

Ellerston Global Investments Limited

ACN 169 464 706

Level 11, 179 Elizabeth Street

SYDNEY NSW 2000



20 July 2015

Company Announcements Office
ASX Limited
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QUARTERLY INVESTMENT REPORT.

Ellerston Global Investments Limited (**ASX: EGI**) encloses its quarterly investment report for June 2015.

Yours sincerely

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Company Secretary
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June Quarter Review

During the quarter global market volatility continued. The US market was flat, Europe moved down as concerns over Greece increased and Japan moved up as QE motored on. The MSCI World Index (local) declined by 0.69% over the period.

Once again volatility in the currency markets was a feature over the period and developments in Greece and China were key drivers of markets during the quarter. Europe in particular has gyrated over the machinations of the Greek crisis. Additionally, and more worryingly, the Chinese market has experienced extreme turbulence. This has been apparent in the more speculative parts of that market. Rising leverage levels caused the market to run up to an unrealistic level. Deleveraging has then caused the market to overreact on the downside. The Chinese authorities' reactive approach to the volatility has been uncharacteristically ham fisted.

The EGI portfolio has navigated through this period of volatility and the performance versus benchmark has been strong.

We remain constructive on European equities with the readiness of the ECB and continue to find attractive opportunities. In the United States, the outlook remains benign and we see the US rotating to a stock-pickers market. We have seen increased spin off and corporate restructuring activity which has provided for some attractive investments.

The road ahead definitely looks bumpier than the past few years. Again, we remain mindful that while Macro is on everyone's minds, geopolitical issues remain very elevated with little real risk being priced in global equities.

Portfolio Performance

Performance %	1 Month	2 Months	3 Months	CYTD	8 Months (1 Nov 2014)
EGI return Pre-tax NTA	-1.45%	1.49%	0.59%	9.55%	14.77%
Benchmark	-2.94%	-1.71%	-0.69%	4.13%	6.31%

Inception 17 October 2014

Portfolio Structure & Key Positions

TOP 5 Portfolio Holdings	
Company	Country
Vivendi	France
GE	United States
EBay	United States
Synchrony Financial	United States
Elis SA	France

Equity Exposure by Country - Invested Capital		
Country Exposure	%	Currency
United States	47.4%	Unhedged
France	17.1%	Hedged
Great Britain	17.7%	Hedged
Spain	10.4%	Hedged
Australia	5.5%	n/a
Netherlands	2.0%	Hedged

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 30/6/15	\$1.15
EGI Market Capitalisation	\$86.63 million
ASX Code: Options	EGIO
Options price at 30/6/15	\$0.24
Option Expiry date	10 th April 2018
Exercise price	\$1.00
Management Fee	0.75% p.a.
Performance Fee	15%

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This quarter we have chosen to highlight our investment in eBay Inc as well as Indivior and Orion Engineered Carbons.

eBay Inc.

Spin Off – Attractive valuation metrics as eBay and PayPal prepare to separate.

eBay Inc. announced on September 30, 2014 that it would spin off PayPal to create two independent publicly listed companies: Ebay, Inc. and PayPal Holdings, Inc. EGI acquired shares in eBay before PayPal listed as a separate entity. The companies commenced trading as separate entities on a when issued basis on July 6, 2015.

PayPal Holdings Inc. – (\$34.70 /share, \$42.2b Market Capitalisation)

PayPal Holdings is a leader in the digital global payments industry. Online and mobile payments account for only \$2.5 trillion of the \$25 trillion Global Commerce Market. Going forward the rate of digital payments growth will be driven by the proliferation of smart phones and accelerated by advances in mobile digital payments. As a truly open platform and trusted brand in a heavily regulated industry, PayPal is well positioned to control a meaningful share of this market.

Company Overview

PayPal has four distinct market leading products and generates the majority of its revenue from a take rate on the Net Total Payment Volume (TPV) that it enables.

