ELLERSTON ASIAN
INVESTMENTS LIMITED
ACN 606 683 729

11 November 2020

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

MONTHLY NTA STATEMENT - October 2020

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA)** per share of the Company as at 31 October 2020 is:

NTA per Share	31 October 2020
NTA before tax	$1.2800
NTA after realised tax *	$1.2683
NTA after tax ^	$1.2268

These figures are unaudited and indicative only
The NTA is based on fully paid share capitial of 131,862,196.

* 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 11 September 2020, EAI announced a renewal of its on-market buy-back of up to 10% of its shares, commencing 27 September 2020 and continuing for twelve months. Since 27 September 2020 a total of 7,500 had been bought back.

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 7701.
All holding enquiries should be directed to our share registrar, Link Market Services on 1300 551 627 or EAI@linkmarketservices.com.au.

ELLERSTON CAPITAL

Ellerston Asian Investments Limited (ASX:EAI)

Performance Report | October 2020

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net^	5.18%	7.71%	15.69%	17.40%	8.33%	8.56%
Benchmark*	4.88%	6.68%	11.88%	11.27%	4.93%	8.38%
Alpha	0.30%	1.03%	3.81%	6.13%	3.40%	0.18%

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)

Key Facts

Listing Date	4 September 2015
NTA (before tax)*	$1.2800
NTA (after realised tax)^	$1.2683
NTA (after tax)**	$1.2268
Share Price at 31/10/20	1.16
EAI Market Capitalisation	$153 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.

PORTFOLIO COMMENTARY

Ellerston Asian Investments (EAI) was up 5.18% (net) during October versus the benchmark which was up 4.88%. Year to date in calendar 2020, EAI is up 10.51% and has outperformed the benchmark by 4.03% (net).

Ellerston Asian Investments aims is to have a sustainable dividend policy based on multiple years of profit reserves. On October 2, EAI paid a final dividend of 2.5 cents per share fully franked. This was an increase of 67% on the interim dividend. As at the end of October EAI had franking credits and a current year tax liability combined of approximately 9.4 cents per share.

MARKET OUTLOOK

Even though this is the October monthly newsletter, the most relevant events for global and Asian markets occurred in early November. These events include the US election, the cancellation of the Ant Group IPO and the announcement of the Pfizer/BioNTech vaccine results.

The US Election

In our September webinar we outlined 4 possible outcomes for the US election: Red Sweep, Blue Sweep, mixed outcome and disputed election. The market reaction to the mixed outcome, where Biden is President and Democrats control the house but likely not the Senate, was strongly positive. Investors appeared to take the view that this is a "Goldilocks" outcome where Trump is out but Republican tax breaks and deregulation measures remain intact and there is a check on the level of fiscal spending and adoption of far left policies that may have been passed under a Blue Sweep scenario.

From an Asia perspective, clearly Biden is a more rational and predictable President who will take a more multi-lateral approach to China. This departure from Trump's irrational Twitter diplomacy is a welcome change for Asian investors, even if the undercurrent of anti-China sentiment remains in American politics. Stocks that had been targeted by Trump either by trade tariffs, Entity List inclusion or Executive Order bans rallied as election results came out.

Ellerston Asia continues to have a large position in Tencent and Trump losing the election significantly reduces the risk of the WeChat ban being enforced and/or it being extended to other assets. Indeed, only days after Trump lost the election, Bytedance asked the US courts to intervene to stop the forced sale implemented by Trump.

Another main feature of a Biden presidency is the expectation of a lower USD which is typically a strong positive for flows into Emerging Markets. We had already expected large cap EM stocks to outperform in the coming 12-18 months due to valuation differentials, policy optionality and superior COVID recovery and a weak USD provides an additional tailwind.

Ant Group IPO

Ant Group was expected to be the biggest IPO of all time. Investor education sessions and the global road show took place on schedule, the deal was priced (very reasonably) and allocations were made and communicated to investors. The deal was massively oversubscribed by both retail and wholesale investors.

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Then 2 days before the listing was to occur, the IPO was abruptly suspended as regulators issued new rules for fintech companies in China and claimed that Ant Group did not comply. Of course the timing of these new regulations is extremely suspicious as the deal was approved in August and the China Banking and Insurance Regulatory Commission (CBIRC) has had years to impose regulations on Ant if it had found its practices substandard.

There are many theories as to why the Ant IPO was pulled at the last minute, none of which are a compelling explanation alone, but in combination they do provide some colour. The first is that the Chinese government became worried that Trump was going to win a second term and pulled the IPO because Trump had recently made comments about banning Alipay, Ant Group's popular payment app. They didn't want another Bytedance/WeChat on their hands especially not for a company that had only been listed for days. Frankly, Ant made a mistake in timing the IPO to coincide with the US election in the first place.

A second theory is that this is an attempt to crack down on Jack Ma personally given his extreme wealth and Alibaba's increasingly powerful and potentially systemic position in the Chinese economy. This was exacerbated by a speech Ma gave a few days prior to the listing where he called the traditional Chinese banks "pawn shops" thus attracting the ire of the CBIRC.

And finally, perhaps there is some truth to the regulatory concerns outlined at the last minute. Ant Group is by far the largest fintech company in the world and this move highlights that regulators are unsure of whether to treat these companies as banks or tech companies. This is particularly important for large fintech companies as they do have the ability to pose systemic risk if the non-payment parts of the business are not properly regulated. The main area of regulatory contention in the Ant case is the amount of capital it needs to hold in its CreditTech business.

Regardless of why it was pulled, the cancellation of the Ant IPO was not good for our portfolio. As discussed at the last monthly webinar, not only did we participate in the Ant IPO directly but we had many ancillary trades in the portfolio that would have been beneficiaries of a successful listing. These include: Hong Kong Exchange, Alibaba, Tencent, JD, Hundsun and East Money. As such, the cancellation of the IPO was a double whammy as we did not get the upside from the listing and many of the Ant-proxies traded down sharply on the news.

