

Glenmore Australian Equities Fund

Monthly performance update

March 2018

Fund Performance

Fund performance for March was -2.80% (after fees) versus the benchmark +0.13% as measured by the RBA Cash Rate (converted to monthly basis). The Fund has delivered a return of +28.89% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore	Benchmark
March 2018	-2.80%	+0.13%
Financial Year to date	+27.26%	+1.13%
Since inception #	+28.89%	+1.13%

Benchmark is the RBA Cash Rate.

Fund commenced on 6 June 2017

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

Bravura Solutions (BVS) rose +25.9% in March. BVS is a global software provider to the wealth management, life insurance and funds administration sectors. Its flagship software product - Sonata, targets the wealth management industry (both in Australia and globally), with ~22 clients in total. The Fund first invested in BVS in December 2017 at a stock price of \$1.85, with the stock having performed strongly in 2018 to date.

BVS's 1H18 result released in February showed the business to be performing strongly, with NPAT for the half of \$14.2m, up 13% vs 1H17. Recurring revenue was up +12% and is now 68% of group revenue. The result was ahead of market expectations, with management increasing FY18 EPS guidance from growth in the "mid-teens" to "high teens". Also, in the month, Australian Private Equity firm, Ironbridge, announced it had sold its remaining shares in BVS. At a stock price of \$2.70, BVS trades on a 12-month PE multiple of ~20x, which is not overly expensive given BVS's attractive growth outlook. That said, the Fund did take some profits on the position given the stock price appreciation in recent months.

NRW Holdings (NWH) was down 23.5% in the month. The main driver was news that there have been some temporary issues with the tunnelling section of one of NWH's contracts – the Forrestfield Airport link in Perth (WA). NWH is a 20% partner with Italian company Salini Impregilo (80%) on the project, which involves the design, construct and maintenance elements. As part of the project, tunnelling is being carried out and during the month, two Tunnel Boring Machines had to be temporarily halted due to encountering

minor ground disturbances, when travelling through difficult terrain. The news concerned investors, however, tunnelling is expected to resume in the coming weeks, which should see minimal impact on NWH's FY18 earnings.

Also, of note, the iron ore price declined by 18% in March. Given NWH has a strong exposure to the iron ore industry, historically there has been a reasonably strong link between the iron ore price and NWH's stock price, hence this is likely to have been a factor as well.

Finally, NWH's stock price has performed extremely strongly over the last 12 months (and actually rose by +14% in February following a strong half year result) so some retracement was probably not unexpected.

Other negative contributors for the month included **Appen (APX)** down -14.4%, **Pacific Current (PAC)** down -11.9% and **Pinnacle Investments (PNI)** down -6.4%. There was no specific news flow on any of these stocks, with the main driver being general weakness in equity markets.

Market commentary

March was a tough month for equity markets, both in Australia and globally.

In Australia, the ASX200 Accumulation Index was down -3.8%, its worst monthly performance since January 2016. All major ASX sectors except REITS declined in the month. REIT's outperformance was due to a fall in bond yields globally. Sector wise, Telco's fell the most (-6.2%), followed by financials (-6.0%) and materials (-5.6%).

Globally, in the US, the S&P 500 fell -2.7%, the NASDAQ was down -2.9%, whilst in the UK the FTSE was down -2.4%. The main driver of the declines was escalating fears around the possibility of a trade war between the US and China. During the month, US President Donald Trump proposed a 25% tariff on steel imports and a 10% tariff on aluminium imports, as well as a 25% tariff on ~US\$50B worth of Chinese exports. In response, China proposed tariffs on ~US\$3B of US exports. Whilst not (yet) directly impacting the earnings of companies, the rhetoric negatively impacted sentiment towards equities.

In Australia, the prospect of a negative impact on the financial services industry from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, also weighed on stock prices.

The domestic labour market softened slightly, with unemployment increasing from 5.5% to 5.6%. Australia's

fourth quarter GDP was released showing growth at a modest +0.4%.

In commodities, iron ore fell 18% to US\$64.9/t, driven by falling Chinese steel prices. Brent oil was up 7.6% in the month, whilst coking coal was down -16.9% to US\$195/t.

With the ASX200 Accumulation Index falling by -3.4% in the March 2018 quarter, and earnings revisions remaining positive, stock market valuations have improved, making the stock market on an aggregate basis more attractive.

Currently, the 12-month forward PE of the ASX200 is ~15x, which is not expensive versus its historical average. With reporting season now complete, the next few months will see the Fund meet with a large number of companies and their management teams, where we are optimistic of identifying potential investments for the portfolio.

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

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