

ELLERSTON ASIAN  
INVESTMENTS LIMITED  
ACN 606 683 729

14 October 2019

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

**MONTHLY NTA STATEMENT - September 2019**

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the Company as at 30 September 2019 is:

<b>NTA per Share</b>	<b>30 September 2019</b>
NTA before tax	\$1.1076
NTA after realised tax *	\$1.1076
NTA after tax ^	\$1.0973

These figures are unaudited and indicative only  
The NTA is based on fully paid share capital of 141,250,797.

\* 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 9 September 2019, EAI announced a renewal of its on-market buy-back of up to 10% of its shares, commencing 26 September 2019 and continuing for twelve months. Since 26 September 2019 a total of 85,800 shares had been bought back.

The company's net performance before tax for the month was 1.17%.



Ian Kelly  
Company Secretary

**Contact Details**

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 | September 19

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net <sup>^</sup>	1.17%	0.07%	1.37%	6.22%	7.49%	6.03%
Benchmark*	1.33%	-1.51%	-1.93%	1.13%	8.36%	7.26%
Alpha	-0.16%	1.58%	3.30%	5.09%	-0.87%	-1.23%

Source: Ellerston Capital

<sup>^</sup> 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)

## PORTFOLIO COMMENTARY

Ellerston Asian Investments (EAI) was up 1.17% during the month of September performing roughly in line with the benchmark (gross). Calendar year to date in 2019, the fund is up 14.86% and has outperformed the benchmark by 8.08% (gross). The NTA as at September 30, 2019 was \$1.1076.

There were 3 main factors that drove returns in September: (1) the trade negotiations; (2) Hong Kong protests; and (3) corporate tax cuts in India.

On the trade negotiations, the 13th round of talks between China and the US took place in early October in the US. These meetings resulted in a "Phase 1" agreement whereby China will increase agricultural purchases and in return, the US will delay the application of new tariffs. Presidents Trump and Xi are slated to meet at the APEC Summit in Chile in November where a more meaningful deal could be tabled and signed.

In Hong Kong, Carrie Lam's concession to protestors on the formal withdrawal of the extradition bill has done little to quell the protests. While the absolute number of protestors has reduced, the violence of the protests and the severity of the police response has actually increased. We remain underweight Hong Kong and have further reduced our AIA position as the economic impacts of the protests continue to weigh on the outlook for stock.

September was a tale of two halves for India. The first half of the month was characterized by a very weak GDP print (only 5% growth) and concerns that the drone attack on Saudi Arabia would lead to higher oil prices (a negative for India). The NIFTY50 Index sold off almost 4% in AUD terms between the end of August and September 17<sup>th</sup>. Foreigners sold, locals moved to cash and some hedge funds shorted the Indian market on the higher oil price thematic.

The second half of the month however, was very different. On September 20<sup>th</sup>, Finance Minister Nirmala Sitharaman cut corporate taxes in India from over 30% to 22% which drove the NIFTY up 5.3% in one day - the biggest move in 10 years. This was primarily short squeeze but was followed by another 2% move higher the following trading day as long only money flowed into tax cut beneficiaries.

There were a few reasons for this sharp positive reaction. First of all, mathematically the tax cut results in positive EPS revisions for FY20 as tax change takes effect in the current financial year. Secondly, the tax cut is positive for India's ability to attract foreign investment as Indian corporate tax rate is now among the lowest in Asia (only HK, Singapore and Thailand are lower). Thirdly, the policy move also sent a strong signal that the government will not tolerate 5% GDP growth. And finally, the tax change increased expectations that Reserve Bank of India (RBI) will follow suit with more rate cuts so there is co-ordinated loosening. This indeed occurred with the RBI cutting rates by 25bps in early October.

While the positive market reaction boosted both absolute and relative returns in September, our view is that the tax cut is actually a very poor economic policy. The macro economic slowdown in India is primarily demand driven, and cutting corporate taxes will not directly boost demand unless companies pass the tax cut along in the form of lower prices (unlikely). Note there was no reduction in the personal tax rate or other measures that would boost consumer confidence or consumer spending.

Secondly, the policy reduces tax revenues at a time when GST collection is still behind expectations giving rise to concerns about the re-emergence of the twin deficits problem that has plagued India in the past. Tax changes are expected to increase the fiscal deficit from 3.3% of GDP to ~4%. This is disappointing because the fiscal deficit has blown out with no new jobs created or infrastructure built. If the government wants to do additional fiscal stimulus, the deficit will be at unacceptably high levels.

