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# Glenmore's Australian Fund: Keeping a Long-Term View

Robert Gregory, founder and chief investment officer of Glenmore Australian Equities Fund, tells Alan Kohler how he's been outperforming his benchmark by taking a long-term view - and that right now may prove, with hindsight, to be a good time to enter the market.

By Alan Kohler · 29 Sep 2022

**Alan Kohler here and I'm talking to Robert Gregory, who is the founder and chief investment officer of Glenmore Australian Equities Fund, which he started five years ago, 2017, and it's done pretty well, really. Since inception, per annum return is 22.8 per cent versus the All Ordinaries Accumulation Index of 8.4 per cent, so a pretty good performance and he's outperformed the benchmark, the index, pretty much every year since then. But look, it's a small fund, $19 million only in it. A fair bit of it's his money too, so he's doing okay himself, although he's not saying exactly how much of it is his money, but that's okay. And he's had a tremendous August as well, done pretty well in August with some good investments, so I think it's worth talking to him about what he's investing in and how he goes about it.**

**So here he is, Robert Gregory, founder of Glenmore Australian Equities.**

Eureka Report

Robert Gregory - Glenmore Asset Management

00:00 / 23:20

**Table of contents:**



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**Well, Rob, you started your fund, Glenmore, five years ago, coming from CBG Asset Management which is a fund owned by Clime. I note that the CBG performance over the past five years is 5.8 per cent and yours in Glenmore is 21.8 per cent, so what'd you do differently?**

22.8, actually.

**Oh, 22.8, there you go. So, I mean, you've really shot the lights out in the performance stakes since you started. What did you do differently in Glenmore than you were doing in CBG?**

Well, look, I was one of a team of three or four at CBG, so I guess I didn't have ultimate control over all of the investment decisions at CBG. I haven't followed CBG closely over the last five years, but certainly at Glenmore I've had full control to invest as I see fit in the best companies in terms of company quality and valuation.

**So, how do you go about picking them?**

Look, it's pretty much the same, the way most fund managers do, I think you're constantly scouring the market looking for great investment ideas, as you get older and more experienced I guess you hone the ways you find good investments and your antenna for companies that are well run and run by good people probably improves. And I think also, you become smarter just as an investor over time. In terms of finding new ideas, it comes from a range of ways just scouring the market, listening to lots of conference calls, reading lots of annual reports and just really keeping your nose to the ground. Often, it might be in reporting season, you listen to a conference call that you might not even be invested in the stock, but that can trigger an idea, just gets changes underway at a company that might be interesting.

So, you know, it's a very dynamic market, the ASX, particularly in small to mid-caps which is where my focus is on. So, there's constantly interesting companies being thrown up.

**One of the things you mentioned on your website about your fund is you talk about limited fund size…**

Yeah.

**Are you actually limiting the size of the fund?**

No, I was meaning it's quite small at the moment, so it's $19 million right now. That's certainly, I think, a strong selling point for an investor considering Glenmore, is that the fund size is quite small relative to…

**Is much of that your money?**

Yeah, a decent chunk of it's mine and my wife's money, yes, so there's very significant skin in the game on that front.

**What sort of wins have you had over the past five years? We'll get onto these past 12 months and in particular, August, which was a pretty good month for you. But over the five years, what sort of wins have you had?**

Yeah, look, it's come from a wide range of sectors. Mineral Resources has been one; Pinnacle Funds Management; Alliance Aviation; Opticomm, which was an IPO that's since been acquired by Uniti, which in itself has been acquired. There's been a range of companies, but probably the key characteristics is just being a good quality business, cash generative with an established product and service and typically it's been a situation where the valuation hasn't really correctly priced in the company's growth prospects. There's been a few situations where companies have made quite value-accretive acquisitions, but a lot of the time – I call the fund style neutral, so it's not really value or growth focused, but often it's just finding a very good business where the growth prospects just aren't properly priced in at that point in time.

**So, when you look at a company, are there any absolute no-no's that you would not invest in that company for some reason?**

Yeah, I mean, certainly profitability is a big one, so if a company's not profitable, it's not a complete no-no, but it rules out a lot of companies. If a company's on the cusp of significant profits, say, you might have a resource stock which has a deposit that's say, 6 or 12 months out from production, I'm comfortable investing in a situation like that if I'm comfortable on the asset quality and the management. But the sort of more speculative biotech and tech businesses which are very early stage and if things go really well it might become profitable in, say, three to four years' time, that's not a company that has ever been of interest to me, because it's just too difficult to forecast earnings.

So, yeah, that sort of speculative early-stage part of the markets, that's definitely a path to sort of avoid and that's been very helpful in the last 12 to 18 months in terms of performance relative to peers.

**Let's go through some of the nuts and bolts of your fund. I know it's a wholesale only, that is to say, sophisticated investors only, but do you have a minimum investment?**

Yeah, the minimum's $100,000.

