Monthly NTA Statement

December 2018

Ellerston Global Investments Limited
ACN 169 464 706

11th January 2019

Company Announcements Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Ellerston Global Investments Limited (**ASX: EGI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the company as at 31 December 2018:

NTA per share	31 December 2018
NTA before tax#	$0.9864
NTA after realised tax	$0.9915
NTA after tax	$1.0148

The NTA is based on fully paid share capital of 109,983,363.

#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.

The company's net performance before tax for the month of December was -6.94%.

Ian Kelly
Company Secretary

Important Note

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.

Contact Details

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Ellerston Capital

Ellerston Global Investments (ASX: EGI)

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PERFORMANCE (%)

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	1 November 2014	Annualised Return*
Fund Net^	-6.94	-16.31	-13.82	-12.73	3.45	26.26	5.75
Fund Gross	-6.85	-16.08	-13.36	-11.77	4.66	33.11	7.11
Benchmark	-7.86	-13.14	-8.55	-7.38	6.15	24.64	5.43

^Net Return (before tax) and excluding option dilution. *1 November 2014

PORTFOLIO UPDATE

The EGI portfolio declined 6.94% net during the month of December. The NTA (before tax) at the end of December was $0.9864.

EGI invests with a mid-small cap bias, defined as companies with a market cap of sub US$10 billion. The month of December was a difficult month across most asset classes with headline index movements during the month quite pronounced, the MSCI SMID Cap index was down 8.78% during the month. Notably as at the end of 2018, the average mid-small cap stock is now down 31.8% from its respective intra year high.

Contributors to performance this month included **Tribune Media**, **Ciena** and **Keysight**. Detractors from performance included **Zayo Group**, **Interxion** and **Willscot**.

EGI had a relatively quiet reporting month with only two portfolio companies reporting quarterly results, however, both were ahead of expectations and confirmed the strong demand trends underpinning each company.

Docusign delivered another beat and raise quarter with a very strong Q3 result of 37% revenue growth (34% YoY organic) and 40% Billings growth beating guidance and consensus estimates. The result continued the very strong growth trajectory of the business as it continues to execute on penetrating its $25bn TAM, and in fact demonstrated acceleration over Q2 in both subscription revenues (95% of revenues) and billings. DOCU's products continue to resonate with customers, who are spending more with DOCU as they find more use cases for the key products, demonstrated by a revenue retention rate of 114%.

Ciena delivered a very strong Q4 result of $899m in revenues (+20.8% YoY) and EPS of $0.53 (+65.6% YoY), both comfortably ahead of guidance and consensus by 4.4% and 10% respectively. Management upgraded its 3 year business targets which include revenue growth of +6-8%, operating margins of at least 15% by 2020, adjusted EPS growth of over 20% per year and FCF of 60-70% of operating income. These targets reflect the strength of its underlying markets as well as expectations of continued market share gains.

EGI had previously initiated a position in **Tribune Media** after its share price declined considerably following its withdrawal from a buyout deal with Sinclair Broadcasting in August. We have provided a more in-depth overview of the business and purchase thesis in this newsletter, however pleasingly at the beginning of December, Tribune received a new all cash takeover offer from Nexstar Broadcasting valuing the company's scrip at $46.50 per share.

During the month we exited our position in Huntsman as concerns around slowing global growth and inventory destocking creates potential earnings risk in our view. While the share price has declined over the past few months, we considered the uncertainty around future earnings trends too great at this point and would rather revisit when we have a clearer view of its earnings trajectory.

Key Facts

Listing Date	October 2014
NTA (before tax)**	$0.9864
NTA (after realised tax)	$0.9915
NTA (after tax)	$1.0148
Share Price at 31/12/2018	$0.97
EGI Market Capitalisation	106.7m
Management Fee	0.75%
Performance Fee***	15%
Annualised Fully Franked Dividend FY19^^	3.0cps
Benchmark	MSCI World Index (Local)

** 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.

^^ Annualised dividend is a financial term of analysis based on the total shares on issue at 31/12/18 and on the 1.5cps dividend paid on FY18 interim results (excluding special dividend). Any actual dividend declared by the Company is subject to Board discretion and may vary. Past performance is not an indicator of future performance.

*** 15% of the investment return over the Benchmark return (MSCI World Index Local), after recovering any underperformance in past period.

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MARKET COMMENTARY

December was a tumultuous month for **global equity markets.** The MSCI World Index dropped a painful 7.2%. Surprisingly, emerging markets returned -2.9% and managed to outperform developed markets which returned -7.7%. Investors fled to traditional safe havens of gold, the Japanese Yen and US long bonds. All geographies performed badly, with some key markets in bear-market territory from their 2018 highs.