- 1. PayPal:** Founded in 1998, PayPal is a global digital payments platform. PayPal allows any business or consumer to accept payments, pay for goods and send or receive money digitally in 203 markets and 30 currencies. The service allows anyone to pay in any way they prefer, including through credit cards (Visa, MasterCard and American Express), bank accounts, buyer credit or account balances, without sharing financial information. As part of the separation agreement, there are payment incentives in place to ensure that PayPal penetration on eBay remains at or above an 80% penetration rate.
- 2. Braintree:** PayPal acquired Braintree in September 2013 for \$713m. Braintree sells payment software to companies such as Uber, Airbnb, Lyft, and LivingSocial among others. Braintree enables mobile app developers and e-commerce merchants to easily and securely accept payments within a mobile app. In Q1 15, Braintree Authorised Payment Volume Growth was up 109%.
- 3. Venmo:** With the Braintree acquisition PayPal also acquired the peer to peer payment company Venmo, which is a free digital wallet that allows users to pay and send money to friends. Transactions on Venmo can be private or public and the app has a social network element where friends can make and follow comments about their payments. Adoption has been driven by its popularity among US college students. In 2014 TPV was \$2.4b. TPV increased to \$1.3b in Q1 2015 up from \$300m in Q1 2014.
- 4. Paydiant:** PayPal acquired Paydiant in March 2015. Paydiant provides a white label mobile wallet platform that includes mobile payments, loyalty, offers, ATM cash access and related commerce services. Paydiant enables merchants to deploy their own secure mobile wallet solutions in store, under their own brand and in their own apps.

PayPal has tremendous global brand equity, a robust platform and significant user base. One in three adults in the US is an active PayPal user. The company has guided to 15%-18% constant currency revenue growth in 2015 with a stable to slightly improving operating margin. The following metrics give an insight to its relevance in the global payments industry:

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Metrics	Growth
165m active customer accounts (Q1 2015)	+13%
\$235b in Total Payment Volume (TPV)	+25%
4 billion transactions	+22%
1 billion mobile transactions	+41%
25 transactions per active account	+9%
10m+ Merchants	
203 markets, 30 currencies	

Financials – 2015 Guidance
\$9.2b billion Revenue
\$1.7b billion Free Cash Flow (mid-range)
\$6.0b Net Cash

PayPal has a newly appointed CEO, Dan Schulman. He previously led Virgin Mobile USA for eight years from its founding, creating one of the first prepaid cell phone providers in the US and then joined American Express leading the company's global strategy to expand its alternative mobile and online payments services. Schulman wants PayPal to be "more than just a button on someone's website". He wants PayPal to be the "operating system for digital commerce" providing cash advance, credit, payments, and transfers. He has already started down this path with the recent announcement that PayPal is set to acquire Xoom, an online international money transfer company, for \$890m.

As an independent company PayPal is better positioned to establish valuable partnerships as a neutral third party with no perceived conflict of interest. It has a strong market position, leading product platforms and significant industry tailwinds. The future growth trajectory of the digital payments industry means that PayPal only has to be one of the winners to create substantial returns for investors. With a Free Cash Flow yield in excess of 4% and \$6 billion of net cash on the balance sheet, the risk reward looks very attractive.

EBAY Inc. – (\$26.30/share, \$31.9b Market Capitalisation)

eBay Inc. is a leading global ecommerce company that was founded in 1995. eBay has evolved over the years and built tremendous global brand equity maintaining its relevance as a go to destination. In the face of headwinds from new competition, a cyberattack and changes to the Google search algorithm that impacted traffic, the company continues to deliver growth and very strong free cash flow.

Company Overview

eBay Inc. operates the eBay Marketplace Platform, other online platforms such as classifieds sites, StubHub and eBay Enterprise. Most of its revenue is generated from a take rate on the Gross Merchandise Volume (GMV) of transactions closed on its trading platforms.

