

## Glenmore Australian Equities Fund

### Monthly performance update

### June 2019

#### Fund Performance

Fund performance for June was +5.21% (after fees) versus the benchmark return of +3.43%. The Fund has delivered a total return of +73.52% since inception in June 2017, including +23.61% in the last 12 months.

Given the Fund has sufficient performance history, we have made some minor changes to the performance table below to bring it in line with peers. This will be the format from this point going forward.

#### Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
June 2019	+5.21%	+3.43%
1 Year	+23.61%	+11.03%
Since Inception (p.a.)	+30.28%	+12.00%
Since inception (total)	+73.52%	+26.63%

# Fund commenced on 6 June 2017

#### Stock commentary

**Polynovo (PNV)** rose +28.3% in the month. PNV is a medical device business focused on the commercialisation of its proprietary NovoSorb technology for a range of medical applications. Novosorb Biodegradable Temporising Matrix (BTM) is PNV's main product and the key driver of forecast revenue and earnings. The BTM product is FDA/TGA approved for the management of skin wounds (acute, chronic, second degree burns). BTM assists the wound closure and healing process following partial or complete thickness skin injuries. The product was launched in the US (BTM's largest market) in Oct 2016 and in Australia in August 2018 and has been very successful in gaining traction in hospitals, due to its compelling advantages vs competing products, namely: ease of application, significant cost advantage, and lower risk of infection. A near term catalyst is the European regulatory approval for BTM, which is expected in 2H of 2019.

There was nothing specific regarding the stock price increase in June, however on the 31<sup>st</sup> of May, PNV issued a brief ASX release stating sales of BTM were in excess of \$1m for May. In addition, during June, a broker commenced coverage of the stock which likely increased investor awareness of PNV's strong earnings prospects.

Given PNV is still in the early phases of commercialising BTM, near term valuation metrics are not particularly useful, however we believe given the clear traction the product is

getting from hospitals and the large existing addressable market, our confidence level of very strong earnings growth over the medium term is high.

**People Infrastructure (PPE)** increased +20.6% in the month. PPE is a workforce management company providing contracted staffing and human resources services to three main sectors: Health and Community Care, Information Technology, and Blue Collar/Specialist services. The business was established in 1996 and now has 19 offices in Australia and New Zealand. Since its IPO in November 2017, the company has been a strong performer with profit growth coming from a mix of organic and acquisition led growth. Senior management owns ~15% of the company and hence is strongly aligned with shareholders. During the month, PPE announced a \$20m capital raising and the acquisition of two healthcare staffing businesses (Network Nursing Agency and Australian Healthcare Academy) and an IT recruitment business (Halcyon Knights). The total cost of the acquisitions was ~\$30m upfront which could increase if the businesses exceed earnings targets. Whilst there is clearly heightened risk of a business model that undertakes reasonably frequent M&A, PPE has a good track record to date of integration on this front. In addition, we believe PPE's strong near-term earnings outlook combined with an attractive valuation (FY20 PE of ~14x) should see the stock continue to perform well.

Other positive contributors included **Magellan Financial Group (MFG)** +17.4%, **Phoslock (PET)** +16.0%, **Auckland International Airport (AIA)** +13.1% and **Jumbo Interactive (JIN)** +11.9%.

Detractors for the month were: **Pinnacle Investment (PNI)** down -16.6%, **Bravura Solutions (BVS)** down -14.0% and **NRW Holdings (NWH)** down -8.4%.

There was nothing specific that was announced by **PNI** during the month, however we believe the stock price is currently being impacted by poor fund performance from two of its key affiliates – Antipodes and Firetrail, which has implications for near term inflows. Whilst the recent performance of both funds is clearly not optimal, we are comforted by the strong long-term track record of both funds.

Regarding **BVS**, the driver of the stock price fall was likely BVS's decision to increase its bid for rival business GBST from \$2.50 per share to \$2.72 per share on the 19 June, and then later in the month increase its bid again to \$3.00. For context, GBST has been the subject of very strong interest from potential acquirers (US based SS&C Technologies and UK based FNZ) hence there are currently investor fears that

BVS will end up making a value dilutive bid for GBST. As an outsider it is difficult to ascertain how much value can be generated from the BVS/GBST combination, and therefore how much BVS should sensibly offer for GBST. Certainly, the aggressive bidding from BVS seems surprising given it appears to have strong organic growth prospects, particularly in the UK Life and Pension sectors. We have been in dialogue with BVS management and will continue to monitor the situation, noting we had reduced our position somewhat in BVS in recent months on valuation grounds.

#### **Market commentary**

June was another strong month for equities, particularly for offshore markets. The NASDAQ was up +7.4%, S&P500 rose +6.9%, the Hang Seng was up +6.1%, whilst the UK FTSE 100 lagged, rising by +3.7%.

Domestically, the ASX All Ordinaries Accumulation rose by +3.4%. Materials was the strongest sector, rising +6.1%, followed by Industrials +4.6% and Healthcare +4.4%, whilst Consumer Discretionary fell by -1.5%.

Commodities were broadly higher, with iron ore (+10.6%), WTI Crude (+9.2%) and gold (+7.8%) the standouts, whilst Thermal coal (-15.0%) and Coking coal (-5.1%) declined.

During June, the Reserve Bank of Australia cut the cash rate by 25 basis points to 1.25%, significantly being the first change in policy for 34 months. The 10-year bond yield finished the month at 1.32%, a very sharp fall from 2.60% at 30 June 2018. The A\$/US\$ increased by 1.25% to \$0.70, likely driven by the spike in the iron ore price.

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
<b>2017</b>						1.29	1.52	7.03	3.05	5.32	3.81	3.66	28.55
<b>2018</b>	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
<b>2019</b>	2.84	9.77	2.72	6.88	2.54	5.21							33.69

#### **FUND INFORMATION**

<b>Name</b>	Glenmore Australian Equities Fund	<b>Fund Administrator</b>	Apex Fund Services
<b>Inception</b>	6 June 2017	<b>Fund Custodian</b>	AET Corporate Trust Pty Limited
<b>Structure</b>	Wholesale Unit Trust	<b>Fund Auditor</b>	Pitcher Partners
<b>Investor Eligibility</b>	Wholesale or 'sophisticated' investors only	<b>Fund Manager</b>	Glenmore Asset Management
<b>Subscription Frequency</b>	Monthly	<b>Management Fee</b>	1.2%
<b>Redemption Frequency</b>	Monthly	<b>Performance Fee</b>	20.0%
<b>Unit pricing</b>	Monthly	<b>Benchmark</b>	S&P/ASX All Ordinaries Accumulation Index
<b>Domicile</b>	Australia	<b>High water mark</b>	Yes

**Contact details**

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