

14 October 2016

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ELLERSTON GLOBAL INVESTMENTS LIMITED (ASX: EGI) INVESTMENT UPDATE

Please find enclosed Investment Update for September 2016.

For any further enquiries please contact Link Market Services on 1300 551 627 or Ellerston Capital Limited Investor Relations on 02 9021 7797.

Yours sincerely



Ian Kelly
Company Secretary

Ellerston Global Investments

Investment Update – September 2016

Monthly Review

The EGI portfolio gained +1.90% net during the month of September. The NTA (before tax) at the end of September was \$1.135.

Global equity markets posted modest gains. The MSCI World Index (Local) returned +0.19%.

US equity markets were stable, with the S&P 500 essentially finishing flat -0.1%, after rallying strongly through the back-end of the month. The NASDAQ +1.9% outperformed all global peers, continuing its strong performance from its February lows and reaching a new record high mid-month. It is now up ~25% since its low only 8 months ago. The Fed re-adopted their dovish tone at the FOMC meeting, leaving interest rates unchanged at 0.50%, but stressed “the case for an increase in the federal funds rate is strengthening”. The FOMC also signaled that the appropriate rate should be higher by year end.

In European markets, the Euro Stoxx declined in September -0.7% while the German DAX retreated -0.8% as concerns around Deutsche Bank weighed on the broader banking sector. The FTSE100 was strong rising +1.7% and reached a record high during the month, aided by a falling British Pound.

In Asian markets, Japanese shares sold off, with the Nikkei 225 Index falling -2.6% at month's close. The Hang Seng rose +1.5% while the Shanghai Composite declined -2.6%. Domestically, the **Australian S&P/ASX200 Accumulation Index** rose +0.48%.

EGI Portfolio: Contributors to performance included Equiniti Group PLC, NorthStar Realty Europe, Travelport Worldwide, Entertainment One and PayPal. Detractors from performance included Equity Commonwealth as concern over rate increases pressured US REIT's.

PayPal announced an expanded partnership with Mastercard which followed its recent announcement of a new partnership deal with Visa. Initially investors were concerned that the new deal terms could crimp PayPal's margins, however the stock rallied after the company told investors not to assume the deals would be EPS dilutive.

Travelport rallied strongly after a secondary sell down by its pre listing owner was completed.

During the month EGI increased its position in Entertainment One as the stock retreated back towards £2.00 after the board rejected the £2.36/share takeover bid from ITV. The stock has since rallied leading into and then following a strong trading update on the last day of the month.

Note to investors: Following discussions between EGI and the Manager, EGI would like to advise that it has decided to expand the number of stocks that the Manager may target for investment from a maximum of 25 to 40 stocks within the same investment universe. We believe that expanding the range of stocks will allow us to capture a broader range of opportunities. The portfolio has 22 stocks as at 30 September 2016.

Key Information

ASX Code: Shares	EGI
Listing date	Oct 2014
NTA (before tax) *	\$1.135
NTA (after realised tax)	\$1.124
NTA (after tax)	\$1.105
NTA Fully Diluted (after realised tax)	\$1.086
Share price at 30/09/2016	\$0.98
EGI Market Capitalisation	\$74.2m
ASX Code: Options	EGIO
Option price	0.037
Exercise price	\$1.00
Management Fee	0.75%

* 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 September 2016.

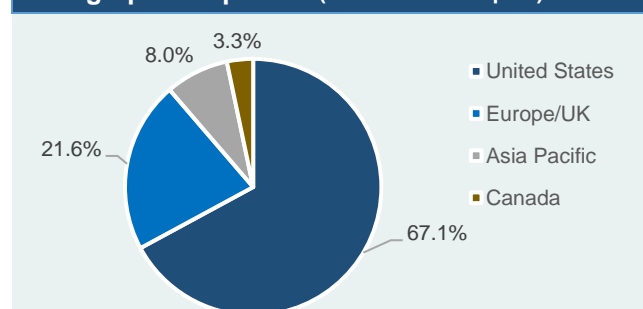
EGI Performance

	EGI (%)*	Index (%)
1 Month	1.90	0.19
3 Months	8.32	4.76
6 Months	6.80	6.11
One Year	10.31	10.49
1 Nov 2014	22.66	8.39
Annualised Return^	10.50	4.02

*Net Return (before tax) ^ From 1 Nov 2014

Top Holdings	%
Alphabet Inc	5.99
NorthStar Realty Europe Corp	5.21
PayPal Holdings Inc	4.91
Entertainment One Ltd	4.80
Equity Commonwealth	4.68

Geographic Exposure (% of invested capital)



Quarterly Portfolio Company Update

NorthStar Realty Europe Corp. (Market Cap \$660m)

Spin Off – US listed REIT holding prime Western European office properties trading at 45% discount to net asset value currently executing non-core asset sale program

On October 20th 2015, NorthStar Realty Finance (NRF) spun out its European real estate business into a separate publicly traded company, NorthStar Realty Europe (NRE).

NRE is a US listed real estate investment trust (REIT) focused on prime office properties located in key European markets within Germany, the United Kingdom and France.

The company is externally managed by NorthStar Asset Management (NSAM). Since listing, NRE has traded like an “orphan” without any strategic direction from its parent NSAM and with no natural holders – a US listed REIT owning only European properties. With the stock trading close to a 50% discount to its underlying net asset value earlier this year, the company articulated a plan to consolidate the portfolio by selling non-core properties and exiting non-core markets.

Recent asset sales have reduced the portfolio composition from 52 properties valued at \$2.6 billion to 40 properties valued at \$2.2 billion. It is worth noting that the sales were completed above their 2015 year end independent valuation and the core property portfolio remains 93% leased with an average lease term of around 7 years.