The **S&P 500 Index** and the Dow Jones Industrial Average Index ended December down a staggering 9.0% (2018: -4.4%) and 8.6% (2018: -3.5%), respectively. The NASDAQ fared worse and fell precipitously by 9.4% (2018: -2.8%). To put this in context, the S&P 500 and the Dow recorded their worst December performance since 1931 and biggest monthly loss since February 2009. In 2018, the S&P 500 and the Dow fell for the first time in three years, while the NASDAQ broke a six-year winning streak. The Fed raised rates by 25 basis points as expected, moving the Fed funds rate range to 2.25-2.50%. This was despite the stock market sell-off and the ill-tempered "jaw boning" and constant tweeting by President Trump, including comments that he was looking to fire Fed Chairman, Powell. However, the Fed has dialled back its projections and signalled a further two hikes in 2019, down from three (indicated in September). It continues to see at least one more hike in 2020 and none in 2021.

European equity markets were also sharply weaker in December, as global growth concerns weighed heavily on sentiment. The Euro STOXX 50 Index closed down 5.3% (finishing down 12.0% in the 2018 calendar year). Activity indicators in Europe were weaker again, as the Euro area composite PMI fell 1.4 points to 51.3 and consumer confidence deteriorated from -3.9 to -6.2 in December. All major European indices were in the red. The UK's FTSE 100 was down 3.5%, France's CAC 40 was down 5.2% and Germany's DAX fell 6.2%. The DAX is the worst performing major European market in 2018, with a return of -18.3%.

Asian equities were hit hard in December, with Japan bearing the brunt of slowing global growth and the aggressive withdrawal of US-dollar liquidity as the Fed tightened. The Hang Seng Index returned -2.5%, Korea's KOPSI Composite Index was down 2.7%, the Chinese market represented by the SSE Total Market Index was down 4.5% (and -21.9% in 2018), while Japan's Nikkei 225 was down 10.3%, posting its worst December in over 50 years.

Against this backdrop, the **S&P/ASX 200 Accumulation Index** closed the month down 0.12%, a remarkably resilient performance considering. In the month of December, despite slowing global Industrial Production, the ASX 200 Resources Accumulation Index was the best performer, up 5.1%. Again, the Reserve Bank of Australia kept the cash rate unchanged at 1.5% in December. 3Q18 GDP growth was a sluggish 0.3% quarter-on-quarter.

Regards,

Bill Pridham and Arik Star

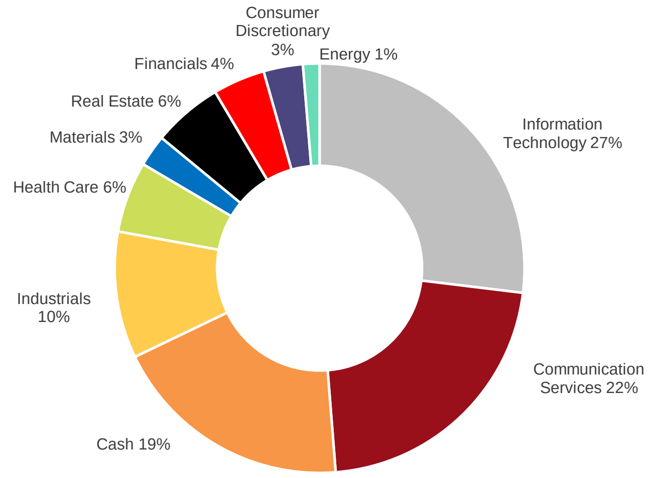
EGI Co-Portfolio Managers

TOP HOLDINGS

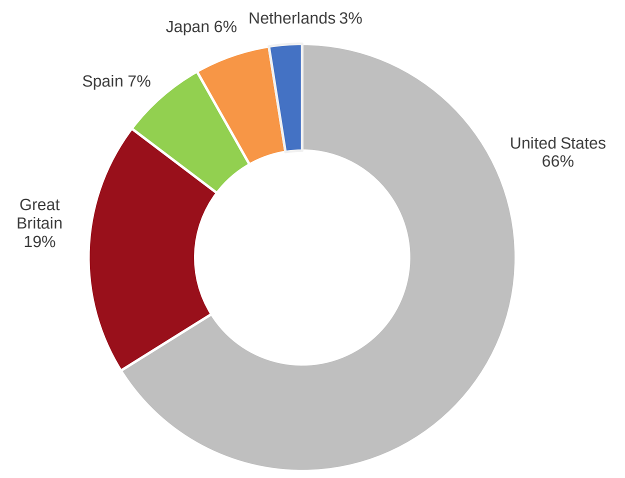
Top 10 holdings as at 31 December 2018	Sector	%
Equiniti Group Plc	Information Technology	6.81
Interxion Holding NV	Information Technology	6.79
Entertainment One Ltd	Communications Services	5.78
Premier Inc	Health Care	5.65
Zayo Group Holdings Inc	Communications Services	5.63
Cellnex Telecom SA	Communications Services	5.27
Tribune Media Co	Communications Services	5.17
Keysight Technologies Inc	Information Technology	4.74
QTS Realty Trust	Real Estate	3.03
Teradyne Inc	Information Technology	2.77

