Ellerston Global Investments Limited
ACN 169 464 706
Level 11, 179 Elizabeth Street
SYDNEY NSW 2000

15 April 2016

The Companies Office
ASX Limited
Level 6, Exchange Centre
20 Bridge St
SYDNEY NSW 2000

ELLERSTON GLOBAL INVESTMENTS LIMITED (ASX: EGI) INVESTMENT UPDATE

Please find enclosed Investment Update for March.

Yours sincerely

Ian Kelly
Company Secretary
Phone: 02 9021 7797

Quarterly Investment Report

March 2016

Ellerston Global
Investments Limited

ACN 169 464 706

March Quarter Review

The quarter ending 31 March 2016 was a near replica of the August through October period in 2015. The market had a sharp sell-off during the first half of the quarter followed by an equally sharp rally through to the quarter end. It is worth noting that calendar year to date, while the US markets are broadly flat, all other developed markets are significantly down.

For the March 2016 quarter, the Ellerston Global Investments (EGI) portfolio increased 0.68% before all taxes while the MSCI World Index (Local) declined by 1.96%.

Since inception (1 November 2014) the portfolio has returned 14.81%. This compares to the benchmark return (MSCI World Index Local) which rose by 2.15%.

EGI navigated the market volatility during the quarter strongly. Despite initiating a number of new investments during the period, EGI maintained a significant cash holding at the end of the quarter. EGI has a high conviction portfolio that we believe is well positioned to provide solid returns in the year ahead.

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
NTA per share (before taxes)	$1.0973
Share price at 31/03/16	$0.95
EGI Market Capitalisation	$ 71.8 Million
ASX Code: Options	EGIO
Options price at 31/03/16	$0.07
Option expiry date	10th April 2018
Exercise price	$1.00
Management Fee	0.75% p.a.
Performance Fee	15%

The bull market has now entered its 8th year and is exhibiting signs of increased volatility with two very sharp V-shaped sell-offs followed by recoveries in the last 3 quarters. While some macro headwinds have emerged, others are evolving. Cut (interest rates) and print (money) has been the mantra across developed economies and a key driver of asset valuations during this bull market. However, the world is no longer in sync. While interest rates in the US are on the way up, nine countries have negative rates and others are on hold or have a negative bias. With that backdrop, uncertainty still reigns regarding the velocity of rate increases in the US.

Concerns about the Chinese economy linger as the government attempts to stem the capital outflow. While February and March have shown early signs of success, the sustainability of this trend will be closely watched. Mid-east politics and jaw boning continues to create noise ensuring ongoing volatility of the oil price. There are also two significant political events creating uncertainty with a very divisive US election race and a close call on the UK Brexit referendum.

In addition to some macro headwinds there are some corporate flags that need to be paid attention to, particularly in the US. Net profit margins are approaching all-time highs and in recent years accelerating corporate buybacks have been enhancing EPS growth. This is coupled with a significant widening of the spread between GAAP and Non-GAAP (includes adjustments for unusual or noncash costs) earnings, which is not a healthy development. At the expense line, wages are on the rise. On April 4th 2016, California passed into law a defined schedule which will see the minimum wage rise 50% from $10/hour to $15/hour over the next six years. New York has passed a law with a similar outcome as the trend manifests across the US.

We are very aware of the increased headwinds and corporate flags facing global markets. The positives take care of themselves so it is very important to be mindful of the macro risks that lurk. EGI's strategy of investing in companies going through a period of price discovery is well suited to the current environment as increased volatility widens the investment universe. During the March quarter this afforded us the opportunity to make new investments including Criteo, Interxion and Madison Square Garden which are highlighted in this newsletter.

Quarterly Investment Report

March 2016

Ellerston Global
Investments Limited

ACN 169 464 706

Portfolio Performance

Performance %	1 Month	3 Months	6 Months	1 Year	Since 1 Nov 2014
EGI return Before all taxes	3.16	0.68	3.25	0.63	14.81
Index	5.27	-1.96	4.13	-4.57	2.15

Portfolio Structure & Key Positions

TOP 5 Portfolio Holdings

Company	% of Portfolio
Equity Commonwealth	6.53
Paypal Holdings	6.17
Synchrony Financial	5.90
Nielsen	5.83
Fair Isaac Corp (FICO)	5.27

Equity Exposure by Country - Invested Capital

Country Exposure	%	Currency
United States	81.4	Hedged
Great Britain	12.6	Hedged
Australia	4.1	NA
Spain	1.9	Hedged

Criteo (Market Cap $2.3bn)

Fallen Angel – Global leader revolutionising online display advertising and a key beneficiary of the shift of advertising dollars online

Criteo is a primary beneficiary of the fast growing global programmatic display ad market. With its proprietary machine learning based Criteo Engine, it is a global leader in retargeted advertising - it puts the right ad in front of the right user at the right time.