- eBay Marketplace Platform:** Originally founded as an online auction site, eBay is now one of the largest global online marketplaces. There are both fixed and auction style formats of pricing, with both new and second hand products available on eBay. During the most recent quarter 76% of all items sold were new and 80% were sold at a fixed price.
- StubHub:** A marketplace platform that enables users to buy and sell tickets to live entertainment events including sports, concerts and theatre.
- eBay Enterprise:** eBay Enterprise enables commerce, retailing and digital marketing for merchants. This business is likely to be divested in the near future.

eBay is recognized as one of the world's most trusted brands. The following metrics give an insight to its relevance as a global marketplace:

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Metrics	Growth
\$83b in Gross Merchandise Volume (GMV) (FY14)	+9%
\$28b Mobile GMV	+40%
157m active buyers (Q1 2015)	+11%
25m active sellers (Q1 2015)	
59% of GMV International (ex USA)	
75 Average Minutes per Month (Unique visitor)	
6.8 Average Visits per Month (Unique visitor)	

Financials – 2015 Guidance
\$8.8b billion Revenue
\$2.2b billion Free Cash Flow (mid-range)
\$1.0b Net Cash

Before recently being appointed CEO of eBay Inc., Devin Wenig was president of eBay's Marketplace Business. Prior to that he was with Reuters for eighteen years where he rose to become the number two executive. Wenig has outlined his strategy to refocus eBay, and has stated that it will take 18–24 months to work through the issues created by the cyberattack and Google algorithm changes.

As an independent company, the management team will have the ability to focus on improving performance both organically (e.g. improve the seller experience with new tools, data and predictable policies and standards), through reinvestment for growth (e.g. targeted marketing spend to diversify sources of traffic and customer acquisition) and through strategic acquisitions.

The company is struggling to grow revenue but continues to generate significant cash flow. eBay recently guided for 0%-5% constant currency revenue growth and Free Cash Flow of \$2.1b-\$2.3b for 2015.

Absent any operational success, eBay's FCF yield of 6.9%, \$1bn of net cash and prospects for capital management should support the company's valuation. We expect eBay to buyback a substantial portion of its shares over time. The outlook for cash generation will also be enhanced by the potential sale of eBay Enterprise (as announced by the company) which could be worth \$1b. In addition, eBay has an 18.4% stake in MercadoLibre, a listed Latin American e-Commerce company, worth USD\$1.1b and an undisclosed stake in SnapDeal, a leading Indian e-commerce marketplace (private company).

Indivior

Spin Off – World's leading addiction treatment company priced for generic competition but not for low risk pipeline optionality.

During July 2014, Reckitt Benckiser Group (RB) announced that it would spin off its pharmaceutical business (to be named Indivior) as an independent publicly listed company. Indivior commenced trading on December 23, 2014. EGI made an investment in Indivior the week after it commenced trading.

The World Health Organization (WHO) has estimated that globally 23 million people are dependent on some type of opiate, including close to three million in Europe and the US. According to the WHO, every \$1 spent on treatment saves \$12 in healthcare and societal costs. The growth in the addiction treatment market has attracted a variety of new entrants, both branded and generic.

Indivior owns the market leading opiate addiction treatment Suboxone. It also has a very promising development pipeline focussed on addiction with new products set to launch over the next few years. At the time of listing, the market ascribed a greatly diminished valuation to Indivior as its Suboxone franchise was being impacted by the launch of generics and branded competitor products. This coupled with RB holders likely selling down Indivior (non-natural owners) provided a window of opportunity to invest at a compelling valuation.

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Company Overview

Suboxone Franchise

Suboxone is the leading buprenorphine treatment for opioid addiction in the US which accounts for 80% of Indivior's revenue. There are an estimated ten million opioid-dependent individuals in the countries in which Indivior has a commercial presence, only 30% of whom are currently receiving treatment.

Management has been successful at developing new delivery mechanisms for Suboxone which has enabled the product lifecycle to be extended.