In sum, while we welcome the government's desire to do something to address the macro slowdown, we are concerned that fiscal policy based on corporate tax cuts will not be sufficiently stimulative to return India to the 7%+ growth trajectory in the near term. We have reduced our India overweight until the macroeconomic situation improves and there is more earnings certainty for domestic demand driven stocks.

### Key Facts

<b>Listing Date</b>	4 September 2015
<b>NTA (before tax)*</b>	\$1.1076
<b>NTA (after realised tax)<sup>^</sup></b>	\$1.1076
<b>NTA (after tax)**</b>	\$1.0973
<b>Share Price at 30/09/19</b>	0.93
<b>EAI Market Capitalisation</b>	\$131.4 Million
<b>Average Management Fee</b>	0.83%
<b>Performance Fee</b>	15%

\* NTA (before tax) – Includes taxes that have been paid.

<sup>^</sup> 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.

With respect to performance, Samsung Electronics and Larsen & Toubro were the largest contributors to alpha in September while Hong Kong Exchange was the largest detractor. Hong Kong Exchange made a bid for the London Stock Exchange (LSE) during September which caused the stock to sell off sharply. The bid was rebuffed by the LSE and the transaction has been abandoned. Cash at the end of September was 13.2%.

As always, if you have any questions regarding any aspect of EAI or the portfolio, please feel free to contact us at [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com).

Kind regards,

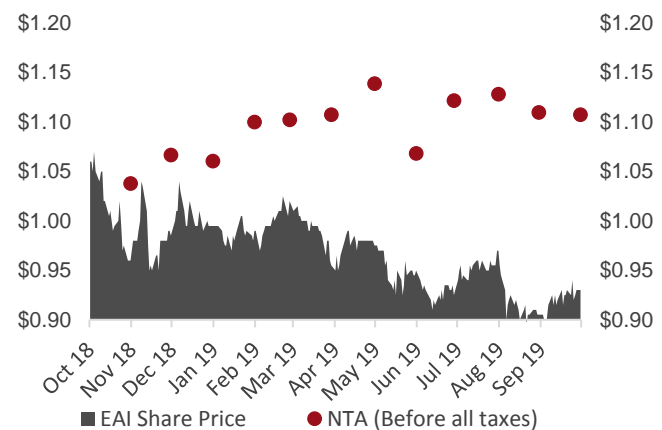
Mary Manning - Portfolio Manager

## PORTFOLIO CHARACTERISTICS

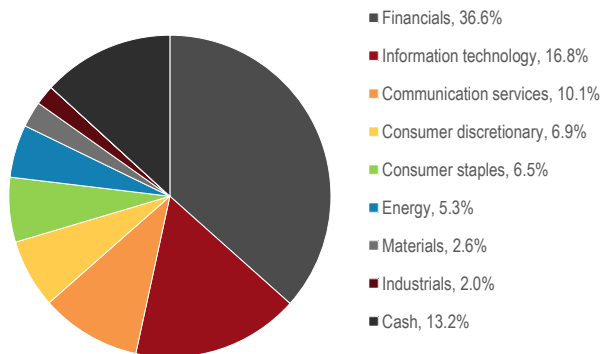
### HOLDINGS

Top 10 holdings	%
Tencent Holdings Ltd	8.9%
TSMC	6.8%
Samsung Electronics	6.7%
Alibaba Group Holding Ltd	6.0%
Ping An Insurance	5.2%
China Construction Bank Corp	5.1%
ICICI Bank Limited	4.5%
DBS Group Holdings Ltd	4.0%
Hong Kong Exchanges & Clearing Ltd	3.7%
CNOOC Limited	3.1%

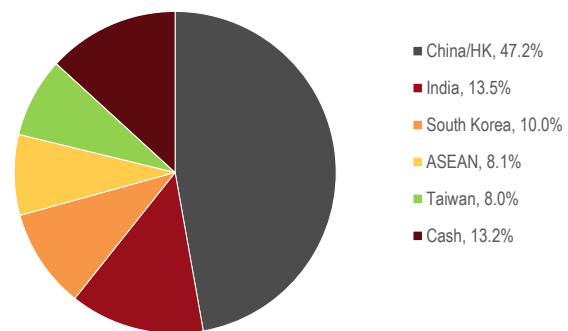
### EAI SHARE PRICE VS NTA



### SECTOR ALLOCATION



### GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

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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