

13 February 2020

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

**MONTHLY NTA STATEMENT - January 2020**

Ellerston Global Investments Limited (**ASX: EGI**) advises the unaudited Net Tangible Asset backing (**NTA**) per share of the Company as at 31 January 2020 is:

<b>NTA per Share</b>	<b>31 January 2020</b>
NTA before tax	\$1.2877
NTA after realised tax *	\$1.2754
NTA after tax ^	\$1.2287

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 -0.79%.



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 | January 20

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	FYTD	Since Inception (p.a.)
Net <sup>^</sup>	-0.79%	8.09%	12.40%	25.81%	15.80%	10.58%
Benchmark*	-0.25%	5.23%	7.58%	18.44%	8.85%	9.15%
Alpha	-0.54%	2.86%	4.82%	7.37%	6.95%	1.44%

Source: Ellerston Capital

<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 declined 0.79% net during the month of January. The NTA (before tax) at the end of the month was \$1.2877.

January marked the start of another reporting period for stocks and to date we have seen beats met with a relatively muted response while some in line results and particularly misses have been punished. That said, so far reports seem to have come in generally better than expected and when coupled with an accommodative Fed, equity markets have remained fairly well bid. Exogenous factors such as the coronavirus, lingering execution risk over Brexit and whether or not we get a Phase 2 deal between the US and China will likely result in continued volatility.

Contributors to performance this month included **Cardlytics**, **Cellnex Telecom**, and **XPO Logistics**. Detractors from performance included **Grand Canyon Education**, **PVH Corp** and **LiveRamp**. Graphic Packaging and Envista reported during the month while Cardlytics gave a trading update ahead of its presentation at the ICR Conference.

**Grand Canyon Education** was mentioned as a new entrant into the Fund in our last newsletter however we wanted to provide an update on the back of recent events. At the end of January there was a short report issued on the company which accused Management of fraudulent accounting practices involving the listed entity and the unlisted ground campus which is a substantial customer for the group. Upon immediate discussions with Management, we came away comfortable that there is NO fraudulent activity. That said, Grand Canyon markets to prospective students and other universities (to manage front and back office systems) and with this damning label in the market we decided to exit the position until we get further clarification on the brand impact. We took a 28bps capital loss which we are not happy about however consider the move as prudent given changing dynamics.

On a brighter note, **Cardlytics** pre-announced Q419 revenue and billings ahead of its presentation at the ICR Conference in mid-January. The business experienced strong growth ahead of expectations, with Q4 revenue mid-point of \$69.0m (21% above previous guidance) benefiting from the Wells Fargo integration onto its platform during the quarter. The stock had a nice +20% pop on the day into the mid \$80's and so far, the momentum has continued with Cardlytics' share price above \$90.00. Note that we have trimmed the position somewhat given the significant move however, deem the long-term value still quite compelling and maintain a core position.

**Graphic Packaging** announced results which were generally in line with expectations and while there were a number of moving parts in its earnings release, Management upgraded full year EBITDA expectations marginally. Additionally, Management confirmed 100-200bps of organic growth for FY20 underpinned by the secular shift from plastic to paper which its new innovative products such as KeelClip address. The share price declined slightly post result which gave us the opportunity to add to our position and it remains a top 5 position in the Fund.

**Envista** is one of the largest global dental products worldwide with significant market positions in some of the industry's most attractive segments. It was spun out of Danaher in September 2019 and will now benefit from increased autonomy on potential M&A while benefiting from accelerated growth associated with recent new product innovation. Envista reported its second result as a separate entity and while we are benefiting from strong margin improvement, the business will need to start demonstrating sustained top line growth for significant capital appreciation from here.

### Key Facts

Listing Date	20 October 2014
NTA (before tax)*	\$1.2877
NTA (after realised tax) <sup>^</sup>	\$1.2754
NTA (after tax)**	\$1.2287
Share Price at 31/01/20	1.23
EGI Market Capitalisation	\$129.5 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.

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## STOCK IN FOCUS: CERENCE (CRNC US, \$807M MKT CAP)

### What they do

The automotive industry is going through a period of profound change in the technology that you or we use to “talk” to our car. Car manufacturers such as Daimler, Ford, Honda and Mercedes realise that the user interface in the car is a key differentiator between brands and they want to own this experience and data. Cerence is predominately focused around AI supported voice recognition software that is embedded directly into your automobile. Its technology is being shipped in over half of all new cars annually and is currently installed in >300m cars globally. Its software or Edge product gets embedded directly into the head of the automobile – this gives it access to all sensors and components which facilitates a “full conversation” with the car. Cerence has about 80% market share of embedded products globally and is currently winning around 90% of next generation designs. Cerence also provides Connectivity Services which will mean you will not need your phone at all in the future as your car becomes your smartphone. Right now approximately 12% of cars globally have this feature and penetration is expected to grow to >50% over the coming years. Cerence has about 50% market share in connected solutions today.

