

14 January 2020

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

**MONTHLY NTA STATEMENT - December 2019**

Ellerston Global Investments Limited (**ASX: EGI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the Company as at 31 December 2019 is:

| <b>NTA per Share</b>     | <b>31 December 2019</b> |
|--------------------------|-------------------------|
| NTA before tax           | \$1.2980                |
| NTA after realised tax * | \$1.2913                |
| NTA after tax ^          | \$1.2364                |

These figures are unaudited and indicative only

The NTA is based on fully paid share capital of 105,300,394.

\* 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.

On 27 March 2019, EGI announced a new on-market buy-back of up to 10% of its shares, commencing 16 April 2019 and continuing for twelve months. Since 16 April 2019 a total of 4,805,097 shares had been bought back.

The company's net performance before tax for the month was 4.59%.



Ian Kelly  
Company Secretary

**Contact Details**

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](mailto:EGI@linkmarketservices.com.au).

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# Ellerston Global Investments Limited (ASX:EGI)

Performance Report | December 19

## PERFORMANCE SUMMARY

| Performance      | 1 Month | 3 Months | 6 Months | 1 Year | CYTD   | Since Inception (p.a.) |
|------------------|---------|----------|----------|--------|--------|------------------------|
| Net <sup>^</sup> | 4.59%   | 11.48%   | 16.73%   | 35.37% | 35.37% | 10.93%                 |
| Benchmark*       | 2.28%   | 7.48%    | 9.13%    | 27.34% | 27.34% | 9.35%                  |
| Alpha            | 2.31%   | 4.00%    | 7.60%    | 8.03%  | 8.03%  | 1.58%                  |

Source: Ellerston Capital Limited

<sup>^</sup> The net return figure is calculated before all tax provisions, after fees & expenses, includes the effects of the share buyback, and excluding the effects of option exercise dilution. Past performance is not a reliable indication of future performance

\*MSCI World Index (Local)

## PORTFOLIO COMMENTARY

The EGI portfolio rose 4.59% net during the month of December outperforming its benchmark by 2.31%, making 2019 the best calendar year performance on record (+35.37%) since the Fund's launch in 2014. The NTA (before tax) at the end of the month was an all-time high \$1.2980.

Global equity markets were generally strong across the board during December with the MSCI World (Local) Index performance of 2.28% driven particularly by the US and UK markets. The US/China Phase One deal was agreed to in principle (with actual signing in mid-January) and when coupled with Boris Johnson's resounding UK election victory in early December (paving the way for Brexit), markets benefited from key near term overhangs being removed.

Contributors to performance this month included **Cerence**, **Freee** and **Ciena**. Detractors from performance included **Liveperson**, **Cellnex Telecom** and **LiveRamp**. On the back of solid equity markets, we note that the top three contributors added 235bps of performance while the accumulated impact from detractors was much less at 33bps. There were only two results during the month with Ciena delivering solid numbers and Cerence beating expectations in its inaugural result.

**Ciena** remains one of the largest positions in the Fund as it continues to benefit from the multi-year secular growth associated with exploding data consumption. As Ciena has an October year end, this was its full year result for FY19 and strong trends continued into the fourth quarter driving full year revenue up 15% and EPS an even more impressive 50%. Guidance for FY20 was announced which was in-line with buy-side expectations and drove a 20% rally on the day as sell-side analysts had been downgrading earnings and recommendations into the result.

**Freee** was listed on the Japanese market as a **new IPO** in early December and we accumulated our position on the first day of trading as we considered the long-term growth prospects and earnings leverage of the business were not being reflected by the market post its listing. Freee has similar characteristics to locally listed Xero in that it has very strong unit economics as the leader in cloud-based accounting software solutions in Japan with 55% market share of SaaS delivered products. Cloud accounting software adoption in Japan is running at just over 14% compared with 53% in the US and over 61% in Australia and represents a long runway of growth ahead at very high incremental margins.

**Cerence** was a **spin off** from our position in Nuance where we received one share of Cerence for every eight shares of Nuance we owned. This resulted in a very small position for the Fund (as would have been the case for many other funds) and resulted in classic post spin share price weakness as the much smaller, less well-known Cerence was sold by many creating a great opportunity to add to our position during the month. Cerence reported its inaugural results in mid-December with all metrics ahead of expectations and when coupled with increased awareness associated with two investor conferences and product announcements leading into the Consumer Electronics Show (CES) in Las Vegas, we benefited from its 45% price increase during the month.

**Grand Canyon Education** was a new entrant to our Fund and top 10 holdings during the month. A **classic fallen angel** opportunity from a business we have owned in previous endeavours. By maintaining close connection to the company, we were able to talk with Management and quickly come up the curve in determining that the share price weakness created a very compelling opportunity. Grand Canyon Education had declined >34% from its high in August 2019 as

### Key Facts

|                                       |                 |
|---------------------------------------|-----------------|
| Listing Date                          | 20 October 2014 |
| NTA (before tax)*                     | \$1.2980        |
| NTA (after realised tax) <sup>^</sup> | \$1.2913        |
| NTA (after tax)**                     | \$1.2364        |
| Share Price at 31/12/19               | 1.185           |
| EGI Market Capitalisation             | \$124.8 Million |
| Management Fee                        | 0.75%           |
| Performance Fee                       | 15%             |

\* NTA (before tax) – Includes taxes that have been paid.

<sup>^</sup> 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 market became concerned around the potential for Democratic regulatory impact on for profit universities and one of its comparables declining considerably in late July on the back of very disappointing results which were specific to the company and not to Grand Canyon Education prospects.

