

Glenmore Australian Equities Fund

Monthly performance update

October 2019

Fund Performance

Fund performance for October was -1.07% (after fees) versus the benchmark return of -0.37%. The Fund has delivered a total return of +88.25% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
October 2019	-1.07%	-0.37%
1 Year	+37.43%	+19.38%
Since Inception (p.a.)	+29.92%	+11.37%
Since inception (total)	+88.25%	+29.72%

Fund commenced on 6 June 2017

Stock commentary

Opticomm (OPC) rose +21.7% in the month. OPC builds, owns and operates fibre based open access wholesale telecommunication infrastructure networks in new residential, commercial and retail developments. The company was established in 2005 and recently listed on the ASX in August 2019. OPC's network currently services in excess of 100,000 lots in 238 estates. OPC derives its revenue from providing its networks to Retail Service Providers and charging a recurring monthly usage fee for "last mile access". Key attractions of the business include: a high level of recurring revenue, material ownership by senior management and board and strong earnings certainty, with growth to come from contracted future networks in excess of 100,000 additional lots which are yet to be built. In FY19, OPC reported NPAT of \$20.1m (up +16% vs FY18) and we expect continued growth over the next few years. There was no specific news flow to point to during the month, apart from several presentations to the investment community, which in our view has likely increased awareness of the company's earnings prospects.

Alliance Aviation Services (AQZ) increased +9.6% in the month. To recap, AQZ is a provider of contract, charter and aviation services across Australia, with a strong focus on the resources sector. A key differentiator for the business is its industry leading on-time performance indicator of 95%, which in turn leads to very high contract retention. During October, AQZ held its AGM where it provided an update on trading performance for FY20, where it said earnings are expected to be in line with consensus expectations. Of note,

AQZ said its fleet will increase to 45 by 30 June 2020, up from 38 in the pcp. AQZ operates certain services for Virgin (under a "wet lease" arrangement) and in recent months there has been some concern that Virgin may cease these services given it is undertaking a strategic review, however we believe these concerns have been overdone given it is significantly more cost effective for AQZ to perform these services for Virgin.

Stanmore Coal (SMR) fell -25.0% in what was a very eventful month for the stock. As background, SMR is a Queensland based coal miner, which has been the subject of M&A activity over the last 12 months, first from Asian based Golden Investments (which has a 28% stake in SMR) and more recently from Winfield Energy, an Australian based coal company. Winfield had been undertaking due diligence on SMR, with a view to potentially bidding for SMR, however on 17 October, it announced it would not be proceeding with its proposal. The removal of any M&A tension, combined with a recent fall in coking coal prices saw the stock price under pressure in October. In addition, on the 18th of October, the SMR CEO Dan Clifford resigned, taking the CEO role at ASX listed gold miner Aurelia Metals. SMR has appointed Jon Romcke (previously General Manager of Development) as interim CEO, who we believe is a solid replacement until a permanent CEO is found.

Whilst the events that have transpired are clearly not positive for the stock price, we continue to view SMR as an undervalued coking coal producer, with quality assets and strong free cash flow generation, even in periods of weaker coal prices. Looking forward to FY22, the commencement of production from SMR's Isaac Downs deposit (currently going through the permitting phase) will see a material increase in group profit margins due its higher coal quality and lower strip ratio.

Phoslock Environmental Technologies (PET) declined -21.5% in October. The main driver was PET's quarterly cashflow report which showed a negative \$3.5m outflow, which was driven by a sharp increase in purchasing of raw materials as well as the previous June quarter having been boosted by some early cash receipts from customers, which normally would have been received in the September quarter. In addition, we believe some recent selling of shares by the PET Board (which still holds ~25% of shares on issue) has created some uncertainty amongst investors. As way of background, to cater for expected growth in demand, PET is currently increasing its production capacity of Phoslock at its facility in

China from 20,000 tonnes per annum (tpa) to 40,000 tpa by mid-2020. This expansion will clearly be very positive for earnings once completed but will see a step up in raw materials purchases over the next 12 months. The capital cost of the expansion is very attractive at just A\$4-6m. Positively, October also saw PET announce two project wins: in Wuhan City in Central China, and in Florida, both of which point to continued strong demand for the product globally.

Market commentary

Globally equity markets in October were stronger, with the US S&P 500 up +2.2%, the Europe STOXX 600 +1.1%, the Hang Seng up +3.3%, whilst in the UK, the FTSE 100 fell -2.2%, due to Brexit uncertainty.

In Australia, the All Ordinaries Accumulation Index fell -0.4%. Healthcare and Industrial were the top performers, whilst IT and Financials underperformed. The key event domestically was the RBA cutting the cash rate by 25bp for the third time in 2019 to 0.75%, driven by continued softness in the economy. Likewise, in the US, the Federal Reserve cut rates by 25bp in an attempt to boost economic growth.

Valuations on the ASX remain elevated, however we are continuing to find undervalued stocks that fit our criteria in terms of business quality and earnings growth.

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	2.60	-1.07			45.04

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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