SECTOR & GEOGRAPHIC ALLOCATIONS

Sector Exposure



Geographic Exposure (% of Invested Capital)



Source: Ellerston Capital

QUARTERLY STOCK SPOTLIGHT

Tribune Media (Market Cap $3.96bil, Share Price $45.18)

Tribune Media is a diversified media and entertainment business in the US, with its core operations comprised of 42 local television stations reaching 44% of all US households. Whilst traditional linear and cable television is in many ways under intense pressures from modern streaming players such as Netflix and the like, there are two elements which remain highly strategic assets – news, in particular local news, and sports. These are Tribune's local stations focus and strength.

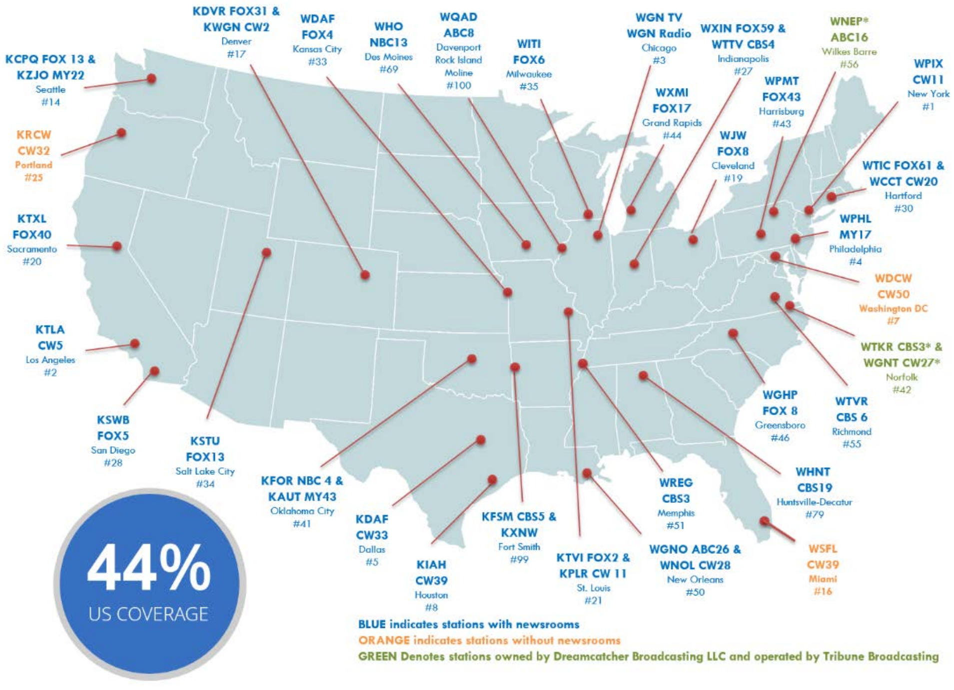
Historically, Tribune has also owned a significant portfolio of non-core assets. Following a strategic review of the whole company in 2016, Tribune has been simplifying and rationalising its business; monetising the non-core investment portfolio and ultimately placing the remaining core business up for sale. Following the failure of an elongated merger process with Sinclair Broadcast Group in August 2018 we were able to invest in Tribune during a period a price discovery. We believed that at our entry price, we had an asymmetric risk/reward scenario, paying a c.5.5x EBITDA multiple for the core business ex investments with an effective net cash balance sheet.

Ultimately, the strategic nature of Tribune's core assets, in conjunction with the US regulatory broadcast changes made in 2017 saw another peer, Nexstar Media Group, agree to purchase Tribune less than four months after the Sinclair merger failed, for $46.50 cash per share in a $6.8 billion transaction a little over three months after our investment.

Tribune Media Business

Tribune Media operates 42 local television stations and related websites, including 39 owned stations, focussed on providing quality news, entertainment and sports programming. Reaching more than 50 million US households, representing approximately 44% of all US households, Tribune is the largest independent station group in the US, with affiliates representing all of the major over-the-air networks, including CBS, ABC, FOX, NBC, the CW and My TV. Tribune also owns the national entertainment network, WGN America, WGN-Radio and a significant number of real estate properties and strategic investments.

