

14 November 2019

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

MONTHLY NTA STATEMENT - October 2019

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the Company as at 31 October 2019 is:

NTA per Share	31 October 2019
NTA before tax	\$1.1356
NTA after realised tax *	\$1.1356
NTA after tax ^	\$1.1179

These figures are unaudited and indicative only
The NTA is based on fully paid share capital of 140,433,914.

* 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 27 September 2019 continuing for twelve months. Since 27 September 2019 a total of 1,012,805 shares had been bought back.

The company's gross performance before tax for the month was 2.53%.



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

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Ellerston Asian Investments Limited (ASX:EAI)

Performance Report | October 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	CYTD	Since Inception (p.a.)
Net [^]	2.53%	2.02%	1.07%	19.39%	16.81%	6.54%
Benchmark*	2.29%	1.15%	-2.41%	13.71%	10.56%	7.70%
Alpha	0.24%	0.87%	3.48%	5.68%	6.25%	-1.16%

Source: Ellerston Capital

[^] 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) showed strong performance in October. EAI was up 2.53% during the month outperforming the benchmark by 24 bps. Calendar year to date in 2019, the Fund is up 16.81% and has outperformed the benchmark by 6.25%. The pre-tax NTA as at October 31, 2019 was \$1.1356. The most recent weekly pre-tax NTA (November 8) is estimated at \$1.1728.

On the trade war, since mid-2019 we have had the view that a partial trade deal will be reached before Christmas. In August, I presented on a panel at the Portfolio Construction Conference where this positive perspective was definitely the minority view. However, in the last few months this view has become consensus and markets have rallied in anticipation of an agreement between Presidents Trump and Xi. Phase 1 of the trade deal could take one of two forms:

(1) Limited Deal: China commits to higher agricultural purchases and the US agrees not to impose the tranche of tariffs slated to take effect on December 15th. This outcome is largely already priced into Asian markets.

(2) Roll Back Deal: This scenario consists of the limited deal described above plus commitments from China to open up protected sectors of the economy, crack down on opioids and keep its currency relatively stable. In return, the US would agree to roll back some of the tariffs that are already in place – most likely the September tranche. This outcome is not fully priced in and would therefore be a positive for Asian markets.

Notably, we do not put a high probability on an immediate transition to negotiations on Phase 2 of a trade deal. Phase 2 would consist of a comprehensive deal that addresses core issues like IP protection, forced technology transfer and Chinese subsidies to state owned firms. These are non-negotiables as far as China is concerned and a win from Phase 1 may be enough to help Trump with farmers in key states. Therefore, while both sides are highly incentivized to get Phase 1 signed, neither side is highly incentivized to make Phase 2 happen quickly.

The other critical issue in Asia at the moment is the Hong Kong protests. In early November, protests escalated dangerously with a protestor being shot and in critical condition. Carrie Lam gave an address urging calm but did not provide any concrete steps to de-escalate tensions. We remain very underweight Hong Kong as a market. Unlike the trade war situation, where there is a clear path to resolution if both sides can agree and negotiate, we do not see any such path in the Hong Kong situation. The best case outcome is that protesters tire and the protests peter out similar to what happened with Occupy Central. However, given the recent violence, this scenario appears increasingly unlikely.

In technology, Deputy Portfolio Manager Fredy Hoh travelled to Korea and Taiwan and came away with the distinct impression that 5G has moved from being a long term thematic to an actual earnings driver in 2020. We see 5G impacting a number of different subsectors in Asia: infrastructure and testing, telecom providers, smartphones, and supply chain. Companies in the EAI portfolio that benefit from the transition to 5G include TSMC, Samsung, Hynix, King Yuan, Mediatek and Largan.

With respect to performance during October, India was the largest contributor to alpha from a country perspective while Financials was the largest sector contributor. In terms of stock performance, China Life Insurance and ICICI Bank were the largest contributors to alpha, while Tencent was the largest detractor.