**And what's your fee?**

Yeah, so the management fee is 1.2 per cent per annum, the performance fee is 20 per cent of any excess return above the All Ordinaries Accumulated Index and in addition, there's a relatively high watermark so if the fund underperforms relative to the All Ordinaries Accumulated Index, then to generate a performance fee it first has to recoup that relative underperformance. And in addition, the fund can't earn a performance fee if the fund return is negative.

**Right, okay, have you actually underperformed the benchmark? What is your benchmark, by the way?**

The All Ordinaries Accumulated...

**And so, have you actually underperformed that at all over the past five years?**

Oh, look, there's been periods where I have, yes, like short-term periods. So, yes, there has been short-term periods of underperformance, absolutely, but over a sort of one, three, five-year timeframe it's been fairly significant outperformance.

**A pretty good August you had, 5.3 per cent at end of August versus benchmark of 1.28 per cent. And a lot of that came from coal, as it turns out, so you're not an ESG investor, are you?**

No, look, I mean that's obviously something that's become quite topical the last sort of 12-18 months. It's interesting, when I first started the fund in 2017, that wasn't really getting as much air play from investors and look, my mandate as a fund manager, my clients want me to generate returns, so my view is I haven't been one of those funds that's excluded certain parts of the market based on ESG concerns.

**Well, Whitehaven Coal popped up 28 per cent in August and Bowen Coking Coal, 27.4 per cent. Crikey, you've done well out of coal.**

Well, I mean, coal's been an interesting sector because the ESG movement has really created an environment where the lack of supply from both coking coal and thermal coal is very pronounced now. Part of that's the larger resource companies just don't want to develop new coal projects. It's actually getting harder to finance them, it's getting a lot harder to get permitting from governments. Around the world, we've just seen a dramatic slowdown, the number of new projects being developed, so that's created a situation where supply has been quite constrained and demand's really continued on quite strongly.

I think there's a bit of a disconnect sometimes with people perhaps who think that we can make this sort of, at the click of a finger, we can stop using fossil fuels. Whereas, really, to be realistic, this is a transition period we're going to work through and fossil fuels are needed if we want to maintain the current standard of living until the renewables get to a more reliable phase. At the moment, coal, gas, uranium, is really essential if we want reliable baseload power.

**It hasn't been all beer and skittles in the month, lately DGL Group fell 26 per cent in the month, was that a mistake then?**

Look, it probably was, yeah. I mean, that's a company that had a very successful IPO, it's a diversified chemicals business, but the result it had in August was actually in line with expectations, but the guidance they gave for F23 implied that it had kind of over-earned to some extent in F22. So, given they'd made some acquisitions in F22, it did kind of imply that perhaps the business isn't performing in line with how people thought going into the result in August. So, yeah, look, when you're investing in small/mid-cap in Australia, there's absolutely going to be some mistakes along the way, but the main thing you need to focus on is getting the majority right and also making sure that the losers don't cost you too much.

**Yes, well I suppose it's impossible not to have losers, isn't it?**

Yeah, that's right, yeah.

**What's your view about the market as a whole now?**

Yeah, look, I mean I think obviously we're navigating through a pretty difficult period. It's starting to become evident that central banks are going to have to do more heavy lifting in terms of interest rate hikes to bring inflation down to acceptable levels.

**How much heavy lifting do you think?**

I think you should expect another probably three to five months of central bank interest rate hikes and I think at that point, moving into 2023, we'll start to see the full impact of those hikes on economic activity. I mean, at the moment, we're really only seeing high inflation prints each month, central bank hikes, which is all very negative. We're really yet to see the full impact of the hikes which the central banks are trying to reduce demand and reduce inflation. So, I think, given the lag, you'll probably start to see that towards the end of this year and more meaningfully in 2023.

And I also think it's possible, with the fullness of time, that they possibly over-hike just because that's often what central banks tend to do, they tend to cut rates too far and then over-hike too much. I mean, I think realistically, economic activity will surely slow down given the brakes they're applying now.

**At what point do you expect to see some good buying in the stock market?**

Yeah, look, I think it's really stock by stock specific. So, in June we saw some quite significant selloffs of a range of small to mid-cap stocks, that created some good buying opportunities and then we saw a bit of a rally in July and August. Now we're obviously seeing another significant selloff. I think, you know, there's just different stocks that become particularly cheap at different points. But I think, you know, between now and the end of Christmas, you're going to see some very good buying opportunities.

The other thing I'd just emphasise is that the more bearish equities become, the more I try to take a three to five-year view. Like, right now, most people aren't taking a three to five-year view, they're taking a one to three-month view and there's very much a focus on how much lower equities can go, which is correct in the short-term, but the way you really make good money from equities is by taking a long-term view and in actual fact, I think in the fullness of time this period we're navigating will actually prove to be a good time to enter the market, albeit people don't like buying a stock and then seeing it fall another 10-20 per cent in the short-term.

**Have you cashed up, ready to do some buying?**

Yeah, look, I've got about 15 per cent cash at the moment, so I'm just watching carefully and adding to certain stocks that I have high conviction on. I think realistically you have to be aware that there will be some earnings impact from the interest rate hikes and also just the general caution from the consumer and business right now, so I'm selectively adding to certain positions, yeah.