Tribune produces over 80,000 hours of local news annually. Local news production remains a strategic asset and Tribune's scale allows it to leverage its breadth of coverage to distribute local content on a national scale by sharing news stories on-air and digitally across Tribune-covered markets. In 22 of the 27 markets where Tribune produces its own news, Tribune is ranked either #1 or #2. On the sports side, in several markets, Tribune has acquired local television broadcast rights for certain sporting events, including Major League Baseball ("MLB") baseball, National Basketball Association ("NBA") basketball, and National Hockey League ("NHL") hockey. Additionally, stations that are affiliated with FOX, CBS and NBC, broadcast certain NFL football and MLB baseball games, and other popular sporting events provided by these networks.



Tribune also owns the national general entertainment cable network, WGN America, which is available in more than 77 million households nationally. WGN America provides a platform for launching high quality scripted programming and is currently benefiting from a strategic focus on cost reductions alongside an improved programming slate.

Tribune has also historically owned a significant portfolio of non-core assets. The largest investment is a 31% stake in the Television Food Network, which is a top tier cable asset. Discovery Communications operates the network as the majority owner and pays Tribune quarterly cash distributions.

On February 29, 2016 Tribune Media announced that it had initiated a process to review various "strategic and financial alternatives to enhance shareholder value". Part of this review focussed on the continued monetisation of Tribune's non-core investments. As such, in December 2016, Tribune announced that it has agreed to sell substantially all of its Digital and Data business operations, comprised of Gracenote video, music and sports, to the Nielsen Company for $560 million in cash. In 2017 and 2016, Tribune sold several properties for net pre-tax proceeds of $144 million and $506 million, respectively. Tribune estimated on their Q2 2018 earnings call that their remaining real estate portfolio was worth $500 million. Tribune also owns a number of smaller equity investments, notably a 5% stake in MLB team, the Chicago Cubs.

Failed Sinclair Merger

Following the election of Donald Trump, in April 2017, the US Federal Communications Commission (FCC) relaxed some regulations and reinstated the so-called 'UHF discount' which effectively allows broadcasters to operate with greater market shares than what had been allowed under previous regulation. Given the significant benefits of scale in Tribune's core business and the material synergies involved in any industry consolidation, a quick result of this regulatory change was the May 8, 2017 announcement that Tribune had entered into a merger agreement with Sinclair Broadcast Group. Sinclair had agreed to pay $35 cash per share and 0.23 of a share of Sinclair stock to Tribune shareholders. At the time of the deal Sinclair's share price implied a $3.9 billion transaction or $43.50 per Tribune share. When announced, the transaction had been unanimously approved by both Boards of Directors and was anticipated to close in the fourth quarter of 2017. In order to comply with FCC ownership requirements and antitrust regulations, Sinclair was subject to requirements to sell stations in certain markets, with such divestitures set to be determined through the regulatory approval process.

More than six months after the initially proposed merger close date, on July 16, 2018, FCC chairman Ajit Pai said he had "serious concerns" about the proposed merger, with evidence presented as part of the regulatory approval process suggesting that the planned divesture of certain stations "would allow Sinclair to control those stations in practice, even if not in name, in violation of the law." Tribune's share price fell from $38.56 to $32.12 the same day. Ultimately, on August 9, 2018 Tribune announced it had terminated its merger agreement with Sinclair on the basis of Sinclair's wilful and material breaches of its covenants and filed a lawsuit for breach of contract. Tribune alleged that Sinclair wilfully and materially breached its obligations under the merger agreement to use its reasonable best efforts to promptly obtain regulatory approval of the Merger so as to enable the Merger to close as soon as reasonably practical.

Opportunistic Investment – Sum of the Parts

On the same day of the merger termination announcement, Tribune also reported its Q2 2018 earnings. These results demonstrated that even with the distraction of a high-profile merger, Tribune's core business operations were strong. The results were driven by solid performance across the business with a focused emphasis on revenue growth opportunities and continued vigilance around cost management and cash flow optimisation. CEO, Peter Kern commented on the Q2 2018 earnings call – *"Tribune Media is in the best shape it has been for a long time, posting the strongest quarter adjusted EBITDA since we emerged from bankruptcy in 2012."*

Tribune highlighted seeing meaningful improvements in core advertising pacing in the third quarter and continued strength in political advertising. Tribune's station portfolio is well positioned in the current political environment with multiple stations in many of the key battleground states, such as Indianapolis, Missouri, Pennsylvania, etc. The growth in political advertising revenue in the first half of 2018 was particularly noteworthy, driven by estimated share gains of more than 200 basis points, reflecting the strength of Tribune's local news franchises and the addition of nearly 200 hours of local news since the 2014 mid-term cycle. Between the growth in overall political spending and these share gains, political advertising was up more than 100% compared to the first half of 2014 (the previous corresponding mid-term election cycle period).

