Glenmore Australian Equities Fund
Monthly performance update
August 2021

Fund Performance

Fund performance for August was 10.38% (after fees) versus the benchmark return of +2.60%. The Fund has delivered a total return of +170.65% or +26.40% p.a. (after fees) since inception in August 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
August 2021	+10.38%	+2.60%
1 Year	+53.69%	+28.85%
3 Year (p.a.)	+21.54%	+10.20%
Since Inception (p.a.)	+26.40%	+11.45%
Since inception (total)	+170.65%	+58.52%

Fund commenced on 6 June 2017

Fund Returns are for Main Series Units

Stock commentary

Bowen Coking Coal (BCB) increased +80.66% in August. BCB was again a very strong performer, with the key piece of news flow being the announcement that BCB agreed to acquire 90% of the Lenton JV from ASX listed New Hope Coal (NHC) for $20m upfront plus potential milestone and royalty payments up to a maximum of $77m. Assets acquired by BCB included the Burton coal mine and associated infrastructure including a 5.5mtpa coal wash plant, train loadout, mine camp and offices as well as the New Lenton development project. The cost to build these assets today would likely be in excess of $300m, hence the deal looks very attractive for BCB. The acquisition of the processing infrastructure is particularly positive for BCB's aspirations to become a mid tier coking coal producer in the medium term. BCB funded the acquisition via a $15.4m equity raising, which the Fund participated in. Following the transaction, BCB said it is targeting group production of +5 million tonnes per annum of coal by 2024 from its portfolio of assets. If BCB is able to achieve this sort of production rate, we believe EBITDA of $90m-$100m pa is achievable, which would place the stock on an EV/EBITDA multiple of ~2x (albeit this is still 2-3 years away and another capital raise is potentially required). Whilst there is still much work to be done in terms of progressing its mines to production, with a strong and well aligned management team, we believe the company is well placed to continue to perform strongly over the next few years. Following the strong rally in BCB's stock price, we have reduced our holding but remain positive on its growth prospects. For transparency, BCB contributed 4.4% to the August return.

MA Financial (MAF) rose +45.2% in August. MAF (previously Moelis Australia) delivered a very strong 1H21 result, with underlying EPS up +92% to 16.3c, with a maiden interim dividend of 5 cps declared. MAF increased earnings guidance for the full year for EPS growth of +20-30% (previously +10-20%), which we believe could be exceeded given the momentum in the business. The key driver of the result was MAF's asset management business. To recap, this is the main earnings contributor for the group, making up ~70% of group EBITDA. Assets under Management (AUM) rose +21% to $6.1B, whilst net inflows for the half were $506m (well up on $158m in 1H20), in particular driven by the high net wealth (HNW) segment. MAF launched its first credit fund during the half, which is an area which has strong upside potential. Since MAF listed on the ASX in 2017, we have believed the Asset Management business to have particularly positive attributes, given its growth potential and sticky investor base so it is pleasing to see it delivering on its potential. Another interesting piece of news of the result, was the emergence of MAF's Lending business, which for the first time was reported separately, given its increasing importance to group earnings. 1H21 EBITDA for the division was $6.4m (up +39% vs pcp). After attending MAF's investor day in May this year in Sydney, we materially added to our position, given our increased confidence in the earnings outlook, so the FY21 result was a very pleasing outcome, with MAF having been a key investment of the Fund since 2017.

Other positive contributors in August were: Pinnacle Investment Management (PNI) +31.1%, Uniti Group (UWL) +24.4%, Fiducian Group (FID) +18.9%, and Whitehaven Coal (WHC) +14.0.

Mineral Resources (MIN) fell -12.9% in August. MIN's FY21 result itself was very strong (NPAT of $1.2B, up +230% vs FY20) albeit ~5% below expectations impacted by higher costs in both Mining Services and Mining divisions. The main catalyst for the stock price fall in the month was the fall in the iron ore price (down -25%) following a very strong run in the last 12 months. Given MIN has a significant amount of group earnings from iron ore, the stock price decline was not surprising, and we would note over a long period, MIN's short term stock price has been strongly correlated to the iron ore price (albeit development of MIN's growth projects being the driver of the stock price over the long term). We trimmed our holding in MIN following the result but retain it as a key holding given our positive view on MIN's outstanding portfolio of growth projects across iron ore and lithium.

Integral Diagnostics (IDX) fell -12.8% in August. IDX had a slightly weaker than expected FY21 result, with NPAT of $38.0m, up +25% vs FY20 but 4-5% below market expectations. IDX's revenue growth of +22% (or +12% excluding acquisitions) was below market growth of +15%, with IDX attributing this to its focus on higher end modalities such as MRI's and CT scans (which are higher profit margin), rather than simply chase revenue growth. Cost pressures (which will continue into FY22) saw EBITDA margin fall slightly (by ~1%) to 26.6%. The key driver of the weakness of the stock price in our view was the FY22 outlook commentary, which was below expectations. FY22 year to date trading for the group is down -5% vs budget, with the New Zealand business being down up to -75%, due to New Zealand's very strict lockdown which has reduced demand for non-essential diagnostic imaging. IDX also commented that M&A is getting harder due to elevated vendor expectations, and as such it will focus more on greenfield developments (where earnings contribution is more long dated). Whilst the result was somewhat disappointing, we believe the company remains a high quality business with favourable industry fundamentals (organic revenue growth has averaged ~7% p.a. for the last 15 years).

People Infrastructure (PPE) fell -7.0% in the month. Despite this, we viewed PPE's FY21 as solid, with FY21 NPAT of $25.0m, up +36% vs FY20 and slightly ahead of market expectations. Operating cash flow was the one negative aspect of the result, coming in at just $7.6m (vs $27m in FY20), however we believe the issue was driven by timing of certain cash payments rather than anything structural. No guidance for FY22 was issued, however we believe another year of earnings growth of ~10% is achievable. PPE trades on quite reasonable valuation metrics of FY22 PE of ~14x, which we continue to view as attractive. Whilst there are some short term headwinds in the form of NSW and VIC lockdowns impacting parts of the business, overall the outlook is positive, with further earnings upside from M&A likely (where PPE has $50-70m of funding capacity).

Market commentary

Globally markets were stronger in August, continuing their strong performance in 2021. In the US, the S&P 500 rose +2.9%, the Nasdaq was up +4.0%, whilst in the UK FTSE 100 increased +1.2%. There were no clear reasons for the rise in equities in August, however continued low interest rates and recovering global economies (driven by the vaccine rollout) continue to provide a positive backdrop. Whilst clearly, bond rates will rise over the next few years, at this point in time, it appears the rise will be gradual (though a sharper increase in inflation and bond rates continues to be a key issue for investors).

On the ASX, the All Ordinaries Accumulation Index rose +2.6%. Technology was the best performing sector, boosted by the acquisition of Afterpay by US listed Square, as well as a strong full year result from WiseTech Global, a large cap tech stock on the ASX. Defensive Staples and Healthcare also performed strongly, whilst the worst performer was Mining, due to a sharp fall in the iron ore price (down -25% in the month). This saw large falls in the large cap miners, whilst BHP's plan to remove its dual listing was also perceived as a negative for the sector.

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	9.64	1.43	1.41	11.52	0.54	1.66	10.37	3.96	13.43
2021	0.53	-1.61	1.34	7.05	1.00	6.15	3.21	10.38					31.06

FUND INFORMATION

Name	Glenmore Australian Equities Fund	**Fund Administrator**	Apex Fund Services
Inception	6 August 2017	**Fund Custodian**	Certane 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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