

Ellerston Global Investments Limited (ASX:EGI)

Performance Report | May 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.)
Net [^]	8.76%	0.27%	-4.26%	11.04%	6.70%	8.35%
Benchmark*	4.72%	0.87%	-5.42%	6.86%	6.09%	7.11%
Alpha	4.04%	-0.60%	1.16%	4.18%	0.61%	1.23%

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 World Index (Local)

PORTFOLIO COMMENTARY

The EGI portfolio increased 8.8% net during the month of May outperforming its benchmark by 4.0%. The NTA (before tax) at the end of the month was \$1.1805.

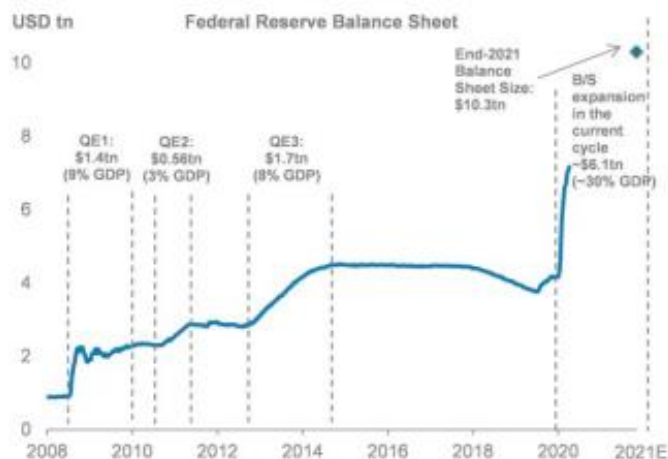
The rebound in April from March lows continued into May with equity markets pretty robust across the board. The market recovery has been underpinned firstly by news of flattening infection curves (China re-opening guideposts), secondly with stabilisation of the economic downdraft in mid-April and thirdly with re-opening schedules being announced (both by community and company).

There are many discussions around what type of recovery we will see – V, W or U shaped however **the only letter that is currently important is “L” and this stands for liquidity**. At this point we have no idea what the final ramifications of Covid-19 will be on economic growth however what we do know is that we have unprecedented pump priming with fiscal and monetary stimulus (support) already rolling out globally. The Government and Central Bank support has been large, swift and decisive which is much different to that experienced during the GFC.

It is estimated that there is over a 90% correlation between the Fed's balance sheet and risk assets. The Fed has expanded its balance sheet as much in three months as it did in the six years leading up to and including the GFC so it is important not to underestimate the amount of liquidity in the system.

While the velocity of the moves in global equity markets have been unexpected, we get why they have gone up. We have incoming data which is sequentially “less bad” (albeit horrible year on year), and we know the market looks for the second derivative to extrapolate, and this has been coupled with a significant growth in the supply of money.

To put this in context, Morgan Stanley estimates that the balance sheet of the US Federal Reserve will expand by more than QE 1, 2 and 3 combined in this cycle:



Source: Federal Reserve Board, Federal Reserve Bank of New York, Morgan Stanley Research

Key Facts

Listing Date	20 October 2014
NTA (before tax)*	\$1.1805
NTA (after realised tax) [^]	\$1.1805
NTA (after tax)**	\$1.1410
Share Price at 31/05/20	1.05
EGI Market Capitalisation	\$110.6 Million
Management Fee	0.75%
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.

The EGI portfolio had broad contributions from many positions with the top 3 contributors **Cerence, LiveRamp and Liveperson adding 334bps** to performance while **Equiniti, Digital Realty and Anritsu detracted 78bps**. We had a busy reporting month with 20 portfolio companies providing results or updates for the March quarter.

Willscot has over 40% market share in modular office leasing in North America and is by far the dominant player in a space which should benefit from increased infrastructure spend associated with any fiscal stimulus. Modular units are typically leased for nearly three years providing excellent visibility associated with highly recurring revenues. For the March quarter, Management reported its 10th consecutive quarter of double-digit pricing growth and expects this momentum to continue despite the impact from Covid-19. While volumes have clearly been impacted by near term shutdowns it is seeing new opportunities as the need for additional space on project sites, schools and other industries to accommodate the new social distancing requirements is becoming more apparent. The next key catalyst will be the finalisation of the transformative merger between Willscot and Mobile Mini which is expected to complete in the third quarter. **We added more to our position post the result below \$11.00 however have trimmed some recently above \$15.00.**

Cerence was spun out of Nuance late last year and as we have discussed previously, we were allocated shares associated with our Nuance shareholding and subsequently increased our shareholding on the open market. Cerence is the leader in automotive voice assistance with >325m cars on the road embedded with its technology. Its system is being shipped in one out of every two cars being produced globally and longer term anticipates doubling content value per car as the fleet becomes more connected. Cerence reported very robust first quarter results with revenue and earnings up 23% and 26% respectively and while Covid-19 will have a near term impact on performance, it has already signed more bookings in the first half of the year than it did for all of 2019. **The stock was in the low \$20's at the time of result and we have recently trimmed the position above \$40.00.**

LiveRamp is a business with strong network effects and basically makes it safer and easier for every company to use data more effectively online. It views itself as the Switzerland of data and provides the essential infrastructure to connect the offline and online worlds for more effective advertising. LiveRamp reported its full year result during the month (March year-end) with fourth quarter revenue up 35% driven by strong usage of its subscription-based platform. Despite the impact from Covid-19 it grew revenues in April and while pipelines are being pushed out first quarter revenues are still expected to increase mid to high single digit. LiveRamp has >\$700m of net cash on its balance sheet which compares well with its \$3.1bn market cap and provides significant optionality into the future.

