

# ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

13<sup>th</sup> November 2018

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

## MONTHLY NTA STATEMENT – OCTOBER 2018

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 31 October 2018:

NTA per share	31 October 2018
NTA before tax	\$1.0376
NTA after realised tax *	\$0.9958
NTA after tax ^	\$1.0308

The NTA is based on fully paid share capital of 109,678,707

\* **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 14,824,262 shares had been bought back.

**The company's gross performance before tax for the month was -8.69%.**

**Option Conversion** - During the month, 141,674 options were exercised and converted to shares which diluted the NTA before tax by **\$0.0002** per share.

**Options** - If all of the remaining 2019 options had been exercised by 31 October 2018, the fully diluted NTA before tax would have been **\$1.0242** 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](mailto:EAI@linkmarketservices.com.au).

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# Ellerston Asian Investments Limited (ASX: EAI)

Performance Report | October 18

## PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since Inception (p.a)
GROSS	-8.69%	-10.47%	-14.23%	-8.21%	2.50%	3.99%
NET <sup>^</sup>	-8.78%	-10.75%	-14.74%	-9.27%	1.30%	2.78%
BENCHMARK*	-9.03%	-9.19%	-13.72%	-8.70%	4.08%	5.86%

Source: Ellerston Capital

<sup>^</sup>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

October was a very difficult month for equity markets globally. The MSCI World Index was down 7.5% and the MSCI Emerging Markets Index was down almost 9%. Closer to home, the ASX 200 dropped 6% during October and the Australian Small Ords Index was down by almost 10%. Ellerston Asian Investments (EAI) was down 8.69% (gross) during the month, outperforming the benchmark which was down 9.03%. The NTA as of October 31 was \$1.0376 and the fully diluted pre-tax NTA was \$1.0242, versus the month end EAI stock price of \$0.96.

In Asia, the worst performing markets were Korea and Taiwan which were down 13.4% and 10.1%, respectively. Some of the ASEAN markets were the best performers with Indonesia and Philippines down only 2.4% and 1.9%, respectively.

India also outperformed regional and global markets down less than 5% during the month. Oil prices fell significantly during the month with WTI reducing from \$73 at the end of September to approximately \$65 currently. This is a positive for the Indian market as the high oil price was weighing on the outlook for the current account and the Indian Rupee.

At a country level, the largest contributors to alpha were our underweight positions in Korea and Taiwan while China was the largest detractor. At a stock level, the largest contributor to alpha was ICICI Bank in India and the largest detractor was Moutai in China.

ICICI was up 16% during the month, bucking the trend of the overall market. ICICI posted very strong quarterly results which showed that non-performing loan (NPL) formation is improving. This is part of our thesis for holding the stock. Moutai reported poor 3Q results with slower top line growth than expected and some supply side issues. We have since sold our Moutai position and rotated into its main competitor, Wuliangye Yibin, which has similarly attractive characteristics but less near term earnings risk.

Given the sharp correction in markets globally during October, many investors are now questioning where markets go from here. Those of you who attended our recent roadshow will know that we have done a lot of analysis on previous corrections and subsequent Asian market performance. We looked at the Asian Crisis (1997-1998), Tech Wreck (2000-2001), SARS (2003), the GFC (2008-2009), Taper Tantrum (2013) and RMB Devaluation (2015-2016).

We found that these corrections fall into 2 buckets: the large, long corrections (Asian Crisis, Tech Wreck and GFC) which typically last 18 months or longer and markets sell off 50% or more; and the smaller, shorter corrections (SARS, Taper Tantrum and RMB Devaluation) which typically last less than 6 months and markets fall only around 20% on average. Asian markets are now down over 20% from their January peak and markets have been correcting for over 9 months.

