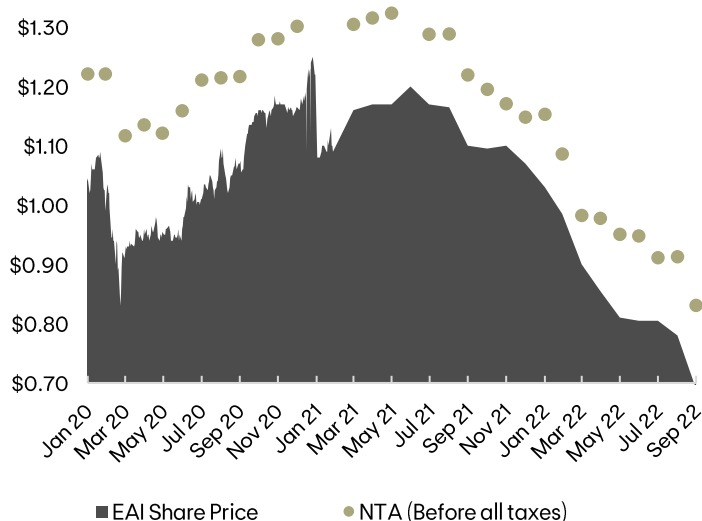
Kind Regards,
Fredy Hoh

PORTFOLIO CHARACTERISTICS

TOP 10 HOLDINGS

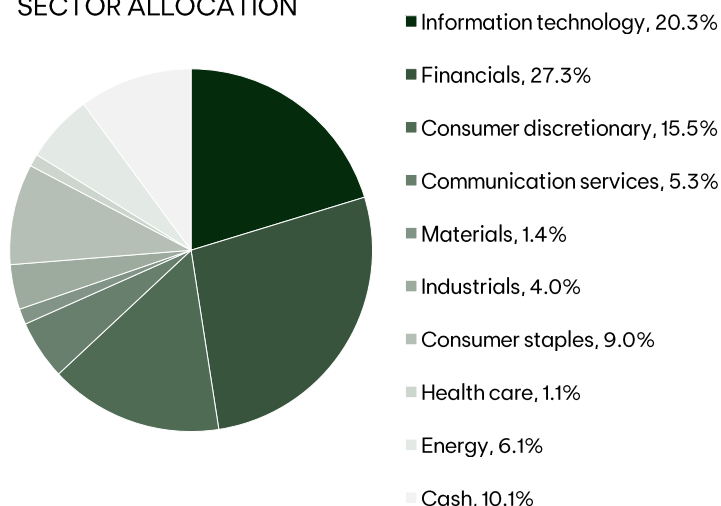
TSMC	8.8%
Reliance Industries	6.1%
Samsung Electronics	5.5%
Tencent	5.3%
Alibaba Group Holding	4.5%
AIA Group	4.4%
DBS Group Holdings	4.4%
China Mengniu Dairy	4.2%
ICICI Bank	4.0%
Kweichow Moutai Co	3.4%

EAI SHARE PRICE VS NTA



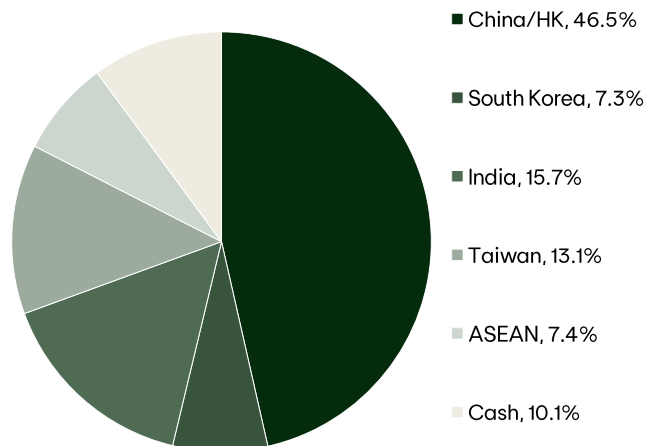
Source: Ellerston Capital.

SECTOR ALLOCATION



Source: Ellerston Capital.

GEOGRAPHIC ALLOCATION



Source: Ellerston Capital.

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Find out more

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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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