

Glenmore Australian Equities Fund

Monthly performance update

June 2018

Fund Performance

Fund performance for June was +4.01% (after fees) versus the benchmark return of +2.95%. This takes the Fund's total return to +40.38% since inception in June 2017, versus +14.06% for the benchmark.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
June 2018	+4.01%	+2.95%
Financial Year to date	+38.60%	+13.71%
Since inception #	+40.38%	+14.06%

Fund commenced on 6 June 2017

Below is commentary on several stocks currently held by the Fund that contributed to Fund performance.

Appen (APX) rose +31.0% in June. There was no specific news flow released, however the company did enter the ASX200 during the month, which potentially increased investor interest. APX has been a very strong performer in the last 12 months and given the stock's valuation becoming less attractive, we reduced the position in June. With that said, the earnings outlook remains positive for the company and we expect continued strong earnings over the next 12-18 months.

Stanmore Coal (SMR) rose +26.1% in the month. SMR is a coal producer with its operating mines located in the Bowen Basin in Queensland. SMR owns 100% of the Isaac Plains complex which includes the Isaac Plains Mine, adjacent Isaac Plains East Project (which will commence production in the coming months) and the Isaac Plains Underground Mine (currently being assessed for its viability). During the month, SMR acquired the Wotonga South (WS) coking coal deposit from US based Peabody Energy for \$30m cash. WS has potential for 15-20 million tonnes of open pit production at an attractive production cost. WS is located just 10km south of the existing Isaac Plains infrastructure, and hence can utilise SMR's existing coal handling plant. Whilst there is no immediate change to SMR's production profile, on a medium-term basis, this is clearly a very accretive acquisition by SMR. Excluding any contribution from WS, SMR trades on attractive FY19-20 PE multiples of 6.5x and 3.5x respectively, with a strong balance sheet that should improve due to our forecast strong free cash flow generation over the next few years.

NRW Holdings (NWH) rose +25.1% in the month. During the month, NWH announced its wholly owned subsidiary Golding Contractors reached an agreement with Stanmore Coal (SMR) to commence production at Isaac Plains East in July 2018. This was positive for the stock given there had been some uncertainty as to whether the contract would be renewed.

Also, late in the month, NWH issued a brief operational update, announcing that as a result of recent contract wins, the total order book has now increased to \$2.1B, as at the end of May 2018. The order book includes \$875m of work secured for delivery in FY19, with total revenues in FY19 revenues to exceed \$1.1B.

The company also reiterated its WA civil business is well placed to win its share of the upcoming capex projects from the iron ore majors (BHP, RIO & Fortescue) over the next few years. Despite the recent stock price increase, NWH trades on relatively attractively valuation metrics, with FY19-20 PE multiples of 11x and 10x respectively.

Other positive contributors included **Navigator Global Investments (NGI)** +16.1%, **Alliance Aviation Services (AOZ)** +12.2%, **Lifestyle Communities (LIC)** +10.8%, **Pacific Current (PAC)** +8.4% and **Emeco (EHL)** +7.1%.

Negative contributors in the month included **Imdex (IMD)** -5.0% and **Atlas Arteria (ALX)** -3.3% (note ALX changed its company name from Macquarie Atlas on 22 May).

Market commentary

The Australian stock market was strong in June, with the All Ordinaries Accumulation Index rising +3.0%. The energy sector was the standout performer, as the Brent oil price increased by +2.6% to US\$79.2 per barrel boosting a number of the index heavyweights (Woodside, Santos and Origin Energy). The Telco sector was the worst performer, impacted by the continued underperformance of Telstra (down -6.4% for the month).

Globally, equity markets were mixed in June, with the potential for a trade war between the US and China remaining a key concern for investors. In the US, the S&P500 increased +0.5%, the NASDAQ was up +0.9%, whilst the Dow Jones fell -0.5%. In other key markets, the European STOXX index fell -0.6%, the Japanese TOPIX fell -0.9%, whilst the Hang Seng declined materially by -4.5%.

Commodity prices were mixed in the month. Gold was down -3.5% to US\$1253 per ounce (driven by US dollar strength), coal prices were stronger (coking coal +4.4%, thermal +3.9%),

iron ore was flat at US\$64.50/tonne, whilst aluminium was the worst performer, falling -5.8%.

In Australia, the national economy grew by +1.0% over the March 2018 quarter, whilst the ABS national house price index fell by -0.8% in the quarter. In currencies, the Australian dollar continued to weaken vs the US dollar (driven by the interest rate differential), falling 2.2% to finish the month at US\$0.74.

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

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