## Key Facts

<b>Listing Date</b>	September 2015
<b>NTA (before tax)</b>	\$1.0376
<b>NTA Fully Diluted (before tax<sup>*</sup>)</b>	\$1.0242
<b>NTA (after realised tax<sup>^</sup>)</b>	\$0.9958
<b>NTA (after tax<sup>**</sup>)</b>	\$1.0308
<b>Share Price at 31/10/2018</b>	\$0.96
<b>EAI Market Capitalisation</b>	\$105.3m
<b>Average Management Fee</b>	0.84%
<b>Performance Fee</b>	15%
<b>Option Price (ASX:EAIO)</b>	\$0.011
<b>Exercise price</b>	\$1.00

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

<sup>^</sup> NTA after realised tax - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

<sup>\*\*</sup> NTA after tax - Includes any tax on unrealised gains and deferred tax.

Our view is that the current correction is not the start of another GFC or Asian Crisis. The duration and magnitude of the current correction, in addition to the valuation levels, suggest that a very attractive buying opportunity is emerging in Asian equities. Furthermore, the analysis of previous corrections shows that once Asian markets bottom, the rebound is very sharp. On average in the 6 corrections mentioned above, Asian markets were up 54% over the following year. Given this outlook, we have increased our exposure to China (Alibaba and Baidu) and the Singapore banks.

Looking forward, we see a few important catalysts on the horizon. Most importantly, there is the G20 meeting at the end of November where Presidents Xi and Trump are scheduled to meet. We think it is unlikely that a trade resolution will be hammered out in one meeting, but in principle agreement on the outstanding trade issues (IP, deficit) and a perceived de-escalation of trade tensions could provide a sentiment boost, particularly for China.

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](mailto:investorrelations@ellerstoncapital.com). Given market volatility we understand that many investors want to wait until closer to the expiry date to make a decision about options. As such, we will be in touch again in early February with an option update.

And finally, thank you to everyone who attended the EAI Annual Roadshow. We had record attendance this year and look forward to keeping in touch with you until next year.

Kind regards,



Mary Manning  
Portfolio Manager

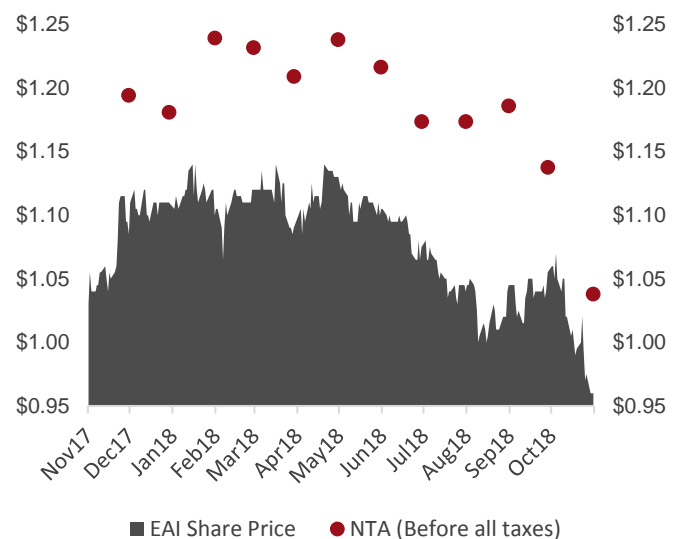
## PORTFOLIO CHARACTERISTICS

### ELLERSTON ASIAN INVESTMENTS TOP HOLDINGS

Top 10 holdings	%
PING AN INSURANCE GROUP	6.9
TENCENT HOLDINGS	6.8
ALIBABA GROUP HOLDING	6.1
TSMC	5.7
SAMSUNG ELECTRONICS	5.2
DBS GROUP HOLDINGS	4.1
CHINA CONSTRUCTION BANK	4.1
HONG KONG EXCHANGES	4.1
ICICI BANK LIMITED	4.0
CHINA MERCHANTS BANK	3.6

