Monthly NTA Statement

March 2018

Ellerston Global
Investments Limited
ACN 169 464 706

13th April 2018

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

Ellerston Global Investments Limited (**ASX: EGI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 30 March 2018.

NTA per share	30 March 2018
NTA before tax#	$1.1918
NTA after realised tax	$1.1841
NTA after tax	$1.1632

The NTA is based on fully paid share capital of 91,747,563.

# **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.

The company's net performance before tax for the month of March was -1.75%.

Option Conversion - During the month of March 11,268,348 options were exercised and converted to shares which diluted the NTA after realised tax by **$0.030** per share.

Options - If all of the remaining 2018 options had been exercised by 30 March 2018, the fully diluted NTA after realised tax would have been **$1.1541** per share.

Ian Kelly
Company Secretary

Important note

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.

Contact Details

Ellerston Global Investments Limited
ACN 169 464 706

Address
Level 11, 179 Elizabeth Street
Sydney 2000 NSW Australia

Website https://ellerstoncapital.com/listed-investment-companies/
Email EGI@linkmarketservices.com.au

Investor Telephone
1300 551 627

Ellerston Global Investments (ASX: EGI)

Investment Update – March 2018

Fund Performance (Net)

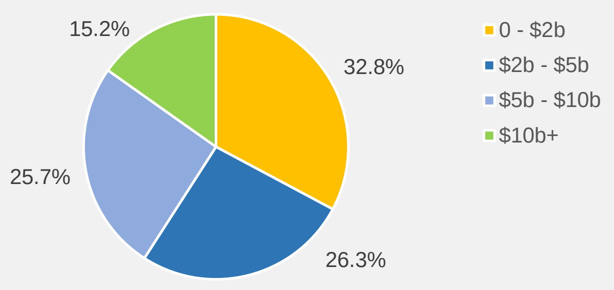
	1 Month	3 Months	6 Months	1 Year	3 Years p.a	Annualised Return^	1 Nov 2014
EGI*	-1.75%	-2.55%	3.92%	13.96%	7.31%	10.57%	40.98%
MSCI World Index (Local)	-2.31%	-2.21%	2.97%	9.89%	7.12%	8.37%	31.59%

*Net Return (before tax) and excluding option dilution
^1 Nov 2014 p.a

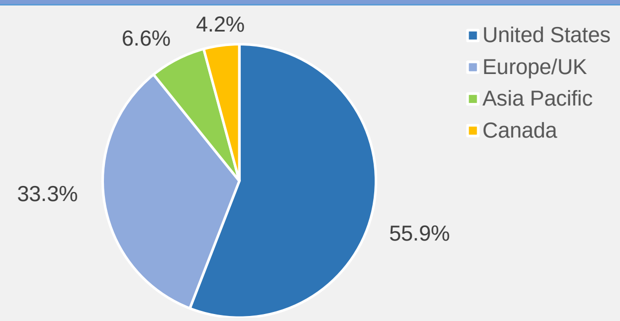
Key Facts	
Listing date	Oct 2014
NTA (before tax) **	**$1.1918**
NTA (after realised tax)	$1.1841
NTA (after tax)	$1.1632
NTA Fully Diluted (after realised tax)	$1.1541
Share price at 30/03/2018	**$1.085**
EGI Market Capitalisation	$99.55m
Management Fee	0.75%
Dividends Paid FY 2017	2.0 cps
Dividends Paid (YTD) - FY 2018	1.5 cps
Fully Franked Dividends Declared Feb 2018	
Interim Dividend	1.5 cps
Special Dividend	1.0 cps
Dividend Profit Reserve ^^	7.8 cps

Top 10 Holdings	Weight
Entertainment One Ltd	8.38%
Equiniti Group Plc	6.39%
Zayo Group Holdings Inc	5.84%
Interxion Holding NV	4.59%
Huntsman Corp	4.53%
Venator Materials Plc	3.74%
XPO Logistics Inc	3.53%
Playa Hotels And Resorts NV	3.31%
Stars Group Inc-The	3.31%
Philips Lighting NV	3.29%

