

Glenmore Australian Equities Fund

Monthly performance update

September 2020

Fund Performance

Fund performance for September was +0.54% (after fees) versus the benchmark return of -3.43%. The Fund has delivered a total return of +77.04% or +18.69% p.a. (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
September 2020	+0.54%	-3.43%
1 Year	-6.96%	-8.76%
3 Year (p.a.)	+16.00%	+5.42%
Since Inception (p.a.)	+18.69%	+5.30%
Since inception (total)	+77.04%	+18.80%

Fund commenced on 6 June 2017

Stock commentary

Coronado Global Resources (CRN) increased +54.0% in September. CRN is a global coal producer focussed on high quality hard coking coal (HCC), a key raw material in steel making. Following a period of weak coal prices over the last 12 months, CRN's debt levels had increased to excessive levels and to that end, in mid-August, CRN launched a US\$180m capital raising at a stock price of \$0.60 (which the Fund participated in) to reduce debt. At 30 June, net debt was US\$405m, which post the raising fell to a more manageable US\$225m. This compares with CRN's market cap of ~US\$870m. The rationale for our investment in CRN was driven by the fact that coking coal prices are at a cyclical low point and that CRN has good quality assets that will see a strong uplift in profitability assuming a recovery in coal prices to more normalised levels. Currently around half of the world's coking coal producers are losing money at current prices, a situation that typically does not last for a long period of time. To illustrate the potential valuation upside, assuming an average hard coking coal price of US\$148/t over a 12 month period, and production of ~20 million tonnes, we believe CRN can deliver EBITDA of ~US\$350m, which in turn would put the stock on a PE multiple of ~7x. CRN has four operating mines with the vast amount of profit from two in particular, Curragh (Queensland) and Buchanan (US). Encouragingly the Hard Coking Coal price has begun to recover in recent weeks from a low of ~US\$105/t to the current price of ~US\$135/t and we believe coal prices should

continue to recover over the next 1-2 years providing a clear boost for earnings from their current depressed level.

Opticomm (OPC) rose +17.5% in the month. As readers would be aware, OPC was already subject to a takeover bid from ASX listed Uniti Group (UWL), which was unconditional and valued at \$5.10 plus a 10 cent dividend. On 8th of September, OPC received a competing bid from First State Superannuation (FSS) with a bid of \$5.85, which was all cash, non-binding and subject to several terms and conditions. Note during the month, FSS changed its name to Aware Super. Due to this bid, OPC requested the Scheme Meeting (to vote on the UWL offer) be postponed. In a further development to the bidding war, on the 15th of September, UWL revised its offer to \$5.85 (consisting of \$4.835 in cash plus 0.80537 UWL shares per 1 OPC share. Using a UWL stock price of \$1.43, this implied a bid of \$5.99. It is worth noting that UWL has an effective 19.5% stake in OPC (through shares and options) which could potentially help it in winning control. Remarkably, at the time of writing, Aware Super has increased its bid to \$6.50 per share (including a 10cps dividend). The bid is 100% cash, off market, valued at an 8% premium to UWL's bid, and subject to a 50.1% minimum acceptance condition. At this point in time it hard to say which party will win control but for the time being we continue to hold the stock and will monitor the bidding process with interest.

Other positive contributors for the month included **Temple & Webster (TPW)** up +27.2%, **People Infrastructure (PPE)** +10.4% and **ARB Corporation (ARB)** +5.1%.

Mineral Resources (MIN) fell -14.6% in the month. The iron ore price (which typically impacts sentiment to the stock) fell -4% in the month and was a likely factor behind the decline. In addition, during the month, a broker downgraded its view on the stock due to concerns on valuation and earnings downside if iron ore prices were to fall from current levels (~US\$120/t). Whilst we agree in the short term, falling iron ore prices is the key earnings risk for MIN, we do note that approximately half of group profits comes from its Mining Services division (which is driven by mining volumes not price) and MIN's long track record in creating value from identifying undeveloped ore bodies where it can add expertise and in the process generate significant profits for MIN and its partner. We see no reason why this should not continue to be the case going forward and note the pipeline for new projects is strong in both Mining Services and

Commodities divisions, and hence remain comfortable holders of what we believe is a very high quality business.

Market commentary

The Australian stock market declined for the first time since March, with the All Ordinaries Accumulation Index down -3.4% in September. Globally, most major indices also fell (NASDAQ -5.2%, S&P500 -3.8%, Euro Stoxx -2.3%, FTSE 100 -1.5%). The Corona Virus and how various countries around the world are dealing with it continues to be a huge focus on investor attention as well as the upcoming US Presidential election in November. Commodity prices were generally weaker in September, with iron ore down -4%, oil down -8%, whilst gold declined -4%. In line with a general reduction in investor risk appetite, the AUD/USD fell 3% to US\$0.72.

Following five positive months in a row on the ASX, some form of retraction was not surprising and we continue to be positive on our portfolio holdings despite the clear health crisis posed by Corona Virus, with most governments realising living with the virus is the most logical way forward. In addition, fiscal and monetary policy remains supportive to stocks and is likely to remain accommodative for the foreseeable future.

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				-2.76

FUND INFORMATION

Name	Glenmore Australian Equities Fund	Fund Administrator	Apex Fund Services
Inception	6 June 2017	Fund Custodian	Sargon 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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