Tencent is the biggest position in EAI at approximately 8.3%. Since May 2018, the stock has been range bound between \$320 and \$380. This is disappointing for a stock that has over 20% annual EPS growth. Our detailed fundamental analysis and due diligence on the ground suggests that Tencent has been a victim of flows: passive EM flows are minimal (Tencent is the largest weight in MSCI Emerging Markets), investors are switching from Tencent to Meituan (the latter of which is now profitable and meets the investment criteria of more managers) and Alibaba and JD continue to post very strong results in e-commerce. However, the fundamental outlook for Tencent remains strong and given its underperformance, valuation is now very attractive. Tencent is trading at 24x 2020 PE, which is more than 1 standard deviation below its long term average. We remain overweight Tencent.

Key Facts

Listing Date	4 September 2015
NTA (before tax)*	\$1.1356
NTA (after realised tax) [^]	\$1.1356
NTA (after tax)**	\$1.1179
Share Price at 31/10/19	0.98
EAI Market Capitalisation	\$137.6 Million
Average Management Fee	0.82%
Performance Fee	15%

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

[^] 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.

Cash at the end of October was 3.4%.

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.

Kind regards,

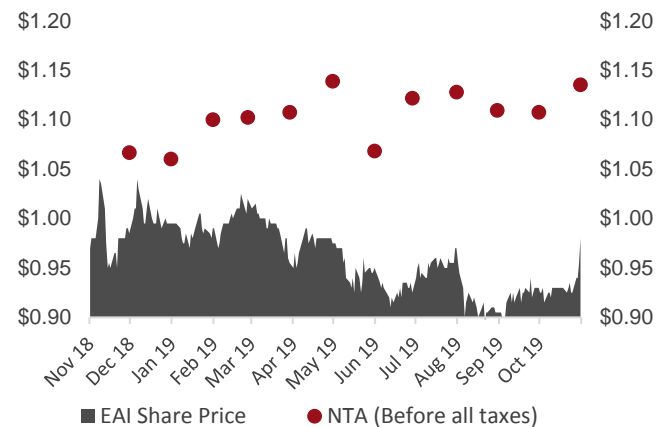
Mary Manning - Portfolio Manager

PORTFOLIO CHARACTERISTICS

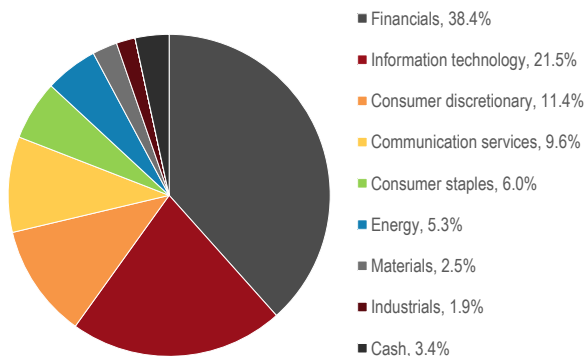
HOLDINGS

Top 10 holdings	%
Tencent Holdings Ltd	8.3%
TSMC	8.1%
Samsung Electronics	8.0%
Alibaba Group Holding Ltd	7.7%
China Construction Bank Corp	5.2%
Ping An Insurance	5.1%
ICICI Bank Limited	4.6%
China Life Insurance Co. Ltd.	4.3%
DBS Group Holdings Ltd	4.1%
Hong Kong Exchanges & Clearing Ltd	3.8%

EAI SHARE PRICE VS NTA

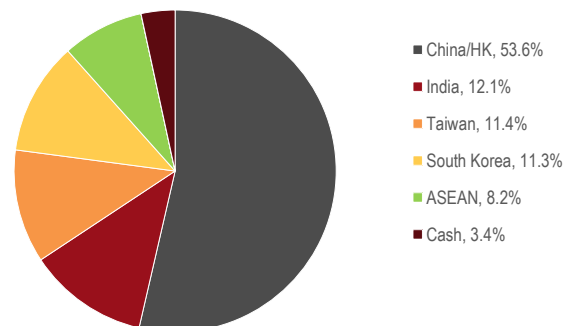


SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC ALLOCATION



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