So where to from here for Ant and Alibaba? It is our expectation that Ant Group will IPO at some point in the future, anywhere from 6-24 months from the original listing date. However, the valuation will certainly be lower than the $300-400b range touted prior to the first listing.

Vaccine News and Resulting Sector Rotation

Adding to the market volatility in early November was the announcement from Pfizer/BioNTech that their mRNA-based vaccine candidate, BNT162b2, was more than 90% effective in preventing COVID-19 in clinical trials. This news lead to one of the most violent factor rotations global markets have ever seen as investors switched from technology stocks and stay-at-home plays to economic recovery plays. The yield on the US 10 Year also rose sharply causing a massive rotation into the under owned financials sector. In the 2 day period between November 9 and 10, there was approximately an 800bps performance differential between the MSCI World Growth Price Index and the MSCI World Value Price Index. Typically a rotation of this magnitude would take place over months or even years, not 2 trading days.

The Ellerston Asia is a growth fund so the speed and magnitude of this factor rotation has been negative for relative performance in November. We had added significantly to financials in the lead up to the US election, and by early November we were approximately 10% overweight financials. However, we remain underweight other value sectors like materials and industrials as many of the companies in these sectors do not meet our growth and/or ESG criteria. As such, the combination of a sharp sell off in Chinese internet stocks due to Ant and coupled with sharp factor rotations made for a challenging start to November from an alpha generation perspective.

On the positive side, we do own a number of pharma companies that are potential beneficiaries, either directly or indirectly, of successful vaccine development. On the direct side, we have invested in Shanghai Fosun Pharma which is BioNTech's Chinese partner for clinical trials and, if successful, distribution of the vaccine in China, Hong Kong and Macau. On the indirect side, we own Indian pharma companies including Sun Pharma, which produces a number of anti-viral COVID treatment drugs, and Dr. Reddy's, which is conducting clinical trials for Russia's Sputnik V vaccine. We also own Trip.com, China's largest online travel agency, as a vaccine related re-opening play.

PERFORMANCE

In October, Hong Kong and Taiwan were the largest country contributors to alpha while our zero weight in Indonesia was the largest detractor. Communication Services was the largest sector contributor to alpha while our underweight position in Health Care was the largest detractor. Tencent and China Merchants Bank were the largest single stock contributors to alpha while not holding EV car company Nio was the largest detractor.

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. We are hosting the AGM on November 24th at 12:30pm AEDT, which you can watch here and we are hosting a "2020 in Review" webinar in December, for which you can register here.

Kind regards,

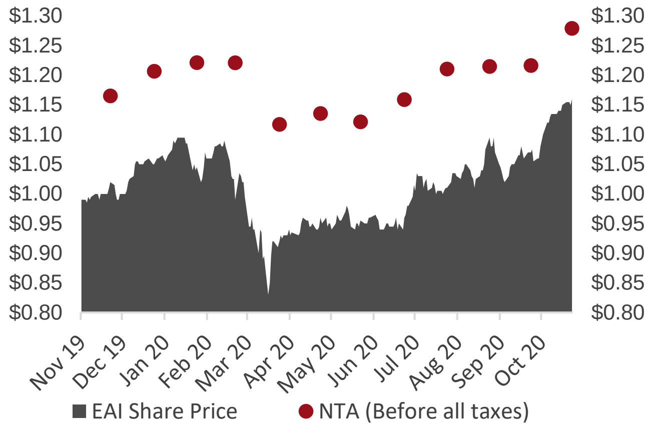
Mary Manning

PORTFOLIO CHARACTERISTICS

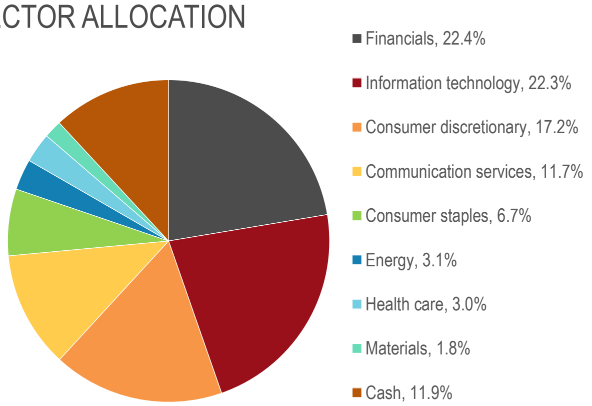
HOLDINGS

Top 10 holdings	%
Alibaba Group Holding Ltd	13.0%
Tencent Holdings Ltd	10.7%
Samsung Electronics	8.9%
TSMC	7.1%
Hong Kong Exchanges & Clearing Ltd	5.9%
Reliance Industries Limited	3.1%
Ping An Insurance	3.0%
DBS Group Holdings Ltd	3.0%
OCBC Ltd	2.9%
China Merchants Bank Co. Ltd	2.9%

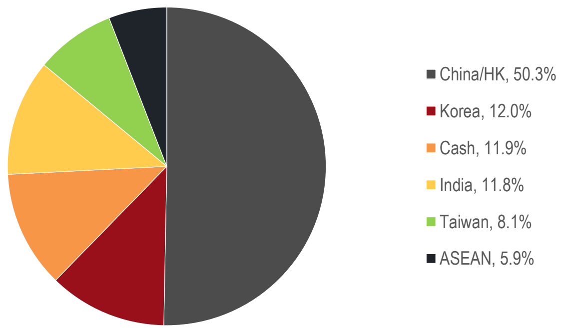
EAI SHARE PRICE VS NTA



SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

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