

# ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

10<sup>th</sup> January 2019

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

## MONTHLY NTA STATEMENT – DECEMBER 2018

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

NTA per share	31 December 2018
NTA before tax	\$1.0605
NTA after realised tax *	\$1.0188
NTA after tax ^	\$1.0475

The NTA is based on fully paid share capital of 109,691,039

\* **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 12 2018, EAI announced a new on-market buy-back of up to 10% of its shares, commencing September 26 2018 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 -0.49%.**

**Option Conversion** - During the month, 9,999 options were exercised and converted to shares which diluted the NTA before tax by **\$0.00** per share.

**Options** - If all of the remaining 2019 options had been exercised by the end of the month, the fully diluted NTA before tax would have been **\$1.0390** 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 | December 18

## PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since Inception (p.a)
GROSS	-0.49%	-6.48%	-7.70%	-7.30%	4.86%	4.54%
NET <sup>^</sup>	-0.59%	-6.76%	-8.27%	-8.39%	3.71%	3.31%
BENCHMARK*	0.69%	-6.43%	-6.86%	-7.09%	7.24%	6.46%

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

Asian markets grinded lower for most of 2018 with the Shanghai Composite falling approximately 25% and all other markets finishing in the red except India. Ellerston Asian Investments (EAI) finished the year down 7.30% gross versus our benchmark which was down 7.09%. In December, the fund was down 0.49% gross while the benchmark was up 0.69%.

Asian markets peaked in January 2018 and have been correcting for almost 12 months. Given both the magnitude and duration of this correction, we believe an attractive long term buying opportunity is emerging. Valuations at very compelling levels with the Hang Seng China Enterprise Index (HSCEI) at less than 8x PE and MSCI Asia ex Japan at less than 12x PE.

There are two important catalysts that could lead to a market reversal in 2019. The most important upcoming catalyst is a potential resolution in the US-Sino trade war. For over a year now we have highlighted 3 possible scenarios in the trade war: tit for tat escalation, a negotiated outcome and extreme retaliation. Tit for tat escalation played out in 2018 with the US and China imposing various tariffs and counter tariffs on an increasing amount of traded goods. However, the meeting between Trump and Xi at the G20 in November has moved the scenario analysis firmly towards a negotiated outcome.

At the G20, Trump and Xi agreed to hold off on imposing new tariffs for a period of 90 days. The Chinese seem very committed to getting a deal done given the notable stress in the domestic economy and with US markets wobbling and the Democrats controlling the House, Trump appears more amenable to reaching an agreement as well.

A negotiated outcome would be a strong positive for Asian markets, particularly China and technology supply chain stocks. Many stock babies have been thrown out of the trade war bath water and we see a good buying opportunities emerging in select stocks/sectors.

Another potential catalyst for markets in 2019 is a more dovish Fed and a subsequent depreciation of the USD. Emerging markets as an asset class typically underperforms during periods of rising US interest rates and an appreciating USD. Specifically, countries with large current account deficits that rely too much on foreign inflows to fund their growth (i.e. the "Fragile 5") are vulnerable to correction in these conditions. Indeed this occurred in 2018 with EM Indices falling sharply as the USD appreciated.

In Asia, we were zero weight in current account deficit countries like Indonesia and the Philippines for most of 2018. However, financial conditions in the US have tightened considerably and with recent comments by Chairman Powell, US rates are "just below" neutral which suggests that the path of Fed tightening in 2019 could be slower than previously expected. This is being labelled as the "Powell Pause" and the combination of a Powell Pause and a thaw in trade war relations would be very positive for flows back into Emerging Markets. We have recently removed our zero weights and bought stocks in Indonesia and the Philippines to position for this outcome.

## Key Facts

Listing Date	September 2015
NTA (before tax)	\$1.0605
NTA Fully Diluted (before tax*)	\$1.0309
NTA (after realised tax <sup>^</sup> )	\$1.0188
NTA (after tax <sup>**</sup> )	\$1.0475
Share Price at 31/12/2018	\$0.995
EAI Market Capitalisation	\$109.1m
Average Management Fee	0.84%
Performance Fee	15%
Option Price (ASX:EAIO)	\$0.007
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.

<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.

During December, the best performing stocks in absolute terms were Hindustan Unilever and ICICI in India and AIA Group in Hong Kong. Some of the largest contributors to alpha during the month were our position in ICICI Bank and not owning SK Hynix. The biggest detractors from alpha were overweight positions in Ping An and Baidu

As stated above, after the 2018 sell off, valuations in Asia are compelling and we have started to add selectively to Chinese internet stocks such as Alibaba and Baidu and increase allocations in ASEAN stocks. We continue to like the long term investment story in India and it remains one of the fund's biggest country overweights. Cash was approximately 8% as of December 31, 2018.

Finally, a reminder to investors that option expiry is coming up in February. You will receive another letter from LINK Services outlining the details of expiry and exercise. Note that the exercise price is \$1.00 and the pre-tax fully diluted NTA as of the end of December was \$1.0309. If you have any questions about option expiry, please feel free to contact us at [investorrelations@ellerstoncapital.com](mailto:investorrelations@ellerstoncapital.com).