Market Capitalisation (% of Invested Capital)



Geographic Gross Exposure (% of Invested Capital)



Sector	Portfolio	MSCI World Index
Consumer Discretionary	19.75%	12.69%
Industrials	15.21%	11.62%
Information Technology	13.53%	17.42%
Financials	10.95%	17.99%
Materials	8.27%	5.09%
Telecommunications	5.84%	2.67%
Health Care	4.37%	11.75%
Energy	3.96%	6.08%
Real Estate	0.00%	3.02%
Consumer Staples	0.00%	8.70%
Utilities	0.00%	2.97%
Cash	18.12%	0.00%
Other	0.00%	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 30 March 2018.**

^^ Based on the total shares on issue at 30/03/18 and before the payment of the most recently declared dividends. Cps refers to cents per share

Ellerston Capital Limited
ABN 34 110 397 674
AFSL 283 000

Ellerston Global Investments Limited
ACN 169 464 706

Level 11
179 Elizabeth Street
Sydney NSW 2000

Tel: 02 9021 7797
Fax: 02 9261 0528

EGI@linkmarketservices.com.au
https://ellerstoncapital.com/listed-investment-companies/

Portfolio Update

The EGI portfolio decreased 1.75% net during the month of March. The NTA (before tax) at the end of March was $1.1918.

Contributors to performance included **Interxion, XPO Logistics** and **Equiniti**. Detractors from performance included **Entertainment One**, **Huntsman** and **Zayo Group.** EGI had 7 companies report earnings during March.

On 7 March 2018, **Equiniti** reported 2017 full year results ahead of market expectations. This was an impressive set of results for Equiniti with the Wells Fargo Shareowner Services (WFSS) acquisition tracking to plan. Equiniti's *Investment Solutions* division which is primarily driven by their share register, share plans business (similar to Computershare or Link) delivered stellar results with a 100% client retention rate and Equiniti taking share from competitors (most notably winning Sainsbury from Computershare). Equiniti also won over 70% of UK IPOs in 2017. The company's *Intelligent Solutions* division that targets complex or regulated activities is benefitting from the tailwind of increased corporate spend on compliance with management expecting *"broadly double digit top line growth as we go through 2018"*. *Pension Solutions* which offers administration and payment services to pension schemes as well as pension software data delivered a poor result in FY17 and Equiniti will begin to restructure this division to automate processes and remove costs to improve its competitive positioning in a challenging market.

With respect to the WFSS acquisition, management commented that for the first time Equiniti will be able *"to challenge the primacy of Computershare in the provision of both share plans and registration on both sides of the pond for the first time".* WFSS has a 15% market share in the US and there is significant opportunity for Equiniti to cross-sell products among its UK and new US client base. We were also encouraged by the recent win at WFSS of Mastercard who was migrated from a competitor in February.

The Stars Group also reported earnings in March in line with increased guidance with full year revenue growth of 14%. During the month, the company acquired a majority stake of 62% in Crownbet Holdings which increased to 80% when Crownbet acquired William Hill's Australian subsidiary for an enterprise value of A$300m. In addition, a Supreme Court decision regarding the current ban on sports betting in the US is expected in the coming months. If overturned, the legalization of sports betting will have a significant and positive impact on the company's prospects in the US.

EGI Options Update – On April 15th 2015, EGI issued 33.9 million loyalty options to founding shareholders in the IPO. The options had a strike price of $1.00 and expired on April 10th, 2018. **We are very pleased to report that option holders exercised over 95% of outstanding options** leaving an estimated small shortfall of 1.2 million options which will be taken up via an underwriting agreement. There will be 109.6 million ordinary shares and no options on issue at completion of this process.

Market Commentary

Global equity markets continued their move lower in March with the MSCI World Index falling 2.31%. In March, trade wars, tariffs, tantrums, and major tremors in technology stocks were front and center. Despite continued positive news on the global economy, the prospect of a trade war and cracks in technology stocks concerned investors, and equity markets sold off across the board.

