GLENMORE
ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
January 2022

Fund Performance

Fund performance for January was -7.62% (after fees) versus the benchmark return of -6.56%. The Fund has delivered a total return of +165.32% or +23.26% p.a. (after fees) since inception in June 2017.

Period	Glenmore Fund	All Ords. Accum. Index
January 2022	-7.62%	-6.56%
1 Year	+27.80%	+9.58%
3 Year (p.a.)	+25.74%	+10.75%
Since Inception (p.a.)	+23.26%	+8.98%
Since inception (total)	+165.32%	+49.40%

Fund commenced on 6 June 2017
Fund Returns are for Main Series Units

Stock commentary

Strandline Resources (STA) increased +16.1% in January. During the month, STA issued an ASX release updating the market on its progress developing the Coburn mineral sands project in western Australia (WA). Pleasingly, STA said the construction phase of the project is now 50% complete, with ~96% of project scope (in terms of value) now awarded and committed. The prices of the underlying commodities that Coburn will produce remain very healthy, with STA targeting first production from Coburn in late 2022. Despite the recent rally in STA's stock price, the stock continues to look very cheap, trading on an EV/EBITDA ratio of ~4x, with a mine life of at least 20 years.

Coronado Global Resources (CRN) rose +9.7% in the month. In January, CRN released its production report for the December 2021 quarter, which saw CRN beat its previous guidance with regards to both production and cash costs. CRN continues to benefit from buoyant coking coal prices and the balance sheet has now moved into a net cash position, which will improve considerably over the course of 2022.

Other positive contributors in January included: Trajan Group (TRJ) +7.7% and Whitehaven Coal (WHC) +2.7%.

Negative contributors

As is often the case in a month where equity markets were sharply down, the declines in the fund's stocks were not due to company specific announcements, but rather driven by broad based selling across the market. As we will discuss in the "Market commentary" section, the driver of the equity market weakness in January was one of rising inflation expectations and hence higher interest rates, which resulted in the compression of valuations of a wide range of stocks, in particular, high P/E multiple growth stocks. Also, it should be noted that January is typically very quiet in terms of company news flow, given reporting season is in February, where companies release their profit results for the prior half year.

With regards to the fund's return of -7.6% in January, the main driver was a number of stocks we would class as "quality and growth" falling by 10-20% in the month. The more material negative contributors in January included: Pinnacle Investment Management (PNI) down -27.7%, Lifestyle Communities (LIC) -19.3%, Home Consortium (HMC) -18.0%, Integral Diagnostics (IDX) -16.4%, DGL Group (DGL) -15.0%, and Dicker Data (DDR) down -14.4%.

It is important to point out with regards to the growth stocks that fell by 10-20% in January (such as those listed above), we still see their ability to deliver earnings growth over the next 3-5 years as the key stock price driver, despite the bond rate driven declines this month. Whilst macro noise impacts short term stock price movements, earnings growth will always be the key stock price driver over the medium and long term.

During the month, Pinnacle Investment Management (PNI) issued a brief ASX release updating the market on the performance fees crystallised by four of its affiliates for the December 2021 half (PNI's share being $6.2m). There was nothing particularly negative in the announcement, with the main reason for the stock price decline in the month being the fall in equity markets and de-rating of growth stocks.

Integral Diagnostics (IDX) (diagnostic imaging services) provided an update on its 1H22 trading highlighting the negative impact the spread of the Omicron variant has had on its earnings, with reduced patient activity due to restrictions on elective surgery, patient reluctance to attend IDX sites, staff shortages, and general supply chain disruptions. Despite these issues, IDX delivered +5.7% revenue growth for the half, with EBITDA falling -7.0%, which we viewed as a solid effort in challenging conditions. Whilst 2H22 earnings will also be impacted, moving into FY23 and beyond, we expect volumes and margins to normalise, which also occurred in previous “post COVID restrictions” periods.

The other negative contributors listed above did not release any material company specific information in January, however all will report their results in February, which will give more information on their earnings trajectory.

Market commentary

Globally, equity markets in January were broadly weaker. In the US, the Nasdaq fell sharply -9.0%, the S&P 500 was down -5.3%, whilst in the UK, the FTSE 100 bucked the trend, rising +1.1% (boosted by the mining sector, which outperformed). On the ASX, the All Ordinaries Accumulation Index fell -6.6%. Energy was the best performing sector (boosted by gains in oil and gas prices), whilst Technology was the worst performer, given it has a high proportion of stocks trading on above average valuation metrics (the ASX All Technology Index fell -15.3% in the month). Healthcare, gold and real estate also were key underperformers, again due to rising bond yields. The sell off in global equities was driven by rising bond rates as the US central bank, the Federal Reserve, signalled it is now close to commencing tightening monetary policy through higher interest rates and reduced money supply. The key US 10 year bond yield increased by +26bp to 1.78% in the month and has continued to rise in February month to date. Commodities performed strongly in January, with some of the better performers including thermal coal +34.2%, iron ore +23.7%, crude oil (brent) +17.1%, whilst base metals were also broadly higher. Despite this, the A$/US$ fell 2c in the month to close at $0.706.

Overall, we would expect there to be continued volatility in a range of small/mid cap stocks over the course of 2022 from rising inflation/interest rates – however we also believe there is likely to be some very attractive investing opportunities given the stock market often overreacts to these macro events. It is quite possible that the opportunities from the rising inflation/bond rates issue may outweigh the negative earnings and valuation impact from higher bond rates. We remain comfortable with the stocks in the portfolio and would be happy to take advantage of any opportunities that may be presented over the next 12-18 months from future market volatility.

Glenmore fund performance in 2021

Finally, we were very pleased to see the fund’s strong performance in 2021 (+39.1%) recognised in the recent Mercer fund survey of long only Australian equities funds, where it was ranked the top performing fund for the 12 months to 31 December 2021 (out of 87 funds).

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	-29.34	16.63	9.64	1.43	1.41	11.52	0.54	1.66	10.37	3.96	13.43
2021	0.53	-1.61	1.34	7.05	1.00	6.15	3.21	10.38	0.74	0.65	0.51	4.13	39.07
2022	-7.62												-7.62

FUND INFORMATION

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