To date, traditional display advertising solutions have incorporated limited audience targeting capabilities and personalisation. This approach is not sustainable. Retail ecommerce was a $1.6 trillion industry globally in 2015 and is expected to grow 16% annually to $2.5tr by 2018. As retail spend continues to migrate online and as more consumers use multiple devices when browsing online (user may start on a mobile device and finish on a desktop) the key to advertising effectively online will be the ability to track and target consumers in a cost effective and relevant way. In essence, this is what Criteo's performance marketing engine does.

The Company partners with its clients to capture activity on their digital properties (websites/mobile applications) to optimize future advertisement placement decisions. Based on its direct relationships with over 10,000 clients, Criteo is able to capture the comings and goings of every single user on a customer's website as well as see every single purchase transaction (over $439b in sales transactions in 2015) that occurs on customer's websites. Based on this data, Criteo then develops and delivers highly relevant and targeted ads directly to that user across all devices, be it desktop, smartphone or tablet and is only paid when its clients achieve a sale delivered by a Criteo advertising message.

The power of the Criteo engine is best illustrated by example. A user visits Expedia.com (Criteo client) looking at flights on his/her desktop but doesn't book flights. That user is then assigned an anonymous ID (e.g. using cookie, IFDA) by Criteo which allows Criteo to track the user across devices, learning more about the user's preferences as he/she browses the internet. The user then visits Facebook (Criteo publishing partner) at which point Criteo delivers a targeted and relevant ad highlighting new flight deals from Expedia (based on the user's preferences). If the user clicks on the ad he/she will be directed back to the Expedia.com website and if a flight is booked Criteo will get paid.

For every $1 spent on the Criteo platform, on average, Criteo's advertising clients such as Expedia will receive $17 of sales, representing a very powerful value proposition and return on investment (17:1). This has driven a 90% annual renewal rate from existing clients who have been spending 20% more with Criteo year on year.

In 2015 Criteo's revenue increased 34% to $1.3bn with similar growth expected in the current year. At 11x EV/EBITDA, with EBITDA margins expanding 150-250bps the company's profit growth is significantly higher than its revenue growth.

Criteo has achieved critical mass in both client and publisher representation and will continue to build its competitive moat and enjoy the benefits of its powerful network effect.

Company Overview

Advertisers strive for targeted and relevant online advertisements to minimise wasted spend and maximise their chances of generating engagement, and ultimately a sale. However, achieving relevance in today's world is particularly difficult because users are scattered across online destinations and devices and consumer purchase intent and interests can be difficult to determine and can change rapidly.

Criteo has developed a performance marketing engine which delivers its clients ecommerce sales at scale, regardless of device used, and at their targeted return on investment.

Criteo is transforming digital advertising as we know it into a more personal and relevant experience. Through its relationships with customers (e.g. eBay, Dell, Expedia, Sony, BMW) and unmatched network of publishers (e.g. Facebook, Google, Yahoo Japan), Criteo through its recommendation engine makes sense of user browsing behaviour to deliver relevant, personalised display ads that drive incremental sales for clients.

Criteo has been building on its performance marketing engine for 10 years. The engine is machine learning based in that there is value in time and scale. The more data the engine ingests, the more relevant the engine becomes in terms of its predictive value. In addition, Criteo has built a marketplace of considerable scale where Criteo sits as a 3rd party between the advertiser (over 10,000 clients) and the publisher (close to 14,000 publisher partners).

While many online marketing companies are engaged by Ad agencies, Criteo has a direct relationship with the majority of its clients who share data and embed Criteo analytics into their inventory and sales systems. This creates an incredibly sticky relationship and is one of the reasons why Criteo has >90% client retention rate.

Significant Growth Drivers:

1. *Advancing its Technology Lead* - The network effect of Criteo's business is incredibly powerful not only from a competitive standpoint, but from a technology standpoint. As the Company adds more clients, it gains more publisher inventory and subsequently delivers more sales to clients, which ultimately feed into the machine learning attributes of the engine.

2. *New Client Relationships* – Criteo has been adding new clients at a steadily increasing rate since listing in 2012. Over the past 3 years, client numbers have more than doubled and with the 50,000+ mid-market client opportunity less than 10% penetrated this strong client growth should continue.

