GLENMORE ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
October 2017

Fund Performance

Fund performance for October was +5.32% (after fees) versus the benchmark +0.13% as measured by the RBA Cash Rate (converted to monthly basis).

Fund Returns (after fees)

Period	Glenmore	Benchmark
October 2017	5.32%	0.13%
Calendar Year to date #	19.46%	0.63%
Since inception #	19.46%	0.63%

Benchmark is the RBA Cash Rate.
Fund commenced on 6 June 2017

Below is commentary on several stocks currently held by the Fund.

Praemium Limited (PPS) rose 37.2% in October. PPS is a provider of portfolio administration software and investment platforms for a range of clients including financial advisers, brokers and superannuation administrators. Along with companies such as HUB24 and Netwealth, PPS is benefitting from the shift of advisers away from the major banks and AMP to either non-aligned dealer groups or to self-licence. This shift in turn is leading to independent platforms taking market share from the large incumbent providers.

During the month, PPS released its September 2017 quarter update, which highlighted very strong inflows of $749m (globally) and $587m (Australia). Total funds under administration (FUA) at month end was $6.7B, up from $6.1B at 30 June 2017. Within the platform market, the Managed Accounts segment is the fastest growing sub sector, where PPS is very well positioned given it has the largest SMA product in the market. PPS does trade on high near-term valuation metrics (FY18 PE > 30x), however the outlook for revenue growth is very strong and the business model is highly scalable which should see material earnings growth over the next 3-5 years.

Pioneer Credit (PNC) rose 20.5% for the month. PNC is an Australian financial services provider, specialising in the purchased debt ledgers (PDL's) sector of the Australian receivables management industry. The business model involves PNC acquiring portfolios of consumer retail debt (PDP's) from tier 1 lenders in Australia, that are mainly made up of personal loans and credit card debt and are generally 180 days past due. The PDP's are purchased at a discount to face value, with PNC aiming to recoup a higher dollar amount of the portfolio that what it was acquired for. During the month, PNC released an update where it announced it had contracted 100% of its forecast customer portfolio investments for FY18 totalling $70m. In the release, PNC also provided FY18 profit guidance for NPAT of $16m, which would be a material uplift on FY17 NPAT of $10.8m.

HFA Holdings (HFA) rose 13.8% in October. The company delivered another positive business update, which showed assets under management (AUM) of US$9.97B at 30 September 2017, up +5.3% vs 30 June 2017. This was the second quarter in a row of strong inflows. Despite the positive earnings outlook, HFA continues to trade on very attractive valuation metrics (FY18 PE of ~12x and a dividend yield of ~7%).

Macquarie Atlas Roads (MQA) rose 9.8% in the month. MQA is a toll road company, which owns various stakes of toll roads offshore, with the main two assets being APRR (France) and Dulles Greenway (USA). Of the two however, APRR is much more material to MQA's overall valuation, making up ~90%. During the month, MQA released its toll revenue and traffic statistics for the September quarter. At APRR, traffic was up +3.5% vs pcp, with toll revenue up +4.6%, benefitting from the continued economic recovery in the Eurozone. Traffic at Dulles Greenway was down -3.2% vs pcp, which was impacted by various competing network improvements and construction activities. Despite the weaker traffic, revenue for the quarter was down just -0.3% due to a contracted increase in tolls. In addition, during the month, credit rating agency Fitch, upgraded its long-term credit rating for APRR from BBB+ to A-. The Fund remains positive on MQA given its leverage to improving traffic at APRR, ability to access very cheap debt, and prospects for material increases in distributions over the next few years.

The only detractor of note in the month was Pacific Current (PAC), which fell 8.7% in the month.

PAC is a holding company with stakes in a number of fund managers, both in Australia and globally. During the month, PAC announced the sale of its 40% stake in Australian fund manager, Investors Mutual (IML) to Natixis Global Asset Management. For context, IML was the largest earnings contributor to PAC, accounting for ~30% of group NPAT, and hence was very material to PAC's valuation.

The sale price of A$120m was below market expectations, which we believe were in the range of $150-170m, with the result that the stock was sold off (down 13% on the day). Whilst the sale price was disappointing and has left an earnings hole for PAC, the positive news is that the rest of the group is performing strongly, and PAC now has cash of around $100m to be spent on acquisitions (which compares with its market capitalisation of $320m). Management reported there is a large pipeline of potential opportunities being considered currently. If an accretive acquisition can be identified, then there is potential for material earnings upgrades, however in the near-term, the uncertainty of how the IML earnings stream is replaced is likely to weigh on the stock. On a more positive note, PAC released a business update during the month, which showed the other boutique funds in its stable to be performing very strongly, in particular GQG, EAM, Aperio and ROC. Excluding IML, total FUM grew by 14.1% to A$60.4B, with total inflows of A$6.7B. PAC is trading on an FY18 PE of ~11x (excluding cash on balance sheet) and hence in our view the stock remains attractively priced, despite near-term uncertainty.

Market commentary

Globally equity markets were strong in October. The MSCI World Index returned +2.0%, the US S&P500 gained +2.3%, whilst the Dow Jones was up +4.3%. The US economy reported a strong 3Q GDP reading which equated to annualised growth at +3.0%. In Europe, the Stoxx50 Index gained +2.3%, boosted by continued accommodative monetary policy. In Japan, the Nikkei was up +8.1%, with Prime Minister Shinzo Abe scoring a decisive election win, which makes the country's very loose monetary policy likely to remain in place.

The Australian stock market also had an excellent month, with the ASX200 (accumulated) posting a +4.0% gain. All sectors rose, with resources rising +4.6% despite a weaker iron ore price. As would be expected, the more defensive sectors, such as REIT's and Telco's lagged the market.

Of note, the Small Ordinaries index rose +6.0%, boosted by resource stocks and generally an increase in risk appetite.

In Australia, 3Q inflation was weaker than expected, at an annualised rate of +1.8%. This is below the RBA's target range of 2-3%, and hence any interest rate rises appear unlikely in the near term. The Australian dollar fell -2.3% in the month.

In commodities, iron ore declined -5.0%, off the back of September's -20% fall. The oil price increased +7.2% as the likelihood of OPEC continuing its production cuts increased.

Thank you for your interest in the Fund, as always, I am available for those interested in discussing an investment.