

Ellerston Global Investments (ASX: EGI)

Investment Update – October 2017

Fund Performance (Net)

	1 Month	3 Months	6 Months	1 Year	1 Nov 2014	Annualised Return [^]
EGI*	2.46%	6.39%	8.57%	16.45%	38.99%	11.60%
MSCI World Index (Local)	2.54%	5.07%	8.18%	21.70%	31.03%	9.43%

*Net Return (before tax)

[^]1 Nov 2014 p.a.

Key Facts

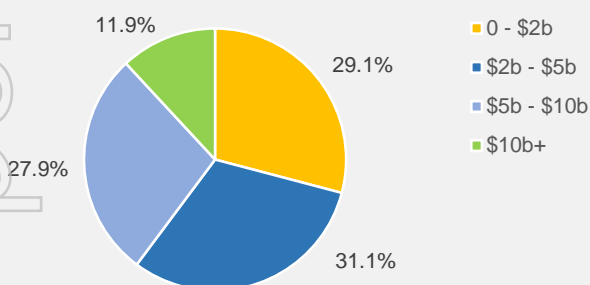
Listing date	Oct 2014
NTA (before tax) **	\$1.2258
NTA (after realised tax)	\$1.2067
NTA (after tax)	\$1.1862
NTA Fully Diluted (after realised tax)	\$1.1440
Share price at 31/10/2017	\$1.10
EGI Market Capitalisation	\$83.8m
Management Fee	0.75%
Option price (ASX: EGIO)	\$0.07
Exercise price	\$1.00
Dividends Paid FY 2017	2.0 cps
Dividends Paid (YTD) - FY 2018	1.5 cps
Dividend Profit Reserve ^{^^}	9.4 cps

Top 10 Holdings

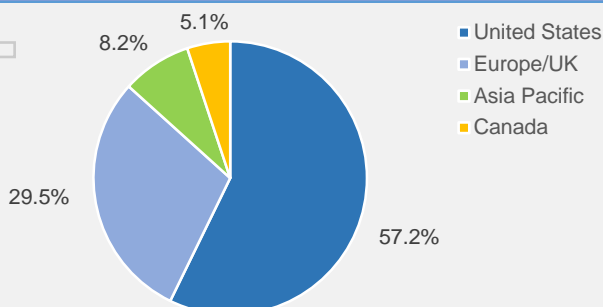
	Weight
Entertainment One Ltd	7.18%
Zayo Group Holdings Inc	5.15%
Equiniti Group Plc	4.97%
Venator Materials Plc	4.52%
Stars Group Inc-The	4.37%
QTS Realty Trust Inc	4.21%
Interxion Holding NV	4.12%
XPO Logistics Inc	4.05%
Acuity Brands Inc	3.91%
Hostelworld Group Plc	3.24%

Sector	Portfolio	MSCI World Index
Consumer Discretionary	17.74%	12.10%
Industrials	17.15%	11.50%
Information Technology	11.65%	17.08%
Financials	10.82%	18.06%
Telecommunications	8.31%	2.76%
Materials	8.31%	5.16%
Real Estate	4.20%	3.10%
Energy	1.80%	6.22%
Consumer Staples	0.00%	8.91%
Health Care	0.00%	11.95%
Utilities	0.00%	3.16%
Other	8.20%	0.00%
Cash	11.82%	0.00%
Total	100.00%	100.00%

Market Capitalisation (% of Invested Capital)



Geographic Gross Exposure (% of Invested Capital)



** 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 October 2017.

EGI went ex-dividend a 1.5 cent fully franked dividend on the 5th of September 2017, with a payment date of the 6th October 2017.

^{^^} After the payment of the 2017 final dividend the Company will have a dividend profit reserve of 9.4 cents per share based on shares on issue at 31/10/17. Cps refers to cents per share.



Portfolio Update

The **EGI portfolio** increased 2.46% net during the month of October. The NTA (before tax) at the end of October was \$1.2258.