Tribune's largest investment, a 31% stake in the Television Food Network, has delivered growing cash distributions in recent years, we estimate Tribune received a c.$185 million cash distribution for its ownership stake in the network in 2017. When conservatively applying an 8% yield to this distribution amount, net of tax expenses, we believed this stake was worth c.$2 billion. On the Q2 2018 earnings call Tribune estimated its remaining real estate portfolio to be worth $500mil, net of taxes again we assessed this to be worth c.$400mil. Netting only these two assets off against Tribune's net debt and pension liabilities, we were effectively paying c.5.5x (Avg 2018/2019) EBITDA for Tribune's core business which was a 2-3 multiple turn discount to its broadcasting peers. This valuation discount was attractive as Tribune was clearly benefitting from improving underlying trends, operational efficiencies and a very strong political advertising slate. EGI initially purchased shares on the 22nd August at an average entry price of $36.51.

Whilst simplistic, another framework to use is that a highly sophisticated buyer was willingly to pay $43.50 a share a year and a half ago with the failure of the merger having nothing to do with Tribune's fundamental business performance. To the contrary, in that year and a half, Tribune's operating trends at a revenue level had improved, significant costs had been taken out of the business, the strategy around WGN had been successfully improved and management continued to effectively monetise non-core investments. In our view, the company was fundamentally in a much better position, yet trading c.16% lower than the previous bid price.

Tribune's Q3 2018 result would act to confirm the strong underlying operating trends the business had seen in Q2 2018. In terms of political advertising, CEO Peter Kern cited on the Q3 earnings call – *"Q3 advertising revenues were the strongest they've ever been for Tribune Media Company, up 90% from the last midterms in 2014 and up 36% from the presidential cycle in 2016."* This growth reflects not only an unprecedented amount of political spending in the US, but also significant share gains for Tribune. Interestingly, and particularly for 2019 which is traditionally an 'off-year' in the way of political advertising revenues, management offered the following comments – *"These unprecedented numbers suggest we may be seeing a fundamental shift in spending patterns in this category. Not only have the numbers grown significantly, but we may be seeing the start of an always-on political cycle."*

Overall, CEO Peter Kern summarised the current state of the business on the Q3 2018 earning call best – *"So to recap, this was Tribune Media Company's strongest third quarter revenue and EBITDA from our continuing operations. Political advertising came in at record levels and core advertising trends have improved significantly during the year. WGN America and TV Food are performing very well. Our balance sheet is strong. We're making meaningful strides in the continued monetization of our real estate portfolio and the fourth quarter is shaping up for a great finish to the year."*

Knowledge Premium

A small but highly important aspect of our investment in Tribune was a concept we often refer to as the 'knowledge premium'. Having been shareholders of Tribune Media in the past there was a level of familiarity we had with the business and its assets that afforded us the ability to act opportunistically albeit with a level of confidence given our knowledge of past industry trends and company specific strategic initiatives.

Nexstar Media Bid

Ultimately, the lure of consolidation and scale benefits proved too strong for other industry players to ignore. On December 3rd 2018, Nexstar Media Group and Tribune announced that they had entered into a definitive merger agreement whereby Nexstar will acquire all outstanding shares of Tribune for $46.50 per share in a cash transaction that is valued at $6.4 billion including the assumption of Tribune media's outstanding debt. The transaction reflected a 15.5% premium to Tribune's prior day (November 30th) closing price and would make the combined entity the largest operator of local US television stations. The bid price represents a premium of 27.4% to EGI's entry price, a little over 3 months after our investment.

Investment Summary

Our successful investment in Tribune Media is an example of the odds working in our favour and with some luck, quicker than we would have expected. However, we're reminded of the famed Peter Lynch quote *"In this business, if you're good, you're right six times out of ten."* We will continue to look to invest capital in situations where we feel there is a margin of safety and a favourable risk/reward profile. Investing in companies when we believe there to be multiples of upside versus the prospective downside, we believe to be a great recipe to compound capital and investor returns over long periods of time.

Research Ratings

Independent Investment Research (IIR) is an independent investment research house based in Australia and the United States. IIR conducted research in December 2017 and has assigned Ellerston Global Investments Limited (ASX code: EGI) a **Recommended** rating.

Dividends

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

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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