

Ellerston Global Investments (ASX: EGI)

Investment Update – August 2017

Fund Performance (Net)

	1 Month	3 Months	6 Months	1 Year	1 Nov 2014	Annualised Return [^]
EGI*	-0.77%	0.65%	4.34%	7.70%	29.64%	9.59%
MSCI World Index (Local)	0.15%	1.60%	5.30%	15.44%	24.89%	8.16%

*Net Return (before tax)

[^]1 Nov 2014 p.a

Key Facts

Listing date Oct 2014

NTA (before tax) ** **\$1.1608**

NTA (after realised tax) \$1.1546

NTA (after tax) \$1.1407

NTA Fully Diluted (after realised tax) \$1.1072

Share price at 31/08/2017 **\$1.02**

EGI Market Capitalisation \$77.3m

Management Fee 0.75%

Option price (ASX: EGIO) \$0.045

Exercise price \$1.00

Dividends Paid FY 2017 2.0 cps

Dividends Declared (payable 06/10/17) 1.5 cps

Dividend Profit Reserve ^{^^} 9.5 cps

Top 10 Holdings

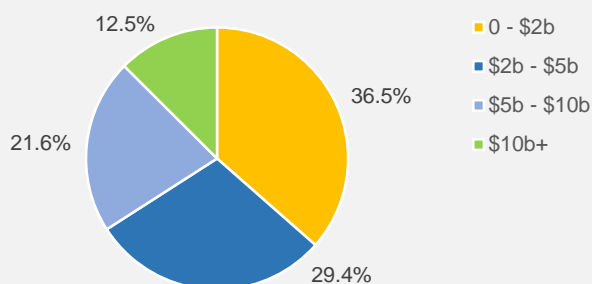
	Weight
Entertainment One Ltd	7.89%
Equiniti Group Plc	5.89%
Zayo Group Holdings Inc	5.01%
Philips Lighting NV	4.54%
Interxion Holding NV	4.11%
QTS Realty Trust Inc	4.05%
Venator Materials Plc	3.77%
Hostelworld Group Plc	3.68%
CityFibre Infrastructure Holdings	3.13%
Snap-On Inc	3.04%

Sector	Portfolio	MSCI World Index
Consumer Discretionary	16.39%	12.26%
Information Technology	12.97%	15.99%
Industrials	12.75%	11.32%
Financials	12.62%	18.27%
Telecommunications	8.14%	3.00%
Real Estate	7.56%	3.20%
Materials	3.77%	4.99%
Energy	1.43%	6.09%
Consumer Staples	0.00%	9.42%
Health Care	0.00%	12.25%
Utilities	0.00%	3.21%
Other	7.33%	0.00%
Cash	17.04%	0.00%
Total	100.00%	100.00%

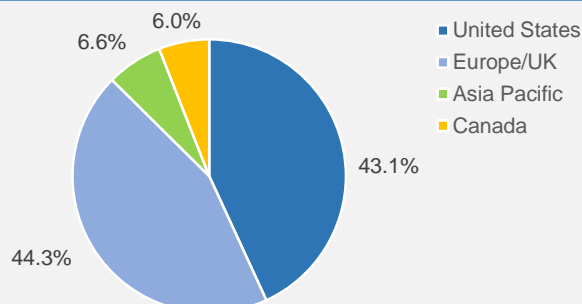
**** NTA before tax** - Includes taxes that have been paid. **NTA after realised tax** - Includes a provision for tax on realised gains from the Company's Investment Portfolio. **NTA after tax** - Includes any tax on unrealised gains and deferred tax. **NTA Fully Diluted (after realised tax)** - If all of the remaining 2018 options had been exercised by 31 August 2017.

^{^^} After the payment of the 2017 final dividend the Company will have a dividend profit reserve of 9.5 cents per share based on shares on issue at 31/08/17. Cps refers to cents per share.

Market Capitalisation (% of Invested Capital)



Geographic Gross Exposure (% of Invested Capital)





Portfolio Update

The **EGI portfolio** decreased 0.77% net during the month of August. The NTA (before tax) at the end of August was \$1.1608.