In The US, the S&P 500 Index and the Dow Jones Industrial Average Index ended March down -2.5% and -3.6% respectively. Markets failed to find firmer ground after a weak February, despite the Federal Reserve citing an improved economic outlook when it met for the first time under new Chairman, Powell. At that meeting, as expected, the Fed raised the benchmark lending rate by 0.25% to 1.75%. It also forecast a steeper path of hikes in 2019 and 2020, projecting a total of three increases this year. The statement from the Fed also noted a tighter labour market, with inflation expected to nudge higher in the months ahead.

European markets were sluggish across the larger bourses, with the Euro Stoxx 50 index down 2.2%, the UK's FTSE 100 down 2.0%, Germany's Dax down 2.7% and the French market down 2.7%. The Bank of England left rates on hold, as did the European Central Bank (ECB). The ECB's President indicated that the true amount of economic slack *"could slow down the emergence of price pressures"*, putting Europe slightly at odds with the commentary from the US, but the ECB did drop its easing bias. Politically, it was heartening that a deal was struck in Germany for a coalition government to be formed.

Asian markets followed the US markets' lead and were weaker in all major jurisdictions. Of the larger markets, Japan closed down 2.2%, Hong Kong was down 2.3%, India lost 3.5% and the Shanghai Composite Index lost 2.8%.

The **ASX/S&P 200 Accumulation Index** ended March down 3.8%.

XPO Logistics (Market Cap US$12.2b, Share Price $101.81)

Fallen Angel – XPO is a top ten global logistics company with leadership positions in the fastest growing sub-sectors of the transportation and logistics market. The company is benefiting from the trend towards outsourcing as well as tailwinds from e-commerce. However, the biggest tailwind comes from the fact that logistics and transportation is ripe for a tech-driven disruption. XPO is pioneering the use of information technology to modernise the industry. Despite being valued as a transport company, XPO is as much a technology company as it is a transport company.

Riding the Disruption

Most industries in the world are being disrupted in some way, shape or form, some minimally, some materially. **We look to avoid companies that are being disrupted (Barnes & Noble, JC Penney), or have the potential to be materially disrupted (Realogy, ReMax and other real estate brokers). We tend not to focus on the disruptor (Netflix, Spotify) as more times than not, it is difficult to determine the winner. Instead, our focus is on investing in companies that will ultimately benefit from the secular tailwind of this disruption.** While transportation may seem like an 'old world' industry and an unlikely beneficiary of tech disruption, the changes taking place at XPO are transformational and will lead to significant value creation over time. This was highlighted to the market late last year when it was **rumoured by Recode on 22nd December 2017 that Home Depot was weighing a possible bid for XPO to *"keep XPO out of the hands of Amazon"*.** Although the rumour did not play out, it highlighted to the market the strategic value of XPO's technology, network and assets in an industry where the structural trends of retail and e-commerce continue to play out. The day of the rumour XPO's stock was up 14% to $90.01 and it currently trades at $101.81. EGI first purchased XPO at $62.95.

Anecdotal Evidence

In July 2017, we purchased shares in XPO Logistics. We travelled to Europe in June 2017 and met with a Spanish commercial real estate company that owned some logistics assets. In our discussions, they talked about their top tenants and noted XPO Logistics from America, "*was growing fast*". This peaked our interest and when we returned home, we began our work on XPO, a seemingly old world transport company that was anything but. **What we discovered was a company revolutionising the transport and logistics industry with its state of the art proprietary technology. XPO was riding an immense tailwind connecting the online world to the offline**, benefitting from both online retailers explosive growth as well as 'brick and mortar' retailers who need to compete online. Retailers like Home Depot, Best Buy, Zara and Ikea all now have a strong online presence and they contract with XPO to manage their logistics.

Who is XPO?

