

## Glenmore Australian Equities Fund

### Monthly performance update

### December 2022

#### Fund Performance

Fund performance for December was -2.93% (after fees) versus the benchmark return of -3.30%. The Fund has delivered a total return of +186.87% or +20.77% p.a. (after fees) since inception in June 2017.

Period	Glenmore Fund	All Ords. Accum. Index
December 2022	-2.93%	-3.30%
1 Year	-0.12%	-2.96%
3 Year (p.a.)	+16.36%	+5.76%
5 year (p.a.)	+17.42%	+7.20%
Since Inception (p.a.)	+20.77%	+8.19%
Since inception (total)	+186.87%	+55.16%

# Fund commenced on 6 June 2017

Fund Returns are for Main Series Units

#### Stock commentary

**Retail Food Group (RFG)** rose +21.2% in December. Late in the month, RFG announced the resolution to the long running investigation by the ACCC into mis conduct by previous RFG management. To recap, the ACCC had alleged RFG sold loss making franchises to franchisees without properly disclosing their true financial performance (between 2015-18) and made payments from the Michel's Patisserie marketing fund that were not legitimate marketing expenses (between 2012-17). The outcome was that RFG must pay \$8.0m to franchisees that were the subject of the misconduct. In addition, RFG agreed to waive \$1.8m of debt to certain franchisees. We believe these amounts were broadly in line with investor expectations. The ACCC investigation has been a material headwind for the company and whilst the timing of closure was uncertain, we have long held the view that it would be resolved at a cost to RFG that was not as severe as was being priced in, noting RFG had been trading on a FY23 PE of ~7x before this announcement. With the ACCC investigation now behind it, we believe RFG is well positioned to grow earnings from multiple internal growth initiatives, as well as being better placed to attract new franchisees and commercial partners, which has been impacted by the shadow of the ACCC investigation. Post the recent rally, RFG trades on a PE multiple of ~10x, which we continue to see as attractive given quality of its earnings base and growth prospects.

**Stanmore Resources (SMR)** rose +8.1% in the month. SMR did not release anything to the ASX in December, but the stock was likely assisted by the +21% rally in the benchmark hard coking coal price, as well as growing investor awareness of SMR's material free cash flow generation and cheap valuation. SMR held an investor site trip in Queensland in November (which we attended) which showed the assets acquired from BHP were operating well, with clear scope to be expanded, albeit any material production increases are likely to be in the medium term.

**Strandline Resources (STA)** declined -18.5%. Late in the month, STA disclosed a contractor (TMM Group, a subsidiary of ASX listed Macmahon Holdings) had initiated legal proceedings in the Supreme Court of Western Australia against STA, alleging STA owes TMM an amount of \$13.5m. In the ASX release, STA said it will defend the matter vigorously and bring its own counterclaims against TMM. Whilst the issue is likely to weigh on the stock, given the size of the claim, we do not see it as a material negative at this point. In more positive news, STA announced its flagship project, Coburn (WA), made its first shipment of heavy mineral concentrate (HMC) of value of ~A\$7m, during the month.

**Mineral Resources (MIN)** fell -11.7%. Following a very strong 12-month period of appreciation (up by ~100%), lithium prices fell by -10% in December, which resulted in lithium producers being sold off materially. Whilst MIN is not a pure play lithium company, it does have material exposure to the commodity, so it was not surprising the decline had an impact on MIN's short term stock price. MIN's other key commodity exposure, iron ore, fared better, rising +14.1% in the month. Also, in December, MIN announced a scrip based takeover offer for WA based gas company Norwest Energy (NWE). MIN already owns ~19.9% of NWE, with the logic of moving to 100% ownership being it would allow NWE's high quality gas assets to be developed more easily and faster as part of MIN than as a standalone entity, given MIN's expertise in developing assets in WA and superior access to funding (noting MIN's market cap of ~\$17B vs NWE of \$450m).

Other negative contributors included **Eagers Automotive (APE)** -11.5%, **MA Financial (MAF)** -8.3%, **Dicker Data (DDR)** -6.4%, and **Whitehaven Coal (WHC)** -6.2%.

### Market commentary

Global equity markets were weaker in December. In the US, the S&P 500 fell -5.9%, the Nasdaq declined -8.7%, whilst the FTSE 100 (UK) outperformed (given its lower tech and growth exposure), falling just -1.6%. The driver of the declines was persistent inflation and hawkish commentary from central banks, which disappointed investors hoping for an end to the interest rate rises that have been the key headwind for equities in 2022. The ASX All Ordinaries accumulation index fell -3.3% in December. Whilst all sectors produced negative returns, mining was again the best performer boosted by expectations that the re-opening of China's economy will lift demand for commodities. Consumer discretionary, IT and REIT's all underperformed.

In bond markets, the key US 10-year bond rate rose +10 basis points to close at 3.83%, whilst in Australia, the 10-year bond rate rose more materially, up +52bp to close at 4.05%. The A\$/US\$ was flat at US\$0.68.

### **Review of global stock market indices in 2022**

The table below shows how some of the relevant equity indices performed in 2022.

Index	2022 return (%)
ASX All Ordinaries Accumulation	-3.0
ASX Small Ordinaries Accumulation	-18.4
ASX Small Industrials Accumulation	-21.8
S&P 500 (US)	-19.4
Nasdaq (US)	-33.1
FTSE 100 (UK)	+0.9

### **Some of the key takeaways:**

- Growth stocks, in particular technology stocks, underperformed materially given the sharp rise in bond yields and (for many stocks at the start of 2022) over valuation following several years of very strong stock price performance
- Indices with a heavy weighting to resources (eg. ASX and FTSE) outperformed
- Small caps significantly underperformed large caps on the ASX, as investor sentiment became very bearish, investor funds flowed into the perceived safety of large caps

Looking forward to 2023, our view is that having underperformed materially in 2022, small/mid cap stocks on the ASX in particular, are poised to provide some excellent opportunities given historically this part of the ASX has been a very profitable segment, due to small/mid-caps typically having superior earnings growth prospects vs large caps. In terms of the growth and technology sectors, we believe that whilst much of the sell off of highly priced stocks has likely played out, given our preference for established business generating profits and cashflow, we remain cautious on this part of the market.

We look forward to reporting season in February, which will show how the companies in our portfolio are performing and also potentially provide some ideas with regards to new investments.

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	<b>28.55</b>
<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	<b>0.97</b>
<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	<b>40.28</b>
<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	<b>13.43</b>
<b>2021</b>	0.53	-1.61	1.34	7.05	1.00	6.15	3.21	10.38	0.74	0.65	0.51	4.13	<b>39.07</b>
<b>2022</b>	-7.62	-1.12	12.52	3.07	-4.11	-12.59	9.78	5.18	-8.24	5.57	3.61	-2.93	<b>-0.12</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>	Certane 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**

For more information, please contact Glenmore Asset Management on (03) 8375 9377 or 0409 002 391 or email [info@glenmoream.com.au](mailto:info@glenmoream.com.au).

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