Contributors to performance included **Hostelworld**, **Interxion** and **Zayo Group**. Detractors from performance included **Jeld Wen**, **The Stars Group** and **CityFibre**. EGI had 12 companies report earnings or trading updates in August. Holdings with exposure to data centers and bandwidth infrastructure gained momentum during the month with **Interxion**, **QTS** and **Zayo** all delivering solid earnings.

Interxion's Q217 result delivered its strongest revenue growth in two years (up +16.1%) and was ahead of market expectations on all fronts with Interxion re-iterating its FY2017 guidance. The company added capacity across its markets with demand in its Frankfurt campus continuing to exceed available supply. Overall, booking levels were strong, diversified by location and type and despite capacity growth, Interxion showed pricing improvement. During the quarter, Interxion signed Tencent Cloud, the computing arm of Tencent, who chose Interxion Frankfurt as their location to enter the European market. We are excited by the growth prospects of Interxion as cloud adoption trends in Europe remain at the early stages (Europe runs 18-24 months behind the US). Interxion's stock was up 8.31% for the month.

The largest single contributor to performance was **Hostelworld** who reported a first half 2017 well ahead of expectations. Group bookings grew 11% with the core Hostelworld brand up 21% during the period. Encouragingly, average booking value was up 3% reflecting an increase in the underlying price per bed (particularly in Europe) and the continuing positive contribution from pricing programs such as Elevate. While management does not provide guidance they commented that they are *"on track to meet the Board's expectations for the full year"*.

The transition to the Hostelworld brand is nearly complete (only 8% Supporting Brand revenue) and the move to mobile first well underway (50% bookings from mobile devices and 30% from mobile app). Hostelworld's customers *"are highly mobile and looking for experiences"* and new products such as *MyTrips* and *Hostel Noticeboard* are showing positive early signs. For example, with *Hostel Noticeboard* users can browse 24/7 social events happening in hostels around the world allowing the hostel operator to communicate with guests in a way they have not before and for guests to communicate with each other.

Hostelworld is creating a social network, marketplace and communication tool for hostel travellers that will further widen the moat around its platform and extend its lead on competitors such as Priceline's Bookings.com. EGI increased its position in Hostelworld the day of its results. The stock was up 21% from earnings on August 22nd to end of August.

Market Commentary

Global equity markets kicked off on a reasonably positive note in August, with key indices such as the S&P500 hitting new record highs, at least until investors quickly pressed the 'risk-off' button as geopolitical tensions in the Korean peninsula escalated.

Not surprisingly, the gold price rallied in August to close at a 9 month high of US\$1,321/oz, as US/North Korean tensions persisted and investors rushed into the yellow metal as a safe haven.

Economic data was generally supportive, as the OECD noted that all 45 countries it tracks were poised to grow this year, the first period of synchronised growth since 2007.

US equity markets finished August higher, with the Dow Jones (+0.65%) and S&P 500 (+0.31%) notching five-month winning streaks, and the Nasdaq (+1.43%) recording its 9th positive month of the last 10. US/North Korean tensions further ratcheted up, with President Trump warning North Korea about facing "fire and fury" if the regime of Kim Jong-un continued threatening the US. North Korea responded by saying it was "carefully examining" its strategy of a missile strike on the island of Guam. Towards month end, North Korea tested a missile which travelled over Japan's northernmost island, Hokkaido. President Trump's continuing political battles and Hurricane Harvey didn't help sentiment.

In the US, employment remained strong, as non-farm payrolls for July rose a stronger-than-expected 209,000 (consensus 180k) and the unemployment rate fell to 4.3%. The CPI for July also rose a weaker-than-expected 0.1% m/m (vs. consensus +0.2%). Real GDP for Q2 was revised up to a better-than-expected 3.0% q/q annualised (consensus: 2.7%) from a previously estimated 2.6%.

European markets floundered with the Euro Stoxx 50 down 0.72%. The FTSE100 was up 1.63% while the DAX (-0.52%) and CAC40 (-0.16%) were both down. Activity indicators were also strong, with the flash Eurozone manufacturing PMI for August rising to a stronger-than-expected 57.4 (consensus: 56.4).

In Asian markets, equities were mixed through August. The Nikkei 225 fell 1.34%, whilst Singapore and Korean markets both fell 1.6% respectively. Hong Kong's Hang Seng was the best performer, finishing 3.06% higher, despite the arrival of Tropical Cyclone Hato.

