

Glenmore Australian Equities Fund

Monthly performance update

February 2019

Fund Performance

Fund performance for February was +9.77% (after fees) versus the benchmark return of +6.05%. The Fund has delivered a total return of +46.51% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
February 2019	+9.77%	+6.05%
Financial Year to date	+4.37%	+2.25%
Calendar Year to date	+12.88%	+10.28%
Since inception #	+46.51%	+16.62%

Fund commenced on 6 June 2017

February was clearly a very strong month for the Fund and equity markets. As we discussed last month, reporting season brings investor focus back to fundamental factors such as earnings delivery and business quality, which can be forgotten during periods of wide spread selling and negative sentiment. As was the case in August 2018, reporting season proved to be very positive for the Fund, with many of our key investments gaining strongly due to better than expected profit results.

It has been particularly pleasing to see many stocks that had been sold off materially in the last quarter of 2018 (which provided some excellent buying opportunities) rebound strongly in 2019.

Stock commentary

Fiducian Group (FID) rose 32.3% in February. There were two key events for the stock in the month, the first being the 1H19 result, which saw NPAT up +15.7% to \$5.7m and dividend up +22% to 11cps. The result was in line with our expectations and continues FID's track record of consistent EPS and DPS growth. Of more importance from a valuation perspective was the release of the Final Report by the Hayne Royal Commission into the Banking, Superannuation and Financial Services Industry. The key finding for FID's operations was that there was no ban on the "vertically integrated" business model, which was consistent with our expectations. This was a positive result in that FID will not need to make any changes to its business model. The potential risk of regulatory change has clearly impacted the stock price over the last 12 months, however with this issue behind it, the stock is well positioned to continue its strong earnings delivery.

Jumbo Interactive (JIN) was up +32.0% in the month. The company continued its recent strong performance, with another result well ahead of expectations. 1H19 revenue was up +58%, with NPAT up +140%, highlighting the strong operating leverage of JIN's software platform. A key factor behind JIN's success has been the shift to digital ticket sales (now 22% of all lottery ticket sales), which looks set to continue over the next few years. Also, of note, JIN grew active customers by 48% in the half. The interim dividend was up 100% vs pcp and given the company's very strong balance sheet (net cash ~\$65m), continued growth in dividends is likely.

Magellan Financial Group (MFG) was up +24.7% in the month. MFG delivered a strong interim result, with 1H19 NPAT of \$176m, up 62% vs pcp and slightly ahead of our expectations. The majority of MFG's earnings come from its flagship Global fund and to a lesser extent its Infrastructure fund. Both funds have excellent long-term track records and solid prospects for continued FUM growth. On the result conference call, MFG said a retirement income product is being looked at, which could potentially add another revenue stream. MFG has a very strong balance sheet, with net cash of \$160m and another ~\$300m invested in various funds.

Stanmore Coal (SMR) rose +25.7% in the month. SMR is a Queensland based coal miner, producing mainly semi-soft coking coal and some thermal coal. SMR delivered 1H19 NPAT of \$21.8m, materially higher than the pcp. Highlighting SMR's very strong financial position (net cash of \$32m), it also declared a 3cps interim dividend. To recap, SMR was the target of a takeover bid in November 2018 from Asian based Golden Investments, which was rejected by SMR. This bid increasingly looks far too low to succeed, with SMR still trading on very low valuation metrics (EV/EBITDA of 2-3x).

As would be expected in such a strong month, there were a number of other positive contributors including **NRW Holdings (NWH)** up +23.6%, **Bravura Solutions (BVS)** up +21.9%, **Alliance Aviation (AQZ)** up +14.3%, **Dicker Data (DDR)** up +12.2%, **Pinnacle Investment Management (PNI)** up +10.9%, **Sydney Airport (SYD)** up +9.8%, **Atlas Arteria (ALX)** up +7.1% and **Auckland International Airport (AIA)** +6.5%.

The sole detractor was childcare and healthcare property trust, **Arena REIT (ARF)**, which fell -3.0%. Despite this, ARF had another solid result, with 1H19 net operating profit of \$18.3m, up +9.3%. Distribution per share (DPS) for the half was 6.75 cps, up +5.5% vs pcp. FY19 DPS guidance was reaffirmed at 13.5 cps.

Market commentary

February was a strong month globally, with the S&P500 up +3.2%, Euro Stoxx 600 +4.2%, the Nikkei +3.0%, whilst the FTSE100 was up +1.5%. The outlook for increases in interest rates from the Federal Reserve has clearly softened in recent months, which in our view has been the main driver of the rebound in equities this year. Commodities were broadly positive in the month, with oil (+6.7%), copper (+5.5%) iron ore (+4.2%) amongst the top performers. Gold fell slightly (-0.6%). The AUD/USD weakened -2.4% to close at 71 cents.

As always, our focus is much more stock specific rather than on global macro developments. The rally has seen a number of the Fund's holdings approach our valuation and, in some instances we have trimmed holdings of these positions. Overall, we remain comfortable with the composition of the portfolio and have made minimal changes following reporting season. The positive news is that reporting season clearly shows we are successfully identifying a range of high-quality companies in the mid cap sector, which we strongly believe to be a particularly profitable segment of the ASX.

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	-3.26	0.97
2019	2.84	9.77											12.88

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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