With over US$15b in revenue, XPO uses its network of people, technology and physical assets to help its customers manage their goods more efficiently throughout their supply chains. The company helps retailers and other shippers fulfil online orders, including managing warehouses and arranging transport of goods to customers. The main divisions cover **Contract Logistics** (warehousing, e-commerce fulfilment, order personalisation, returns management, packaging and labelling, distribution) **and Transportation** (last mile, less-than-truckload, freight brokerage etc.). However, XPO is probably most well known in the US as the **largest last mile logistics provider of heavy goods (7x the size of its nearest competitor), a $13b sector growing at 5x GDP.** In this business, XPO arranges the final stage of heavy goods delivery from distribution centers or retail stores to end consumer's home or business (all asset light). **Customers include nearly all of the top 30 big-box retailers and e-tailers in the US.** For example, if a customer purchased a washing machine from Best Buy whether online or at a retail store, Best Buy would contract with XPO to deliver, assemble and install the washing machine.

XPO's business segments cover a wide range of activities all with the aim of solving the logistic, transport and supply chain issues of its customers. **The company operates in large, fragmented and under penetrated markets with more and more companies outsourcing their supply chain and transport needs. Traditional retailers do not have the in-house capability to deliver a best-in-class delivery services that is able to compete with the likes of Amazon.** With XPO's market share less than 1.5% of a $1 trillion addressable opportunity the runway is long.

XPO Video Presentation 2017 - https://www.youtube.com/watch?v=gWXS36YyhK4

Technology Leader

As we delved further into the business it became clear that what set XPO apart from its peers was its **proprietary cloud based technology;** the backbone of its business offerings (as compared to competitors legacy mainframe systems). The company believes *"that great technology in the hands of well-trained employees is the ultimate competitive advantage in our industry"*. This is reflected by **XPO's annual technology spend of $450m and global team of 1,700 IT professionals including over 100 data scientists**. As a result of its technology focus, XPO has best-in-class home delivery and industry leading consumer satisfaction ratings. This focus on technology from a trucking company was a surprise, but as we have come to understand XPO better, the management team is squarely focused on the "future of transportation" and harnessing the benefits of technological advances to improve operational efficiency and customer service – *"transportation increasingly is about the flow of information between manufacturers, warehouses, trucks, retail locations, businesses and homes."* (CEO, Brad Jacobs).

Backing Winners

XPO's current Chairman and CEO Brad Jacobs purchased a controlling stake in XPO Logistics in 2011 (then known as Express-1). At the time, the company had revenues of US$175 million. Jacobs, through his entities currently owns 16% of XPO. In 1989 Jacobs **founded United Waste Systems**. During his eight years as chairman and CEO he built the company into the fifth largest solid waste management business in North America with the stock delivering a 55% compounded annual rate of return from IPO until the company was sold for US$2.5b in 1997. Jacobs then **founded United Rentals** (URI.US) and built it to become the largest equipment rental company in North America. In the ten years that Jacobs ran United Rentals the stock outperformed the S&P 500 by 2.2x and the company now has a current enterprise value of US$24.7b. Jacobs is a clear "winner" and he has created significant shareholder value to date at XPO with a capable team lead by its Chief Operating Officer Troy Cooper, a former employee at both United Rentals and United Waste. We recently met XPO's Chief Strategy Officer, Scott Malat in New York confirming not only the calibre of the management team, but the companies relentless focus on leveraging information technology to drive business improvement and customer satisfaction.

Valuation

When we initially purchased XPO it was trading on a forward EV/EBITDA multiple of 7.3x and Free Cash Flow yield of 7.3% which we believed was too cheap for a leading transport and logistics company that was nearly 2/3rds asset light, leading in last mile, and the largest e-fulfilment provider in Europe. The company has a track record of successfully acquiring and integrating assets and after a 3 year pause to digest the c.US$5b purchase of two trucking companies in 2015 (Con-Way and Norbert Dentressangle) management raised capital in 2017 and has indicated that it is looking for acquisitions and could spend "$7 or $8 billion". At the current price, XPO is trading on a forward EV/EBITDA multiple of 8.8x and Free Cash Flow yield of 5.8% growing organic revenue mid to high single digits and the bottom line mid-teens. The US trucking market is tight and e-commerce growth continues to accelerate providing a strong backdrop for XPO's contract logistics and last mile businesses (e-commerce represents 29% of the group).

