

ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

15 December 2020

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

MONTHLY NTA STATEMENT - November 2020

Ellerston Asian Investments Limited (**ASX: EAI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the Company as at 30 November 2020 is:

NTA per Share	30 November 2020
NTA before tax	\$1.2806
NTA after realised tax *	\$1.2584
NTA after tax ^	\$1.2273

These figures are unaudited and indicative only
The NTA is based on fully paid share capital of 131,847,196.

* 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 15,000 shares S23had been bought back.

The company's net performance before tax for the month was 5.18%.



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.

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Ellerston Asian Investments Limited (ASX: EAI)

Performance Report | November 2020

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net [^]	0.05%	7.59%	17.25%	14.50%	7.53%	8.43%
Benchmark*	2.91%	9.50%	18.42%	12.22%	5.38%	8.84%
Alpha	-2.87%	-1.91%	-1.17%	2.29%	2.15%	-0.41%

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

November was a difficult month characterised by little movement at the Index level but extreme volatility at the factor, sector and stock level. Ellerston Asian Investments (EAI) was up 0.05% for the month (net) versus the benchmark which was up 2.91%. Calendar year to date in 2020, EAI is up 10.56% and has outperformed the benchmark by 0.98% (net).

Ellerston Asian Investments aim is to have a sustainable dividend policy based on multiple years of profit reserves. As at the end of November EAI's dividend profit reserve was approximately 12.05 cents per share (includes FY21 profits).

MARKET OUTLOOK

The main events that drove markets and EAI's performance in November were the US election, the cancellation of the Ant Group IPO, increased regulatory risk for the Chinese internet sector, the announcement of positive vaccine results and sector/factor/country rotation.

The US Election

Given the timing of the US election, the results were covered in the [October newsletter](#). There have been a few Asia related developments in the final days of the Trump presidency. First of all, the Trump administration has drafted a list of 89 Chinese firms with alleged military ties and intends to restrict them from accessing a range of goods and technologies from the US. This list comes after the US Commerce Department expanded its definition of "military end user" and the list now may include obvious names such as Aviation Industry Corporation of China (AVIC) but some surprising names like CNOOC and SMIC. Given our strict ESG criteria, we do not own any of the companies that are known to be on the list. However, we are mindful that Trump has no incentive to act rationally in the last few weeks of his presidency and in an extreme instance could further expand the list to include Chinese banks and/or Chinese internet companies.

Secondly, in late November Congress unanimously passed a bill that could ultimately de-list Chinese companies from US stock exchanges. The Holding Foreign Companies Accountable Act was already passed by the Senate earlier this year and the bill has now gone to Trump who is expected to sign it into law before leaving office in January 2021. Under this measure, Chinese companies listed as ADRs would have 3 years to comply with increased auditing and inspections before any delistings would occur. Chinese officials have said that they believe they can clear up these accounting and auditing issues once the Biden administration is in place, but that remains to be seen. There is an additional risk that the SEC pursues a timeline faster than the 3 years mentioned in the bill. We are underweight ADRs as a group and have increased our position in Hong Kong Exchange as it will be the natural beneficiary of dual and re-listings.

With respect to Biden, our view remains that he will have a more multi-lateral approach to foreign policy, including foreign policy towards China. We do not anticipate a large scale rolling back of the trade or investment policies implemented by Trump as anti-China sentiment is bipartisan.

Another main feature of a Biden presidency-elect is the trajectory of the USD. Thus far Biden's win has been USD negative with the Dollar Index (DXY) falling 3.5% since the beginning of November and the USD falling 2.5% against the CNY. Historically, a weak USD has been a strong positive for flows into Emerging Markets and flows in the last month have been consistent with this pattern.

Key Facts

Listing Date	4 September 2015
NTA (before tax)*	\$1.2806
NTA (after realised tax) [^]	\$1.2584
NTA (after tax)**	\$1.2273
Share Price at 30/11/20	1.17
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.

