Glenmore Australian Equities Fund

Monthly performance update

August 2022

Fund Performance

Fund performance for August was +5.18% (after fees) versus the benchmark return of +1.28%. The Fund has delivered a total return of +194.46% or +22.84% p.a. (after fees) since inception in June 2017.

Period	Glenmore Fund	All Ords. Accum. Index
August 2022	+5.18%	+1.28%
1 Year	+8.80%	-3.85%
3 Year (p.a.)	+16.66%	+6.13%
5 year (p.a.)	+21.75%	+8.51%
Since Inception (p.a.)	+22.84%	+8.36%
Since inception (total)	+194.46%	+52.41%

Fund commenced on 6 June 2017
Fund Returns are for Main Series Units

<u>Stock commentary</u>

Whitehaven Coal (WHC) rose +28.2% in August. WHC reported a very strong FY22 profit result, with FY22 NPAT of $1.95B vs a loss of $0.5B in FY21. The key driver was a strong uplift in the average coal price received of A$325/t (before royalties). With the result, WHC declared a 40c fully franked final dividend and in addition has completed ~7% of its planned 10% share buyback (cost of $362m to date). Given the strong cash generation, WHC's balance sheet is very strong, with net cash of A$1.0B.

Bowen Coking Coal (BCB) increased +27.4%. During the month, BCB announced processed first coal from its Broadmeadow East mine in Queensland, whilst shipping a second vessel of 40,000 tonnes of coking coal from its Bluff mine (also in Queensland). In addition, the benchmark hard coking coal price recovered sharply in August, which boosted sentiment towards coking coal producers.

Strandline Resources (STA) increased +20.0% in the month. Given STA's flagship 100% Coburn mineral sands project is not yet in production, its FY22 result was not material, however the key positive is that STA continues to demonstrate strong progress of the construction of Coburn in WA, with overall project completion at ~90% now. With regards to cash flow, STA is close to selling its first shipment of heavy mineral concentrate (HMC) in the coming months, which will generate ~A$10m at current spot prices. While the key commissioning phase of the project is still ahead of STA, the capital cost of the project remains within budget and mineral sands prices remain very healthy (~35% higher than STA's feasibility assumptions).

Ardent Leisure (ALG) rose +19.4%. ALG, which operates theme parks and attractions in Queensland, reported a much improved FY22 result, noting that FY21 was heavily impacted by COVID. To recap, ALG completed the sale of its US based Main Event business for US$835m to Nasdaq listed Dave & Buster's Entertainment in June this year. With the proceeds, ALG returned A$456m cash to shareholders, whilst maintaining some cash as working capital for its sole remaining business, "Theme Parks and Attractions". In FY22, this division, consisting of Dreamworld, WhiteWater World and SkyPoint, reported revenue of $49.5m, up +37% vs FY21. The first half of FY22 was negatively impacted by domestic and international border restrictions, however the second half (noting the Queensland border reopened in December 2021) saw signs of recovery. Attendances in 2H22 were up +19% vs pcp. Overall, FY22 saw an EBITDA loss of $14.5m, given the large fixed costs of the business, however we believe the outlook for FY23-24 remains positive, given the recovery in recent months. ALG noted, FY23 has started well, with July 2022 showing the highest EBITDA since July 2018.

DGL Group (DGL) fell -26.1% in the month. DGL's FY22 result was solid, with NPAT of $33.6m (up +197% vs FY21 NPAT) being in line with guidance given in April, however commentary from the company around FY23 guidance for earnings growth to "flatten" spooked investors, in particular comments that implied DGL had materially over earned in FY22 due to certain opportunities that arose in FY22 that would not be repeated in FY23. In addition, operating cashflow was weak, which DGL said was due to earlier than normal inventory purchases. Whilst the FY23 guidance was clearly worse than expected, we have maintained our position in DGL given our view the post result sell off has been overly excessive.

Arena REIT (ARF) fell -12.7% in the month. To recap, ARF acts as a landlord to a portfolio of mainly childcare and also a small number of healthcare centres in Australia. ARF's reported FY22 funds from operations (FFO) of 16.3 cents, up +7% vs FY21, which was in line with market expectations. With the result, ARF issued FY23 distribution per unit guidance of 16.8 cents, up +5% vs FY22. Whilst the result itself was quite solid, the stock price weakness was likely driven by expectations around higher interest costs which will dampen distribution growth in the next few years. Despite this, we remain positive on ARF given its long term lease profile (weighted average ~20 years) and attractive rent review structure where the majority of assets have annual rent increases linked to changes in consumer price index (CPI).

Market commentary

In August, equity markets were weaker, driven by expectations around the number of future interest rate rises needed to reduce inflation. In the key US indices, the S&P 500 was down -4.2%, the Nasdaq fell -4.6%, whilst in the UK the FTSE 100 performed better, declining -1.9%. Australia outperformed, where the All Ordinaries Accumulation Index rose +1.3%, driven by its heavy weighting to resources and oil and gas stocks, which outperformed strongly. Property, consumer staples and utilities sectors lagged.
The key driver of declines in global indices were comments made by Jerome Powell (chair of US Federal Reserve) in late August which indicated the US Federal Reserve monetary policy will be aimed very strongly at bringing down inflation closer to its long range target of ~2%, which in turn indicates the interest rate hiking phase will be larger and go for longer than some equity investors had hoped for. On this issue, our base expectation is that central banks will need to raise rates aggressively for another 6-12 months in order to reduce inflation to more acceptable levels. Whilst this will lead to a challenging and volatile period for equity markets, the positive is that this volatility is likely to provide excellent buying opportunities in stocks across a range of sectors on the ASX.
In fixed interest markets, the US 10 year bond yield rose sharply, climbing 42 basis points to close at 3.13%, whilst the yield on the Australian 10 year bond also rose sharply, by 54bp to close at 3.55%. The A$/US$ fell -2.0% to close at US$68.5.
Commodities were broadly lower in August, iron ore fell -16.0%, crude oil -12.3%, copper fell -2.1%, whilst thermal coal continued to outperform, rising +4.2%.
Overall, the August reporting season was better than many investors had feared, with most results coming in close to consensus expectations. With that said, we are still quite early of the interest rate hiking cycle, with company results for the December 2022 half likely to be more impacted by rising interest rates, higher cost of living, and general caution on household spending.

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	0.74	0.65	0.51	4.13	39.07
2022	-7.62	-1.12	12.52	3.07	-4.11	-12.59	9.78	5.18					2.53

FUND INFORMATION

Name	Glenmore Australian Equities Fund	**Fund Administrator**	Apex Fund Services
Inception	6 June 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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