

Glenmore Australian Equities Fund

Monthly performance update

July 2017

Welcome to Glenmore's July newsletter. The newsletter aims to give both current and prospective investors information as to how the Fund is currently invested and provide detail on some of the Fund's investments.

Fund Performance

Fund performance for July was 1.52% (after fees) versus the benchmark 0.13% as measured by the RBA Cash Rate (converted to monthly basis).

July is typically a quiet month on the ASX in terms of news flow, with most companies in "blackout", meaning minimal news is released regarding trading. This leads into a very busy period in August, when companies with June year ends report their financial results.

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

Moelis Australia (MOE) rose 20.0% in July. MOE is a financial services group that has two main business segments: Asset Management and Corporate Advisory and Equities. In late June, the company announced the acquisition of Redcape Hotel Group for \$677m and upgraded earnings guidance for the year ending 31 December 2017, with EBITDA now expected to be \$29m, versus prospectus forecast of \$23m. Redcape is a pub business consisting of 25 gaming focussed hotels in NSW and Queensland. The business will go into a Moelis managed fund, with a future ASX IPO planned. A key attraction of MOE is the earnings composition, with 66% of group EBITDA now coming from Asset Management, which has recurring management fee income and strong potential for performance fees. Both divisions are performing strongly and the earnings outlook is positive over the next few years.

HFA Holdings (HFA) rose 6.7% in July. HFA is a holding company for Lighthouse Partners, a US-based investment manager which is focussed on managing multi-manager hedge funds. During July, HFA released a business update which showed as at 30 June 2017, Lighthouse's total Assets Under Management and Advice (AUMA) was US\$9.47B, versus US\$8.38B at 30 June 2016, an increase of 13%. The key drivers of the increase in AUMA were mandate wins in its customised portfolio division, and to a lesser extent fund performance. HFA has a very strong balance sheet, generates significant free cash flow, and trades on an attractive FY18 PE multiple of ~10x.

Pinnacle Investments (PNI) and **Alliance Aviation (AQZ)**, which

were discussed in the June newsletter, continued to perform well, with their stock prices rising 12.4% and 11.3% respectively.

The main negative contributors for the Fund were **Folkestone Education Trust (FET)**, **Arena REIT (ARF)** and **Magellan Financial Group (MFG)**.

Folkestone (-9.0%) and **Arena** (-8.4%) both fell in July, despite no specific news flow. Both companies are similar businesses that act as landlords to portfolios of child care centres. The Fund used the weakness in the stock prices of both to add to the holdings. Note as at the time of writing, both stocks had recovered the losses of July.

Magellan (MFG) fell 8.4% in the month. During July, the company released a business update which showed Funds under Management (at \$50.6B), which was slightly below expectations. On a positive note, performance of MFG's flagship fund is ahead of its benchmark on a 1,3 and 5-year timeframe, which should be positive for future net flows. It should be noted the stock price had performed very strongly in recent months and hence a pullback was not unexpected.

Market commentary

In July, equity markets generally continued to rise, with emerging market equities performing best, followed by European equities. The US share market continued to set record highs with the S&P500 increasing by +2.1% and the NASDAQ up +3.4%. Of note, the Australian dollar gained +4.1% against the US dollar (USD), likely boosted by a +16.8% increase in the iron ore price, and general weakness in the USD. Despite the strong global markets, the Australian market finished the month flat. Resources performed strongly, whilst defensive sectors underperformed as the Australian 10-year bond yield rose to 2.7% near the end of the month.

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

Fund Returns (after fees)

Period	Glenmore	Benchmark
July 2017	1.52%	0.13%
Calendar Year to date #	2.83%	0.26%
Since inception #	2.83%	0.26%

Benchmark is the RBA Cash Rate.

Fund commenced on 6 June 2017

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