

Glenmore Australian Equities Fund

Monthly performance update

July 2019

Fund Performance

Fund performance for July was +7.71% (after fees) versus the benchmark return of +2.96%. The Fund has delivered a total return of +86.90% since inception in June 2017, including +31.36% in the last 12 months.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
July 2019	+7.71%	+2.96%
1 Year	+31.36%	+12.93%
Since Inception (p.a.)	+33.46%	+13.03%
Since inception (total)	+86.90%	+30.38%

Fund commenced on 6 June 2017

Stock commentary

Phoslock Environmental Technologies (PET) was again a very strong performer for the Fund, rising +74.7% in July. Early in the month, PET advised that trials using its product at the Xingyun Lake in China had produced outstanding results with regards to reducing phosphates. Whilst not quantifying the revenue opportunity, PET did describe the scope of this project as very large, which will take several years to complete. Positively, this particular example is just one of a large number of heavily polluted water bodies in China, and hence we continue to believe the earnings outlook for PET is very robust. In addition to China, PET has done some recent trial applications of Phoslock in water bodies in Florida, which achieved excellent results, which could lead to more material applications pending government funding. Investor awareness of PET's prospects has clearly increased and given the sharp appreciation of the stock price in recent months we have sold a portion of our holding to manage the position size but remain positive on the company's prospects.

Magellan Financial Group (MFG) increased +21.3% in the month, benefitting from positive equity market sentiment and strong operational performance. MFG reported another excellent month of inflows (~\$500m), as it continues to be rewarded for recent fund performance. Management has flagged a potential new retirement income product, however, to date little detail has been released so it is difficult to model this in with any confidence. Whilst we are still positive on the business, particularly with regards to its strong market position versus its Australian based peers, given the near-term valuation metrics are quite stretched

now, with the stock trading on an FY20 PE of ~25x, we have recently reduced our position.

Dicker Data (DDR) rose +24.7% in the month. There was nothing overly material released during the month, other than DDR announcing a new distribution agreement with Honeywell across Australia and New Zealand. As has been the case with MFG, in recent months, DDR has seen a very strong re rating, which has seen valuation metrics become less attractive (CY20 PE > 25x) and hence we have reduced our position.

Other positive contributors included: **People Infrastructure (PPE)** +20.6%, **AP Eagers (APE)** +14.3%, **Alliance Aviation Services (AQZ)** +11.2%, and **Fiducian Group (FID)** +10.5%. Detractors for the month included **Stanmore Coal (SMR)** down -4.6% and **Jumbo Interactive (JIN)** down -3.6%, although there were no material negative contributors in the month.

Market commentary

July was another strong month for equities, buoyed by continued modest economic growth and declining global interest rates. The ASX All Ordinaries Accumulation index rose +3.0%, whilst globally, the US S&P was up +1.4%, the European STOXX 600 rose 0.3%, whilst in Japan the Nikkei increased +1.2%. In Australia, Consumer Staples was the top performer, whilst Energy and Materials were the laggards. Domestically, the RBA lowered the cash rate by 25bp to 1.0%, which marked the first consecutive interest rate cuts since mid-2012. Given the weak state of the domestic economy, consensus expectations are for at least one more rate cut over the next 12 months.

In commodities, iron ore was very strong, rising +9.9% in July, whilst both coking and thermal coal was weaker. Gold continued its recent strength, appreciating by +1.7%. The AUD/USD fell 2.5% to close at US\$0.685.

Comment on equity market valuations

Given the very strong rally in equities in 2019 to date, it is worth providing some commentary on valuations and how we are approaching this from a portfolio management perspective. The magnitude of the rebound in 2019 has surprised us, with the most likely driver being the view that we will have continued low inflation and low interest rates for the foreseeable future. This has resulted in significant (upward) re-rating of many stocks on the ASX.

Our approach to managing the Fund in this environment has been to sell or trim holdings where we believe valuations have become stretched and remain very selective with regards to the quality of businesses we are invested in. As always, our focus is on identifying quality businesses that are not properly valued by the market, often due to what we would call “underappreciated or mispriced earnings growth”. Having worked in equity markets for over 15 years, corrections are a normal part of investing in equities, and should be welcomed by long term investors. The recent experience of the sharp sell off during the last quarter of 2018, showed that these periods can provide excellent buying opportunities.

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	2.72	6.88	2.54	5.21	7.71						44.00

FUND INFORMATION

Name	Glenmore Australian Equities Fund	Fund Administrator	Apex Fund Services
Inception	6 June 2017	Fund Custodian	Sargon Corporate Trust Pty Ltd
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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