

Ellerston Asian Investments

Investment Update – November 2016

Commentary

November was a difficult month. EAI was down approximately 1% on a gross basis while the benchmark was flat. The pre-tax NTA as of November 30 was \$0.97. We continued to buy back shares over the course of the month.

While the main global event in November was the US Presidential election, the event that hurt our performance the most was demonetization in India. Prior to this, India was our biggest overweight at approximately 23% of the portfolio. India's benchmark SENSEX Index fell 9% from the day prior to demonetization to its low on November 21. Over this same time frame our benchmark, the MSCI Asia ex Japan Index (AUD), was flat.

We visited India four days after demonetization was announced and reduced our positioning given the lack of earnings visibility. We currently have approximately 10% of the portfolio in India, and the composition of the stocks we own has changed to favour companies with offshore earnings. These companies are less likely to have been disrupted by demonetization and are also beneficiaries of a strong USD. Over the medium term, we still think India is the best macro story in Asia.

At the end of November the portfolio was relatively high cash at 23% and we have further increased cash in early December. This is primarily due to heightened macro and political risk in the Asian region.

The biggest potential risk for Asia is President-elect Trump's trade and foreign policies. In early December, Trump flouted decades of foreign policy protocol and had a phone conversation with Taiwanese President Tsai Ing-wen. China dismissed this as a "petty trick" that did not signal a change in Sino-US relations, however it is difficult to ascertain if this was a deliberate provocation of China or a blunder by a President with limited diplomatic experience.

Regardless, we are taking a cautious stance going into the inauguration and have no exposure to Chinese exporters. In early December we also bought some Hang Seng Index puts to protect the portfolio against a sell off similar to the one experienced in January / February of 2016.

The other major Trump-related risk for Asia is that US domestic policies are reflationary and result in a steeper trajectory for interest rates in the United States. This has historically been a negative for Asian economies, particularly those in ASEAN. We remain underweight ASEAN with zero weights in Indonesia, Malaysia and the Philippines. The stocks we do own in ASEAN are primarily Singaporean financials which are beneficiaries of rising rates in the US.

Key Information

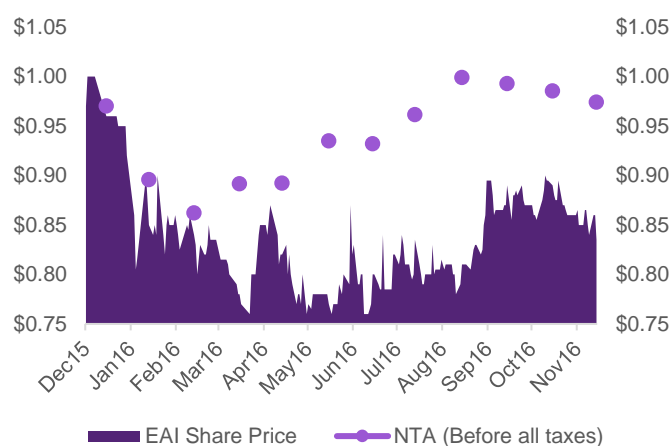
ASX Code: Shares	EAI
Listing date	15 September 2015
Share price at 31/11/2016	\$0.84
NTA (before tax)	\$0.97
NTA (after tax)	\$0.98
EAI Market Capitalisation	\$99.9m
ASX Code: Options	EAIO
Option price	\$0.035
Exercise price	\$1.00
Avg Management Fee	0.84% pa
Performance Fee	15%

Performance

Metric	EAI Gross	EAI Net *	Index
1 Month	-1.1%	-1.2%	0.0%
3 Months	-2.2%	-2.5%	-1.4%
6 Months	4.8%	4.2%	4.4%
1 Year	-1.6%	-2.3%	2.5%
ITD	1.8%	0.3%	3.6%

*Before all taxes and after fees. Includes the effects of the share buyback.