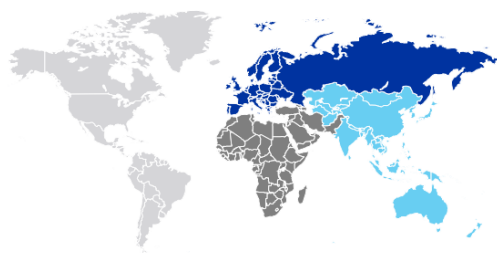
We have been providing brief paragraphs on the top 10 positions in the fund to provide better knowledge (and hopefully comfort) around our holdings in times of extreme volatility. As the market has settled down somewhat and at the risk of being too repetitive, we thought it timely to move back to individual company snapshots:

STOCK IN FOCUS: SIG Combibloc (SIGN SW, US\$5.05B MKT CAP)

SIG has been listed for a little over a year and is a global leader in aseptic packaging which is a fancy way of describing the Ultra Heat Treated (UHT) process. The aseptic packaging market is expected to grow faster than the overall food packaging market as manufacturers need efficient packaging technology and safe supply chains with transparency increasingly expected by consumers who demand assurances on product origin and quality.

Aseptic cartons enable beverages and liquid food to maintain their taste, appearance and nutritional qualities for up to 12 months without the need for refrigeration or preservatives. As the chart below highlights, there are two main suppliers of aseptic systems globally, Tetra Pak with 65% market share and SIG with 21%. Over the past few years SIG has been increasing its share of the market and we would expect this trend to continue as it builds out its global presence.

GLOBAL FOOTPRINT¹ WITH INTEGRATED SUPPLY CHAINS



18% Americas
45% EMEA
37% Asia Pacific

1. Core revenues: 2. Estimated volume split: 3. Other: wine, spirits, water, etc. 3. Share of global aseptic liquid dairy, non-carbonated soft drinks & aseptic/sterile liquid food carton supply in core geographies excl. Japan, India, Peru, Argentina, Chile in 2018
Note: Financials and other statistics as of December 31, 2018 unless noted otherwise
Source: Company information (FY 2018) and SIG Market Study



The business model is a unique razor/razorblade approach where SIG sells its filling and sleeve platform to customers (average 25yr relationships) which are coupled with long term sales contracts of sleeves and closures. This model generates 90%+ recurring revenues, 6-8% top line growth with expanding margins and ROCE >20%.

SIG has been on our watchlist since IPO and the recent downdraft in global equity markets provided an attractive entry point into the stock. It is a pure play with a premium margin profile, strong and expanding market position in very attractive and predictable end markets. As a relatively new IPO it will take some time for a proper consensus to be formed while sell downs from its large PE holder are closer to the end than the beginning thereby removing this overhang.

We consider that SIG offers long term durable growth opportunities however if it does not continue to grow its market share or new competition enters the aseptic packaging market this could dampen the investment outcome. Despite these concerns in our view our attractive entry point provides a solid discount to intrinsic value and with a 55-60% payout ratio, a strong and growing dividend stream.

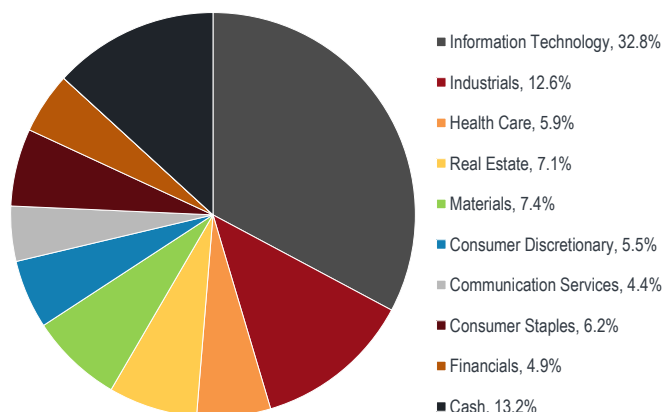
Kind Regards,
Bill Pridham and Arik Star
EGI Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

HOLDINGS

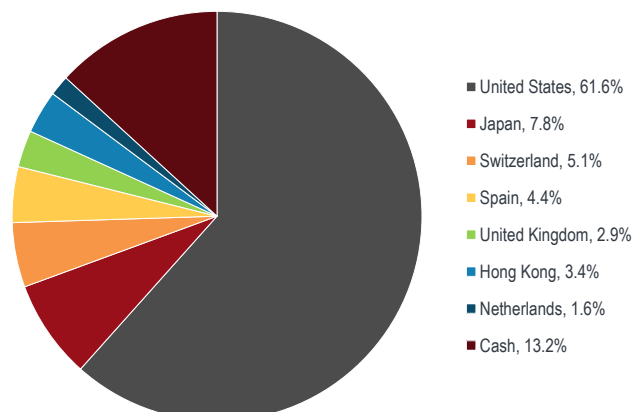
Top 10 Holdings	Country	Sector	%
Keysight Technologies Inc	United States	Information Technology	5.00%
Ciena Corporation	United States	Information Technology	4.48%
Cellnex Telecom	Spain	Communication Services	4.40%
Anritsu Corporation	Japan	Information Technology	4.26%
LiveRamp Holdings	United States	Information Technology	4.15%
Amedisys	United States	Health Care	4.07%
WillScot Corporation	United States	Industrials	3.91%
Digital Realty Trust	United States	Real Estate	3.61%
Graphic Packaging	United States	Materials	3.59%
QTS Realty Trust	United States	Real Estate	3.45%

SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC ALLOCATION



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