GLENMORE ASSET MANAGEMENT

Glenmore Australian Equities Fund
Monthly performance update
June 2022

Fund Performance

Fund performance for June was -12.59% (after fees) versus the benchmark return of -9.36%. The Fund has delivered a total return of +155.02% or +20.2% p.a. (after fees) since inception in June 2017.

Period	Glenmore Fund	All Ords. Accum. Index
June 2022	-12.59%	-9.36%
1 Year	+7.34%	-7.44%
3 Year (p.a.)	+13.69%	+3.77%
5 year (p.a.)	+20.28%	+7.13%
Since Inception (p.a.)	+20.22%	7.07%
Since inception (total)	+155.02%	+41.51%

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

Stock commentary

Collins Foods (CKF) rose +7.5% in June. During the month, CKF delivered its FY22 result (CKF has an April year end), which was another solid result, with NPAT up +26% vs FY21 despite cycling strong growth in FY21 and having significant cost inflation pressures to deal with. KFC Australia was again the dominant contributor to the group (EBITDA of $207m, +4% vs pcp), highlighting its strength as a fast food franchise. In terms of the outlook for FY23, CKF said the new year had started well (the Australian business reported its first 7 weeks of trading same store sales growth of +4%) despite calling out some expected margin compression in 1H23. On this issue of cost inflation, we believe the strength of CKF's food brands should allow it to increase prices without too much negative profit impact and in addition has promising growth potential from its European business.

Ardent Leisure (ALG) increased +3.7%. Late in the month, ALG advised the sale of its US business, Main Event Entertainment had been completed following shareholder approval. As part of the sale, ALG confirmed it would make a significant distribution of A$455m or $0.95 per share to shareholders. Following this transaction, ALG will be debt free and be well capitalised to invest in its Theme Parks & Attractions business going forward.

Detractors

Obviously in such a large negative month, there were a large number of detractors to fund performance. In particular, small/mid stocks held by the Fund across a wide range of sectors were sold off much more heavily than the large caps, driven by fears of an economic slowdown and a flight to the perceived safety of large caps, which is typical when investor sentiment becomes very negative (in June, the ASX Small Ordinaries Accumulation Index fell -13.1%). Whilst this may prove correct in the short term (ie. next 6-12 months), there is substantial evidence that over the long term, returns from small/mid caps are much higher due to their superior ability to deliver strong earnings growth.

Bowen Coking Coal (BCB) fell -35.5% in June. There were several factors driving the fall, being a -36% decline in the hard coking coal price, general weakness across the resources sector and the announcement on 21 June by the Queensland government of a new royalty regime on coal mined in Queensland, (as part of its 2022-23 budget) to apply from 1 July 2022. The key aspects of the new royalty regime are: no change to coal prices below $175/t, 20% for prices above $175/t, 30% for prices above $225/t, and 40% for prices above $300/t. This new royalty regime is a material step up on the incumbent structure and will see the QLD government take a greater share of coal mining revenues going forward. Whilst some change was expected with the budget, the announcement was worse than had been factored in by investors, albeit the impact is not overly severe at longer term coal prices, but does cap earnings upside during periods of high coal prices. Also, during the month, BCB announced new funding arrangements to bring its Burton mine (acquired from New Hope) into production. The funding totalled $190m (being a combination of new debt and convertible loan notes). Whilst the fall in BCB in June was disappointing, it should be noted the stock has been an extremely strong performer for the Fund, since our initial investment at ~$0.05 in March 2021.

Trajan Holdings (TRJ) fell -28.3%. During the month, TRJ released a trading update and made its fourth acquisition since its IPO in 2021. The key points of the trading update were that FY22 revenue would be $104-110m (+40% up vs pcp), whilst FY22 EBITDA guidance was lowered from $12.5-$13.5m to $11-12m. The lower profit guidance was largely due to cost increases in the form of materials costs, supply chain issues, and freight costs. TRJ did note it has increased prices from 1 June to offset these cost headwinds. The acquisition made by TRJ was US based Chromatography Research Supplies (CRS), a global manufacturer of analytical consumables. Price paid by TRJ was A$62m which equates to an EBITDA multiple of ~10x (pre synergies).