3. *Increasing spend with Existing Clients* – Just under 80% of Criteo's revenues are derived from uncapped budgets with its clients. The reason for this is that Criteo delivers, on average, $17 of sales for every $1 spent on its platform and is actually viewed as a cost of goods sold, not as a marketing expense. Because of this strong marketing attribute of pay for performance, existing clients have been spending 20% more with Criteo year on year, which is not only sales accretive, but increases the network effect of the Criteo engine (the more spent on ads, the more data collected, the better the predictive value of the Criteo engine).

4. *Growth in online shopping* - As consumers continue to shift buying habits online, companies are increasing their online advertising and marketing spend to address this generational change. According to eMarketer, retail products and services purchased on the internet in 2015 accounted for 7.4% of the total retail market, or $1.6tr. In 4 years, retail ecommerce sales are expected to more than double to $3.6tr and yet still only account for a little under 13% of total retail purchases. This structural shift provides an enormous secular tailwind for companies like Criteo.

5. *Increasing relationships with Publishers* - Criteo has significant scale in ad delivery benefitting from its broad access to inventory through its direct relationships with close to 14,000 publisher partners (e.g. Facebook, Google, New York Times, Yahoo Japan) as well as leading presence on real time bidding display advertising exchanges.

Interxion (Market Cap $2.14bn)

Fallen Angel – Leading European retail data centre player benefiting from a generational shift as legacy IT infrastructure moves to the Cloud

Interxion is a leading provider of cloud and carrier-neutral co-location data centre services in Europe. The Company has a dominant position in Western Europe providing enterprises with access to >75% of European GDP. Over 90% of revenue is recurring in nature while 70-80% of new business currently comes from the growth of existing customers providing a very predictable revenue stream.

Today we are consuming more data than ever on more devices. For example, we are now streaming television with Netflix, listening to music on Spotify, running businesses on Salesforce and Xero and starting companies on Amazon's AWS. All of these performance sensitive applications require a cloud based infrastructure that is scalable and cost efficient allowing the user access to content when they want it and through any device.

Interxion provides a 'home' for these applications by enabling customers to securely deliver mission critical applications and content to end consumers. The Company locates its data centres close to city centres and house more than 600 individual carriers and Internet service providers and 20 European Internet exchanges in their data centres. By co-locating their IT infrastructure with Interxion, customers reduce both capital and operational costs while improving application performance.

As the rollout of cloud strategies across Europe continues and companies increasingly outsource infrastructure to the cloud, incumbents like Interxion will be well positioned to capture this growth. Key to their entrenched position are their locations which provide a primary connection to highly secure and scalable cloud environments for network speed and efficiency.

In January 2016, US data centre giant Equinix closed on its acquisition of UK based Telecity Group leaving only 3 major data centre players in Europe – Interxion, Equinix and Telehouse (a subsidiary of Japanese telco KDDI Corporation). This acquisition further reinforced the value of European data centres with Equinix paying a >15x EV/EBITDA multiple.

At the time Telecity was acquired, uncertainty in world markets provided EGI with an opportunity to purchase shares in Interxion at a 10.5x EV/EBITDA multiple.

Over the past five years Interxion has grown top line revenue by a >12.5% CAGR with Adjusted EBITDA increasing at a >16.0% CAGR over the same time period. Interxion's EBITDA margin typically expands 90-100bps per annum and this trend should continue over the coming years. Its growth profile is well funded by its operating cash flow.

Interxion has more carrier-neutral data centres in Europe than any other provider. As the only remaining listed pure play in Europe, Interxion provides EGI exposure to a quality franchise with long-term secular tailwinds, high barriers to entry and ever increasing strategic value.

Company Overview

Interxion operates 41 facilities in 11 countries in major metropolitan areas across Europe including London, Frankfurt, Paris and Amsterdam. The Company's state-of-the-art data centres provide space, power and cooling with reliability and performance that goes beyond industry standards.

Interxion has two regional reporting segments:

1. **Big 4 (64% of revenue)** – includes Germany, Netherlands, France and the UK, each housing one of the industry's main internet exchanges for seamless transfer of internet traffic. Interxion's Frankfurt campus is one of the most highly connected environments in Europe and is benefiting from expanding deployments of cloud infrastructure. Amsterdam is viewed as a key entry point for US companies into Western Europe and has been growing strongly over the past few years. Interxion purchased its Marseille (France) asset in August 2014 and continues to build on the strategic value of the facility. The site has the advantage of access to the aggregation point of at least 9 undersea cables from Africa, Middle East and Asia that terminate there, making Marseille one of the highest capacity landing points on the European mainland.