China Internet and Regulatory Risk

The cancellation of the Ant Group IPO in early November was covered in the [October newsletter](#), but further regulatory risk for the mega cap Chinese tech companies has emerged since then. Specifically, China's regulators have issued draft anti-monopoly rules that are aimed at curbing anti-competitive practices in the internet space. These rules are still in the draft and consultation phase and are therefore lacking in detail. However, our preliminary view is that the outcome of more aggressive anti-trust regulation will favour internet disruptors (PDD, Bytedance, Meituan) at the expense of internet eco-system stocks (Alibaba, Tencent). For this reason, and due to the implications of the cancellation of Ant, we have reduced our Alibaba position and Samsung and TSMC are now our preferred technology exposures in Asia

Vaccine News

During November there were a number of significant advances on the vaccine front including higher than expected efficacy (~95%) in Phase III trials of the Pfizer-BioNTech and Moderna vaccines and moderate efficacy (70%) for the Oxford-AstraZeneca vaccine. In early December the UK became the first country in the world to approve the Pfizer-BioNTech vaccine for widespread use, ordering 40 million doses and initiating its inoculation program on December 2nd. Similarly, in the US, Biden has promised that his administration will oversee 100 million vaccinations in his first 100 days as President.

While the development of multiple effective vaccines and their deployment is undeniably positive from both a public health and a market perspective, our enthusiasm is tempered in terms of the near term impact on economies in Asia, particularly low income economies with underdeveloped health care infrastructure.

We do have some exposure to vaccine related plays as we think this is a better risk/reward than owning re-opening plays like airlines and other travel related stocks. These include Shanghai Fosun Pharma in China and Dr Reddy's and Sun Pharma in India.

The Great Rotation

Much of the volatility in markets in November was a result of rotation. Market commentators typically point to rotation from growth to value, but this is a simplistic way of communicating what occurred during the month. In reality, there were 7 different kinds of rotation that occurred during November (see table below), with implications at the country, sector and stock level.

Catalyst	Rotation From	Rotation To
US Election	Blue Sweep Plays	Divided Govt Plays
Vaccine Results	Stay at Home Plays	Re-Opening Plays
Vaccine Results	Countries with COVID under control	Countries in 1 st /2 nd /3 rd wave of COVID
US Election & Vaccine Results	Growth	Value
China Internet Regulation*	Mega Cap Eco-System Plays	Non-Mega Cap Challengers
Weak USD and Commodity Prices	Good ESG	Bad ESG
All of the Above	Leaders	Laggards

Source: Ellerston Capital

It was these rotational factors that contributed to EAI's underperformance during November. Ellerston Asian Investments is a growth fund so the speed and magnitude of the factor rotation hurt relative performance.

Our country allocation strategy for the last 6-9 months had been to favour North Asian countries which have COVID largely under control (China, Korea, Taiwan) and to have very little exposure to ASEAN and India where COVID remained an issue and the policy response was lacking. Of course, with the vaccine results, the relative performance of these markets reversed sharply as COVID-infected countries will be greater beneficiaries of a vaccine roll out.

A weak USD is generally good for flows into Emerging Markets and for commodity prices. While the former is generally a positive for Asian equities, the strength of the AUD has had a negative impact on absolute returns. High commodity prices are also not ideal for the EAI strategy as many of the mining and materials companies that benefit from higher commodity prices do not meet our ESG criteria.

To address some of the above, 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.

Where to from here with respect to rotation? It is our view that much of the rotation in November was actually just repositioning from extreme levels with hedge funds covering shorts in unattractive sectors (see moves in European banks and asset heavy industrials and materials globally) and long only investors taking profits in technology stocks that have delivered exceptional returns in the last few years. We do not expect many more days with factor rotation as violent as November 9th where the MSCI World Value Index outperformed the World Growth Index by almost 500bps in one day.

