Glenmore Australian Equities Fund
Monthly performance update
June 2020

Fund Performance

Fund performance for June was +1.43% (after fees) versus the benchmark return of +2.34%. The Fund has delivered a total return of +55.71% or +15.45% p.a. (after fees) since inception in June 2017.

Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
June 2020	+1.43%	+2.34%
1 Year	-10.26%	-7.21%
3 Year (p.a.)	+15.41%	+5.42%
Since Inception (p.a.)	+15.45%	+5.37%
Since inception (total)	+55.71%	+17.51%

Fund commenced on 6 June 2017

Stock commentary

Collins Foods (CKF) was up +17.8% in June. CKF is a franchisee of fast food retail outlets, with KFC in Australia being by far the dominant part of the group. CKF is the franchisee of 240 KFC outlets in Australia (~35% of the total), 41 in Germany and Holland, as well as 12 Taco Bell restaurants in Queensland and Victoria.

CKF reported its FY20 result late in the month, with NPAT of $47.2m, up 5% vs pcp, but more importantly 8-10% ahead of market expectations. In addition, CKF said FY21 had started off very strongly, with revenue for KFC Australia for the first 7 weeks of FY21 up +12% on a same store basis.

CKF is a business the fund has followed for many years and invested in opportunistically during the March selloff, where the stock price fell from ~$10 in late February to a low of $4.40 in mid March, based on fears Corona Virus would negatively impact earnings. The stock price fall, in our view, was a significant over reaction given the long term consistency of the business, and whilst at the time there was clearly uncertainty around how the KFC outlets would trade during the shutdown, it did not warrant a halving of the value of the business, particularly when taking a longer term view.

A key positive regarding the KFC business is that take-away, drive-thru and home delivery channels account for ~80% of sales, which has reduced the earnings impact from Corona Virus (which has resulted in the closure of in-restaurant dining channel).

CKF has been a very solid performer since listing on the ASX in 2011 at $2.50 per share, driven by KFC's strong brand, customer value proposition and differentiated product versus fast food peers. In addition, the product is well suited to home delivery, which continues to grow given consumer preferences.

Alliance Aviation Services (AQZ) was up +14.3% in June. During the month, the company announced a $92m capital raising at $2.95 per share (~25% increase of shares on issue). The rationale for the raising was to support growth in the business (from both existing and new customers) and give AQZ the ability to acquire additional aircraft at attractive prices. The Fund did not participate in the raising (having already added to our position at much lower prices in March and April), however we continue to be positive on the stock going forward and believe AQZ is likely to be able to deploy the funds raised opportunistically in aircraft assets given the distressed state of many aviation players globally. The company has a strong track record in such acquisitions, having purchased 21 Fokker aircraft from Austrian Airlines in 2015 for just US$15m, which proved to be extremely value accretive for the company. Despite the strong rally in the stock price, AQZ's valuation is still attractive, trading on an FY21/22 PE multiples of 17x and 13x.

Opticomm (OPC) was up +6.3% in June. During the month, ASX listed peer Uniti Group (UWL) proposed a cash/scrip acquisition of OPC, which valued OPC at $532m, implying an EV/EBITDA multiple of ~13x FY21 (before synergies). UWL has three operating divisions, with its Wholesale and Infrastructure business being very similar to OPC's own fibre infrastructure business. UWL has been highly acquisitive since its IPO in February 2019, which does potentially increase integration risk, however there is a strong theme of recurring revenue across its various businesses and management and board are very experienced operators.

The combination of OPC and UWL appears highly complementary, with UWL being strong in multi dwelling units, whilst OPC's core strength is in greenfield broadacre developments. UWL said it expects annual synergies of $10m to be realised in the first 12 months from the merger. With the bid, UWL also upgraded their FY20 pro forma guidance for 2H EBITDA to $37-39m, +6% ahead of previous guidance boosted by strong profit margins in all three business units.

Whilst as shareholders of OPC, we were disappointed in the lack of any material takeover premium from UWL, we do believe the merged group has strong prospects and will continue to hold the stock.

VGI Partners (VGI) fell -18.3% in the month. During the month, the company announced Douglas Tynan, a senior executive at the firm, would be leaving for undisclosed reasons. This news, along with weaker fund performance in the last 12 months (in contrast to its solid long term track record) resulted in some investor selling. The news of the departure of a key member of the investment team is clearly negative (which could lead to some FUM outflows) and we will continue to monitor the situation, whilst noting the stock is a relatively small position for the Fund.

Market commentary

Despite the continued health impact of the Corona Virus, global equity markets were stronger in June, boosted by ongoing central bank and fiscal stimulus as well company earnings that have showed the economic impact of the virus to date, to have been less than feared during the March sell off. Globally, the NASDAQ starred again (up +6.0%) continuing its incredible recent run, which saw it return +25.6% for FY20. Other strong performers were the Hang Seng +6.4%, Russell 2000 (US small caps) +3.4%, Nikkei 225 +1.9% and the S&P 500 which rose +1.8%. In Australia, the All Ordinaries Accumulation Index rose +2.3% in June, taking the FY20 return to -7.2%. Best performers in the month were Consumer Discretionary, Consumer Staples, and Financials, whilst Energy and Real Estate underperformed.

In Australia, the economic data continues to be subdued. GDP for the first quarter was down -0.3% (due to the impact from bushfires and Corona Virus), which was slightly better than expected, whilst unemployment increased by 0.9% to 7.1%. The Australian dollar continued its recovery from its March lows, appreciating +3.5% to end to the month at US$0.69.

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. In addition, please feel free to send this newsletter on to any friends and family that might be interested in reading it.

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							-14.47

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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