

## Glenmore Australian Equities Fund

### Monthly performance update

### December 2020

#### Fund Performance

Fund performance for December was +3.96% (after fees) versus the benchmark return of +1.75%. The Fund has delivered a total return of +106.51% or +22.43% p.a. (after fees) since inception in June 2017.

#### Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
December 2020	+3.96%	+1.75%
1 Year	+13.43%	+3.64%
3 Year (p.a.)	+17.12%	+7.44%
Since Inception (p.a.)	+22.43%	+8.94%
Since inception (total)	+106.51%	+35.93%

# Fund commenced on 6 June 2017

Fund Returns are for Main Series Units

#### Stock commentary

**Whitehaven Coal (WHC)** rose +24.2% in December. WHC is an Australian based coal producer (~80% thermal coal) with four assets in the Gunnedah Basin (NSW). The company produces ~18 million tonnes per annum of coal. In addition to its producing mines, WHC has a number of development projects which could increase group production, albeit they are not likely to proceed until a sustained improvement in coal prices. Similar to our investment in Coronado Global Resources (CRN), at the time of investment in WHC (stock price of ~\$1.00), we viewed it as materially undervalued, based on our view that the current depressed coal price was likely to recover over the next 1-2 years. Pleasingly, this has started to happen in recent months. The Newcastle thermal coal price (WHC's best benchmark) was up +18% in December, as it recovers from the depressed levels of US\$50-55 per tonne seen in the period of May to September in 2020. Over the next 12 months, we expect continued recovery of the thermal coal price to be the main driver of WHC's stock price with the potential for its development projects to be given some value from investors as they become more viable, which currently we do not believe is factored into the stock price.

**Mineral Resources (MIN)** increased +15.8% in the month. MIN did not release any specific news in the month, however there were several pieces of broker research released highlighting MIN's strong medium term growth prospects,

including UBS who initiated coverage on the stock with a \$42 price target. In addition, the iron ore price rose +22% in December, providing a boost to near term earnings and cash flow, which is important as it improves MIN's ability to self fund its growth projects over the next few years. Also helping sentiment to Australian based iron ore miners, early in the month, Brazilian mining company, Vale (a major global iron ore producer), downgraded production guidance for 2020 from 310-330m tonnes to 300-305m tonnes and said it expected 2021 production to be 315-335m tonnes, which was below market expectations.

**Alliance Aviation Services (AQZ)** increased +11.0% in the month. On the 3<sup>rd</sup> of December, the company provided very strong earnings guidance for 1H21, with underlying pre tax profit expected to be ~\$26m, up 71% vs pcp. A key driver of the strong profitability has been the shift from regular public transport to private charter, due to increased safety measures due to Corona Virus. In addition, some flights have resumed under the Virgin Airlines (VAH) wet lease arrangement (where AQZ operates regional flights for VAH), albeit on a limited basis. Later in the month, AQZ announced the acquisition of an additional 16 Embraer E190 aircraft at a cost of A\$85m, which was in addition to the 14 E190 aircraft acquired from Azzora Aviation in August 2020. Given the current distressed state of many global aviation operators, these opportunistic acquisitions are likely to prove to be very value accretive for AQZ, albeit with the earnings impact to be seen over the medium term. Whilst AQZ has enjoyed a material re rating in its valuation metrics over the last 12 months, we believe given the strong earnings visibility and earnings outlook justifies an FY22 PE of ~15x and hence continue to hold the stock.

Other positive contributors for the month included **ARB Corporation (ARB)** +11.0%, **NRW Holdings (NWH)** +10.2%, and **Coronado Global Resources (CRN)** +8.1%.

**Worley (WOR)** declined -10.9% in the month. During the month, the company held an investor day focussing on its service offerings in the sustainable energy segment (wind, hydrogen, waste to energy, carbon capture and storage), given the huge increase in spend that will occur over the next 5-10 years. Whilst its core markets of oil, gas and chemicals continue to make up the bulk of WOR's earnings, the presentation did highlight it should be able to leverage existing relationships as these clients increasingly increase focus on sustainable energy.

WOR flagged in recent times it has had some issues with gaining access to site at some projects and also some project delays due to Corona Virus. Whilst we view these issues as temporary, the comments likely had some impact on the stock price during the month.

**Magellan Financial Group (MFG)** fell -9.3% in December. The stock has been impacted by recent under performance of its flagship global fund (despite having a very strong long term track record) and the appreciation of the Australian dollar. Despite the recent weakness we remain comfortable holders the stock, which now trades on a 12 month forward PE of ~21x.

### Market commentary

In Australia, the All Ordinaries Accumulation Index (All Ords) rose +1.75% in December, with mining and technology stocks being the key drivers. Mining stocks were boosted by stronger commodity prices, in particular iron ore and copper, whilst Utilities underperformed, being negatively impacted by higher bond yields. Overall, the All Ords returned +3.6% for 2020, in what was an incredibly volatile year.

Globally, the key market indices all rose in December. In the US, the S&P 500 was up +3.7%, the Nasdaq was up +5.7%, in Japan, the Nikkei 225 rose +3.8%, whilst in the UK the FTSE 100 rose +3.1%. Investor optimism was driven by vaccine approvals in the UK and US and the finalisation of the US fiscal stimulus package, which will provide ~US\$900B. In bond markets, the key US 10 year bond yield increased by 7bp to finish at 0.92% (and we note this has continued rise in January). The Australian dollar continued to power ahead, rising +3.5 cents (or +4.8%) vs the US dollar to close at US\$0.77, driven by rising commodity prices.

With the conclusion of 2020, we would like to make a special thank you to our existing investors who after enduring a challenging period in February and March (which saw heavy selling of a wide range of stocks) continued to support the Fund and importantly maintained a long term time horizon. Pleasingly there were no redemptions during the February/March period and indeed some investors took advantage of the panic selling by adding to their investment.

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
<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>													

**FUND INFORMATION**

<b>Name</b>	Glenmore Australian Equities Fund	<b>Fund Administrator</b>	Apex Fund Services
<b>Inception</b>	6 June 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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