

Glenmore Australian Equities Fund

Monthly performance update

April 2020

Fund Performance

Fund performance for April was +16.63% (after fees) versus the benchmark return of +9.54%. The Fund has delivered a total return of +40.02% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
April 2020	+16.63%	+9.54%
1 Year	-12.95%	-9.23%
Since Inception (p.a.)	+12.23%	+3.10%
Since inception (total)	+40.02%	+9.31%

Fund commenced on 6 June 2017

The common theme in April across the vast majority of stocks in the Fund was a recovery from oversold positions at the end of March. During the month, investor sentiment regarding Corona Virus moved from one of fear and panic to a more measured tone. Whilst clearly there will be a significant negative economic impact from Corona Virus, there are some early signs the business world can navigate this crisis. In fact, whilst there are clearly some companies and sectors that have been severely impacted, there are also many companies where the earnings impact is more manageable. Whereas we believed the large declines in equities in March were an overreaction, following the bounce in stock prices in April, we now see the earnings risks as more appropriately priced into stocks, albeit different stocks clearly have different impacts.

Stock commentary

As would be expected in such a strong month for the Fund, there were a large number of positive contributors.

People Infrastructure (PPE) increased +40.6% in the month. During the month, PPE provided a trading update where it said revenue and EBITDA for the first 8 months of FY20 were up +44% and +53% respectively, which were in line with our expectations. Whilst clearly this update excludes trading from March onwards, which will be materially impacted by the Corona Virus, it did provide some transparency on how the business was performing at least pre Corona Virus. At the same time, PPE announced an \$18m capital raising at \$1.10 (which the Fund participated in) to deleverage the balance sheet during this uncertain period and also provide capital for future acquisition opportunities. Post the capital raising,

PPE's net debt will be a very manageable \$7.8m. The operational update was not particularly surprising, with some divisions being materially impacted by Corona Virus (IT, hospitality, childcare), and others being more resilient (food processing, mining, and disability services). PPE's nursing segment has actually been hurt by Corona Virus (due to hospitals deferring non essential procedures such as elective surgeries), however this should recover upon a restart. At a stock price of \$1.80, PPE trades on a 12-month forward PE multiple of ~10x, which looks attractive, despite the uncertain operating environment for the next 6-12 months.

Dicker Data (DDR) rose +21.6% in April. Late in the month, DDR issued a very positive trading update, with revenue for the first quarter of 2020 up 20% and pre-tax profit of \$18.4m (+36% vs 1Q of 2019). DDR is a value added distributor of technology products in Australian and New Zealand and has clearly been a beneficiary of the widespread shift to remote working, which has increased demand for a range of hardware and software products that DDR distributes. Positively, DDR added three new vendors during the first quarter. As has been the case with many listed companies, DDR has not provided earnings guidance for the full year (due to Corona Virus uncertainty), however the strong start bodes well for another year of earnings growth.

Fund managers **Pinnacle Investment Management (PNI)** and **Magellan Financial Group (MFG)** rose +39.9% and +17.2% respectively in April. Clearly the main driver was the recovery in equity markets globally, however the performance of the key funds of both companies continues to be very impressive. PNI's best performing funds were Hyperion (small cap, large cap and Global) and ResCap Global, whilst MFG's Global Fund (which accounts for ~76% of group FUM) continued its long track record of outperformance vs benchmark.

Other stocks that rebounded strongly in April despite any company specific announcements included **NRW Holdings (NWH)** +35.9%, **Arena REIT** +33.3%, **Integral Diagnostics (IDX)** +32.0 and **Charter Hall Social Infrastructure (CQE)** +31.2%.

There were no detractors of any materiality in the month.

Market commentary

After 2 months of declines, globally markets rebounded strongly in April. In the US, the S&P 500 rose +12.7%, in the UK, the FTSE 100 was up +4.0%, whilst in Japan, the Nikkei

rose +6.58%. The main driver, in our view, was the unprecedented level of fiscal and monetary support from governments and central banks around the world. In addition, following the sharp falls in February and March, data released in April regarding Corona Virus showed the worst case scenarios, appeared less likely to eventuate. In Australia, the All Ordinaries Accumulation Index increased +9.5%. All sectors rose, with Energy, Technology and Materials being the best performers. Gold also performed well, as investors warmed to its prospects as central banks around the world rapidly expanded their balance sheets in an attempt to mitigate the economic impact of Corona Virus. Unsurprisingly defensive sectors such as consumer staples, utilities and telcos were the underperformers for the month. The Australian 10 year bond yield rose 13bp to 0.89%, whilst the Australian dollar rallied +6.2% vs the US dollar to close at US\$0.65. In commodities, copper rose +9.0%, gold was up +6.9%, iron ore was slightly up +0.2%, whilst thermal coal was a notable underperformer, falling -23%.

In thinking about the next 6-12 months, it is important for investors to note that whilst there are obvious sectors that have been materially impacted by Corona Virus (eg. Travel, retail shopping centres, hospitality) there are also quite a number of businesses on the ASX whose operations are impacted to what we would call a manageable degree; where there will be a negative earnings impact for the next 12-18 months but not one which materially impacts the long term valuation. In speaking with many investors and potential investors, there is a strong focus on the direction of the overall market “in aggregate” in the next 1-3 months and also the fear of another sell off in global markets as the reality of the deteriorating economic environment is factored into earnings and in turn stock prices. Whilst we agree the next 12-18 months has heightened uncertainty for investors, with further market volatility likely, the Fund is a concentrated portfolio of stocks that we believe can outperform over the medium term. Our focus will remain on identifying, buying, and holding high quality businesses that we believe are undervalued.

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
2020	3.05	-9.44	-29.34	16.63									-23.09

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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