Contributors to performance included **Entertainment One, Venator Materials** and **QTS Realty**. Detractors from performance included **Philips Lighting, Hostelworld** and **Acuity Brands**. EGI had ten companies report earnings in October. A new position, **Venator Materials** reported a strong Q317 result. Venator is the No.3 Titanium Dioxide (TiO₂) producer globally and the largest player in Europe. TiO₂ is a white pigment critical to a wide range of applications from paint to sunscreen to food coloring. The listing of Venator by Huntsman Corp (retained 75% holding) comes in the early earnings of a cyclical recovery in the TiO₂ industry. TiO₂ profitability peaked in 2011 and declined for years with supply/demand fundamentals only starting to improve in Q116. With prices still c40% below peak, Chinese production decreasing and recent industry consolidation the TiO₂ market looks more attractive in this current cycle. Venator's Q317 results were well ahead of expectations with TiO₂ prices continuing to rise, cost savings tracking ahead of plans and free cash flow increasing providing for further debt reduction in the coming years.

Philips Lighting reported a Q317 result for both the bulls and the bears with comparable sales growth of 1.3%. Professional and Home (connected LED) demonstrated revenue growth and margin improvement well ahead of expectations. LED lamp (standard bulbs) sales were lower than expected and a slowdown in LED electronics was due to soft market conditions in the US. The market was also concerned by the buildup in inventory and lower free cash flow generation, a result of slower activity in certain geographies and higher inventory levels in Home in anticipation of the Christmas period. As mentioned in the September Quarterly, Philips is undergoing a business transition and the stock will be volatile. We are of the view that the structural tailwind of connected LED lighting will ultimately be reflected in the valuation of the 'new' Philips Lighting a clear leader in connected LED lighting.

QTS Realty also reported Q317 results, its strongest sequential revenue and EBITDA growth since Q215. The standout for the quarter was QTS' sequential growth and \$15.3m of leasing commitments. QTS continues to expand capacity benefiting from demand for data.

Lastly, **PayPal** once again delivered a stellar result in Q317 beating guidance and consensus expectations. The company reported 8.2mil net new actives in the quarter with engagement increasing and Pay with Venmo now rolled out to 2.0mil PayPal merchants.

Market Commentary

Global equity markets were strong in October with gains supported by solid earnings growth and increasing evidence of synchronized global growth. The MSCI World Index was up 2.5% for the month.

US equity markets had their best month since February and the dollar strengthened as investors assessed the prospects for the much anticipated tax cuts. The Dow Jones ended the month up 4.4%, adding nearly 1,000 points. The broader S&P 500 Index finished October up 2.3% with the NASDAQ up 3.6%. US markets were also supported by positive company earnings growth, especially in the technology sector - Amazon, Alphabet and Microsoft reached near record highs. For context, over half of the S&P500 return for the month came from MFAANG.

The US economy recorded its fastest six-month stretch of growth in three years (3% in the Q317 following a 3.1% print in the Q217). Additionally, in October, speculation over the new chair of the Federal Reserve continued. On 2 November, President Trump named Jerome Powell as the next chair of the Federal Reserve. A governor on the Federal Reserve since 2012, Powell is not expected to deviate from the policy path set out by Janet Yellen, the exiting chair.

In Europe, the ECB said that it was reducing the quantum of its asset purchases to €30 billion a month from €60 billion, effectively scaling back its QE program. With inflation below the ECB's target, Mr. Draghi said that further QE was justified. European equity markets were stronger in the month, with the Euro Stoxx 50 up 2.3%, as was Germany's DAX (+3.1%) and France's CAC40 (+3.3%). The UK economy expanded faster than expected in Q317 with GDP growing 0.4%. Inflation over the last 12 months reached 3.0%. The FTSE returned +1.8% in the period. On 2 November the BOE raised interest rates for the first time in a decade by a quarter of a percentage point to 0.50%.

In Asian markets, most major exchanges recorded very strong rises in October, led by the Nikkei which rose by 8.1%, the Indian exchange up 6.4%, and the Hang Seng up 2.6% while the Shanghai Composite in China was up 1.3%.

The **S&P/ASX 200 Accumulation Index** closed up 4.0% shrugging off the political imbroglio of the High Court decision that Deputy PM Barnaby Joyce was ineligible to sit in parliament by virtue of being a dual citizen of New Zealand when elected. After lagging the rest of the world over the past six months, the Australian market finally began to respond to the increased evidence of a global growth pick up.



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Dividends

If you would like to have dividends re-invested under the Company's Reinvestment Plan, click [here](#)

Options

If you would like to exercise your options, click [here](#)

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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

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