Glenmore Australian Equities Fund
Monthly performance update
December 2019

Fund Performance

Fund performance for December was -1.67% (after fees) versus the benchmark return of -1.90%. The Fund has delivered a total return of +82.07% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
December 2019	-1.67%	-1.90%
1 Year	+40.28%	+24.03%
Since Inception (p.a.)	+26.11%	+11.07%
Since inception (total)	+82.07%	+31.16%

Fund commenced on 6 June 2017

Stock commentary

Moelis Australia (MOE) rose +10.2% in the month. MOE is a stock that was a very profitable investment in the first 12-18 months of the Fund which we had exited on valuation grounds in early 2018. The performance of the underlying business since then has remained strong and with the stock retracing quite materially from early 2018 to mid-2019, this created an excellent buying opportunity in a business we understand well. To recap, MOE is a diversified financial services business with two divisions, Asset Management and Corporate Advisory and Equities (CAE). The key value driver of the business continues to be the Asset Management business (~80% of group EBITDA), which has grown strongly since IPO in 2017 and we believe this has solid prospects for growth in management and performance fees. Assets under Management (AUM) are now ~$4.9B, up from $3.7B at the end of 2018. Two sectors we believe to have strong growth potential are Real Estate and Credit, where there is significant investor demand for such products. There was no specific news flow for the stock in December, however we believe investor awareness of MOE's strong earnings prospects have increased in recent months, with improved liquidity in the stock (due to MOE's US parent selling down its holding) also likely to have been a factor.

Polynovo (PNV) rose +10.1% in December. During the month, PNV announced its key product, Novosorb BTM, was granted a certificate of conformance (CE Mark) approval for sale throughout UK/Ireland and the European Union. This announcement had taken longer than expected, but clearly boosts an already strong growth outlook for the company.

Magellan Financial Group (MFG) rose +8.5% in the month. During the month, MFG reported another strong business update, with funds under management (FUM) increasing to $97.7B at the end of November, up from $93.5B at the end of November.

Other positive contributors in the month included NRW Holdings (NWH) and Stanmore Coal (SMR).

Jumbo Interactive (JIN) fell -27.3% in December. The driver was a profit update which was below market expectations due to higher than expected costs related to increased marketing spend, and also some one-off costs related to the recent acquisition of UK based Gatherwell. JIN guided for revenue growth for 1H20 of +24% and NPAT growth of +13%, implying a fall in profit margin, in contrast to strong expansion achieved in recent results. The fall in profit margin was the key surprise and was driven by JIN increasing investment in the lottery reseller business and "Powered By Jumbo" business in order to capture medium term revenue opportunities. This news, combined with an already expensive valuation saw the stock decline materially in the month. It is important to highlight that over the last 2 years, as JIN's earnings grew very strongly, so too its valuation metrics had become increasingly stretched. As an example, in October 2019, when the stock price reached ~$27, JIN's FY20 PE multiple was a lofty 45-50x, albeit expected to fall as strong EPS growth was forecast in the next few years. It can be difficult when a company is performing extremely well operationally (as JIN was) but valuation metrics are becoming increasingly expensive – our approach with JIN was to progressively reduce the position size on valuation grounds over the course of 2019 as it became increasingly hard to see the valuation being justified by the (albeit strong) earnings outlook for the business. Hence, we had already reduced the position in JIN significantly prior to the downgrade and the impact on Fund performance in December was very minimal (-0.1%).

Other negative contributors in the month included Phoslock Environmental Technologies (PET) -10.1%, VGI Partners (VGI) -8.8% and Opticomm (OPC) -7.0%.
There were no company announcements from VGI or OPC during the month, however both had been strong performers in 2019 so perhaps some retracement was not unexpected.

Regarding PET, early in December, the company issued sales guidance for FY20 for the first time of $50-70m, which was slightly below market expectations, albeit a significant increase vs FY19. In that release, PET also said it was currently on track to meet its FY19 sales forecast of $27-30m, though adverse weather could impact the timing of applications of the product. Looking at 2020 and beyond, the project pipeline continues to appear robust for the company, with a large number of potential projects both in China (~$200m revenue) and the rest of the world (20 projects across 12 countries).

Market commentary

Globally, equities markets had another strong month, with some of the top performing indices including the Hang Seng (+7.0%), the NASDAQ (+3.5%), S&P 500 (+2.9%) and the FTSE (+2.7%). Australia underperformed its global peers, with the All Ordinaries Accumulation Index falling -1.9% in December. Materials was the best performing sector, boosted by higher iron ore (up +8.1%) and gold (+3.4%). Consumer Staples was the worst performer, driven by falls in the two large supermarket groups, Woolworths (-9.1%) and Coles (-8.7%).

Clearly 2019 was a very strong year for equities markets, with the main driver in our view being continued low interest rates, which continue to underpin demand for stocks. Despite the returns over the last 12 months, we continue to find undervalued stocks in our universe and feel optimistic about the prospects for the portfolio in the year ahead.

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	-1.65	-1.67	40.28

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

For more information, please contact Glenmore Asset Management on (03) 8375 9377 or email info@glenmoream.com.au or visit www.glenmoream.com.au