

ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

12th October 2018

Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

MONTHLY NTA STATEMENT – SEPTEMBER 2018

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 30 September 2018:

| NTA per share | 30 September 2018 |
|--------------------------|-------------------|
| NTA before tax | \$1.1377 |
| NTA after realised tax * | \$1.0957 |
| NTA after tax ^ | \$1.1033 |

The NTA is based on fully paid share capital of 109,500,830

* **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.

On September 18 2017, EAI announced a new on-market buy-back of up to 10% of its shares, commencing September 27 2017 and continuing for twelve months. Since 27 September 2016 a total of 14,814,262 shares had been bought back

The company's gross performance before tax for the month was -3.09%.

Option Conversion - During the month 61,000 options were exercised and converted to shares which diluted the NTA before tax by **\$0.0001** per share.

Options - If all of the remaining 2019 options had been exercised by 30 September 2018, the fully diluted NTA before tax would have been **\$1.0885** per share.



Ian Kelly
Company Secretary

Important Note

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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Ellerston Asian Investments Limited (ASX: EAI)

Performance Report | September 18

PERFORMANCE

| | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years p.a. | Since Inception (p.a) |
|------------------|---------|----------|----------|--------|--------------|-----------------------|
| GROSS | -3.09% | -1.31% | -3.61% | 8.36% | 9.42% | 7.22% |
| NET [^] | -3.21% | -1.61% | -4.19% | 7.11% | 8.15% | 5.97% |
| BENCHMARK* | -1.66% | -0.45% | -3.05% | 7.52% | 12.16% | 9.33% |

Source: Ellerston Capital

[^]Before all taxes and after fees, includes the effects of the share buyback, and excluding the effects of option exercise dilution.

*Benchmark: MSCI Asia ex Japan (AUD)

COMMENTARY

September was another difficult month for Asian equities. Ellerston Asian Investments (EAI) was down -3.09% (gross) versus the benchmark which was down -1.66%. The NTA (before tax) as of September 30 was \$1.1377 and the fully diluted pre-tax NTA was \$1.0885 versus the month end EAI stock price of \$1.055.

The worst performing market in September was India. India had performed very well in July and August rising approximately 9% in those two months alone. However, it gave all of this back in September with the SENSEX falling over 6% in INR terms and approximately 9% in AUD terms.

There were 2 main drivers of the correction in India. First, YES Bank (not owned for ESG reasons) which is a top 20 weight in the MSCI India index, fell 48% during the month on concerns about the CEO's tenure and the accounting policies of the bank. At the same time, an unlisted non-bank financial, IL&FS, missed payments on its debt and the government effectively took control of the failed company. Together these events caused stress in the financial sector which spilled over into the entire market.

Secondly, the Indian Rupee (INR) and the oil price reached a tipping point during the month. India imports the majority of its oil so WTI at approximately \$74 and Brent at \$84 has significant negative implications for India's current account deficit (CAD). As such, the INR weakened above the 72 level (vs the USD) which was previously seen as a level where the Reserve Bank of India (RBI) would support the currency. The subsequent decision by the RBI in early October to leave rates hold rather than raise by the expected 25bps, further signalled a tolerance for a weaker currency. We have been consistently overweight India but took some profits in stocks like Reliance Industries, which was up approximately 30% in July and August alone, as well as HDFC, which reached an all-time high at the end of July.

China's A share market also deserves mention. As the trade war has escalated, the Shanghai Composite (SHCOMP) has fallen sharply and is now down over 20% (in AUD terms) from its January high. Note that the S&P 500 (also in AUD terms) is near an all-time high. We think that this divergence is unjustified given the trade war will hurt both countries and that the SHCOMP is a more domestic demand stock oriented market than the SPX.

Valuation wise, the SHCOMP and the Hang Seng Index are now trading at less than 10x forward PE versus the S&P 500 at 16x. There is a significant buying opportunity emerging in China but our view is that valuation alone will not be enough to turn the market around. There needs to be a catalyst. The upcoming mid-term elections in the US or a meeting between Trump and Xi at the G20 meetings in Buenos Aires in late November are possibilities.

