

Monthly NTA Statement

September 2015

Ellerston Global
Investments Limited

ACN 169 464 706

14 October 2015

Ellerston Global Investments Limited (**ASX: EGI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 30 September 2015.

NTA per share	Before Tax	After Tax
30 September 2015	\$1.0724	\$1.0494

The NTA is based on fully paid share capital of 75,529,001. All figures above are ex the 1 cent per share fully franked dividend which was paid on the 8th October 2015.

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.



Ian Kelly
Company Secretary

Important note

This document has been prepared for Ellerston Global Investments Limited by the investment manager Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. Any information has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this document, it is provided by Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

Contact Details

**Ellerston Global
Investments Limited**
ACN 169 464 706

Address
Level 11, 179 Elizabeth Street
Sydney 2000 NSW Australia

Website
<https://www.ellerstoncapital.com/EGI>
Email EGI@linkmarketservices.com.au

Investor Telephone
1300 551 627

September Quarter Review

The quarter ending 30 September 2015 was a difficult quarter for Global Equity markets. The MSCI World Index (Local) declined by 7.72%, the S&P 500 by 6.44% and the Australian All Ordinaries Index by 5.79%. The Ellerston Global Investments (EGI) portfolio fell by 3.11%.

Since 1 November 2014 the portfolio has returned 11.19%. This compares to the benchmark return (MSCI World Index Local) which declined by 1.90%, the S&P 500 by 2.98% and the Australian All Ordinaries Index by 3.96%.

The trigger for weak markets was the 2% devaluation of the Renminbi in August.

Markets have subsequently become fearful of:

1. The Chinese economy slowing sharply;
2. Capital flight out of China in anticipation of further devaluations;
3. Sharp changes in regulatory policy as a consequence of the “new” leadership clearly failing its first “crisis” test.

Additionally, the inaction by the US Federal Reserve on interest rates is inciting fear about the ongoing recovery of the US Economy.

It may be early days, but the fears about China look overblown. The capital flight is subsiding. Although the Chinese economy is slowing, the shift from infrastructure investment to consumer spending is ongoing.

More worrying is the uncertainty of Federal Reserve monetary policy. A genuine fear that the Fed is losing control over monetary policy is now at the back of every investor's mind. This will not go away until there have been multiple raises with short rates getting to at least 1% and perhaps even higher. This in turn could lead to severe volatility in markets for some time to come. Additionally, the strong US dollar and a weak earnings outlook do not bode well for the US equity market in the medium term.

ETFs - The influence of ETFs will exacerbate the volatility in markets. The significant presence of these “bots” in every equity market will make the ride a lot rougher.

Ongoing global equity market volatility seems likely as these and other issues ebb and flow in relevance. As the US and China navigate periods of transition there will be uncertainty but this creates opportunity. We are acutely aware of potential market headwinds and continue to stay focused and disciplined in adhering to our investment process.

Key Information

Investment Objective	The Company's objective is to generate superior returns for shareholders, with a focus on risk management and capital preservation.
Investment Strategy	Global long only. Targeting 10 to 25 securities.
ASX Code: Shares	EGI
Listing date	20 October 2014
Share price at 30/9/15	\$1.09
EGI Market Capitalisation	\$82.32 Million
ASX Code: Options	EGIO
Options price at 30/9/15	\$0.16
Option expiry date	10 th April 2018
Exercise price	\$1.00
Management Fee	0.75% p.a.
Performance Fee	15%

Quarterly Investment Report

September 2015

Ellerston Global
Investments Limited

ACN 169 464 706

Portfolio Performance

Performance %	1 Month	3 Months	6 Months	CYTD	Since 1 Nov 2014
EGL return	(2.94%)	(3.11%)	(2.54%)	6.14%	11.19%
Pre-tax NTA					
Index	(3.55%)	(7.72%)	(8.36%)	(3.91%)	(1.90%)

Portfolio Structure & Key Positions

TOP 5 Portfolio Holdings	
Company	Country
Vivendi	France
GE	United States
Synchrony Financial	United States
Equity Commonwealth	United States
Experian	Great Britain

Equity Exposure by Country - Invested Capital		
Country Exposure	%	Currency
United States	55.1%	Unhedged
France	10.4%	Hedged
Great Britain	21.7%	Hedged
Spain	10.0%	Hedged
Australia	2.8%	N/A

General Electric

Corporate Restructure – Transformation of one of the world's best known companies. Exiting financial services (GE Capital) and focussing back on its core industrial businesses.

