GLENMORE ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
February 2018

Fund Performance

Fund performance for February was -0.30% (after fees) versus the benchmark +0.13% as measured by the RBA Cash Rate (converted to monthly basis). The Fund has now delivered a return of +32.61% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore	Benchmark
February 2018	-0.30%	+0.13%
Financial Year to date	+30.93%	+1.00%
Since inception #	+32.61%	+1.13%

Benchmark is the RBA Cash Rate.
Fund commenced on 6 June 2017

As always, February was a very busy period for the Fund, with the vast majority of companies in the portfolio releasing their financial results for the six months to 31 December 2017. In addition, the start of February saw a significant correction in global equity markets, however the ASX recovered strongly later in the month to end broadly flat. Further discussion to this will be provided in the Market commentary section. Companies invested in by the Fund had a strong reporting season, with a number of companies delivering very positive results and outlooks and no major negative surprises.

Below is commentary on several stocks currently held by the Fund.

Appen (APX) rose 18.4% in February. APX reported its full year results for FY17, which showed NPAT of $14.3m, up 36% vs FY16. The result was 4-5% ahead of market expectations, APX also provided earnings guidance for FY18 of EBITDA between $50m-55m, which was also ahead of market forecasts. Recent acquisition, Leapforce contributed $6m of revenue in the half. Following this acquisition, APX is the global leader in provision of human annotated datasets for machine learning and artificial intelligence. With strong tailwinds for these sectors, the earnings outlook remains positive for APX and we continue to hold the stock.
NRW Holdings (NWH) was up 14.2% in the month. NWH delivered another strong result, with 1H18 NPAT of $19.5m, up 70% vs pcp. The acquisition of Queensland based mining and infrastructure contractor, Golding, was a key driver of this growth, as well as continued recovery in NWH's core mining markets. Prospects for new contract work appear strong across both resources and infrastructure markets. Over the next 2-3 years, there is a significant amount of work to be awarded by BHP, Rio Tinto and Fortescue, as these three all need to invest material amounts of capital to maintain their iron ore production rates. This should bode well for NWH, given its traditional strength in this type of work.
Pioneer Credit (PNC) increased 10.9% in the month. PNC reported 1H18 NPAT of $8.1m, up strongly from 1H17 of $4.2m and ~10% ahead of market forecasts. A key highlight of the result was the strong uplift in cash collections (a key metric for businesses that purchase debt ledgers). PNC gave guidance for investment in debt ledgers in FY18 is $80m, up ~15% vs FY17. With the result, PNC increased FY18 NPAT guidance from at least $16m to at least $17m. We first discussed PNC in the October 2017 newsletter, with the stock now up ~45% since our initial investment. Given PNC's still attractive valuation (FY18 PE of 12x) and strong earnings outlook, we remain positive on the stock's prospects.
Pacific Current (PAC) fell 8.9% in the month. PAC reported 1H18 NPAT of $9.3m, which was slightly below market expectations. Most of PAC's boutique funds showed solid performance, with US based GQG again the star performer. Since the sale of PAC's 40% stake in Australian fund manager Investors Mutual in October 2017, the stock has underperformed, probably based on uncertainty as to how the sale proceeds will be re-invested. Currently, cash makes up ~30% of the stock's market capitalisation, with the next key event being the deployment of this capital, which is likely sometime in the next 12 months. We are optimistic that PAC will invest it in an earnings accretive fashion, which should be positive for sentiment towards the stock.
Hotel Property Investments (HPI) fell 6.0% in the month, in line with many of its REIT peers. HPI's result itself was actually quite solid – 1H18 NPAT of $14.6m (vs $14.7m in pcp), distribution of 9.8c (vs 9.7c in the pcp) and rent revenue up 3.2% vs pcp. At the current stock price, HPI is trading on a FY19 PE multiple of 14.5x and distribution yield of 6.9% (which should grow by 4-5% pa in the next few years). Given HPI's relatively low risk earnings stream, we believe this is an attractive forecast total return and the stock continues to be held by the Fund.

In terms of portfolio activity, the Fund exited HUB 24 (HUB) and Praemium (PPS) early in the month due to their share prices reaching our valuations. Whilst the earnings outlook remains positive for both, PE multiple expansion has been very aggressive in the last 6 months. Both stocks have been strong performers for the Fund rising by 80-100% vs our initial cost price. Note holding periods of 6-7 months is much shorter than our target but will occur if we believe valuation is no longer attractive and/or there is downside risk implied by current stock prices. We will continue to monitor the companies and hope for a more attractive entry points in the future. Funds from the sales have been re-invested into stocks with more attractive valuation upside.

Market commentary

February was a very volatile month, with global markets being sold off early due to a US employment report which showed US wages grew at their fastest pace in the last 9 years. This in turn led to fears of increasing inflation which could see the Federal Reserve forced to hike interest rates aggressively over 2018. The US 10-year bond yield increased 15bp to 2.9% during February. At one stage during the month, the US S&P 500 was down -10% but rallied to close down -3.7%.

At the time of writing, the US CPI reading for February had been released, showing a rise of +0.2% vs January, indicating that inflationary pressures continue to increase, but not (yet at least) at a pace that could see more aggressive action required from the Federal Reserve. That said, this continues to be a key risk for global markets in 2018 and for that reason, continued volatility is likely.

Key indices around the world were also weak, with the FTSE 100 (UK) down -3.4%, the Stoxx50 (Europe) down -4.6% and the Nikkei (Japan) fell -4.4%.

In terms of commodities in the month, Brent oil was down -6% to US$64/barrel, iron ore was up +8% to US$79/t, met coal was up +7% to US$104/t and thermal coal down -2% to US$104/t.

Domestically, the ASX200 materially outperformed its global peers, rising +0.4%. This outperformance was likely due to Australia not yet being in a rising interest rate cycle and also due to our market having lagged the US in 2017. With expectations of several rate rises in the US in 2018 and none in Australia, it was not surprising that the A$ declined vs the US$, falling -3.8% in the month.

Best performing sectors on the ASX in the month were Healthcare and Consumer Staples, whilst REIT's and Energy underperformed.

Thank you for your interest in the Fund, as always, I am available for those interested in discussing an investment.