

Ellerston Global Investments (ASX: EGI)

Investment Update – July 2017

Fund Performance (Net)

	1 Month	3 Months	6 Months	1 Year	1 Nov 2014	Annualised Return [^]
EGI*	1.47%	2.05%	5.95%	9.90%	30.65%	10.21%
MSCI World Index (Local)	1.43%	2.96%	8.40%	15.75%	24.70%	8.36%

*Net Return (before tax)

[^]1 Nov 2014 p.a

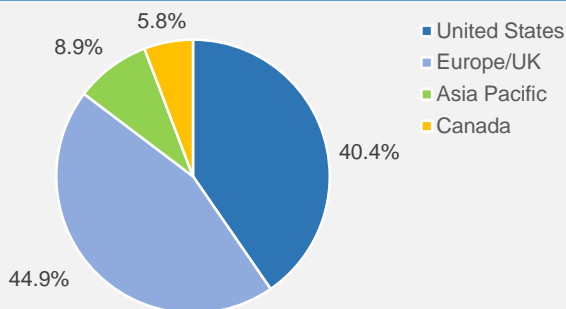
Key Facts

Listing date	Oct 2014
NTA (before tax) **	\$1.1698
NTA (after realised tax)	\$1.1619
NTA (after tax)	\$1.1474
NTA Fully Diluted (after realised tax)	\$1.1122
Share price at 31/07/2017	\$1.01
EGI Market Capitalisation	\$76.56m
Option price (ASX: EGIO)	\$0.046
Exercise price	\$1.00
Management Fee	0.75%

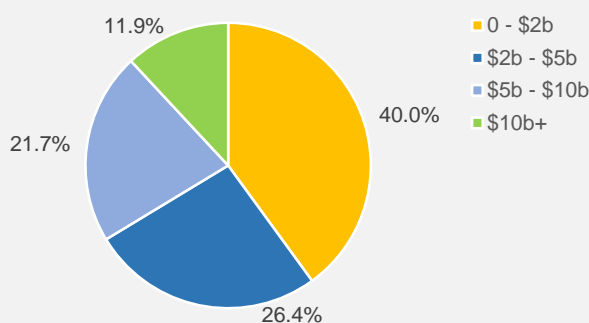
Top 10 Holdings

	Weight
Entertainment One Ltd	7.91%
Equiniti Group Plc	5.79%
Zayo Group Holdings Inc	4.35%
QTS Realty Trust Inc	3.94%
Interxion Holding NV	3.75%
Philips Lighting NV	3.51%
Xpo Logistics Inc	3.49%
Cityfibre Infrastructure Holdings	3.29%
Snap-On Inc	3.14%
Jeld-Wen Holding Inc	2.79%

Geographic Gross Exposure (% of Invested Capital)



Market Capitalisation (% of Invested Capital)



Sector	Portfolio	MSCI World Index
Industrials	17.20%	11.41%
Consumer Discretionary	17.11%	12.27%
Information Technology	13.78%	15.99%
Financials	12.83%	18.27%
Telecommunications	7.65%	3.00%
Real Estate	7.36%	3.20%
Health Care	2.24%	12.15%
Energy	1.02%	6.09%
Consumer Staples	0.00%	9.42%
Materials	0.00%	4.99%
Utilities	0.00%	3.21%
Other	8.65%	0.00%
Cash	12.16%	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 31 July 2017.

Portfolio Update

The **EGI portfolio** increased 1.47% net during the month of July. The NTA (before tax) at the end of July was \$1.1698.

Contributors to performance included **Entertainment One**, **PayPal** and **DHX Media**. Detractors from performance included **Hostelworld**, **Snap On** and **CityFibre**. Reporting season began in July and EGI had 12 portfolio companies report earnings. The one stock which disappointed was **PTC Corp**. The quarterly result was at the high end of guidance and PTC mostly reaffirmed guidance for FY17. However, license and subscription bookings were below PTC's expectations, down 13% from Q316 due to sales execution issues in Japan.