Company Overview

XPO runs its business under the single brand of XPO Logistics with two reporting segments – transportation (63% revenue) and logistics (37%). The company is not reliant on the economy of any one country, region or industry. About 60% of XPO's revenue is generated in the United States, 13% France, 12% UK, 4% Spain. XPO operates in 32 countries with 1,444 locations and has over 91,000 employees. Its customer base is diversified with retail and e-commerce customers accounting for 29% of revenue, followed by food and beverage at 16% and consumer goods at 11%. The company owns ground transportation assets (16,000 owned tractors; 39,000 trailers; 10,000 53-ft. intermodal boxes and 5,400 chassis) along with a non-asset transportation network of 11,000 trucks contracted via independent owner/operators and more than 1 million brokered trucks. XPO has 440 cross-docks and 767 contract logistics facilities.

XPO operates within 2 main business divisions:

1. Logistic Operations (37% Revenue)

Contract Logistics is an asset-light business characterised by long-term contractual relationships (>5 years, with 95% renewal rates), low cyclicality and a high-value add, customised components that minimises commoditization. Many of XPO's customers are the preeminent names in retail and e-commerce with the company performing e-commerce fulfilment, order personalisation, reverse logistics, packaging and labelling, distribution and managed transport. Other customers cover food & beverage, aerospace, technology, chemicals and healthcare. The company also has strong positions in fast growing sub verticals such as fashion logistics in Italy and cold chain logistics in Europe. As the second largest provider of contract logistics worldwide, XPO is at the forefront of a $120 billion sector that is estimated to grow at two to three times GDP. Globally, XPO has 170 million square feet of logistics facility space which makes its network particularly attractive to multinational customers.

The logistics space is ripe for the development of new technologies targeting operational efficiency gains with XPO's warehouses becoming high-tech hubs with advanced robotics, smart glasses for order picking, drones for inventory management and predictive analytics. Whether it be by demand forecasting or predicting the flow of goods and future returns, XPO is able to help customers plan for inventory, capacity and labour levels. This segment also includes **Managed Transportation**. With c$2.7b of freight under management, XPO is a top five global provider of managed transportation. Managed transportation is a non-asset service provided to shippers who want to outsource some or all of their transportation modes.

2. Transportation (63% of Revenue)

The transportation division consists of a variety of modes:

Last Mile

As discussed above, last mile is an asset light logistics unit that manages the final delivery of heavy goods to homes or businesses, using a network of contract carriers and white glove technicians for assembly and installation. Despite being the largest last mile logistics provider in North America, XPO only has a 7% share. The company recently announced that it is expanding its last mile network to 85 hubs by the end of 2018 up from 55 hubs at the end of 2017 which will result in a last mile footprint within approximately 90% of the U.S. population. It also announced that it has recently enhanced its applications to handle complex in-home installations, a growing trend in last mile. E-commerce is a major tailwind and the company predicts that last mile will grow globally at double-digit rates over the next few years. **Importantly, while XPO pays drivers more than its peers the difficulty competitors have penetrating this market is that even if they did pay more they cannot offer a full day's delivery of 12 stops.** In 2017, XPO expanded its last mile logistic service of heavy goods in Europe entering new markets like the UK, Spain and France. European last mile is highly fragmented and represents a sizeable opportunity for XPO.

Truck Brokerage and Transportation

Truck Brokerage is a non-asset based business that places shippers' freight with qualified carriers through brokers that match capacity with shipper demand. XPO utilizes a blended transportation model of brokered, owned and contracted capacity for truck transportation in North America and Europe. This business is variable cost, requires minimal capex which leads to high free cash flow conversion. In North America, XPO's brokerage network includes 38,000 independent carriers representing over a million trucks. This is valuable to shippers who value the ability to find trucks under all kind of market conditions. On the technology front, XPO has built a powerful truckload management system called Freight Optimizer that drives XPOs brokerage operations. In 2018 the company launched the DriveXPO mobile app for carriers to use to bid on loads and reduce empty miles which improves XPO's capacity.