On April 10, 2015 GE announced that it would divest the bulk of GE Capital to focus on its core industrial businesses. EGL started purchasing GE post this announcement during April 2015. GE owns a unique group of global industrial businesses with significant barriers to entry. As the global industrial system converges with the power of advanced computing, analytics, low-cost sensing and new levels of connectivity, GE will be able to leverage big data to optimize processes and improve asset performance. To date, the value of the industrial businesses have been overshadowed by GE Capital which has been impacted by difficult market conditions and continuing regulatory headwinds.

Company Overview

GE Capital (2014: 42% of Profit) – 10% by 2018

GE Capital's businesses offer a broad range of finance and leasing services and products worldwide. Services include commercial loans and leases, fleet management, credit cards, personal loans and others.

GE Industrial (2014: 58% of Profit) – 90% by 2018

GE's industrial businesses are poised to benefit from growth in emerging technologies, renewed infrastructure spend and the Industrial Internet.

1. **Power & Water (\$27.6b or 18% Revenue, \$5.4b profit):** Leading global player in power generation and water technologies. 47% service revenue.

Contact Details

**Ellerston Global
Investments Limited**
ACN 169 464 706

Address
Level 11, 179 Elizabeth Street
Sydney 2000 NSW Australia

Website
<https://www.ellerstoncapital.com/EGL>
Email EGL@linkmarketservices.com.au

Investor Telephone
1300 551 627



2. *Aviation (\$24b or 16% Revenue, \$5b profit)*: Designs and produces commercial and military aircraft engines. 48% service revenue.
3. *Oil & Gas (\$18.7b or 12% Revenue, \$2.6b profit)*: Equipment and solutions for Oil & Gas industry. 46% service revenue.
4. *Healthcare (\$18.3b or 12% Revenue, \$3b profit)*: Essential healthcare technologies including medical imaging, software and information technology (IT). 44% service revenue.
5. *Appliances & Lighting (\$8.4b or 5% Revenue, \$431m profit)*: Appliances segment was sold to Electrolux in late 2014 (pending regulatory approval). In lighting, GE manufactures, sources and sells a variety of energy-efficient solutions.
6. *Energy Management (\$7.3b or 5% Revenue, \$246m profit)*: Technology solutions for electrical power sector. 28% service revenue.
7. *Transportation (\$5.7b or 4% Revenue, \$1.1b profit)*: Designs and manufactures locomotives and diesel engines. 49% service revenue.

Restructure

The key features of the restructure plan were:

1. *Ending Net Investment*: ENI represents the total capital that GE has invested in GE Capital. GE Capital's Ending Net Investment (ENI) will shrink from \$363b in 2014 to \$90b once the plan is executed.
2. *Retain Verticals*: Retain financing businesses that directly relate to its core industrial businesses – GE Capital Aviation Services, Energy Financial Services and Healthcare Equipment Finance.
3. *Future Earnings*: Industrial earnings to represent 90% with GE Capital to be reduced to 10% of total earnings by 2018.
4. *Timeline*: Sale of the targeted \$200b ENI to be completed within 24 months (GE has since upgraded to 18 months).
5. *SIFI*: Working with regulators to seek de-designation of GE Capital as a Systemically Important Financial Institution (SIFI) (expected by end 2016).
6. *Shareholder Returns*: \$90b to be returned to shareholders (c30% of market cap) through 2018.

The new GE will be a simpler, fast moving, innovative and more valuable company. While there are inherent risks around the sale process and headwinds in the oil & gas industry, we expect continued positive news flow in the coming months around asset sales. This should provide confidence to investors that the GE Capital exit plan is progressing and more importantly, that the sales are likely to occur quicker than expected. Once complete the "New GE" will be revealed as a high quality, truly unique global diversified industrial player.

Equity Commonwealth

Corporate Restructure – New management team undertaking significant asset disposals to unlock value and reposition previously mismanaged US office property portfolio.

Equity Commonwealth (EQC) is a US based listed office Real Estate Investment Trust (REIT). A yearlong proxy fight to remove management and simplify the Company's operating structure and asset base has provided an opportunity to invest in EQC at a compelling valuation.

After a detailed asset by asset review, the new team at EQC led by billionaire real estate investor Sam Zell (Chairman) and David Helfand (CEO) are currently executing on a company transforming sale process to dispose of between \$2 - \$3 billion of assets in what has and continues to be an exceptionally strong US office market.

