GLENMORE ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
August 2019

Fund Performance

Fund performance for August was -0.76% (after fees) versus the benchmark return of -2.22%. The Fund has delivered a total return of +85.47% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
August 2019	-0.76%	-2.22%
1 Year	+23.05%	+8.57%
Since Inception (p.a.)	+31.59%	+11.40%
Since inception (total)	+85.47%	+27.49%

Fund commenced on 6 June 2017

August was dominated by ASX company results, which is always a key period for the Fund. Pleasingly, we did not have any companies that had results below our (or the market's) expectations, and generally the outlook statements were positive. During the month, we met with a large number of the management teams of portfolio stocks, which was very beneficial in understanding the earnings outlook and key catalysts over the next 12-18 months.

Stock commentary

Polynovo (PNV) increased +26.9% in August. Early in the month, PNV released a brief trading update, providing detail on FY19 revenue (~$9.4m) and early trends for FY20 revenue, which showed strong growth vs FY19 to date. Also, in August, PNV released its FY19 result. Given the early stage PNV is in with regards to the sales cycle of key product Novosorb BTM, the headline result (net loss of $3.2m) was not overly significant, although it was a material improvement vs FY18, despite a ~57% increase in operating costs. Of more importance, revenue from Novosorb BTM was up +435% to $9.3m, highlighting the commercial success being achieved and traction the product is getting from surgeons globally. Cash on hand at year end was ~$14m, whilst in the key US market, PNV expanded the sales team to 12 from 5 at June 2018. With regards to earnings, PNV guided to being EBITDA break even in FY20, although we expect PNV will continue to invest quite heavily for future growth, which will impact headline earnings in the next few years. We continue to view the medium-term opportunity set for PNV as very positive and maintain our holding.

Jumbo Interactive (JIN) was up +15.3% in the month. JIN delivered another strong result, with FY19 NPAT of $26.4m, up +125% vs FY18. The drivers of the result were continued growth in Australian lottery tickets sold online (now 24%, up from 17% one year ago), a record 49 large jackpots (Oz Lotto or Powerball at or above $15m), and continued margin expansion, where EBITDA margin in FY19 was 62%, up from 49% in FY18. As a result of the strong earnings and cashflow generation, JIN has a very healthy net cash position of ~$74m. In addition to its core business reselling online lottery tickets, JIN has made solid progress growing its Software as a Service (SaaS) business – Powered by Jumbo, winning two agreements (Mater and Endeavour Foundations), and given the strong value proposition, we believe further wins are likely in the next 12-18 months.

AP Eagers (APE) increased 10.5%. During the month, APE reported its 1H19 result, where it delivered pre-tax profit of $56.8m, up +1.8% vs pcp, which was well ahead of previous guidance of a 7-10% decline. To recap, APE is an automotive retailer with operations across Australia, which is currently being negatively impacted by challenging industry conditions (ie. new car sales). The better than expected performance in 1H19 was largely driven by strong cost management (APE reduced its workforce by ~5% during the half in response to weak conditions). The other key event for APE was the merger with competitor Automotive Holdings Group (AHG), which is now in the final stages. Historically, AHG's automotive division has underperformed vs APE, and we believe under APE ownership, significant improvements are likely over the next 2-3 years. Despite the current cyclical downturn, we view APE as a very well-run business, and believe the earnings outlook over the next 3-5 years is robust, driven by a recovery in new car sales, companywide cost reductions, synergies from the AHG merger, and increased penetration of finance products.

Magellan Financial Group (MFG) fell -18.0% in the month. MFG's FY19 result itself was in line with expectations, with NPAT of $364m, up +35% vs FY18, driven by average FUM growth of +28% vs FY18, management fees up +24% and performance fees +110% (due to MFG's Global Fund having a strong year of performance). As we have discussed in recent months, MFG has been a very strong performer in 2019, which resulted in its valuation becoming quite stretched leading into the result (FY20 PE of ~27x), hence we view the retraction in August as more valuation based than due to the underlying business. Fortunately, we significantly reduced our holding in MFG in mid-August at an average price of $58 and hence the impact on fund performance was much less than implied by the -18% decline. We have decided to maintain a smaller position given our positive view on the business and the now more attractive valuation following the stock price decline.

Phoslock Environmental Technologies (PET) declined -15.1% in August. PET's 1H19 result was in line with expectations, with revenue of $10.2m, up +9% vs pcp and NPAT of $1.0m, vs a small loss in 1H18. Positively, operating cashflow was $10.8m, whilst the company declared a small (0.5 cent) maiden cash distribution. Regarding the stock price fall, there was nothing negative to emerge around the earnings outlook, which we believe is still very positive, due to the large potential pipeline of work in China, and also globally. The stock has been very strong performer in 2019 and hence some form of retracement was not surprising in our view.

Market commentary

After a very strong calendar year of performance in equity markets, August saw a decline, both domestically and offshore. In the US, the S&P 500 fell -1.8%, the Dow Jones fell -1.8%, whilst in the UK, the FTSE 100 fell -5.0%.
In Australia, the All Ordinaries Accumulation Index fell -2.2%. Sector wise, Healthcare and REIT's were the best performers, whilst Materials and Energy underperformed. A key negative for the ASX during August was the -24% fall in iron ore price, which had a flow on impact on the large cap miners stock prices. Commodities otherwise were mixed, with Nickel up +24%, Gold up +6%, whilst Coking and Thermal coal were down -7% and -14% respectively. In Energy, WTI Crude fell -6%.
In the Bond market, the key US 10-year bond yield fell 52bp to close at 1.5%, vs 2.9% 1 year ago. The A$/US$ fell -1.6% during the month to close at $0.67.

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	-0.76					42.90

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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