

Glenmore Australian Equities Fund

Monthly performance update

November 2018

Fund Performance

Fund performance for November was -2.06% (after fees) versus the benchmark return of -2.24%. The Fund has delivered a total return of +34.16% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
November 2018	-2.06%	-2.24%
Financial Year to date	-4.43%	-6.86%
Calendar Year to date	+4.37%	-3.09%
Since inception #	+34.16%	+6.23%

Fund commenced on 6 June 2017

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

Stanmore Coal (SMR) was up +22.0% in the month. To recap, SMR is a Queensland based coal miner, producing mainly coking coal and some thermal coal. In FY19, the company is forecast to produce 2.0mt of coal at an average cash cost of ~A\$110/t. When we initially invested in SMR, the key attraction of the stock was its very strong free cash flow generation and cheap valuation. The catalyst for the rise in its stock price was an unsolicited, off-market takeover bid from Golden Investments at \$0.95 cash per share, representing a 14.5% premium to SMR's last close and +6.4% above the 5-day VWAP. Golden Investments is 51% owned by Golden Energy & Resources and 49% owned by Ascend Global (a Singapore based fund manager). Following this announcement, SMR provided earnings guidance for FY19 of EBITDA of \$130m - \$150m, which translates to an EV/EBITDA multiple of just 1.1x. Given the modest takeover premium it was not surprising to see the SMR board reject the offer later in the month on the basis that the offer significantly undervalues SMR.

Jumbo Interactive (JIN) rose +14.6% in November. During the month, JIN announced it has entered into a 5-year license agreement with charity lottery operator, the Mater Foundation for the use of JIN's software platform. The agreement is the first time JIN has sold its platform to a charity operator and hence we believe is quite significant. The contract can be extended to 10 years subject to performance criteria being met. In addition, we met with JIN management during the month which added to our confidence in the earnings outlook. In particular, we believe there is more scope for similar type contract wins (as with

Mater Foundation), which will be positively received by the market.

Emeco Holdings (EHL) fell -9.1% in the month. Despite this, EHL released an operational update which showed the business to be generally performing in line with expectations. It should be noted that mining services stocks in November across the board were weaker in line with poor sentiment in equities markets.

In addition to EHL, there were a number of stocks that drifted lower in line with the overall market, despite no company specific news flow: **Atlas Arteria (ALX)**, **Bravura Solutions (BVS)**, **Worley Parsons (WOR)**, **Pinnacle Investment Management (PNI)**, and **Mastermyne (MYE)**.

Fund positioning

Since the start of September, the All Ordinaries Accumulation Index has fallen approximately 10%. There is clearly a lot of issues causing uncertainty in equity markets currently (US vs China tariff wars, rising interest rates and Brexit). Our view is that the recent decline has been more of a valuation-based correction, driven by a need for valuation metrics to move back to more reasonable levels. Whilst in Australia, there are some emerging headwinds (eg. falling house prices and potential change of Federal government in 2019), we strongly believe that the domestic economy is still sufficiently healthy that quality businesses (which remains our focus) can continue to thrive and grow earnings through the cycle.

We would reiterate that investing is a long-term game and that short-term corrections, whilst painful, are actually a normal part of the cycle for investors.

Despite the volatility, the composition of the portfolio in terms of key positions has not changed overly, with the Fund continuing to hold higher than normal cash levels of ~20%. It is very difficult to make any macro forecasts as to the direction of overall stock markets but certainly valuations are starting to look more attractive and we remain optimistic that 2019 will create some excellent buying opportunities in our investment universe.

Market commentary

Globally equity markets were mixed in November, with the US (S&P500 up +1.8%) and Japan (Nikkei +2.0%) rising, whilst the UK (FTSE100 -2.1%) and China (Shanghai Composite -0.6%) recording declines. During the month the US midterm elections were held, where the Democrats won control of the House of Representatives, but the Republicans held onto control of the Senate. Of more importance for global financial markets were comments from US Federal Reserve Chair Jerome Powell, who said he considers the central

bank's benchmark interest rate to be near a neutral level, a key distinction from comments made in early October, where he said interest rates were a long way from neutral.

In Australia, the stock market declined, with the ASX All Ordinaries Accumulation falling -2.2% in the month. The best performing sectors were Financials (ex REITs), Information Technology, while Energy, Consumer Discretionary and Materials all lagged.

In commodities, the oil price fell sharply (Brent down -21% to US\$59/barrel, while bulk commodities were generally weaker (iron ore down -13%, coking coal up +3%, thermal coal down -4%).

The Australian dollar gained +3.3% vs the US dollar in November, closing the month at 73 cents. This has a negative impact on Australian companies with offshore earnings and was likely to have been a factor behind the under performance of the ASX vs other global indices.

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

Monthly performance by calendar year (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2017						1.29	1.52	7.03	3.05	5.32	3.81	3.66	28.55
2018	3.47	-0.30	-2.80	0.04	4.68	4.01	1.35	5.94	-0.46	-8.70	-2.06		4.37

FUND INFORMATION

Name	Glenmore Australian Equities Fund	Fund Administrator	Apex Fund Services
Inception	6 June 2017	Fund Custodian	AET Corporate Trust Pty Limited
Structure	Wholesale Unit Trust	Fund Auditor	Pitcher Partners
Investor Eligibility	Wholesale or 'sophisticated' investors only	Fund Manager	Glenmore Asset Management
Subscription Frequency	Monthly	Management Fee	1.2%
Redemption Frequency	Monthly	Performance Fee	20.0%
Unit pricing	Monthly	Benchmark	S&P/ASX All Ordinaries Accumulation Index
Domicile	Australia	High water mark	Yes

Contact details

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