Stanmore Resources (SMR) was down -27.3% in June. SMR didn't release anything company specific during the month, with the main driver in our view being investor fear of a global economic slowdown, the fall in the hard coking coal price in June, and the announcement of the new royalty regime for coal producers by the Queensland government which we have previously discussed regarding Bowen Coking Coal (BCB).

MA Financial (MAF) fell -27.1%. During the month, MAF held an investor day in Sydney which we attended, which did not reveal anything particularly negative about MAF's earnings outlook and in fact MAF reiterated existing earnings guidance for CY22 EPS growth of 10%-20%. The stock price fall in June in our view was most likely due to weakening sentiment across stocks (particularly small/mid cap sectors) and potentially a view from investors that MAF's earnings will come under pressure in a rising interest rate environment.

Other detractors included Retail Food Group (RFG) -26.4%, Mineral Resources (MIN) -24.4%, Coronado Global Resources (CRN) -22.7%, and Pinnacle Investment Management (PNI) -14.8%, and GQG Partners (GQG) -12.3%.

For investor transparency, with regards to the Fund's coal holdings, we have quite significantly reduced our positions in recent months due to our belief partly that the valuations were approaching fair value and also that the very high coal prices were simply not sustainable. Whilst the announcement by the Queensland government regarding royalties were clearly worse than had been feared, we believe a more significant risk for the sector is coal prices falling from elevated levels. With that said, given the lack of new supply in both coking and thermal coal, we still believe the sector has the potential to deliver further attractive investment opportunities over the next few years and hence we will continue to follow the sector closely as well as maintaining our existing investments.

Market commentary

June was a very weak month for equities globally, driven by continued investor concern around the quantum and pace of interest rate increases and a weakening US (and global) economy. Central banks (correctly in our view) appear committed to reducing inflation via aggressively increasing interest rates, even if it means reducing economic growth in the short term. In the US, the S&P 500 was down -8.4%, the Nasdaq fell -8.7%, whilst in the UK, the FTSE fell -5.8%. In Australia, the All Ordinaries Accumulation index fell -9.4%, whilst the Small Ordinaries Accumulation index was down -13.1%. On the ASX, the best performing sector was consumer staples, whilst resources was the worst performer, impacted by lower commodity prices and growth concerns regarding the Chinese economy. The underperformance of small/mid cap stocks vs large cap is not a new situation and has indeed occurred in all of the months in the last five years where the ASX has seen large falls. As we have discussed in the past, this tends to hurt the Fund's performance in these periods.

Whilst we agree that inflation, interest rate rises and weakening economic growth are all valid current concerns for investors, we also believe the falls in stocks across the board have been quite material and hence from a stock specific basis, there are now some very attractive investment opportunities for investors willing to take a 2-3 year view. As always during periods of market stress, it is very important to take a long term view and think about how long the current negative conditions will be in place over the medium term. Whilst concerns around an economic slowdown are warranted currently, we believe in 12-24 months time, this risk is likely to have reduced as central banks are further down the path of interest rate hikes. It is also important to remember that on average, bear markets last for 12-15 months, hence the current challenging conditions will not be in place permanently. Also, we would stress over the next 12-18 months, whether Australia and/or global economies actually have a recession is not the key issue (even though it will generate a lot of media discussion). Rather for investors in the Fund, the key issue is the investment opportunities that are thrown up from the sell off in equities, that can provide the basis of investment returns over the next 3-5 years. It should also be noted that as the stock market is very forward looking, stock prices historically fall well ahead of any economic downturn, in particular small/mid cap stocks on the ASX, which is a focus for the Fund.

Commodity prices in June were weaker as investor caution over the risk of a global slowdown increased. Iron ore fell -12%, copper -14%, crude oil -6%, gold -2%, thermal coal -10%, hard coking coal -36%. The Australian 10 year government bond rose +32bp to close at 3.66%, whilst the A$/US$ fell -4% to US$0.69.

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	-1.12	12.52	3.07	-4.11	-12.59							-11.21

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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