Glenmore Australian Equities Fund
Monthly performance update
March 2020

Fund Performance

Fund performance for March was -29.34% (after fees) versus the benchmark return of -20.94%. The Fund has delivered a total return of +20.06% (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
March 2020	-29.34%	-20.94%
1 Year	-20.22%	-15.03%
Since Inception (p.a.)	+6.66%	-0.07%
Since inception (total)	+20.06%	-0.21%

Fund commenced on 6 June 2017

Following on from the last week of February, March saw continued broad based selling as investors feared the spread of the Corona Virus would have a material impact on the global economy. The prospect of certain industries shutting down (albeit for a period of months) saw investors react to this uncertainty by selling stocks across a range of sectors. For context, March was the worst month of performance for the ASX since 1987.

In helping investors understand the Fund's performance in the month, we would reiterate the Fund's investments in small/mid cap stocks, (which whilst we expect to outperform over the long term), were very harshly sold off in the month as the weight of fear based selling overwhelmed fundamental valuation metrics.

During the month, we took advantage of the sharp falls in many of our existing holdings as well as initiating several new stocks at very attractive prices that we will discuss in future newsletters.

Stock commentary

Given the widespread selling on the ASX, positive contributors for the Fund were relatively few in the month. The best performers in the month were Technology One (TNE) up +2.0%, Stanmore Coal (SMR) down -0.6%, and Dicker Data (DDR) down -2.5%. Regarding DDR, we would highlight a particularly strong level of buying by senior management and board during the month. In addition, at the time of writing, SMR has received a new takeover bid from Golden Investments at a price of $1.00 per share, a +28% premium vs SMR's stock price on 31 March.

Detractors

In terms of detractors, in a month where there was indiscriminate selling of stocks across virtually all sectors, the Fund saw a number of its holdings sold off aggressively in the range of -20% to -40%. Below we have discussed the stocks that had the most material impact on Fund performance.

Alliance Aviation Services (AQZ) fell -26% in the month. AQZ is a national air charter operator with a focus on servicing the resources industry. It also provides air charter services to commercial and private clients. During the month, AQZ issued a business update where it said it was seeing weaker activity levels in its non mining related segments, whilst its mining division (flying FIFO workers to mine sites) continues to see solid demand. The business, which commenced operations in 2002, provides an essential service to mining businesses across a range of commodities, and has a strong record of customer retention. Following the fall in its stock price, AQZ is trading on a 12-month forward PE multiple of ~9x. Whilst there is some uncertainty over the trading environment, we believe the stock is undervalued on a medium-term basis.

In the infrastructure sector, Sydney Airport (SYD) down -28.1% and Auckland Airport (AIA) down -33.8% were negative contributors in the month. The two airports were impacted by the sharp slowdown in aviation activity and the prospect of a greatly reduced volume of flights for the next 6-9 months, and possibly longer. A key area of uncertainty currently for investors is the length of the shutdown, which clearly has implications for earnings and balance sheets of the two companies. The weakened financial position of the airline industry has also unsurprisingly weighed on the stock prices of both SYD and AIA as investors query the health of the airports' customer base. Given the high level of uncertainty, we trimmed our holdings in SYD and AIA but have retained the positions given our view that both are outstanding assets once the environment for aviation travel stabilises.

Two companies the Fund is invested in Arena REIT (ARF) and Charter Hall Social Infrastructure REIT (CQE) fell materially in March (ARF down -43.5% and CQE down -44.7%). Both are property trusts that act as landlords to childcare centre operators in Australia. Both were sold off aggressively based on investor fears that childcare centres viability would be threatened due to sharply falling occupancy by children. Our view has been that given the essential nature of childcare to the Australian economy, it was highly likely that there will be some form of government assistance to the industry to ensure operators could survive this challenging short-term period. We would note at the time of writing, the Federal Government has announced significant new policies aimed at financially supporting the industry. Whilst we believe there will need to be some modifications to the original policy, the overall signal from the government is that it has a clear intention to support the childcare providers, which in turn has positive implications for CQE and ARF. Both stocks are now trading below their net tangible asset value, which should provide stock price support for both going forward.

NRW Holdings (NWH) fell -46.7% in March. NWH is a mining services business with operations across Australia, but with a particular strength in servicing iron ore miners in Western Australia. During March, the stock was sold off based on what we assume are investor fears of a slowdown in spend by NWH's mining client base and potentially fears that commodity prices NWH is exposed to will weaken as economic growth declines. Late in the month, in an ASX release, NWH stated it has not seen any material impact to activity levels or equipment utilisation. Whilst it is realistic to expect some slowdown in mining spend in the coming months given the macro environment (and hence earnings impact for NWH), the selloff looks excessive with NWH trading on a 12-month forward PE of ~6x.