Using the 2016/17 Trump bump as a reference, it is possible that factor/country/stock rotation will continue for a few months but we do not think that global investors are committed to owning low quality, low growth, highly indebted, high beta, poor ESG, value stocks in the longer term. We remain staunchly committed to our growth strategy.

PERFORMANCE

In November, Singapore and Indonesia were the largest country contributors to alpha while Hong Kong and China were the largest detractors. Financials was the largest sector contributor to alpha while Consumer Discretionary was the largest detractor. China Merchants Bank was the largest single stock contributor to alpha while Alibaba 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.

Kind regards,

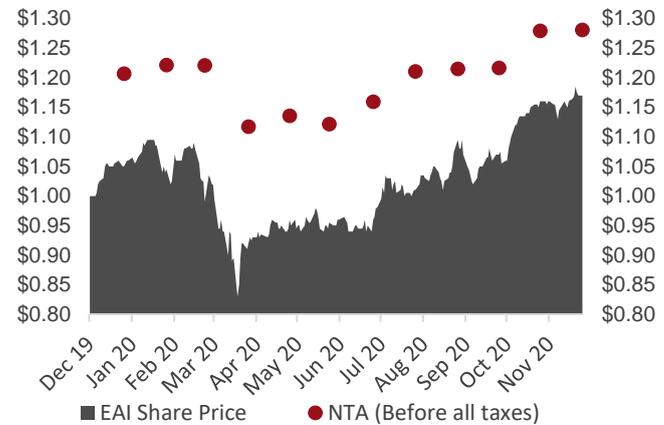
Mary Manning

PORTFOLIO CHARACTERISTICS

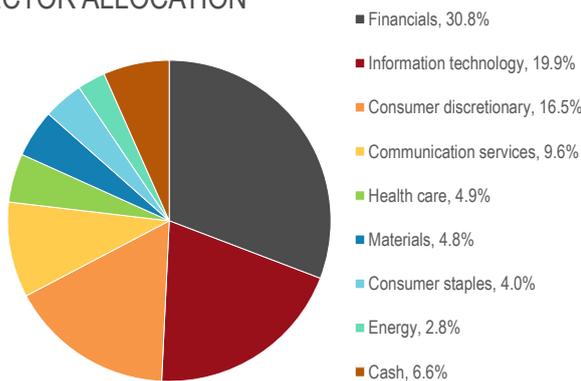
HOLDINGS

Top 10 holdings	%
Samsung Electronics Co., Ltd.	7.9%
Taiwan Semiconductor Manufacturing Co., Ltd.	7.6%
Alibaba Group Holding Ltd. Sponsored ADR	7.6%
Tencent Holdings Ltd.	7.6%
China Merchants Bank Co., Ltd. Class H	4.5%
Hong Kong Exchanges & Clearing Ltd.	4.3%
Ping An Insurance (Group) Company of China	3.3%
DBS Group Holdings Ltd	3.1%
Reliance Industries Limited	2.8%
United Overseas Bank Ltd. (Singapore)	2.3%

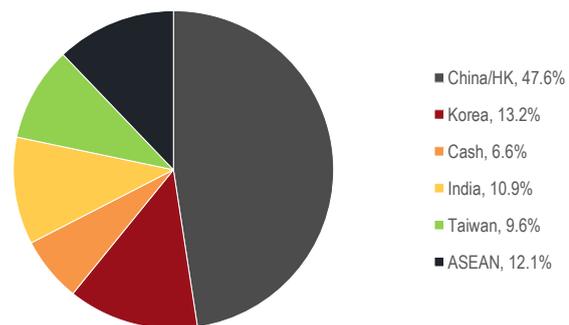
EAI SHARE PRICE VS NTA



SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

All holding enquiries should be directed to our share registrar, [Link Market Services](https://linkmarketservices.com.au) on 1300 551 627 or EAI@linkmarketservices.com.au

Should investors have any questions or queries regarding the company, please contact our [Investor Relations team](mailto:info@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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