### Why we invested

We had the opportunity to meet with the company and experience its products at the Consumer Electronics Show (CES) last year and came away very impressed at what new technology is coming down the pipe and especially around Cerence’s dominant position in this growing segment of the market. Cerence has been operating for over 20 years as a division within US listed Nuance Communications in which we were shareholders. Cerence was spun out of Nuance late last year and 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.

## Major Secular Trends Driving Market for Automotive Cognitive Assistance

### Vehicle Intelligence



- + Real-time data and content
- + Increased computing power onboard
- + Proprietary OEM virtual assistants

### Virtual Assistants



- + Broad smartphone and smart speaker use
- + On-demand access to assistants and bots
- + Portability between car and home

### Distracted Driving



- + Increasing sources of distraction
- + Hands-free and eyes-free solutions
- + Reduce distraction but maintain experience

### Shared Mobility



- + Ridesharing and vehicle sharing
- + More time to engage with apps and services
- + Consistent, personalized experience

### Autonomous Driving



- + Increasingly passive, passenger-like drivers
- + Trip planning services
- + Infotainment and productivity need

Source: Cerence 2019

### Outlook

The global auto market has been flat to slightly up over the past few years while Cerence has grown revenue at a 13% CAGR over the same period as content per vehicle has been going up. It is currently enjoying a 90% win rate on next generation design wins in all major geographies and recently included its first local India OEM and first intelligent car in Malaysia. These wins have helped grow its backlog to \$1.4bn and this backlog is a good indicator of future growth. As Cerence wins a new design, say in the newest Mercedes model, this revenue will not show up for a few years until the new model rolls off the factory floor, providing great long term visibility.

While further penetration of its Edge solution will continue to grow as more and more cars include this technology, Connected Services will continue to be the higher growth segment for Cerence. Connected Services will grow faster than its Edge products as these technologies are in the relatively early stages and the market penetration is expected to grow at a much faster rate going forward.

Kind Regards,

Bill Pridham and Arik Star

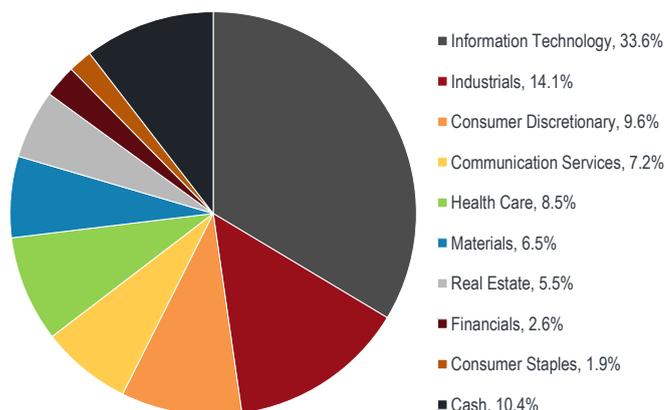
EGI Co-Portfolio Managers

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

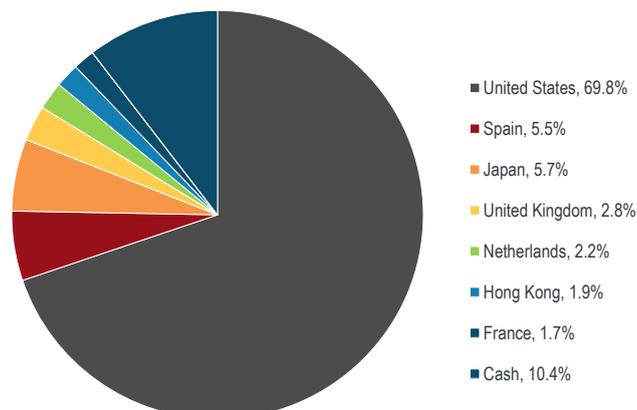
Top 10 Holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	5.55%
Ciena Corporation	United States	Information Technology	5.21%
WillScot Corporation	United States	Industrials	5.05%
Tempur Sealy International	United States	Consumer Discretionary	4.63%
Graphic Packaging	United States	Materials	3.99%
XPO Logistics	United States	Industrials	3.81%
Interxion Holding	United States	Information Technology	3.59%
Amedisys	United States	Health Care	3.33%
LiveRamp Holdings	United States	Information Technology	3.11%
Anritsu Corporation	Japan	Information Technology	3.06%

### SECTOR ALLOCATION



Source: Ellerston Capital

### GEOGRAPHIC ALLOCATION



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