Product - USA	Launch Date	Patent Expiry	Generic Launch
Suboxone Tablet - Suck	March 2003	October 2009	February 2013
Suboxone Film - Dissolve	September 2010	2023+	-
Suboxone Monthly Depot - Implant	Est. 2017	-	-
Suboxone Tablet - Swallow	Est. 2018	-	-

Competitive Threat

Suboxone Film has been resilient in the face of growing generic tablet competition and new branded competitors such as Zubsolv and Bunavail. Its market share of 59% at Q1 2015 changed minimally from the previous quarter, with 4 generic tablet competitors now in the market. Indivior's direct sales force of 170 clinical liaisons in the US plays a crucial role in targeting physicians, patient advocacy groups and government agencies.

The most significant threat to Indivior's Suboxone franchise is the threat of generic film competition via the filing of Abbreviated New Drug Applications (ANDA's) by the generic drug makers. To begin the FDA approval process, the generic applicant must: 1) certify in its ANDA that the patent in question is invalid or is not infringed by the generic product (known as "paragraph IV certification"); and 2) notify the patent holder of the submission of the ANDA.

Indivior has three Orange Book listed patents with protection up to 2030. Beginning in August 2013, Indivior was informed of ANDA filings by Par, Watson (Actavis), Alvogen and Teva for generic versions of Suboxone Film in the US. In response, Indivior has filed patent infringement lawsuits against these generic players which means that the FDA cannot approve the generic entrants until the earlier of 30 months after notice to Indivior of their ANDA filings or the disposition of the patent infringement proceedings.

The Alvogen litigation was dismissed as it had prematurely filed its Paragraph IV notice. The next case is Par/Watson (Actavis) set for a November 2, 2015 trial date. If it is deemed that Indivior's patents have been infringed then the generic competitor will be unable to launch. If they are deemed to not infringe Indivior's patents the generic competitor will be able to launch.

While a generic launch of a film product prior to 2017 (the scheduled date for Suboxone Monthly Depot launch) would have a significant impact on Indivior's business we believe that it is unlikely that the cases will go to trial. It is not uncommon to see brand manufacturers and generics settle by agreeing to generic competition at a mutually agreed specified date. For example, Indivior may be willing to let generics enter the market in 2019 once their monthly depot formulation has been in the market. If one case is settled then it is likely others will follow suit. If these matters are settled then a major impediment to Indivior's long terms success would be removed and the stock would be revalued meaningfully higher.

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Product Pipeline

Indivior has a robust product pipeline that aims to extend and optimize the Suboxone (buprenorphine) franchise with new generations of opioid dependence treatments including:

1. Buprenorphine Monthly Depot product that releases buprenorphine over 28 days - 2017
2. Oral Swallowable Tablet with abuse deterrent potential - 2018
3. Higher dose Suboxone® Tablet for distribution in the EU.

It also continues to develop its other dependence and related portfolio with a strong pipeline of products including;

1. *Opioid Overdose - Naloxone Nasal Spray*
Nasal naloxone is in accelerated development with Fast Track Designation from the Food and Drug Administration (FDA) granted in 2014. Estimated approval: 2016
2. *Cocaine Overdose - RBP-8000 Cocaine esterase*
The FDA recognized the potential of Cocaine esterase by granting its Breakthrough Therapy Designation in October 2014. Estimated approval: 2019
3. *Alcohol Use Disorders - Arbaclofen Placarbil*
Estimated approval: 2020
4. *Schizophrenia - RBP-7000 Risperidone*
Estimated approval: 2017

Addiction is a growing epidemic worldwide with over 145m people addicted to opioids, alcohol, cocaine, methamphetamine and cannabis. Indivior has a global footprint, focused on addiction treatment in over 40 countries with more than 700 employees.

Indivior commenced trading at £1.50 with a market capitalisation £1.1b (US\$1.7b). The company has a solid balance sheet with US\$750m of debt and US\$466m of cash on hand. The company recently guided for 2015 net revenue of US\$850m-\$880m and net income of US\$135m-\$155m. With a low risk development pipeline and dominant franchise, Indivior is well placed to weather the storm of current US generic competition and benefit from expanded treatment in the US and new growth from less developed European and rest of world markets.

