

## Glenmore Australian Equities Fund

### Monthly performance update

### July 2021

#### Fund Performance

Fund performance for July was 3.21% (after fees) versus the benchmark return of +1.06%. The Fund has delivered a total return of +145.2% or +24.0% p.a. (after fees) since inception in July 2017.

#### Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
July 2021	+3.21%	+1.06%
1 Year	+55.28%	+30.25%
3 Year (p.a.)	+19.89%	+10.20%
Since Inception (p.a.)	+24.02%	+11.01%
Since inception (total)	+145.20%	+54.50%

# Fund commenced on 6 July 2017

Fund Returns are for Main Series Units

Existing investors, please note the Fund paid a 27.0 cent distribution for FY21 this month, with the Net Asset Value (NAV) per unit being adjusted to reflect that distribution.

#### Stock commentary

**Trajan Group (TRJ)** increased +35.4% in the month. We first invested in TRJ in the IPO (at a price of \$1.70) in June 2021. TRJ is a Melbourne based developer and manufacturer of analytical and life science consumables, instruments and solutions, that are used in the analysis of biological, food, water and other environmental samples. TRJ was founded by Stephen and Angela Tomisich in 2011, who still own ~59% of the company. TRJ commenced operations with the acquisition of two pathology consumable businesses in 2011 and 2013 and has since grown to a size where FY20 revenue was ~\$72m and EBITDA ~\$5.3m. The company has five manufacturing facilities located across Australia, the US and Malaysia. New product development is a strong focus with \$4-5m pa being spent on Research and Development by a team of ~80 staff. TRJ has a high quality customer base including life science, biopharma and analytical companies. Future earnings growth will come from organic industry growth of 5-6% pa, as well as a pipeline of new products in development. It is worth pointing out that TRJ has listed with a very strong balance sheet (net cash of ~\$40m), which is likely to be used for M&A purposes. TRJ's near term valuation metrics are quite elevated, however we believe the platform that TRJ now has in place should allow it to generate EPS

growth of 10-20% pa over the next few years. In addition, whilst still unproven as a listed entity, we believe TRJ has the characteristics of a high quality business (high level of recurring revenue, exposure to non cyclical growth), which in turn can warrant trading on above average valuation metrics.

**Bowen Coking Coal (BCB)** increased +21.4% in July. BCB is an emerging Queensland based coking coal producer, that late in the month, announced production and cost targets for two of its smaller projects (Broadmeadows East and Isaac River). The key points of the announcement were that within 12 months, BCB should be producing ~1mtpa of coking coal at reasonable production costs (A\$100-115/t). The announcement highlighted BCB's extremely cheap valuation relative to its potential earnings, with only minimal capex required to bring the two mines into production. BCB has a very capable senior management team and board, who are heavily aligned with shareholders (~34% of BCB is owned by directors) and we believe there is material valuation upside if its impressive portfolio of projects can be brought into production over the next few years.

**Retail Food Group (RFG)** rose +19.4% in July. RFG is a franchisor in the Australian food and beverages industry, operating across five divisions: Bakery/Café, Coffee Retail, Quick Service Retail (eg Crust Pizza and Pizza Capers), International Franchising, and Di Bella Coffee. RFG earnings revenue from charging franchisees fees for initial set up, marketing services and royalties based on sales. In recent times, the company has been the subject of significant negative media reporting due to poor management by its previous executive team (in particular poor treatment of its franchisees). However, that management team have largely departed, with the new RFG management team having a much stronger focus on creating a "franchisee first" environment. In addition, RFG appears very attractively priced (FY22 PE multiple of ~7x) assuming NPAT of ~\$21m can be delivered. RFG is currently subject of an ACCC investigation with the ACCC alleging RFG acted unconscionably and engaged in false, misleading and deceptive conduct in relation to the sale of certain RFG stores between 2015 – 2019. This issue has weighed on the stock price, with the most likely result in our view being a financial penalty of some sort and we would note RFG has ~\$36m of cash if required. Whilst we expect there to be further stock price volatility over the next 12-18 months (earnings impact of lockdowns and announcement of ACCC

outcome), we believe the stock's cheap valuation and prospects for earnings recovery are very attractive.

Other positive contributors were **Coronado Global Resources (CRN)** +17.9%, **Mineral Resources (MIN)** +17.3%, **Whitehaven Resources (WHC)** +14.4%, **Pinnacle Investment Management (PNI)** +9.8% and **ARB Corporation (ARB)** +8.1%.

A number of stocks fell despite no news flow, including **People Infrastructure (PPE)** -6.3%, **Alliance Aviation Services (AQZ)** -5.5%, and **Eagers Automotive (APE)** -4.5%. All of these companies will report their results in August, which will provide a clearer picture of how each has traded in the calendar year to date.

### **Market commentary**

Equity markets were broadly higher in July. In the US, the S&P 500 rose +2.3%, the Nasdaq +1.2%, in the UK, the FTSE was flat (-0.1%). Of particular note globally was the decline of the Chinese stock market, which fell -13.8% in July (MSCI China index), driven by the regulatory crackdown by the Chinese government on the internet sector, as well as concerns of slowing economic growth.

In Australia, the ASX All Ordinaries Accumulation Index rose +1.1% in July. Resources was the standout sector, with base metals in particular being very strong. Lithium stocks (benefitting from the growth in electric vehicles) performed strongly, whilst the iron ore price was down -9% in the month, after a very strong 6-12 months. Corporate activity on the ASX was also a feature in the month, with infrastructure stocks Sydney Airport and Spark Infrastructure, as well as Iress (wealth management software) receiving takeover bids.

Despite the Corona Virus continuing to have a significant impact on Australia, the domestic economy continues to hold up relatively well, with house prices continuing their recent strength and unemployment at a low level of just 4.9%.

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	JULY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
<b>2017</b>						1.29	1.52	7.03	3.05	5.32	3.81	3.66	28.55
<b>2018</b>	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
<b>2019</b>	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
<b>2020</b>	3.05	-9.44	-29.34	16.63	9.64	1.43	1.41	11.52	0.54	1.66	10.37	3.96	13.43
<b>2021</b>	0.53	-1.61	1.34	7.05	1.00	6.15	3.21						18.73

**FUND INFORMATION**

<b>Name</b>	Glenmore Australian Equities Fund	<b>Fund Administrator</b>	Apex Fund Services
<b>Inception</b>	6 July 2017	<b>Fund Custodian</b>	Sargon Corporate Trust Pty Ltd
<b>Structure</b>	Wholesale Unit Trust	<b>Fund Auditor</b>	Pitcher Partners
<b>Investor Eligibility</b>	Wholesale or 'sophisticated' investors only	<b>Fund Manager</b>	Glenmore Asset Management
<b>Subscription Frequency</b>	Monthly	<b>Management Fee</b>	1.2%
<b>Redemption Frequency</b>	Monthly	<b>Performance Fee</b>	20.0%
<b>Unit pricing</b>	Monthly	<b>Benchmark</b>	S&P/ASX All Ordinaries Accumulation Index
<b>Domicile</b>	Australia	<b>High water mark</b>	Yes

**Contact details**

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