PTC promoted the head of Japan to the US after a successful 7 year period in Japan where bookings grew at a 14% CAGR during that timeframe. Following his departure last year PTC installed a new country manager. The change in management exposed sales execution issues at the Japanese division which accelerated in Q317. The former country manager has now been sent back to Japan to remedy the situation. While Japan only represents c10% of revenue, we were concerned by managements' commentary that they had been able to accelerate deals in the US and Europe in Q117 and Q217 to mask Japan's underperformance – *"so we went back to that recipe, but weren't able to pull it off."* Management said they were *"trying to accelerate"* US and European deals into Q317 as the *"problem in Japan was coming in as fast and hard and we didn't want to have this conversation with you"*. While our underlying thematic around IoT has not changed, management execution and transparency has made us uneasy. Ultimately, our view as to the risk profile of PTC changed and we sold our position the next trading day post the result at \$54.14. We will not hesitate to execute our sell discipline when the facts change. We purchased PTC Corp at an average of \$50.29.

On a more positive note, the reports of the other 11 portfolio companies reaffirmed our investment theses. The standout once again was **PayPal** with the stock continuing its momentum up c9.0% in July. The company reported another set of exceptional results on the 27th July 2017 delivering Q217 numbers that exceeded the top end of its guidance and ahead of market expectations. It was the first time PayPal exceeded \$3.0b in revenue and over \$100b in Total Payment Volume (TPV) in a quarter. With net new additions of 6.5m, far exceeding expectations, it is clear that PayPal is beginning to benefit from the rollout of Choice, new strategic partnerships (Apple, Samsung, Baidu) and OneTouch. PayPal is rolling out Pay with Venmo in the US beginning with Lululemon and Forever 21. Once again, PayPal raised guidance for the full year. We are excited by the opportunities at PayPal, especially the monetization of Venmo.

Market Commentary

Global equity markets were mostly higher in July, with the MSCI World Index Local up 1.43%. Against the tense geo-political backdrop of North Korea test-firing its second intercontinental ballistic missile (ICBM) in a month, global equities posted strong gains in July with the volatility index (VIX) known as the 'fear index' falling to its lowest level since 1993.

US equity markets pressed on regardless, with the major indexes all hitting new highs - S&P500 up 1.93%, NASDAQ up 3.38% and Dow Jones Industrial Average up 2.54%. The market was driven by a solid start to the U.S. reporting season which was characterised by impressive 'beats' in both earnings and revenues.

On 12th July, in a speech before the U.S. Congress, Fed Governor Janet Yellen made comments that were widely interpreted as 'dovish'. The Federal Reserve unanimously decided to keep interest rates unchanged at its 26th July meeting and confirmed it expects to start winding down its massive holdings of bonds 'relatively soon', a sign of confidence in the U.S. economy. The U.S. central bank kept its benchmark lending rate in a target range of 1.00% to 1.25%, stating it was continuing the slow path of monetary tightening that has lifted rates by a percentage point since 2015.

It was, however, another central bank move in July which caught our attention. On the 12th of this month, the Bank of Canada increased its key interest rate for the first time in seven years despite core inflation of only 1.4% in Canada. Given that US core inflation has not been above 2.0% since the Fed began their own hiking cycle, we question whether central banks are increasingly becoming more flexible in their interpretation of their price stability mandates.

European markets were more mixed with the Euro Stoxx 50 (+0.22%) and FTSE100 (+0.81%) positive and the German DAX (-1.68%) and French CAC40 (-0.53%) posting declines. European economic data, however, continued to support the view of a recovering Eurozone with core inflation again improving and unemployment hitting the lowest level since February 2009.

In Asian markets, the Shanghai Composite was up 2.52% and the Hang Seng rallied 6.05%. The market was driven by new highs in Tencent, HSBC and AIA Group as well as share buybacks in Hong Kong rising to their highest since 2008. In Japan, the Nikkei fell 0.54%. Domestically, the Australian S&P/ASX 200 Accumulation Index was flat for the month, with July marking the 4th consecutive month of underperformance versus other Developed Markets. The Australian market fared poorly despite a strong performance from both the Mining and Bank sub-sectors.



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