Domestically, the market absorbed an incredibly volatile reporting season, bouncing off an index low of circa 5,680 five times through the month and failed to break the 5,800 point threshold on the upside. The **Australian S&P/ASX 200 Accumulation Index** finished +0.71%, but with significant variation between sector returns. The positive August total return was due entirely to the +80bps dividend contribution, with the ASX200 price index falling 0.1% in the period.

Highlights from the Investment Manager's Report in the Annual Report 2017

Ellerston Global Investments recently released its Annual Report for the year ended 30 June 2017. We thought it worthwhile to highlight a few of the key parts of the report that provide some insight into the portfolio and the investment profile of EGI.

Since 1 November 2014 the portfolio has returned net (before all taxes) +28.76% (to June 30, 2017). This compares to the benchmark (MSCI World Index Local) which rose by 22.94% over the same period. The annualised return over the same period for EGI is 9.94% versus 8.05% for the benchmark.

Investment Style: While fiscal year 2017 was another 'macro' year driven by the election of Donald Trump as President of the United States and the 'reflation' trade, it was also a year that showcased the characteristics of the EGI portfolio. The portfolio will be driven largely by stock-specific events rather than broad based market moves. At EGI, we are focused on the long-term in our search for stocks going through a period of 'price discovery' with upcoming catalysts. It is difficult to pick the timing of a stock re-rating but we have confidence that value will be discovered over time, providing an attractive risk adjusted return. Figures 1 & 2 are examples of two portfolio stocks recent performance and their correlation to the market.

Figure 1 – Hostelworld (HSW.LN)

We purchased Hostelworld on 5th October 2016 at £2.00. From 5th October 2016 to 27th March 2017 (6 months), Hostelworld's stock price increased 6.7% while the MSCI World Local Index rose 9.2%. However, post its first full year preliminary results as a public company on 28th March 2017, the stock increased **61.6%** to June 30 2017 (3 months).

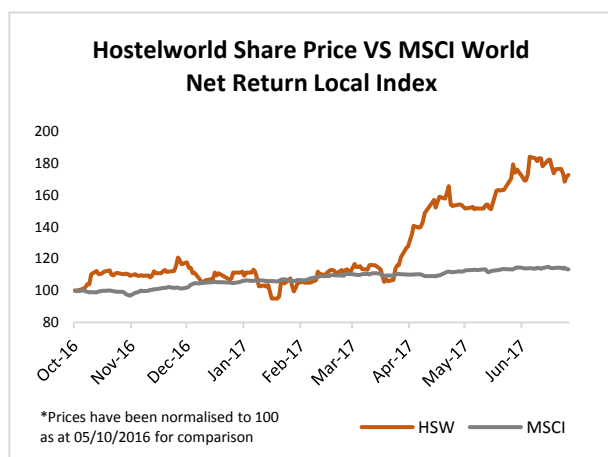
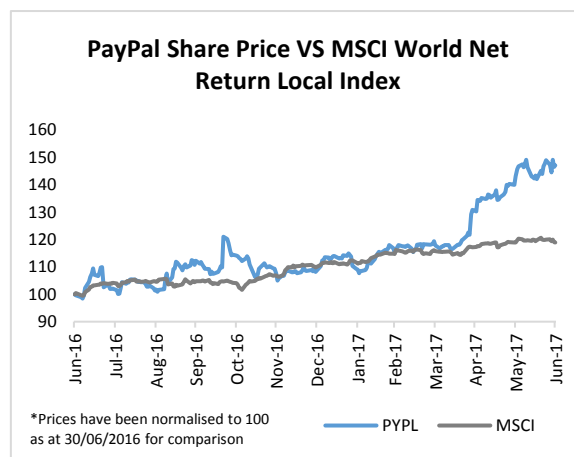


Figure 2 – PayPal Holdings (PYPL.US)

From the beginning of the financial year to the 26th April 2017 PayPal rose 21.6%, slightly ahead of the MSCI World Local Index. When PayPal reported Q1 2017 results on April 26th, 2017 ahead of expectations and raised financial guidance for the year, the stock rose **20.9%** to June 30 2017 versus a 1.3% for the MSCI World Local Index.



These two examples, provide some insight into EGI's investing style and portfolio characteristics. The portfolio will often not move in a linear fashion, nor will it be overly correlated to the market. We remain disciplined and focused on stock selection with the aim of delivering a compelling compounded annual return to investors.