At June 30 2016, the independent valuation provided by Cushman & Wakefield for NRE was \$17.00 per share (similar to the valuation using the European Public Real Estate best practice method). EGI acquired its position in NRE at an average price of \$9.60 per share which represents a substantial discount to the market value determined by the independent valuation.

Trading at 60% of NTA, a 5.4% yield, ongoing strategic portfolio optimization, strong demand for European commercial real estate assets, debt profile enhancement and increased capital management provide for a compelling asymmetric investment opportunity.

The Spin-off – Orphan Status

At listing NRF shareholders received 1 NRE share for every 6 NRF shares. The shares traded at US\$13.80 on day one and have been on a steady decline since as existing NRF shareholders had no interest in having exposure to a European real estate company with little to no scale. In early 2016, NRE's share price fell to \$8.50 during the market downturn. With the stock trading at such a significant discount it was difficult to see how NRE could raise capital to execute on its original growth strategy to acquire additional European real estate. The path for unlocking shareholder value was uncertain.

At the same time, the external manager, NSAM, was under pressure from activist investors creating more uncertainty around NSAM, NRF and NRE. On January 11, 2016, NSAM announced that it had engaged Goldman Sachs to explore a strategic alternative to maximize shareholder value. Uncertainty continued until NSAM announced on June 3 2016 that it would undertake a tri-party merger with NRF and Colony Capital to create “a world-class diversified real estate and investment management platform” with \$58b of assets under management.

The lack of natural holders and strategic direction combined with uncertainty around NSAM were key drivers in creating a compelling opportunity for new investors in NRE.

Plan to Sell Non-Core Assets

At spin-off, NRE's portfolio consisted of 52 predominately office properties in nine European markets and the strategy and purpose of the vehicle was unclear.

In March 2016 NRE announced that given the strong office market in the UK and Europe it would undertake to divest non-core properties. Its revised strategy was to focus on its core prime office properties in Germany, the UK and France. NRE would use the proceeds for capital management purposes in an effort to close the significant discount to its underlying net asset value.

Since announcing its revised strategy, NRE has sold 9 non-core properties for a combined sales price in excess of \$300m, 4% above the year end 2015 Cushman & Wakefield valuation. Importantly, NRE has exited two markets – Sweden and Italy.

The Portfolio

The current portfolio comprises 40 properties.

Core: 24 properties, 93% occupancy, WALE 7.0 years.
Germany (42%), UK (26%), France (16%)

Non-Core: 16 properties, 73% occupancy, WALE 4.9 years.
Including Netherlands, Belgium, Spain and Portugal (16%)

Portfolio Overview (at August 4, 2016)

	Germany	UK	France	Total Core Portfolio	Non-Core	Total
Number of Assets	15	5	4	24	16	40
Area (Sqm)	166,045	46,520	32,075	244,640	174,425	419,065
WALT to Expiry (Years)	7.5	7.6	4.6	7.0	4.9	6.5
Occupancy	90%	99%	97%	93%	73%	85%
% of Income	40%	24%	15%	79%	21%	100%
Market Value (\$ million)	934	588	349	1,871	353	2,224
Market Value (% of Total)	42%	26%	16%	84%	16%	100%

The core portfolio owns significant office properties in prime locations, some of which are exhibited below:



Trianon Tower, Frankfurt



Condor House, London



Portman Square, London



Berges de Seine, Paris



Avenue Marceau, Paris

Catalysts to Unlock Inherent Value

- 1) **Non-Core Sales:** The continued sale of the remaining non-core assets (if sold at or above the independent valuation) will reinforce NRE's underlying valuation. Sales to date have been above the appraised independent valuation.
- 2) **Property Management:** Active management of existing properties including leasing and lease extensions will continue to strengthen the portfolio.
- 3) **Debt Reduction:** NRF saddled NRE with \$340m of Stock Settable Notes with a coupon of 4.625% at the time of the spin. To date, \$230m has been repurchased and cancelled leading to interest savings of \$7m through December 2016. The remaining notes will be bought back over the coming months further improving NRE's capital structure. NRE's current loan to value ratio (LTV) is 55%.
- 4) **Share Buy-Back:** NRE has repurchased \$48m of shares since the \$100m buy-back program was authorised in November 2015. NRE's continued repurchasing of its shares at a significant discount to underlying asset value will be incredibly accretive.
- 5) **Colony NorthStar:** The intentions of the newly formed external manager, Colony NorthStar, will be a key factor in determining NRE's future.

Possible Outcomes

In terms of the risk/reward, outside of major currency movements and a UK/European economic downturn we see 3 possible outcomes for NRE:

- 1) **Growth Vehicle:** Colony Northstar seeks to close the discount in order to use NRE as a vehicle to grow its presence in the UK & Europe;
- 2) **Remain an Orphan:** Colony Northstar ceases to sell non-core assets and places NRE in 'care and maintenance' while it receives its \$14m per annum fixed management fee. In this case, NRE continues to trade at a discount and shareholders receive a 5.4% dividend yield; or
- 3) **Sale:** Colony Northstar undertakes a liquidation or sale of the portfolio in which case investors receive closer to \$17 per share.

In an environment of low interest rates, historically wide yield spreads, continued ECB quantitative easing and a subdued office supply pipeline, the demand for prime European office real estate should continue to strengthen as pension funds, insurance companies, private equity and sovereign wealth funds look for long-term quality assets with a sustainable yield profile.

With no analyst coverage, potential catalysts from asset sales and a new external manager with European ambitions, NRE represents a compelling opportunity to purchase prime UK & European office properties at a significant discount to inherent value.

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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