Kangaroo Island Plantation Timbers (KPT) resumed trading late in the month, with the stock price closing the month at $0.91 (vs our marked down valuation of $1.50).
The stock appears very cheap based on its net tangible assets of $1.86 per share (mainly comprising of land and cash), however the catalysts to close the valuation gap are quite long dated in our view. As discussed in our February newsletter, KPT is a small position and had minimal impact on Fund performance in the month.

People Infrastructure (PPE) fell -61.1% in the month. PPE is a workforce management company focussed on healthcare and IT sector. In terms of its business mix, PPE's most recent results showed revenue is split ~51% healthcare and community services, ~22% Information Technology and ~27% from general staffing services. Late in March, PPE provided a brief business update where it flagged a high level of uncertainty in the trading environment, with particular impact on its IT and General Staffing division. We will continue to monitor the environment, and whilst earnings are clearly under pressure in the short term, we believe the stock has been sold off excessively at this point in time.

Market commentary

Global markets were all significantly down in March across the board. In the US, the S&P 500 fell -12.5%, in the UK the FTSE 100 fell -13.6%, whilst in Japan the Nikkei fell -10.5%. Australia underperformed its global peers, with the All Ordinaries Accumulation Index falling -20.9%.
All sectors of the ASX declined, with Consumer Staples, Healthcare and Utilities being the best performers. Energy, Real Estate and Financials were the worst performers. Real Estate, which is normally quite defensive, was particularly impacted by fears that Corona Virus related shutdowns would result in tenants not being able to pay rent as normal.

The Australian 10-year bond yield fell 6 basis points to 0.76%. The Australian dollar continued its decline, falling 3.7 cents to close at US$0.61. In bulk commodities, iron ore was flat at US$84/tonne, whilst Thermal Coal was up +1% to US$67/tonne, whilst in base metals copper declined -12% and nickel fell -6%. A notable move in the Energy sector was the oil price, which declined a massive -48.3% in March to close at US$25.9 per barrel. The decline was driven by a combination of falling demand for oil due to the Corona Virus and a price war between key producers Russia and Saudi Arabia.

Commentary on Corona Virus

Clearly the Fund's performance in March is very disappointing. We would reiterate that the Portfolio Manager is the largest investor in the Fund, and hence investors can be assured they are very much aligned with the manager during this period. It was an unusual month in that a number of stocks held by the Fund that in a normal business environment are quite defensive (eg. Infrastructure stocks and certain property trusts) were aggressively sold off based on fears that the Corona Virus would have on their earnings, if only in the short term. Despite this, these businesses provide essential services and demand for their services will recover following this current downturn.
We believe that global stock markets are likely to remain volatile in the next few months until there is further clarity on the economic impact from Corona Virus. Whilst governments across the globe are now taking very strong actions, realistically the situation will take some time to stabilise and it is likely governments err on the side of caution in terms of unwinding the current restrictions on businesses. Whilst we are not willing to call the bottom yet, we do believe that valuations are now approaching a point of becoming very attractive.

We have not made material changes to the portfolio; however, we have exited or reduced some stocks where we believe the earnings outlook has materially worsened particularly due to an extended shutdown.

Typically, panicked selling of stocks (whilst feeling correct in the very immediate term), results in significant wealth transfer over the long run. In our view, moving the portfolio very heavily to cash following the steep falls in February and

March is not likely prove correct in three years' time. Stock market panics are typically outstanding periods to invest in quality businesses. There is no doubt the economic outlook has weakened however investors need to balance that with the very material stock price declines for businesses that will still be operating for many years to come. There is no doubt we are going to see a negative earnings impact on a range of stocks over the next 6-12 months, however the key point for the long term investor is whether it is correct to sell a stock now on that basis after (a) the stock price has already fallen significantly and (b) earnings will recover once economic conditions normalise. A number of small/mid cap stocks in the Fund have seen their stock price approximately halve during March, which in our view is a material over reaction vs long term valuations.

It is important to mention the vast majority of companies held in the Fund today were in existence through the Global Financial Crisis in 2008, and whilst during that period, their stock prices fell quite materially, the businesses survived that period and indeed many emerged in stronger positions vs their competitors, which saw very strong stock price performance in the years that followed.

Despite the current investor sentiment, we will continue to make investments (albeit very selectively) in quality businesses during this period of extreme pessimism, as we firmly believe these are the times when such stocks can be bought at prices which are likely to produce very attractive returns over a longer term investment horizon.

We would reiterate the importance of maintaining a long-term mindset during this current period. Whilst the current situation is unsettling, we would highlight that with indiscriminate selling comes great buying opportunities and this will be our focus over the next few months. The global economy will ultimately recover and stock markets (being forward looking) will recover earlier, as was the case for global stock markets in the 2008/09 period.

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										-34.06

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

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