Portfolio: The portfolio comprises an eclectic group of companies that operate in industries with secular tailwinds, have increasing strategic value, and offer an attractive risk/reward opportunity. There is a mid/small cap bias in the portfolio as this has historically been a sweet spot for compelling investment opportunities. As we look through the Top 10 holdings we feel it is likely that most investments listed will not be found in many other domestic based international portfolios.

Lack of Analyst Coverage: EGI's international exposure to companies that are less well known than Apple, Microsoft or American Express means that on a relative basis they do not attract the same level of attention from sell-side analysts. The lack of analyst coverage on the sell-side and less interest from institutional and retail investors provides a greater opportunity to discover value.

Figure 3: EGI Portfolio Analyst Coverage – Hostelworld, Entertainment One, Jeld-Wen, Northstar Realty Europe

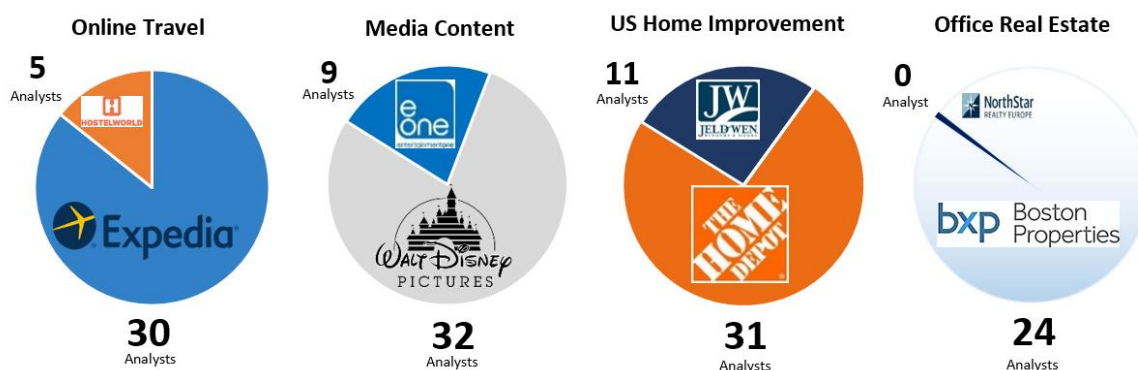


Figure 3 demonstrates the analyst coverage of EGI's positions versus their respective larger peers.

Portfolio Protection: We are also continuously looking for cost effective methods to protect the portfolio. During 2017 the volatility or 'fear' index (VIX) has been trading near historic lows. Significant downward market moves are typically associated with spikes in volatility. As a result, a 'long' VIX futures position increases in value and provides portfolio protection. EGI has maintained a long VIX futures position for a number of months. Whilst the VIX may continue lower, at the lowest levels in over two decades we feel this position offers an appealing asymmetric hedge to the EGI portfolio. We will continue to purchase VIX futures positions or index options when the pricing is attractive, the environment uncertain and the asymmetry compelling. We are seeking to provide protection for the portfolio in the event of a significant market correction.

We continue to believe that international equity markets offer a superior risk/reward profile to the Australian market on a medium to long term basis. While there are many companies to choose from given the international stock universe, only a small subset will make it to the point of investment. Ultimately, we are looking for businesses we understand, that resonate, with a relevant franchise and an attractive risk/reward. In any given year we have hundreds of opportunities that will present themselves and we only need to find a handful of high conviction ideas that can make a difference. We are encouraged by the quality of opportunities we have seen and continue to see in what is a mature bull market. However, we remain disciplined and focused on our process and core competencies.

[REGISTER FOR ROADSHOW](#)

Please join us for our 2017 **Investor Roadshow** in October/November where you will hear from Arik Star, showcasing the team's best investment ideas and the context in which they are investing throughout the rest of 2017 and beyond.

Dividends

If you would like to have dividends re-invested under the Company's Reinvestment Plan, click [here](#)

Options

If you would like to exercise your options, click [here](#)

Contact

Andrew Seddon 0417 249 577
aseddon@ellerstoncapital.com

Simon Glazier 0410 452 949
sglazier@ellerstoncapital.com

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 EGI@linkmarketservices.com.au

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