



GLENNON SMALL COMPANIES LTD

Investment Report & NTA

October 2017

Review of the Month

The portfolio returned 7.7% (gross of tax and fees) outperforming the Small Companies Accumulation Index by 1.7% that gained +6.02% for the month of October. Despite our large weighting to cash, the fund outperformed with our core positions all strengthening.

The Small Companies Index was propelled higher by investors bidding up a select basket of companies, regardless of their multiple. Thus, the Consumer Staples gained a staggering +17.4% over the month as companies exposed to the Chinese distribution channel such as Bellamy's, Blackmores and a2 Milk posted returns in excess of +30% for the month, leaving these stocks trading on lofty respective PE's of 35 times, 26 times and 38 times FY18 forecast earnings.

Stock Code	GC1
GC1 Share Price*	\$0.925
GC1 Market Cap	\$44.72
GC1 Cash Weight	10.06%
Number of Holdings	34

** as of the 31st October 2017*

Top 5 Holdings

NVL	National Veterinary Care
MAH	Macmahon Holdings
ATL	Apollo Tourism & Leisure
EHL	Emeco Holdings
A2M	A2 Milk

The Small Resources sector benefited from a jump in the price of base metals, with Nickel gaining +18% over the month. Continued momentum in the Lithium sector saw Pilbara Mines and Galaxy Resources both gain over +25% for the month. These two companies now have a combined market cap of around \$3bn and yet neither recorded a profit in FY17.

A2 Milk continues to be a core holding for GC1 with 5.26% at month end. Whilst we see good growth for the infant milk formula market we view the potential development of adult nutrition products will provide long term growth as the global demographic aged over 60 years is expected to grow to 222m, a 35% increase over the next 15 years. We have trimmed our position in the rally (up 31% in Oct) as we see a full valuation and greater opportunities in other securities not yet appreciated by the market.

Glennon Capital has repeatedly noted our view that the resources sector does not offer value in the current environment. Despite this, we do see businesses that are providing services to the sector as offering value. GC1 has a core position in Emeco that rents earth moving equipment powered by big data analytics. We remain cautious on the Resource sector recovery given the continued high levels of supply apparent in most commodity markets, but also acknowledge Emeco and Macmahon are well placed to leverage from the green shoots that are being seen.

Our aversion to the Small Resources sector and the circa 25% pull back in the iron ore price in the past 2 months highlights the volatility of resource pricing and reinforces our wariness towards the sector.

Our recent top up in Shine post the announcement of the \$250 million class action claim dating back to its January 2016 turmoil, has proven timely. Factoring in the legal action, we judge this to offer a very good opportunity to hold a good business at a good price. GC1 continues to focus our attention on good quality companies that we believe are well positioned to sustainably grow their earnings and dividends in the years ahead.

Net Tangible Assets (NTA) as at 31/10/2017

Cumulative Dividends Paid (excluding franking)	\$0.0775
NTA (before tax)	\$1.0780
NTA (after tax)	\$1.0357

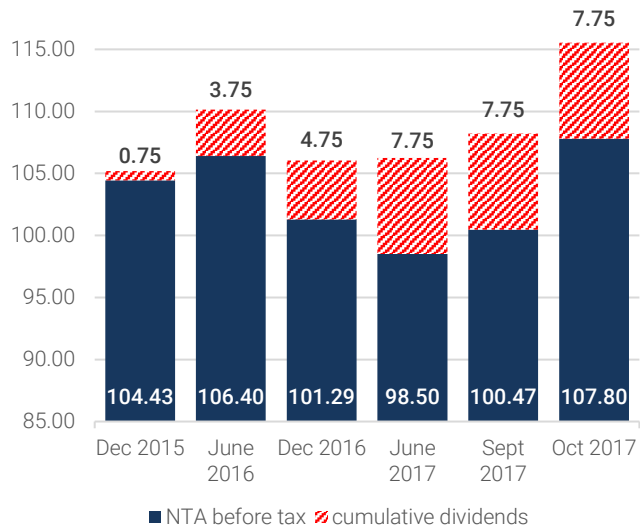


GLENNON SMALL COMPANIES LTD

Investment Report & NTA

October 2017

GC1 NTA + Dividends Paid



GC1 Cumulative Dividends