Company Overview

EQC is an internally managed and self-advised REIT with a market capitalisation of \$3.47b. As at September 14, 2015 the company's real estate portfolio consisted of 74 properties. Below are some features of the current portfolio:

- largest US markets are Philadelphia, Chicago, Austin, Denver, Indianapolis and Bellevue
- diversified tenant base with no single tenant representing more than 2.9%
- average annualised rental revenue of \$541.9m
- 94% of total annualised rental revenue from office assets, 4% from industrial/flex and 2% from other asset classes
- 26.6m square feet
- average occupancy rate of 91.2%
- 30 largest properties generate 83% of Annualised Rental Revenue

Background on Proxy Contest

In early 2013, EQC (then named Commonwealth REIT (CWH)) underwent a proxy fight with two investment funds – Corvex Management, LP and Related Fund Management LLC (Funds). At the time, the Funds held a 9.8% stake in CWH.

The Funds believed that CWH's portfolio of real estate assets traded at a substantial discount to fair value primarily due to the misalignment of incentives between CWH and its externally advised managers - REIT Management & Research LLC (RMR). The Funds' argument was that RMR had assembled a disparate collection of assets driven by a fee structure which rewarded management for acquisitions regardless of the financial returns or strategic rationale.

The Funds approached Sam Zell to run the new CWH. Zell as head of Equity Group Investments had a strong track record having created three of the most successful REITs in the U.S., including Equity Office Properties which at the time of its \$39 billion sale at the top of the market in 2007 owned nearly 100 million square feet of space in over 500 office buildings across the US.

On August 1, 2014, Commonwealth REIT (CWH) changed its name to Equity Commonwealth (EQC) and on October 1, 2014 the Company's external management agreement with RMR was terminated and Zell and his team appointed.

Restructure

The new management team suspended the current dividend, undertook an asset review and identified that EQC owned a significant pool of assets scattered across the US and Australia that were undervalued and undermanaged.

The strength of the office market made it an opportune time to reposition the portfolio. In February 2015, EQC announced that it would undertake a disposal program to sell \$2 - \$3 billion of assets over the next 2 years. As expected, Zell has moved quicker than planned and year-to-date, the company has sold **\$1.7 billion** of assets, comprising 82 properties/16.4 million square feet. EQC has exited 4 states, 61 cities and Australia and has significantly reduced its exposure to many of the company's smallest markets. These assets were sold at a weighted average capitalisation rate in the **mid 7%** range. The company is currently in various stages of marketing nine office properties totalling 2.6 million square feet.

At September 2014, EQC had a cash balance of \$1.60b and debt of \$1.82b with preferred shares of \$397m. With the recent market weakness, the company announced a total share repurchase program of \$200 million.

Contact Details

Ellerston Global
Investments Limited
ACN 169 464 706

Address
Level 11, 179 Elizabeth Street
Sydney 2000 NSW Australia

Website
<https://www.ellerstoncapital.com/EGI>
Email EGI@linkmarketservices.com.au

Investor Telephone
1300 551 627

Quarterly Investment Report

September 2015

Ellerston Global
Investments Limited

ACN 169 464 706



At current valuations, the remaining EQC properties trade close to a 9% capitalisation rate. Given the significant discount to net asset value there is a high likelihood that cash is returned to shareholders and/or any remaining properties sold. In the event that management redeploys the cash we think it will do so at a time when attractive deals can be made. Zell is well known for his success working with distressed real estate. As Zell quoted on a recent conference call sighting comments made by Steve Roth of Vornado Realty Trust - *"our sense is that this is the time in the cycle when smart guys build cash."*

Barclays

Management Change – New management set to refocus on core franchise, restructure cost base and accelerate non-core disposals to restore one of the UKs best known banks.

On 8 July 2015, Barclays announced the departure of Antony Jenkins as CEO and the appointment of John McFarlane as Executive Chairman pending the appointment of a new Chief Executive. Barclays is a company we have followed for a while now and the initial strategic comments from McFarlane are encouraging – accelerating non-core run down, reshaping the investment bank, reducing the cost structure and refocusing on Barclay's core markets. It is early days in the restructure and we have acquired a small position which may grow if we can gain comfort that McFarlane is executing on his stated strategy.

Should investors have any further 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

Important note: This document has been prepared for Ellerston Global Investments Limited by the investment manager Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000. Any information has been prepared for the purpose of providing general information only, without taking account of any particular investor's objectives, financial situation or needs. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. Past performance is not a reliable indicator of future performance. To the extent any general financial product advice is provided in this document, it is provided by Ellerston Capital Limited ABN 34 110 397 674 AFSL No. 283 000 . An investor, before acting on anything that he or she construes as advice, should consider the appropriateness of such construction and advice having regard to their objectives, financial situation or needs.

Contact Details

**Ellerston Global
Investments Limited**
ACN 169 464 706

Address
Level 11, 179 Elizabeth Street
Sydney 2000 NSW Australia

Website
<https://www.ellerstoncapital.com/EGI>
Email EGI@linkmarketservices.com.au

Investor Telephone
1300 551 627