EAI Share Price Vs NTA (Before all taxes)



Top 10 Holdings

	%
Samsung Electronics Co Ltd	6.1
Ping An Insurance Co Ltd	5.6
DBS Group Holdings Ltd	5.5
Hong Kong Exchange & Clearing	5.3
China Life Insurance Co Ltd	5.0
AIA Group Ltd	4.7
China Petroleum And Chemical Cor	4.2
TSMC	4.0
Bumrungrad Hospital Pcl	3.6
Tencent Holdings Ltd	3.5

Commentary continued

The other risk of higher interest rates is a strong USD. This is a concern for China as a weak RMB versus the USD could exacerbate seasonal capital flight dynamics. To address this risk, we have reduced exposure to A shares and are hedged the RMB.

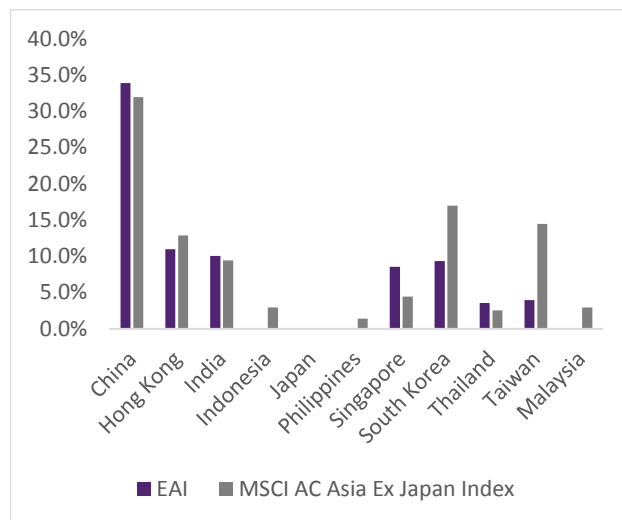
At the end of November there were 26 stocks in the portfolio, which is down from last month on account of reduced holdings in India. The average market cap is approximately \$70b and the largest sector weightings remain technology, financials and consumer.

The top performing stocks in November were China Life and DBS, both beneficiaries of higher rates. The third best performing stock was Samsung. Recall that we reinitiated our position in Samsung following the Galaxy Note recall incident. This was the right call.

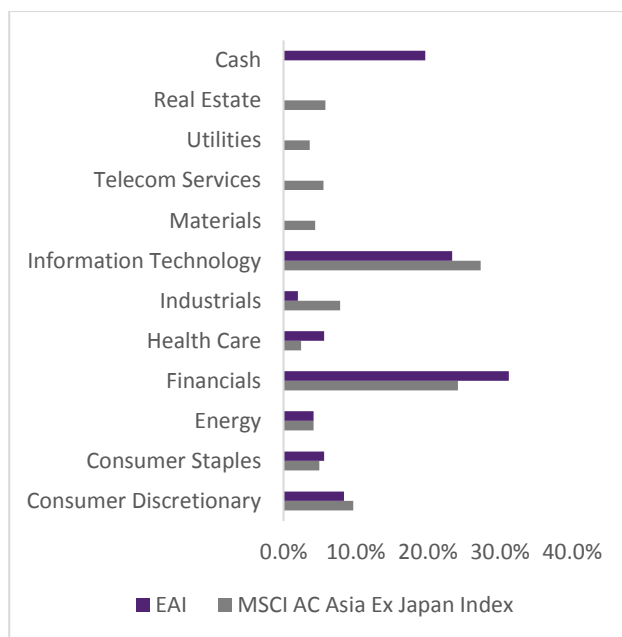
In late November Samsung announced a series of very shareholder friendly measures including: a higher, more frequent dividend, more share buybacks, the possible addition of more independent directors and a plan to analyse splitting Samsung into a holding company and operating company. These measures were positively taken by the market and the stock has since hit a new all-time high.

The worst performing stocks this month were all in India and included Maruti Suzuki, UltraTech Cement and Britannia.

Geographical Exposure Vs Index Benchmark



Sector Allocation Vs Index Benchmark



Should investors have any questions or queries regarding the company, please contact our Investor Relations team on 02 9021 7797. All holding enquiries should be directed to our share registrar, Link Market Services on 1300 551 627 or EAI@linkmarketservices.com.au

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