Kind regards,



Mary Manning  
Portfolio Manager

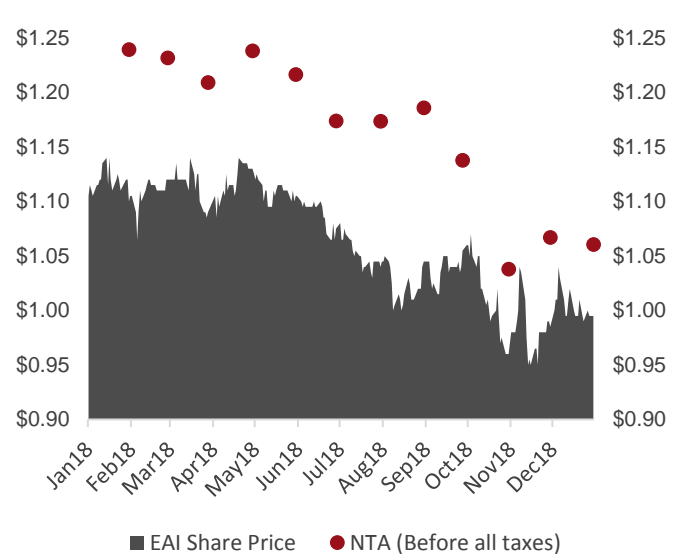
## PORTFOLIO CHARACTERISTICS

### ELLERSTON ASIAN INVESTMENTS TOP HOLDINGS

Top 10 holdings	%
TENCENT HOLDINGS	9.8
PING AN INSURANCE GROUP	6.4
HONG KONG EXCHANGES & CLEARING	5.2
ALIBABA GROUP HOLDING	5.1
CHINA CONSTRUCTION BANK	4.2
ICICI BANK LIMITED	4.2
DBS GROUP HOLDINGS	4.2
TSMC	4.2
OCBC BANK	4.0
SAMSUNG ELECTRONICS	3.8

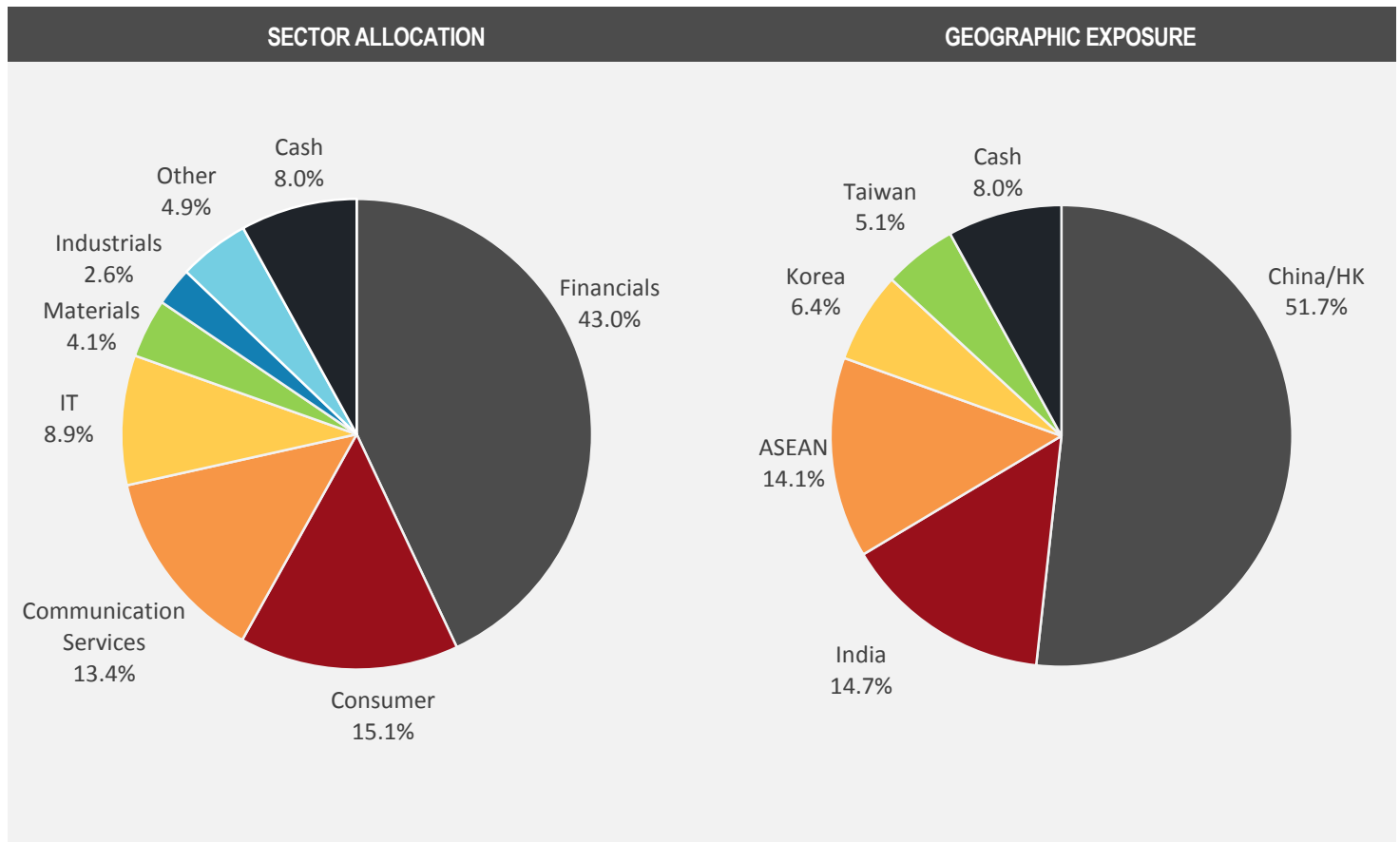
Source: Ellerston Capital

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



Source: Ellerston Capital

## SECTOR & GEOGRAPHIC ALLOCATIONS



Source: Ellerston Capital

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