## STOCK IN FOCUS: AMEDISYS (AMED US, US\$5.75B MKT CAP)



We are excited to launch the “Stock in Focus” series, a monthly update on one of our top holdings. We start with one of the largest pure play healthcare services companies in the US, **Amedisys**.

### What they do

Amedisys is one of the largest pure play healthcare services companies in the US which provides care in the home through two main divisions, Home Health and Hospice. The secular drivers behind the “Aging in Place” thematic are profound as the 85 and older cohort is the fastest growing demographic in the US and these are closely followed by 78 million baby boomers. Nearly 90% of older adults want to age in their homes rather than in institutional settings and the cost/quality of life benefits around at home care are indisputable.

In Home Health it operates over 320 care centres across 34 States and helps people recover from illness, injury or surgery, avoid unnecessary rehospitalisation and manage long-term conditions with nursing, therapy and other services at home, all coordinated with physicians and other healthcare providers. Hospice services are provided by over 80 care centres in 22 States across the US and deliver physical, emotional, and spiritual care and support during a life-limiting illness, along with help for families and caregivers.

### Why we invested

We attended the CES Conference in early January last year and one of the key thematic and long term “problems”, which was being talked about, was the combined impact from the aging demographics in the US, the high cost of institutional treatment and the desire for older adults to be treated and cared for in their own home environment. The benefits around quality of life and cost of delivery (at home care roughly one quarter the cost of a Skilled Nursing Facility) seemed very apparent to us. There were very few pure play ways to participate in this thematic however we found Amedisys’ share price had declined by >20% from recent highs as the industry was going through a generational overhaul by the Centers for Medicare and Medicaid Services (CMS). CMS was implementing a Patient-Driven Groupings Model (PDGM) which was the largest overhaul to the home health sector in over 20 years. Parameters discussed by CMS seemed onerous to the industry and hence created significant uncertainty as to ongoing levels of profitability. After meeting with Management in Nashville we considered the potential impact to Amedisys as very manageable and actually provided significant long-term benefits to its business as well as the industry.

### Outlook

The Home Health and Hospice markets will continue to benefit from strong secular growth driven by demographics, patient desire to have care delivered at home and significant cost savings associated with treatment outside an institutional setting. PDGM has been announced and with bipartisan political support the terms were less onerous than initially anticipated. That said, the changes associated with PDGM and reduced pre-payment schedules to home health providers will see significant capacity (estimates of 15-40%) come out of the system as “Mom and Pop” operators leave the industry. We see a substantial opportunity for Amedisys to increase its market share in this highly fragmented industry as stranded patients move to its platform. This coupled with an extremely strong balance sheet and cash flows sets Amedisys up for double digit earnings growth CAGR over the next few years.

Kind Regards,

Bill Pridham and Arik Star

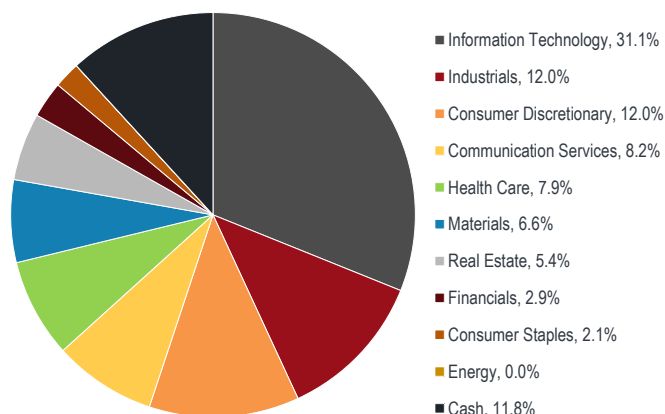
EGI Co-Portfolio Managers

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

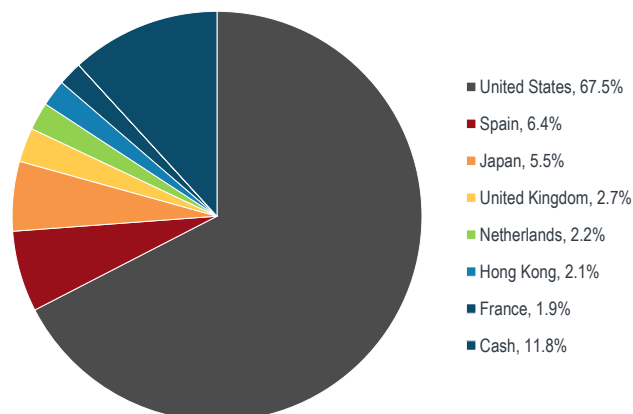
| Top 10 Holdings            | Country       | Sector                 | %     |
|----------------------------|---------------|------------------------|-------|
| Cellnex Telecom            | Spain         | Communication Services | 6.37% |
| Ciena Corporation          | United States | Information Technology | 5.23% |
| WillScot Corporation       | United States | Industrials            | 4.73% |
| Graphic Packaging          | United States | Materials              | 3.78% |
| Tempur Sealy International | United States | Consumer Discretionary | 3.55% |
| Amedisys                   | United States | Health Care            | 3.40% |
| Grand Canyon Education     | United States | Consumer Discretionary | 3.35% |
| Interxion Holding          | United States | Information Technology | 3.31% |
| Cerence                    | United States | Information Technology | 3.01% |
| Anritsu Corporation        | Japan         | Information Technology | 2.95% |

### SECTOR ALLOCATION



Source: Ellerston Capital

### GEOGRAPHIC ALLOCATION



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