GLENMORE ASSET MANAGEMENT

# Glenmore Australian Equities Fund
# Monthly performance update
# November 2017

## Fund Performance

Fund performance for November was +3.81% (after fees) versus the benchmark +0.13% as measured by the RBA Cash Rate (converted to monthly basis).

### Fund Returns (after fees)

| Period | Glenmore | Benchmark |
|---|---|---|
| November 2017 | 3.81% | 0.13% |
| Calendar Year to date # | 24.00% | 0.75% |
| Since inception # | 24.00% | 0.75% |

Benchmark is the RBA Cash Rate.
# Fund commenced on 6 June 2017

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

Appen (APX) rose 32.2% in November. APX is a leading global provider of language technology data and services to a range of technology companies such as Microsoft, Apple, Google and Facebook among others. Microsoft is a key customer, having been working with APX for over 20 years. The company has two business units: Content Relevance (providing smart data to increase search relevance of global search engines, e-commerce and social media platforms) and Language Resources (providing training data for speech recognition technologies in devices such as mobile phones, TV consoles and computer games). APX was established in 1996 and has a long track record of revenue and earnings growth.

During November, APX announced the acquisition of US based competitor, Leapforce, a US based search relevance business for US$80m. The EBITDA multiple paid was 5.9x, and resulted in EPS accretion of at least 35%. The acquisition will materially increase the scale of APX's Content Relevance business. Leapforce has generated strong earnings growth in recent years, but has higher profit margins than APX, due to its highly automated technology platform.

During the month, the Fund participated in the Initial Public Offering (IPO) of Propel Funeral Partners (PFP). PFP is the second largest provider of death care services in Australia and New Zealand. PFP provides a range of services including funeral, cemetery, and cremation. PFP the company was founded in 2012, but inside the company is a portfolio of businesses, that in many cases have been in operation for over 80 years. PFP's property portfolio comprises of 80 locations (46 freehold and 34 leasehold). The headline valuation of PFP is not cheap, however, with the stock trading on an FY19 PE multiple of ~25x. On the positive side, cash conversion is very strong and with low capex requirements, PFP's Price to Free Cash Flow multiple is more attractive at ~18x. In addition, the company has listed with a very under geared balance sheet with net cash of $50m (vs its market cap of $340m). In comparison, its main listed peer, Invocare (IVC) has net debt of $220m and a market cap of $1.9B. Hence, PFP appears well positioned for accretive M&A without needing to issue equity. Regarding potential M&A, positively (for PFP) is that IVC now has market share of 35%-45% across Australia and hence will struggle to make more acquisitions without having regulatory issues. This should reduce competition for PFP when it is assessing potential acquisitions. Management of PFP is strongly aligned, owning ~21% of shares on issue. PFP ended the month at $3.41, up +26.3% vs its IPO price of $2.70.

Moelis Australia (MOE) increased +9.8% in the month. MOE delivered another strong trading update, upgrading forecast underlying FY17 EBITDA from $33m to at least $38m (an increase of at least 15%). The upgrade was driven by positive trading levels in all business segments. The Moelis Hotel Fund announced it had acquired two hotels and entered a Heads of Agreement for a third hotel. Total cost would be approximately $100m, with funding being assisted by a $60m equity raising. MOE has approximately $165m in cash and liquid securities which position it well for future acquisitions in the Asset Management business.

Mastermyne Group (MYE) rose 8.5% in November. During the month, the company held its annual general meeting, where it confirmed its earnings recovery is on track. MYE said it has had a strong start to FY18, with revenue and earnings run rates exceeding guidance. MYE upgraded FY18 revenue guidance from $160-180m to $180-200m, and EBITDA guidance from $10-12m to $13-16m.

Detractors for the month were Pacific Current Group (PAC), down -3.6% (which was discussed in detail in the October newsletter), and Integrated Research (IRI) which declined by -3.9% after a strong run since June.

IRI is a global provider of performance management software for business critical computing environments. The business was established in 1988 and whilst still headquartered in Australia, now has over 95% of revenue sourced from overseas. IRI's software products are used by many of the world's largest banks, telecommunications companies and major stock exchanges. Approximately 100 of the Fortune 500 are customers. The bulk of IRI's revenue is derived from licences and maintenance fees, and as such is highly recurring. IRI's valuation is not overly cheap on a PE multiple of ~22x and investors should note the Fund had partially reduced its position in IRI given the stock price appreciation prior to November. That said, the earnings profile for the business remains very strong with EPS growth of ~20% forecast in the next 3 years.

Market commentary

The Australian stock market had a strong month with the S&P/ASX200 rising +1.6% in November. Small caps again outperformed large caps, with the ASX Small Ordinaries accumulation up +3.9%.

Globally equity markets were generally positive. The MSCI World Index was up +1.8% in the month. The US stock market continued its strong run with the S&P500 returning +3.1%, driven by a better than expected reporting season and optimism around potential tax cuts in the US (both personal and corporate). Japan's Nikkei Index was up +3.3%, assisted by continued stimulatory monetary policy, whilst Europe's Stoxx 50 fell by -2.8%.

Domestically, the RBA kept interest rates at 1.5% for the 15th month in a row, as inflationary pressures remain subdued.

Commodity markets were mixed. Both iron ore (+17% to US$68.50 per tonne) and oil (Brent +3% to US$62.7 per barrel) had a strong month, but base metals declined, albeit after recent strong gains (nickel -10%, aluminium -5%, zinc -3%, copper -1%). The AUD/USD fell 1% to US$0.76.

The best performing sectors for the month on the ASX were REITs, Energy and Consumer Staples, while Telcos, Financials ex REITs and Consumer Discretionary lagged.

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