2. **Rest of Europe (36% of revenue)** – Includes Austria, Belgium, Denmark, Ireland, Spain, Sweden and Switzerland. Its Vienna campus is highly connected and provides a strong gateway market to access Eastern and Southern Europe. As the only Pan European data centre operator in Spain, Interxion is seeing particularly good traffic growth in digital media and content delivery services.

Growth Drivers

1. *Growth in Cloud* – Cisco's Global Cloud Index report released in October 2015 (http://www.cisco.com/c/dam/assets/sol/sp/gci/global-cloud-index-infographic.html) forecast global cloud traffic within data centres will more than **quadruple** between 2014 – 2019 while total global data centre traffic will **triple** over the same time frame. The transition to the cloud will provide Interxion with a long-term secular tailwind with new potential applications coming from the Internet of Things, connected cars and machine to machine.
2. *European Growth lagging the US* - Interxion is operating within a major IT investment cycle as significant spend is allocated away from legacy IT systems towards cloud deployments. The migration in Europe is approximately 12-18 months behind that of the US and is gaining momentum as corporations roll out across continents and countries.

3. *Existing Customer Base* – existing customers, whether they be in digital media (Netflix, Amazon, Akamai) or financial services (Citigroup, Nasdaq, London Metal Exchange) require low latency and are bandwidth hungry. As the demands being placed on them grows, so too will their requirement for more data centre space.
4. *Growth in Data Centres* – Interxion continues to build out its footprint. In 2015 it opened 2 new data centres and completed 8 expansions in 4 other markets. It has also announced expansions in 8 markets to open in 2016 and 2017.
5. *Hybrid Cloud* – Interxion has been focused on building "Communities of Interest" within its data centres to fuel growth. The idea is to create a base of strong foundational customers which Interxion terms "magnetic customers" across various verticals. For example, Interxion has been securing key platforms for the hybrid cloud (mix of on premise and public cloud services) such as Amazon's AWS Direct and Microsoft Azure that have the highest magnetic potential on which systems integrators and managed service providers such as HP, Infosys and IBM will deploy enterprise cloud strategies. By doing this, Interxion is creating strong network effects on which both existing and new customers can benefit from while at the same time further increasing the moat around its business.

Madison Square Garden (Market Cap $3.98bn)

Spin-Off – Opportunity to own a collection of trophy sport franchises and real estate at a discount to the sum of their parts

On October 1, 2015, MSG completed its spin-off from MSG Networks (MSGN.US). The new MSG entity owns the sports and entertainment businesses and MSG Networks owns the media networks. MSG listed when issued on September 17 2015 at $180 and fell to as low as $141 in February of this year. MSG is a company we have followed for some time and the spin off created a period of 'price discovery' where EGI was able to purchase its initial stake.

Company Overview

MSG has two reportable segments:

1. **MSG Sports (79% EBITDA)**

   MSG sports <u>owns</u> and operates the following professional sports franchises: the New York Knicks (NBA), New York Rangers (NHL), the New York Liberty (WNBA), the Hartford Wold Pack (AHL) and the Westchester Knicks (NBADL).

2. **MSG Entertainment (21% EBITDA)**

   MSG Entertainment presents or hosts live entertainment events at the Company's diverse collection of venues – <u>owns</u> Madison Square Garden in New York, the Forum in California and the Chicago Theatre in Chicago, <u>leases</u> Radio City Music Hall and the Beacon Theater in New York. This division also creates, produces and presents live productions such as the Radio City Christmas Spectacular and the Rockettes New York Spectacular.

Sports franchises and in particular live sports are becoming ever more valuable to media networks in a world where consumers are viewing TV when they want and where they want. The value can clearly be seen in the landmark media rights deal the NBA signed in October 2014 with ESPN and Turner Sports for $2.6b annually over 9 years beginning the start of the 2016-2017 NBA Season.

At spin-off, MSG had a market capitalisation of c$4.0b with $1.45b in net cash for a total enterprise value of $2.55b. Recent transactions for US sports franchises include Steve Ballmer's purchase of the LA Clippers for $2.0b in May 2014 and the Atlanta Hawks sale for $850m in April 2015. MSG owns a treasure trove of unique sport franchises and real estate assets that we were able to invest in at a fair price based on traditional valuation metrics and a significant discount based on recent and historical valuations ascribed to US sports franchises and real estate assets.

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