Orion Engineered Carbons

Post IPO – Opportunity to own a leading global Carbon Black franchise due to a mispriced IPO

Orion Engineered Carbons (OEC), a leading global producer of carbon black, raised \$350m and listed on the NYSE on July 25, 2014. Private equity firms Triton Capital and Rhone Group retained a 67.3% holding. OEC has a convoluted structure being headquartered in Luxembourg, reporting in Euro yet listed on the NYSE. This added a layer of complexity for investors, leading to a mispriced IPO and a great investment opportunity.

The decision to list in the US was based on its nearest competitor Cabot Corp being listed in the US, however Cabot is a US based company. This led to a focus on OEC's structure rather than operations.

With an indicative initial IPO price range of \$21-\$24 the shares priced well below at \$18 and touched a low around \$13 in the months following. This provided an opportunity to own a well-established global carbon black player at a very compelling valuation.

Company Overview

Carbon black is a form of carbon used to improve certain properties of materials into which it is added. OEC divides its carbon black product portfolio accordingly:

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1. Specialty Carbon Black

2014 - Volume 203.2 kmt, Rev €401.3, Adj EBITDA €99.6m

Specialty Carbon Black is used as a pigment and performance additive in coatings, polymers, printing and special applications. It provides black pigment and enhances viscosity, conductivity, static control and UV protection in a variety of coatings, plastics, printing inks, adhesives, sealants and other specialty applications. The production of Specialty Carbon Black requires very specific technical knowledge which creates a significant barrier to entry for any potential new competitors.

OEC is a leading global producer of specialty carbon black with an estimated share of global industry sales of approximately 25% in 2014.

2. Rubber Carbon Black

2014 - Volume 787.7 kmt, Rev €917.1, Adj EBITDA €108m

Rubber Carbon Black is used in the reinforcement of rubber tires and mechanical rubber goods and to adjust specific performances of rubber articles. The company focuses on Tires and Mechanical Rubber Goods (e.g. automotive rubber parts, conveyor belts). Sales are largely regional as transportation costs are high relative to sales price. As a result, the global rubber carbon black industry is more fragmented compared to the specialty carbon black industry.

OEC is the third largest producer of rubber carbon black with a global supply network and an estimated share of global industry sales of approximately 7% in 2014. In the regions where OEC has production units, its local share of industry sales is much higher; European Union (16%), North America (18%), South Korea (34%), South Africa (85%) and Brazil (17%).

Manufacturing - OEC operates a global platform of 13 wholly-owned plants (one in Germany, four in the United States, two in South Korea, and one each in Brazil, Poland, Italy, France, Sweden and South Africa) and one jointly-owned production plant in Germany. The company has a diverse revenue mix with Europe representing 34%, North America 28%, Asia 23%, Brazil 7%, Africa 5% and other 3%.

Contracts & Input Costs - A significant portion of OEC's contracts are indexed and have formula-driven price adjustment mechanisms for changes in raw material and energy costs (approximately 72% in the Rubber Carbon Black segment and approximately 42% in the Specialty Carbon Black segment, based on sales volumes in kmt). Most of the indexed contracts allow for monthly price adjustments, while a relatively small portion allow for quarterly price adjustments. Terms of the non-indexed contracts are usually short and OEC reviews sales prices under these contracts regularly to reflect raw material and energy price fluctuations as well as overall market conditions. Oil is the most significant input cost for carbon black. Due to the nature of customer contracts as the oil price comes down total OEC revenues will decline but absolute margins will increase.

Over the last four years OEC made significant investments to improve efficiency, upgrade plants and optimise its footprint (invested over €170m since 2011). OEC has a strong management team, solid balance sheet, significant barriers to entry and recovering end markets. It generates a near 10% free cash flow yield and pays a c4% dividend yield. The mispriced IPO provided a window of opportunity to invest in a strong global carbon black business franchise at an attractive valuation.

Important note

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