Glenmore Australian Equities Fund
Monthly performance update
May 2018

Fund Performance

Fund performance for May was +4.68% (after fees) versus the benchmark. Note for this and future newsletters, to better compare Fund performance versus a market-based index, performance will be shown versus the ASX All Ordinaries Accumulation Index.
The Fund has delivered a return of +34.97% since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
May 2018	+4.68%	+1.40%
Financial Year to date	+33.26%	+10.46%
Since inception #	+34.97%	+10.79%

Fund commenced on 6 June 2017

Below is commentary on several stocks currently held by the Fund that contributed to Fund performance.

Emeco Holdings (EHL) was up +26.5% in the month. The main driver in our view was the earnings accretive acquisition of equipment rental business Matilda (announced on the 30th of April) which was discussed in the April newsletter. In May, the market continued to appreciate the merits of the acquisition, which has added to EHL's prospects for earnings growth and debt reduction, and the Fund continues to hold the stock. The Fund participated in EHL's capital raising to fund the acquisition, which allowed us to purchase additional shares at $0.25, which proved very profitable, with the stock closing the month at $0.35. Also, during the month, credit ratings agency, Fitch, upgraded EHL's Long-Term Issued Default Rating to "B" from "B-".
Mastermyne (MYE) was up +23.6% in May. There was no specific news flow during the month, but the stock was discussed at the Future Investment Generation Forum in Sydney, which highlighted its combination of a strong earnings outlook and attractive valuation. We met with senior management in May and believe the earnings outlook continues to be robust, driven by MYE's strong market position and the ongoing recovery in capital spending in the underground coal industry in Australia.
Navigator Global Investments (NGI) was up +19.8%. The main news for the stock was released late in the month, where NGI updated the market on its expectations of the financial impact from its acquisition of US-based Mesirow Financial's Multi-Manager Hedge Fund business. Whilst there is some uncertainty given the nature of the deal (ie. the amount of future investor redemptions is yet to be seen) NGI said it expects approximately US$5.2B of assets under management (AUM) to transition upon closing of the deal. This compares to NGI's total AUM of ~ US$11B at 31 March 2018, so is clearly a material uplift. With regards to average net management fee, NGI expects to earn ~0.65% pa on the AUM that is transitioning from Mesirow. Overall the acquisition looks very positive for NGI, given its level of earnings accretion (~15% to FY19), and in addition it adds to NGI's product capability in credit and fixed interest asset classes.
Other positive contributors included Pinnacle Investment Management (PNI) +16.4%, ALE Property Group (LEP) +6.5%, Jumbo Interactive (JIN) +6.4% and Bravura Solutions (BVS) +6.2%.

Negative contributors in the month included Pioneer Credit (PNC) down -4.6% and Pacific Current (PAC) down -4.0%, however for both there was no news flow, and neither were material to Fund performance.

Summary of the Fund's first year

As this month marks the completion of the Fund's first year of operations, it is worth providing a review of how we have performed so far and our thoughts on the Fund's future prospects.
Overall, returning +35.0% after fees is a very pleasing performance. The outperformance came from a wide range of stocks and sectors (detailed attribution analysis is available to interested investors). In addition, there was zero contribution from the higher risk sectors of the market such as small cap resources and energy, or early stage, speculative technology stocks. There has been, and will continue to be, a strong focus on investing in companies with business models that are easy to understand which do not have a lot of moving parts. The key outperformers for the Fund were well established, cash generative businesses that we believed were materially undervalued at the time of our investment.

In terms of how much can be attributed to favourable market conditions, during the same time period, the All Ordinaries Accumulation Index returned +10.8%, which whilst a solid return, is only slightly above its long-term average.
Whilst 12 months is clearly not a long time period in the overall scheme of a funds management business – it does indicate that the investment process is working well.

In addition, it is worth noting the Fund's performance was achieved with a relatively high weighting to large cap, defensive stocks in the early months of the Fund. Getting a more optimal balance between large cap and small/mid cap stocks is definitely an area which we believe can be improved going forward.
We would caution investors with regards to expectations of returns in excess of +30% in the future on an ongoing basis. The performance of the Fund will always be a function of the number of undervalued stocks that can be identified at any one point in time. Inevitably there will be periods we have a large number of high conviction investment opportunities and other periods where this is less so.

Finally, a sincere thank you to all the Fund's service providers: Apex Fund Services (Fund Administration), Australian Executor Trustees (Custodial Services), Pitcher Partners (Audit and Tax), BSA Partnership (Business Accounting) and Compound Capital Compliance (Compliance Services). To all the people working with Glenmore at these firms, thank you for your assistance and high levels of professionalism.

Market commentary

The Australian market was stronger in May, with the S&P/ASX All Ordinaries Accumulation Index up +1.4%. The top performing sectors were Health Care, Materials and small cap stocks.
Globally, the US and UK markets outperformed (S&P500 up +2.4% and FTSE 100 +2.8%), whilst Europe and Asia lagged (MSCI Asia ex Japan -0.8% and Euro Stoxx 50 -2.5%).

In commodities, Brent crude was up +4% to US$77 per barrel, iron ore was down -2% to US$64/t, coking coal was up +5% to US$189/t, thermal coal was up +10% to US$112/t, whilst gold fell slightly by -1% to US$1303 per ounce.
In currencies, the AUD/USD increased by 0.5% to US$0.76.

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