Glenmore Australian Equities Fund
Monthly performance update
February 2020

Fund Performance

Fund performance for February was -9.44% (after fees) versus the benchmark return of -8.08%. The Fund has delivered a total return of +69.91% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
February 2020	-9.44%	-8.08%
1 Year	+15.97%	+8.23%
Since Inception (p.a.)	+21.26%	+8.84%
Since inception (total)	+69.91%	+26.22%

Fund commenced on 6 June 2017

February was a very busy month, with essentially all our holdings reporting their results for the last 6 months. Despite the Fund's headline return, the vast majority of our holdings had excellent results (from a company perspective), which were overwhelmed by Corona Virus sentiment in the last week of the month. In understanding the Fund's performance it is important to remind investors that during periods where the market is sold off aggressively, small/mid cap stocks (which the Fund has a strong exposure to) are impacted more than large cap stocks (which benefit from a flight to safety). This also occurred in October 2018, where the Fund fell ~9%. The positive news is that coming out of these periods is likely to produce some outstanding buying opportunities, which we expect to occur over the next few months.

Stock commentary

Opticomm (OPC) rose +25.8% in February. OPC owns and operates fibre-based wholesale telecommunication networks across Australia. The company reported a strong 1H20 result, with NPAT of $10.8m up 7% vs pcp. The key Network division (which has largely recurring revenue) grew EBITDA by 29% vs pcp, whilst ARPU (average revenue per user) was up 8% to $51. Despite trading on elevated near-term valuation metrics, the earnings outlook is robust with demand for higher speed internet plans likely to increase over the next few years.

Pinnacle Investment Management (PNI) rose +9.2% in the month. PNI reported 1H20 NPAT of $13.4m, up 25.2% vs pcp. Net inflows for the group were $2B for the half, which we viewed as solid in what is a subdued environment.

The two affiliates we are particularly positive on with regards to potential FUM growth are Metrics Capital Partners (alternative asset manager specialising in private debt, fixed income and capital markets) and Coolabah Capital Investments (investment grade credit management). Both have excellent track records, stable management teams and have strong pipelines for new business. In addition, we believe the Hyperion Global Fund, which now has a 5 year track record, has very strong potential for FUM growth.

In terms of detractors, given the broad-based weakness of stocks during February, unsurprisingly, the majority of stocks in the portfolio were impacted to varying degrees. Below we have discussed the stocks that had the most material impact on Fund performance.

NRW Holdings (NWH) fell -23.3% in the month. Despite the stock price decline, NWH delivered another solid result, with 1H20 NPAT of $41.2m, up +46% vs pcp, whilst EPS was up +16%. Profit margins were slightly disappointing in its Civil business, however the other divisions produced results in line with our expectations. The earnings outlook is robust, driven by iron ore capex over the next 3-5 years and NWH continues to be attractively priced in our view, trading on an FY21 PE of ~11x.

Bravura Solutions (BVS) declined -18.6% in February. Despite this, BVS reported an excellent result, with 1H20 NPAT of $19.8m, up +17% vs pcp. The key Wealth Management division saw EBITDA fall -12% driven by lower licence sales, although we believe this will improve over the next few years given a strong sales pipeline. Funds Administration delivered a very strong result with EBITDA up +44% driven by higher licence fees and new project work. BVS reiterated guidance for FY20 of mid-teens NPAT growth (excluding acquisitions) with acquisitions making an additional $3m contribution. BVS has net cash of $100m on its balance sheet, which positions it well for further M&A or organic growth opportunities.

Magellan Financial Group (MFG) fell -15.7% in the month. MFG delivered another very solid result, with 1H20 NPAT of $271m, up +23% vs pcp driven by strong fund performance and consistent net inflows. Net cash on hand is $430m, which provides material growth optionality regarding new products. In addition to its current funds, MFG has a number of growth options, including its Retirement Income product (to be launched in the next 6-12 months) which we believe will generate material FUM given MFG's strong brand and current low interest rates, as well as the launch of retail versions of its Sustainable Funds.

Kangaroo Island Plantation Timbers (KPT) was a detractor for the Fund in the month. As background, KPT has timber and land assets on Kangaroo Island, which (until January) the company had been progressing towards commercialisation. As many readers would be aware, Kangaroo Island was impacted by severe bush fires, which caused significant damage to KPT's timber assets. The timing of the bushfires was very unfortunate given the stock was on the cusp of a material step up in earnings (EBITDA of ~$20m pa) however clearly the bushfires have significantly impacted the upside scenario. Despite the foregone earnings, this is somewhat balanced by the fact that KPT is highly likely to receive a substantial insurance payout (~$60m vs market capitalisation of $111m) and has land holdings valued at $47m in 2017. KPT does have debt of $29m, which is comfortable lower than the likely insurance payment. The company is currently in trading halt as management assesses its options, which include selling the land for agricultural use or continuing as a timber business. Based on our assessment when it resumes trading, we have marked the shares down to $1.50 (vs last trading price of $1.96). Note KPT is a relatively small position for the Fund (~1.6%), with the impact on Fund performance in February being -0.4%.

Market commentary

As all readers would be aware the impact of the Corona Virus had a material impact on global equity markets in the last week of February. The major stock market indices were all materially down (S&P 500 fell -8.4%, FTSE 100 -9.9%, Nikkei -8.9%). In Australia, the All Ordinaries Accumulation Index fell -8.1%. Health and Utilities were the best performers (ie. fell the least), whilst Energy and Technology were the worst performers.

Global bond rates declined again (US 10 year down -35bp to 1.2% and the Australian 10 year fell -13bp to 0.82%. The Australian dollar continued its decline, falling 1.8 cents to close the month at US$0.65.

With regards to the Corona Virus, at this stage it is difficult to quantify the impact it will have on company earnings in the next 6-12 months; however our focus will remain on investing in strong businesses and maintaining a long-term focus. It is important for investors to remember during these periods, many stocks can fall sharply irrespective of long-term valuations. This occurred towards the end of 2018, which in turn created some outstanding buying opportunities for the Fund.
That is not to say there is not legitimate earnings risk for many companies over the next 6-12 months, however the key issue is how much impact the Corona Virus will have on the long-term value of these businesses.

We have not made significant changes to the portfolio with the cash weighting currently being ~15%, which provides sufficient capacity to take advantage of any attractive opportunities. In our view, the best way to approach this period of heightened volatility is continuing to focus on quality businesses and maintain a long-term focus.

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											-6.68

FUND INFORMATION

Name	Glenmore Australian Equities Fund	**Fund Administrator**	Apex Fund Services
Inception	6 June 2017	**Fund Custodian**	Sargon 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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