**Can you tell us what your highest conviction stocks are?**

Yeah, I mean some of the higher conviction stocks are – and again, I'd stress this is taking the medium-term view. So, right now, we're seeing stocks for a range of sectors fall each day. One that I really like is Mineral Resources, that's a stock that has been listed for a long time, listed back in 2006, has a very high calibre CEO, Chris Ellison, who founded the business and that's a diversified business operating in resources. It started off in mining services, so it does mineral processing and crushing for iron ore and a range of other commodity producers, so that essentially – a miner can outsource that part of the process to Mineral Resources for a fee. They have a very strong expertise in that part of the market, having been built up over a long period of time. Typically, they can do that part of the process cheaper and more efficiently than the miner. So, it started off with mining services, then they expanded into iron ore production, which has been very successful and on that front there, the five-year plan is for their iron ore production to go from about 20 million tonnes per annum to about 90 million tonnes, so it's a very significant uplift in iron ore production and a key plank of that is the Onslow Iron Ore Project, which would be about a 30 million tonne per annum project, so quite significant, about $3 billion capex, but quite low cost. We're talking cost of production in the mid-30s per ton Aussie, so quite low cost, so it should make money in the midpoint of the cycle.

Importantly, Mineral Resources' mining services business would have a contract there to process the iron ore, so that's quite a lucrative part of the valuation chain there.

**They've also got lithium, haven't they?**

That's right, yeah, I was just going to get to that. Lithium is their sort of third plank that they've expanded into just the last few years and that's been very impressive and sort of move into lithium, they've identified that as a commodity that was well positioned to do well given the shift to EVs that's going to be underway for a long period of time now. I mean, they've actually crept up a bit on people, I suspect, but they're now a top five producer in the world in lithium, they've got two mines at Mt Marion and Wodgina that are producing spodumene right now and I think both mines have the ability to expand with demand and I think demand is clearly got a very strong runway. So, that's a stock that I have a particularly high conviction.

A fund manager that I like, GQG, that is a US-based fund manager that's listed here. Founder Rajiv Jain, has a long history of being a very successful fund manager, having created a very successful funds management business before he actually started GQG. The attraction there, is I think you've got a good funds management business, generates a lot of cash, pays a good dividend, only really trades on about 12-13 times PE, albeit I think we're going through choppy periods for a fund manager. I think if you're willing to take a medium-term view, I think that's a business that's well positioned to outperform.

**And overall, do you think that the markets are going to be kind to you once they've bottomed? I mean, are we looking at a sort of a normal cycle or do you think that what the central banks are doing is likely to cause some longer-term issues?**

I don't think it'll cause longer-term issues. I think it's looking increasingly likely that we have a recession and given where inflation's at, I think the world just needs to have a significant slowdown in economic output, but it's worth keeping in mind that, again, for a long-term investor, this period we're navigating through, it's not enjoyable to see your wealth fall. It's going to be tough but I think coming out the other side of it, there's going to be some really exciting buying opportunities. I mean, I think having been in the market for a long time now, you do get a bit more perspective on things. I remember, I was a fund manager in 2008 when obviously the market fell very significantly and then it rallied very strongly in '09 and '10.

Then in 2011, it actually fell about 11 per cent and I think perhaps 2022 might be a similar-ish type of year. I know inflation wasn't an issue back then, but in 2011 the market fell 11 per cent and it wasn't enjoyable at the time, but in the long-term scheme of things, it was just a period that we had to work through and actually set up a period for a very strong five years from 2012 to 2017. So, yeah, I think inflation absolutely is a real concern for central bankers right now, but I do think with the actions they're taking that we will get on top. I also think we're going to see the impacts of the slower economic activity will also flow through to lower inflation, but that will probably be a 2023 story.

**What's your view about commodities?**

Each commodity has its own story. I think lithium has a really strong demand profile, I think supply will struggle to keep up with that. Iron ore is one commodity that I follow a bit through the Mineral Resources exposure, I'd be more bearish on that just because I think there's quite a bit of supply there. Thermal coal and coking coal, I think notwithstanding there will be some demand impact from the slowing of the world economy, I think taking a three to five-year view, given the lack of supply that's been brought on and I think will continue to be not brought on, I think they're well positioned to enjoy reasonably healthy prices. Yeah, I mean, look, forecasting the actual commodity price isn't a key plank of the resource stocks that I own and each commodity really has its own demand/supply profile really to look at.

**Yeah, I suppose the thing about commodities is that you don't control the market but you can control your costs and I suppose what you're doing is looking at companies that have low costs.**

Yeah, look, it's really important to be in resource stocks that can make money at any point in the cycle. I mean, I'm not a resource specialist at all, my core specialty is, I guess, industrial or services business that are run by good people and have a product or service that has a particularly competitive advantage, but certainly at times resource stocks can throw up some quite interesting options to generate profits. And look, if they do generate good cash, particularly the low-cost producers, they generate good cash all through the cycle.

**Good to talk to you, Robert. Thanks.**

Thanks, Alan.

**That was Robert Gregory, the founder of Glenmore Asset Management.**