Within China we have added some old economy exposure via cement and steel stocks as it is likely that Chinese policy makers will use fiscal stimulus and infrastructure build as policy tools if the trade war starts to have a material impact on growth. We have also reduced our exposure to the technology supply chain in the event that

Key Facts

| | |
|--|----------------|
| Listing Date | September 2015 |
| NTA (before tax) | \$1.1377 |
| NTA Fully Diluted (before tax [*]) | \$1.0885 |
| NTA (after realised tax [^]) | \$1.0957 |
| NTA (after tax ^{**}) | \$1.1033 |
| Share Price at 31/9/2018 | \$1.055 |
| EAI Market Capitalisation | \$115.5m |
| Average Management Fee | 0.84% |
| Performance Fee | 15% |
| Option Price (ASX:EAIO) | \$0.037 |
| Exercise price | \$1.00 |

* NTA Fully Diluted (before tax) – Calculated as if all of the remaining 2019 options had been exercised by the end of the month.

[^] NTA after realised tax - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

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there is escalation under Section 301 and the allegations of Chinese cyberespionage (i.e. Super Microchip hack) lead to retaliation against Chinese tech.

In terms of country performance, India was the biggest drag on both absolute and relative performance in September while Singapore was the largest positive contributor. In terms of stock performance, Ping An, Moutai and China Merchants Bank were the largest contributors to alpha generation while the decision not to own YES Bank was also a major contributor. The largest detractors from performance in September were Maruti Suzuki, Sino Biopharm and Anta. We no longer hold Sino Biopharm.

Major changes to the portfolio during the month were the decision to pair back India exposure, and therefore exposure to the weakening INR. To offset this, we added exposure to ASEAN, primarily the Singapore banks and Thailand.

On other matters, please note that option expiry is coming up in February 2019. You should have received a letter from LINK Services outlining the process and your options. If you have any questions, please feel free to contact us at investorrelations@ellerstoncapital.com.

And finally, the EAI Annual Roadshow is coming up on October 30 (Brisbane), October 31 (Melbourne) and November 1 (Sydney). We look forward to seeing you there.

Kind regards,



Mary Manning
Portfolio Manager

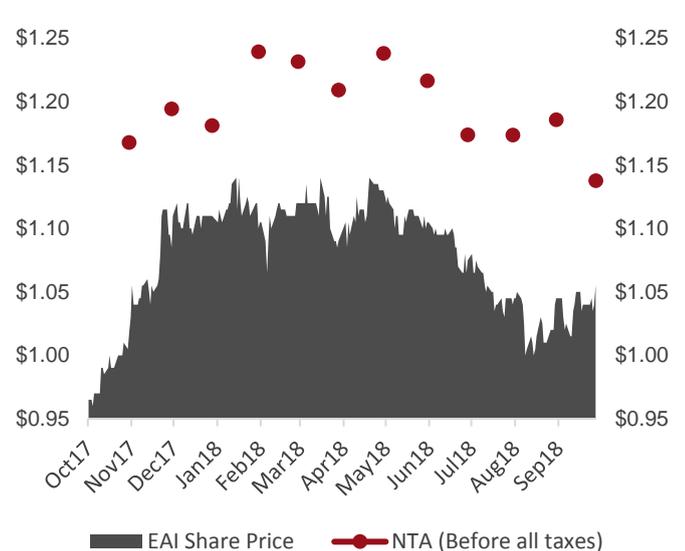
PORTFOLIO CHARACTERISTICS

ELLERSTON ASIAN INVESTMENTS TOP HOLDINGS

| Top 10 holdings | % |
|-------------------------|-----|
| TENCENT HOLDINGS | 7.4 |
| PING AN INSURANCE GROUP | 6.7 |
| ALIBABA GROUP HOLDING | 5.9 |
| TSMC | 5.8 |
| SAMSUNG ELECTRONICS | 5.3 |
| DBS GROUP HOLDINGS | 4.2 |
| CHINA CONSTRUCTION BANK | 4.1 |
| HONG KONG EXCHANGES | 4.0 |
| CHINA MERCHANTS BANK | 3.4 |
| ICICI BANK LIMITED | 3.1 |

