

## Glenmore Australian Equities Fund

### Monthly performance update

#### May 2020

#### Fund Performance

Fund performance for May was +9.64% (after fees) versus the benchmark return of +5.04%. The Fund has delivered a total return of +53.51% (after fees) since inception in June 2017. **This month marked the 3 year anniversary of the Fund, with a return of +15.4% p.a. (outperformance of +10.7% p.a. versus benchmark) being a very pleasing outcome, achieved over a range of market conditions.**

#### Fund Returns (after fees)

Period	Glenmore Fund	All Ords. Accum. Index
May 2020	+9.64%	+5.04%
1 Year	-6.92%	-6.22%
3 Year (p.a.)	+15.36%	+4.71%
Since Inception (p.a.)	+15.36%	+4.71%
Since inception (total)	+53.51%	+14.82%

# Fund commenced on 6 June 2017

#### Stock commentary

**Moelis Australia (MOE)** was up +58.6% in May. The company issued a business update in May which showed the business to be performing solidly, despite some headwinds to certain parts of its business, namely hospitality (pubs) and retail real estate (shopping centres). MOE provided guidance for 1H20 that EBITDA would be in line with 1H19 (which was \$23.0m), which we viewed as a creditable effort given the volatile market conditions. Corporate Advisory and Equity continued to perform well, whilst the Asset Management business saw fund inflows of \$76m across managed funds in April and May. Investor demand for MOE's credit products continues to be strong, which should be aided by the ongoing period of low interest rates in the next 12-24 months. In addition, the balance sheet remains solid, with net cash of ~\$20m. Despite the bounce in the stock price in May, MOE trades on an FY21 PE of ~14x and we remain positive on its prospects.

**Alliance Aviation Services (AQZ)** was up +25.0% in May. AQZ released a business update which showed it was trading well ahead of our and market expectations. AQZ said FY20 pre-tax profit would be "in excess of \$40m" vs market consensus of ~\$28m. The main driver of the upgrade was increased demand from its resource clients, with social distancing boosting demand for more flights (less passengers allowed per flight), as well as AQZ's charter division (contracts of less

than 12 months) winning a number of new resource clients, as it benefited from a lack of scheduled flights from other operators.

Clearly there is a short term earnings boost that AQZ is getting from social distancing, however we also believe the company is likely to be a beneficiary of the new Australian aviation landscape, (noting the current predicament of Virgin Australia) with scope for AQZ to fill some of the void in domestic scheduled services). Whilst this issue is not quantifiable for earnings at this stage, it should be positive for AQZ regardless of whether Virgin emerges from administration or not. In addition, given the distressed state of the global aviation sector, it is quite possible that AQZ can add to its fleet (currently 46 aircraft) at very attractive prices over the next 12 months.

Whilst the core resources business is in strong health, not all parts of AQZ's business have been experiencing buoyant trading conditions, with its Tourism and "Wet Lease" divisions being very subdued, and hence a recovery in the medium term could present some additional earnings upside. The FY20 earnings upgrade will result in a further improvement in the balance sheet, which could see a positive surprise in the 2H20 dividend. AQZ continues to trade on quite attractive valuation metrics (FY21 PE of ~12x) and we remain comfortable holders of the stock.

Two stocks that released positive earnings updates in May were **People Infrastructure (PPE)**, which was up +16.7%, and **NRW Holdings (NWH)**, which rose +13.8% in the month. **PPE** guided for FY20 EBITDA to be in the range of \$24m to \$25m, which was ~20% ahead of market forecasts. The main driver was stronger than expected hiring activity in IT (both permanent and contract), a recovery in Nursing, as well as several new contract wins. Childcare and Hospitality continue to see subdued activity levels but should improve over the next 12-18 months.

**NWH** provided an operational update which showed the company to be performing in line with expectations, with EBITDA for the 10 months to April 2020 of \$177m. This news was enough to see the stock rally, given there had been investor concerns that earnings would be impacted due to supply chain and workforce issues emanating from Corona Virus measures at the various mining projects it works at. Pleasingly, NWH said net debt had fallen to \$115m at the end of April vs \$165m at end of 2019, and would fall further by 30 June, given the strong cash generation of the business.

NWH said bidding activity is high with the pipeline for new work improving given a pickup of infrastructure projects and continued opportunities in the resources sector.

Other positive contributors for the month included **Fiducian Group (FID)** +15.0%, **Magellan Financial Group (MFG)** +14.4%, **Integral Diagnostics (IDX)** +13.5%, **Dicker Data (DDR)** +12.6% and **Mineral Resources (MIN)** +12.1%.

There were no detractors of any materiality in the month.

#### **Market commentary**

Globally equity markets continued their strength in May. In the US, the S&P 500 was up +4.5%, in the UK, the FTSE up +3.0%, whilst in Japan, the Nikkei up +8.3%. In Australia, the ASX All Ordinaries Accumulation Index rose +5.0%, with the Small Ordinaries being a notable outperformer, rising +10.6%. Technology and Gold were the best performers, whilst Healthcare and Consumer Staples lagged. In keeping with the rebound in investor risk appetite, the Australian dollar continued to rise, finishing the month at US\$0.67 cents, up 2.4%. Unemployment for April was 6.2%, up from 5.2% in March, as the economy shed ~600,000 jobs. The yield on the Australian 10 year bond was steady at 0.88%. In commodities, the gold price was the star performer, rising +3%, driving a +15% increase in the sector for May.

Domestically there has been much written about the prospect of Australia entering a recession, which appears likely given the sudden shutdown of many sectors in the economy since March. Despite this, we continue to believe there are stocks where the stock price fall has been excessive relative to its long term valuation. Whilst there will be many more earnings updates from ASX companies over the coming months which will increase the sample size, our initial take is that the earnings impact (from Corona Virus) is not going to be as severe as that implied by the falls in stock prices in February and March. Whilst not underplaying the significance of the economic impact of Corona Virus, we do not believe it is sufficiently negative to derail the earnings growth prospects of high quality businesses and remain comfortable with the portfolio composition.

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
<b>2017</b>						1.29	1.52	7.03	3.05	5.32	3.81	3.66	28.55
<b>2018</b>	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
<b>2019</b>	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
<b>2020</b>	3.05	-9.44	-29.34	16.63	9.64								-15.68

**FUND INFORMATION**

<b>Name</b>	Glenmore Australian Equities Fund	<b>Fund Administrator</b>	Apex Fund Services
<b>Inception</b>	6 June 2017	<b>Fund Custodian</b>	Sargon Corporate Trust Pty Ltd
<b>Structure</b>	Wholesale Unit Trust	<b>Fund Auditor</b>	Pitcher Partners
<b>Investor Eligibility</b>	Wholesale or 'sophisticated' investors only	<b>Fund Manager</b>	Glenmore Asset Management
<b>Subscription Frequency</b>	Monthly	<b>Management Fee</b>	1.2%
<b>Redemption Frequency</b>	Monthly	<b>Performance Fee</b>	20.0%
<b>Unit pricing</b>	Monthly	<b>Benchmark</b>	S&P/ASX All Ordinaries Accumulation Index
<b>Domicile</b>	Australia	<b>High water mark</b>	Yes

**Contact details**

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