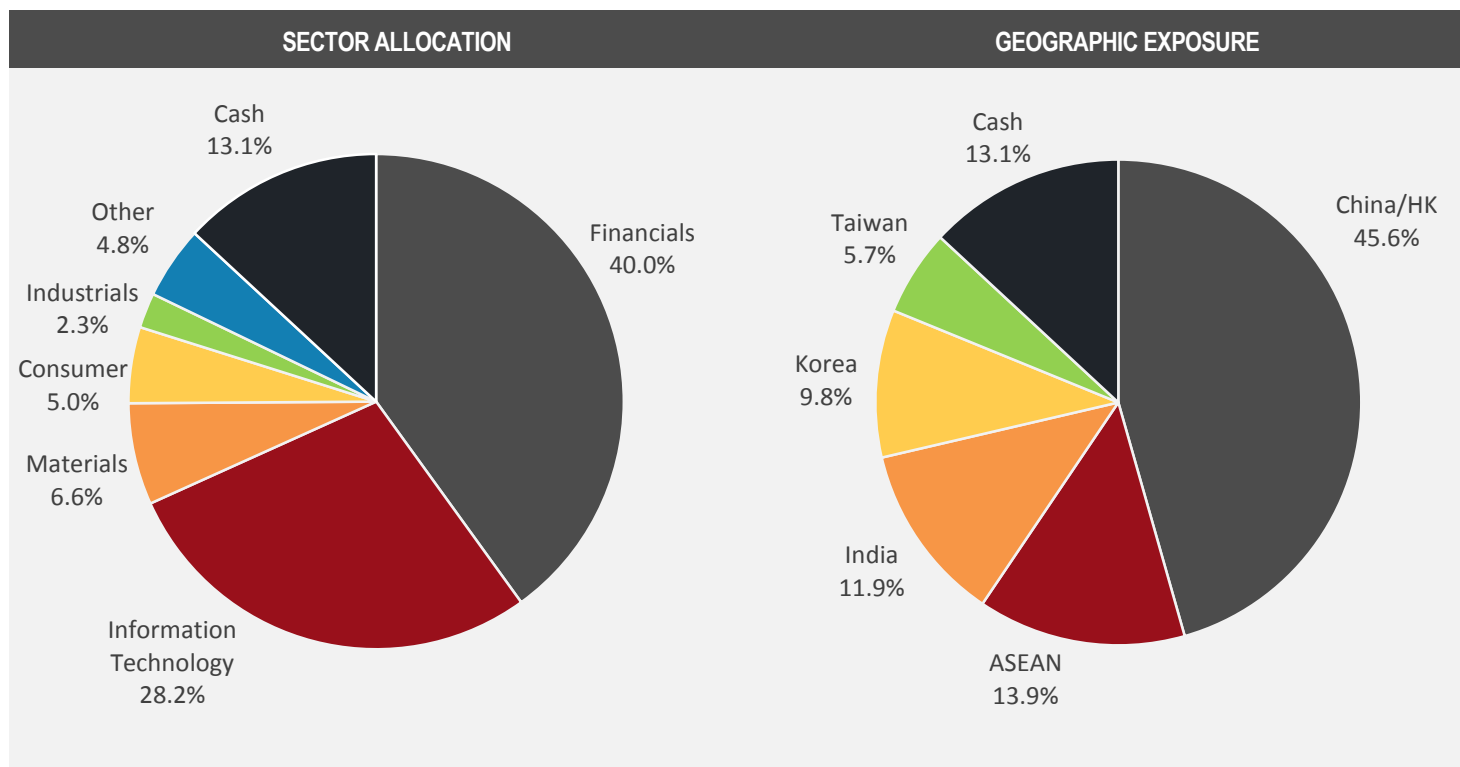
Source: Ellerston Capital

### EAI SHARE PRICE VS NTA (Before Tax)



Source: Ellerston Capital

## SECTOR & GEOGRAPHIC ALLOCATIONS



Source: Ellerston Capital

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