Less-Than-Truckload

Less-Than-Truckload (LTL) has been a real success story post its acquisition of Con-way in October 2015. XPO's LTL business in North America is asset based – utilising employee drivers, a fleet of tractors and trailers for line-haul, pick-up and delivery panels. It is the second largest LTL network in the US, covering 99% of all zip codes. XPO is the number two player in North America where consolidations has resulted in the top 6 players controlling 75% of the market. In Europe, XPO is a leading LTL provider, but the company typically contracts with independent carriers for a portion of its transportation supported by their own terminals and staff. XPO is brining big data capabilities to LTL using labour analytics to model an optimal solution for any given day based on the amount of work forecasted. Over the medium term, the company has said by increasing capacity utilisation to best-in-class levels, can add an additional $100mil to EBITDA.

XPO also provides asset light services including Intermodal and Drayage, Expedite and Global Forwarding as part of a complete service offering.

Significant Growth Drivers

1. **Tight Transport Market:** XPO has called out the tight trucking market and rising freight rates and we have seen the same commentary in the earning results of other US companies. For example, General Mills on their 21 March 2018 third quarter earnings call commented on increased freight costs saying that they were "*now having to go out to the spot market for close to 20% of our shipments versus a historic average of about 5%. And those spot market prices can be 30% to 60% higher than our contracted rates. In fact, North American freight spot prices were near 20-year highs in February*." This is all positive for XPO's businesses.

2. **Electronic Logging Device:** Trucking companies have been mandated by the US government to equip their trucks with electronic logging devices (ELD) designed to track the number of hours drivers are behind the wheel. The new mandate makes it harder for trucking firms to avoid federal limits on the hours drivers can work and this in turn will reduce capacity in the system placing further upward pressure on rates.

3. **European Expansion:** XPO has recently expanded it last mile delivery service to Europe. The European market is fragmented with small scale regional players and XPO has the scale and experience to leverage its proprietary technology to replicate its US success. We expect that this may be an area for acquisition activity as well. In other parts of the business, XPO is leveraging its US leadership as can be seen in aerospace and other high tech verticals which is now pushing into Europe.

4. **Grow share of wallet and penetrate high growth verticals:** 94 of XPO's top 100 customers use two or more service lines and the company is succeeding in its efforts to cross-sell. In North America, XPO has more than tripled the number of strategic account managers and hired over 200 local account executives with a further 170 hires expected in 2018. The company has increased sales support teams, raised incentive compensation and invested in training and analytics to drive cross-selling.

Investment Summary

In 2017, XPO was ranked as the fastest-growing transportation company in the Fortune 500 and Forbes named the company the top performing US company on the Forbes 2017 Global 2000 list. XPO in its last earnings result said that it is "*on track for 5%-8% organic revenue growth and at least 17% adjusted EBITDA growth in 2018.*" The company should be able to realise further efficiencies on the costs side from centralised procurement programs, the optimisation of shared services such as HR, IT and Finance as well improved management of its workforce. The trucking market is tight and US manufacturing has improved over the last few years. In Europe, the consumer is coming back to life and economies are recovering. With a successful track record of strategic acquisitions, we expect XPO to enhance the portfolio with a new acquisition(s) this year to fortify their value proposition as they drive efficiencies throughout their customers supply chain.

Research Ratings

Independent Investment Research (IIR) is an independent investment research house based in Australia and the United States. IIR conducted research in December 2017 and has assigned Ellerston Global Investments Limited (ASX code: EGI) a **Recommended** rating.

Dividends

If you would like to have dividends re-invested under the Company’s Reinvestment Plan, 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

Disclaimer

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