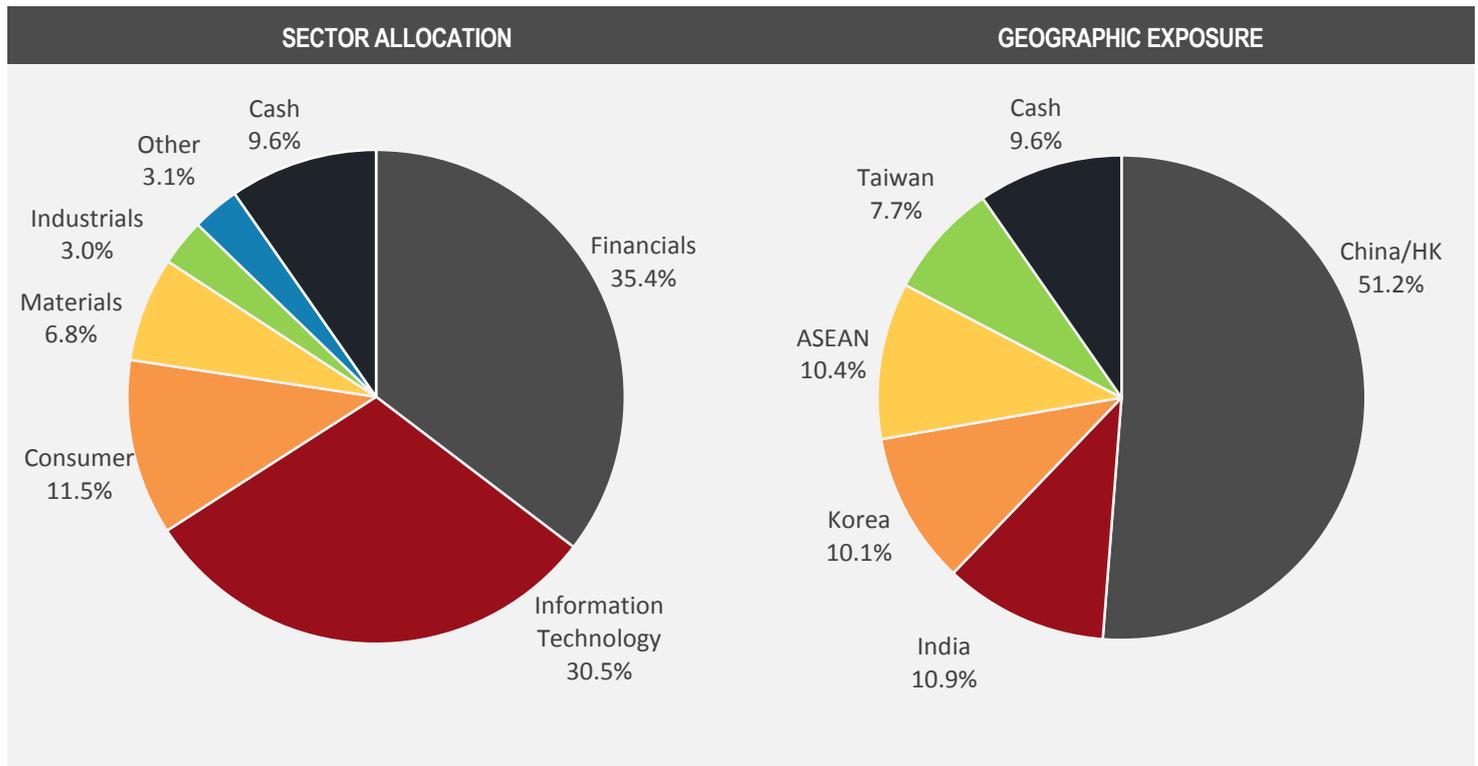
Source: Ellerston Capital

EAI SHARE PRICE VS NTA (Before Tax)



Source: Ellerston Capital

SECTOR & GEOGRAPHIC ALLOCATIONS



Source: Ellerston Capital

For further information, please contact:

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