

Glenmore Australian Equities Fund

Monthly performance update

October 2023

Fund Performance

Fund performance for October was -7.43% (after fees) versus the benchmark return of -3.85%. The Fund has delivered a total return of +164.89% or +16.39% p.a. (after fees) since inception in June 2017.

Period	Glenmore Fund	All Ords. Accum. Index
October 2023	-7.43%	-3.85%
1 Year	-7.14%	+2.90%
3 Year (p.a.)	+13.75%	+8.55%
5 year (p.a.)	+14.10%	+7.38%
Since Inception (p.a.)	+16.39%	+7.08%
Since inception (total)	+164.89%	+55.12%

Fund commenced on 6 June 2017

Fund returns in the table above are for main series units. Please note returns for certain series of units may differ slightly from the main series due to the timing of your investment.

Stock commentary

Whitehaven Coal (WHC) rose +4.1% in the month. The significant news during the month was that WHC was successful in acquiring two coal mines from BHP (Blackwater and Daunia) for US\$3.2B (or US\$4.1B if contingent payments based on future coal prices are paid). The acquisition dramatically increases the proportion of coking coal (used for steel making) vs thermal coal (used for power generation) for WHC, with the two mines producing ~17 million tonnes per annum of coking coal at competitive costs. The purchase price was not the bargain that Stanmore Resources (SMR) had enjoyed when it bought two coal mines from BHP in November 2021, however we viewed the price paid as reasonable, and does give WHC excellent exposure to two high quality coking coal mines. Given WHC's extremely strong net cash position (A\$2.7B at 30 June 2023), pleasingly no additional equity will be needed to help fund the acquisition. The acquisition will result in lower dividends for the next ~3 years as WHC focusses on bedding down the performance of the two mines and reducing debt, however dividends have the potential to step up materially once debt is reduced to lower levels, although this is more of a medium-term catalyst for the stock.

Mineral Resources (MIN) declined -14.6% in October. MIN held an investor site tour in WA during the month, where it updated the market on the progress of its various growth projects in its iron ore, lithium, and mining services divisions. The key takeaways included: MIN expects its mining services business to more than double by FY24 (vs FY22 volumes), boosted by contracts at its own Onslow and lithium mines. MIN's large, low cost Onslow iron ore project is now 40% complete, with MIN targeting first production in mid-2024. MIN is targeting Onslow to produce 30-40mtpa of iron ore at low cost (~A\$40 per tonne), although we expect the ramp up to take some time given the large size of the project and the difficult operating environment in WA currently. Despite the numerous growth projects MIN is developing, in the short term, the declining lithium price is the main headwind for the stock, which was the key driver of the decline in October (noting lithium mining accounted for ~65% of group FY23 EBITDA, albeit this will decline in FY24-26 as MIN's iron ore and mining services earnings increase).

Pacific Current Group (PAC) fell -10.3% in the month. Late in September, Regal Partners (RPL) announced it had withdrawn its takeover offer for PAC, stating whilst nothing had changed in its view of the value of PAC, it had been consistently disappointed with the level of engagement from the PAC board since RPL's initial offer. This saw PAC's stock price fall in October as investors digested this development, however on the 2nd of November, PAC announced that it had received an all cash, non-binding, indicative offer from ASX listed GQG Partners (GQG) to the value of \$11.00 per share, following the completion of due diligence. The one obstacle to the GQG bid succeeding however is the news that River Capital, a fund manager that owns a 19% stake in PAC, is not supporting the GQG offer (to date at least). For the time being, it is a case of watch this space regarding the bid from GQG and the actions of River Capital, however we would note at a stock price of \$9.90, PAC trades on attractive valuation metrics (FY24 PE multiple of ~14x), has solid earnings growth in the next few years and hence is well positioned to outperform for shareholders even in a scenario where no takeover offer eventuates.

MMA Offshore (MRM) declined -9.0% in October. During the month, MRM announced it had been awarded a (relatively small) contract by the Australian Department of Defence to provide a range of services between November 2023 and June 2024 for revenue of ~\$30m. Of more importance for the stock price, sentiment towards MRM was likely impacted by

an -8% fall in the crude oil price (noting MRM provides floating vessels to the oil and gas sector).

In addition to the above stocks, a number of stocks in the fund fell between -5% to -10%, reflecting general investor caution due to concerns around conflict in the middle east, global economic growth and rising bond yields. Stocks in this category included: **MA Financial (MAF)** -10.1%, **Duratec (DUR)** -10.1%, **Premier Investments (PMV)** -9.2%, **New Hope Corporation (NHC)** -9.1%, **Eagers Automotive (APE)** -7.6%, and **HUB24 (HUB)** -7.0%.

Market commentary

Globally equity markets declined in October. In the US, the S&P 500 fell -2.2%, the Nasdaq declined -2.8%, whilst in the UK, the FTSE 100 fell -3.8%. The main drivers of the declines were ongoing high inflation, rising bond yields, and the conflict in the middle east.

In Australia, the All Ordinaries Accumulation Index fell -3.9% in October. Gold was the top performing sector, whilst technology and healthcare were the worst performers, both of which were impacted by higher bond yields. Small caps again underperformed as investor risk aversion increased, with the Small Ordinaries Acc. Index declining -5.5%, whilst the Small Industrials Acc. Index fell -7.0%.

Bond yields rose in October, in the US the 10-year bond yield rose +30 basis points to close at 4.84%, whilst its Australian counterpart climbed +44bp to 4.92%.

Investor sentiment continues to be impacted by the issue of high inflation and rising interest rates. We believe equity markets (being very forward looking) will respond positively to signs that central banks (particularly the RBA in Australia) are being more aggressive in their commitment to reduce inflation to targeted levels. Currently we expect one to two more interest rate rises in Australia in this current cycle, but this will be dependent on the path of inflation in the next 6-12 months. Despite the current negativity impacting the ASX and in particular small/mid caps stocks, we do believe the bulk of the interest rate rises have been implemented in this cycle and hence once there is more clarity on the number of rate hikes remaining, equity markets are well placed to perform strongly.

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	9.78	5.18	-8.24	5.57	3.61	-2.93	-0.12
2023	6.49	-3.45	-6.15	3.01	-6.42	1.42	5.79	1.96	-1.97	-7.43			-7.66

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
Distributions	Annually	High water mark	Yes
Platform availability	Netwealth	APIR code	GNM0167AU

Contact details

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