GLENMORE
ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
January 2018

Fund Performance

Fund performance for January was +3.47% (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 +33.01% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore	Benchmark
January 2018	+3.47%	+0.13%
Financial Year to date	+31.33%	+0.88%
Since inception #	+33.01%	+1.00%

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

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

Pinnacle Investment Management (PNI) increased +24.5% in the month. During January, PNI released a market update which showed the business (being PNI's stakes in 8 underlying fund managers) continues to perform very strongly. Group funds under management (FUM) at 31 December 2017 was $32.3B, up 22% vs 30 June 2017. Net inflows of $4.0B were achieved in the half year to 31 December 2017, with $1.35B being retail flows. In the release, PNI also gave 1H18 NPAT guidance of $8.1m, vs $3.0m in 1H17. Pleasingly, all key performance metrics in the release were ahead of market expectations. PNI has a very strong balance sheet, with net cash of ~$10m, which potentially could be used for further M&A and/or seeding of new funds. PNI trades on an FY19 PE of ~21x, which does not look excessive given the strong earnings outlook and optionality in its funds management platform, and as a result continues to be held by the Fund.

Emeco Holdings (EHL) rose 14.0% in the month. EHL is an equipment rental business that provides heavy equipment to the resources sector in Australia, Canada and South America. Following a much needed recapitalisation of its balance sheet, which was completed in March 2017, EHL is now well positioned to benefit from a recovery in mining sector activity. As a provider of a range of heavy equipment, EHL's earnings are driven by utilisation rate (the percentage of hours an asset is leased vs total hours it is available), and the dollar rate per hour it is rented out at. Following a multi-year down turn in demand for its products, EHL is now seeing improved conditions, in line with a number of mining services companies. During the month, EHL issued a quarterly business update, showing 2Q18 EBITDA of $35.8m, up 15% vs 1Q18, and EBITDA margin for the quarter of 43%, up from 35% in the previous quarter. In the release, EHL said due to recently being awarded several contracts, utilisation rates should increase throughout the 2nd half of FY18.

A key part of the investment case for EHL is the deleveraging that should occur in the next few years. This should see EHL's annual interest costs fall by 30-40% by FY20. Combined with significantly improving free cash flow generation, we remain positive on the company's prospects.

Macquarie Atlas Roads (MQA) declined -8.7% in January. During the month, the toll road company released its traffic results for the December 2017 quarter. MQA's 25% stake in French toll road network APRR continued to perform strongly, with heavy vehicle traffic up +8.2% in the quarter vs pcp. Overall traffic was up +4.0% for the quarter, as the Eurozone continues to recover. The weakness in the result was MQA's 100% owned US toll road, Dulles Greenway, which recorded a traffic decline of -4.3% vs pcp. The main driver of the decline was recent improvements to nearby competing networks. Despite the fall in traffic, revenue was down just 1.7% for the quarter, as toll increases offset some of the impact of the decline in traffic. Whilst the likelihood of weak near-term traffic from Dulles Greenway could potentially impact MQA's distribution growth profile over the next few years, even still we believe distributions can grow materially over the next 3-4 years, and as a result the stock continues to be held by the Fund.

Other negative contributors in the month were: Moelis Australia (MOE), Alliance Aviation Services (AQZ) and Hotel Property Investments (HPI).

Market commentary

January was another strong month for global equity markets, with the MSCI World Index up +5.6%.

In the US, the S&P500 was up +5.6%, the NASDAQ up +7.4%, whilst in the UK, the FTSE underperformed, declining -2.0%.

In Australia, the ASX200 significantly underperformed its global peers, returning -0.5%. Seven of the eleven GICS sectors produced negative returns, with Utilities (down -4.5%) and REITs (-3.3%) the worst performers. The main driver of the weakness in Utilities and REITs was the 15 basis point increase in the 10-year bond rate to 2.8%.

Australia's 4Q 2017 CPI reading was soft, up +0.6% vs a year ago, which is likely to push out the timing of any rate increases from the RBA. In currencies, the US dollar fell for the third consecutive month, whilst the Australian dollar was stronger, up +3.2% to close at US$ 0.81.

In commodities, oil was the best performer, with WTI crude rising by +7.1%. Iron ore was up +4.8% to US$75.9 per tonne, whilst coking coal (down -17.5%), copper (-1.8%) and aluminium (-1.6%) declined.

Regarding the start to February, clearly global and domestic stock markets have seen some quite significant declines.

The main trigger for the selloff was January jobs data in the US being stronger than expected, showing wages rising at their fastest annual pace since mid-2009.

This has raised fears of inflation growing faster than expected, which (if it occurs) would mean US central bank will need to raise interest rates faster than expected from their current levels.

The rate of inflation in the US has now become a key focus for the markets. Over the next few months, more clarity on this key issue should emerge as more data is released. Until then, the volatility we have seen in February is likely to continue.

During these times of increased volatility, rather than attempt to predict short-term movements in global markets – our focus will be on identifying quality businesses that are undervalued and can outperform over the long term.

Given the Fund's significant cash weighting, we are optimistic that any volatility driven by macro concerns will provide some opportunities to invest in high quality businesses that have been oversold.

February will see the vast majority of the Fund's holdings report their financial results and we look forward to discussing these in the February monthly update.

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