

## Glenmore Australian Equities Fund

### Monthly performance update

### October 2018

#### Fund Performance

Fund performance for October was -8.70% (after fees) versus the benchmark return of -6.47%. The Fund has delivered a total return of +36.98% since inception in June 2017.

#### Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
October 2018	-8.70%	-6.47%
Financial Year to date	-2.42%	-4.73%
Calendar Year to date	+6.56%	-0.87%
Since inception #	+36.98%	+8.66%

# Fund commenced on 6 June 2017

Readers would be well aware that October was a very difficult month for equity markets globally. In Australia, it was the worst month for shares in the last 3 years. Given the Fund's performance in October, we believe some additional commentary is warranted to provide some background on what drove the decline.

The main reasons for the sell off in equity markets were: concerns about increasing interest rates in the US, ongoing trade and tariff tensions and a slowing global economy. In Australia, falling house prices and their impact on consumer spending were also key issues that occupied investors' minds. The Fund's return in October was driven by a large number of portfolio stocks falling by > 5%, despite no company specific announcements. As is typically the case in months where the market is sold off aggressively, sentiment was the dominant driver of stock prices, with the result that most stocks prices declined, regardless of business quality and earnings growth prospects. In particular, small/mid cap stocks (which the Fund has a strong exposure to) were sold off much more than larger cap stocks, with the Small Ords Accumulation Index declining by -9.6% in the month. Whilst the Fund's performance in October was disappointing, it is important to remember that we are long term investors, constructing the portfolio focussed on achieving long term objectives.

It is frustrating to see good quality businesses falling 10-20% on no news, however we believe at times investors must be willing to incur periods of underperformance in order to achieve above average long-term returns. Overall, we remain confident in the composition of the portfolio and importantly during the month there were no negative announcements regarding operational performance from any of the Fund's investments.

The good news is that monthly declines of this magnitude are relatively rare. Over the long term, the main driver of stock prices will always be business quality and earnings growth and we have no doubt companies in the small/mid-cap sectors are the best placed to deliver above average returns for investors. To that end, the Fund added to a number of existing stocks in the portfolio at what we believe are attractive valuations.

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

In terms of positive contributors, there were none of any materiality in October, with the better performers being the more defensive stocks (REIT's and Infrastructure).

**Pinnacle Investment Management (PNI)** fell -30.6% in the month. As a funds management business, the obvious driver of the decline was the sharp fall in equity markets globally. During the month, one of PNI's affiliates, Firetrail deferred plans for a new fund, which may have impacted sentiment. In addition, PNI had been trading on relatively high near-term earnings multiples, which was also likely to have been factor. Early in the month, the Fund did reduce its holding in PNI on valuation grounds, which minimised the impact on Fund returns to some extent. Despite the recent decline, the stock has been a very strong contributor to the Fund since inception, having returned in excess of 100% vs the Fund's initial investment.

**WorleyParsons (WOR)** fell -24.7% in the month. Late in the month, WOR announced a very material acquisition, where it purchased the Engineering, Chemicals and Resources divisions of US based competitor, Jacobs Engineering Group. The purchase price was \$4.6B, which was essentially the same as WOR's market capitalisation at the time of the announcement. The acquisition was funded from a \$2.95B equity raising, \$1.0B of WOR stock issued to Jacobs and \$0.9B of additional debt. Whilst there are clear positives of the acquisition in terms of potential cost synergies and earnings accretion, the short-term negative for the WOR stock price was the very large equity raising that was launched at a time where equity markets globally were being sold off heavily. In addition, there is quite significant integration risk given both businesses are people based and it will take some time to prove that the integration has been successful.

**Navigator Global Investments (NGI)** fell -16.0% in October. During the month, NGI released its quarterly funds under management update, which was the first since it acquired the assets of US based Mesirov Advanced Strategies. As had been well flagged by NGI management, the level of

redemptions by investors was higher than normal but the market appears to have assumed this level of outflows will be ongoing, which appears too pessimistic. Also, it should be noted that NGI have structured the deal in such a way that the purchase consideration for the acquisition is deferred over a number of years and is directly proportionate to amount of assets that transition across to NGI, which provides downside protection.

#### Market commentary

October saw equity markets around the globe sold off heavily. In the US, the S&P 500 fell -6.8%, the NASDAQ declined -9.2%, in Europe, the STOXX Index fell -5.5%, whilst in Asia, the Japanese TOPIX fell -9.4% and the Hang Seng was down -10%.

In Australia, the All Ordinaries Accumulation Index was down -6.5%, whilst the Small Ords Accumulation fell by 9.6%.

Across the sectors, the more defensive REIT's and Utilities sectors outperformed, whilst IT, Energy and Consumer Discretionary were the worst performers. A key theme in the month was "growth stocks" were sold off sharply.

Commodities were mixed in the month. Brent Crude declined -9.9%, iron ore bucked the trend rising +8.6%, copper fell -3.6%, whilst gold appreciated +1.7% (its first monthly increase since March 2018). The AUD/USD weakened by -2.1% in the month, continuing the US currencies recent strength.

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			6.56

#### 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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