



# GLENNON SMALL COMPANIES LIMITED

Investment Report and NTA  
31 October 2018



## NTA

NTA (before tax)	\$1.04
NTA (after tax)	\$1.01
ASX Code	GC1
Inception date	21 August 2015
Share price	\$0.94
Cumulative dividends*	11.75c

\* Excluding GST and franking

## PORTFOLIO

Cash weighting	11.0%
Number of holdings	37

## TOP 5 HOLDINGS

Company Name	ASX code
Afterpay Touch Group Limited	APT
Alliance Aviation Services	AQZ
Cml Group Limited	CGR
Emeco Holdings Limited	EHL
Macmahon Holdings Ltd	MAH

## TOP 2 CONTRIBUTORS FOR THE MONTH

Company	Contribution %
Sequoia Financial Group Ltd.	0.02
Over The Wire Holdings Ltd.	0.02

## DIVIDEND HISTORY

Period ended	Type	Amount (cps)
31 December 2015	Interim	0.75
30 June 2016	Final	3.00
31 December 2016	Interim	1.00
30 June 2017	Final	3.00
31 December 2017	Interim	1.00
30 June 2018	Final	3.00
<b>Total dividends</b>		<b>11.75</b>

## NATIONAL ROADSHOW:

**WHAT WE LOOK FOR IN SMALL CAPS...**  
*and why you need them in your portfolio*

**Perth:** MONDAY 19 NOVEMBER  
**Adelaide:** WEDNESDAY 21 NOVEMBER  
**Melbourne:** MONDAY 26 NOVEMBER  
**Brisbane:** WEDNESDAY 28 NOVEMBER  
**Sydney:** FRIDAY 30 NOVEMBER

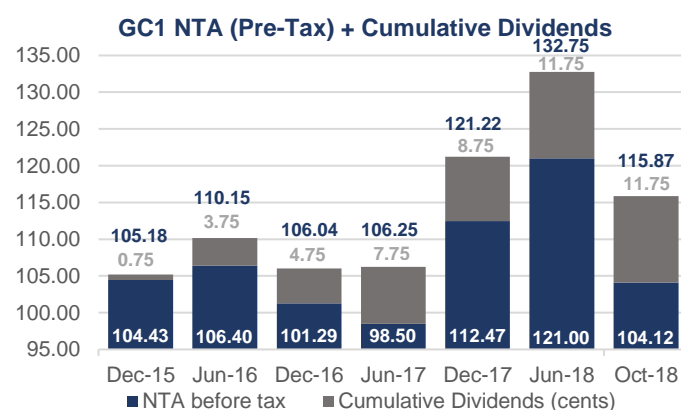
12.00pm for a 12.30PM start  
A light lunch will be served

CLICK HERE TO REGISTER

## TOP 2 DETRACTORS FOR THE MONTH

Company	Contribution %
Afterpay Touch Group Ltd.	-1.95
Emeco Holdings Limited	-1.50

## NTA + DIVIDENDS



## REVIEW OF THE MONTH

A particularly nasty month in Australian equities, with smaller companies faring worse than their larger counterparts. It started with a third interest rate increase in the US and a continuation of the tariff wars with China. The rate rise, and some stinging rhetoric from President Trump, focused the market on valuations and after such a prolonged bull market something had to give. Ultimately anything on a premium fell.

The Small Ordinaries fell 9.6%, wiping out pretty much all of the

gains made in the previous 12 months. In comparison the ASX Top 100 fell 5.7%. The tech, more speculative components of the Small Ords was most heavily hit.

Industrials fared worst, falling 10.6%, while resource stocks retraced a more modest 6.1% (following up on a similarly weak September quarter).

GC1 underperformed over the month with a return of 12.45%, the heavy weighting to industrial stocks impacting.

## STOCK STORIES

The fund's best performing stocks included Sequoia Financial Services, Over The Wire and APN Outdoor, but positive contributors were scarce.

We have no particular reason for Sequoia's relative performance other than the fact it is pretty illiquid and its valuation is undemanding.

We picked up some Over The Wire in its recent placement, which is our first foray into the stock and it held up reasonably well. APN Outdoor held up because it was under takeover. The fund acquired the stock to access the special franked dividend that was a part of the deal.

The fund's worst performers were Afterpay Touch, Emeco Holdings, Dropsuite and Lovisa Holdings.

Afterpay suffered the double-whammy of trading on a high multiple and the news associated with the push for a Federal Senate Inquiry into its space (amongst other small credit segments). Afterpay released a strong progress update for its foray into the US and relayed the costs associated with its US and UK moves. We are comfortable with our position in Afterpay after taking profits as the share rallied during the year.

Emeco's retracement is more of a mystery to us, apart from being a good place to take profits as the market fell following its strong performance over the last six months. Utilisation is improving in the face of equipment shortages and the scale efficiencies of the newly merged businesses within it continue to flow. It announced beneficial refinancing during the period, more of which will occur over the next year.

Dropsuite, which we have reduced our position in materially over recent months, announced the loss of a material number of accounts which was the result of a key client cancelling redundant email users.

Lovisa was punished after revealing sales comps slightly under 1%

since June 30, less than its targeted range of 3-5% (notably before the key selling periods of Melbourne Cup and Christmas). We remain confident in the long-term prospect, relying on international store rollout probability rather than short term sales fluctuations in our valuation.

We sold our position in BWX before its latest downgrade.

## PORTFOLIO OUTLOOK

We have entered a new market dynamic where the focus on valuation will be much more circumspect. The market's devaluation will inevitably create good opportunities as many of the companies that have seen their share prices slashed have not changed their business models. But there is nothing like a shock to focus the mind, so reappraisal of those models will be the key to their investment appeal (or otherwise).

Glennon will take the opportunity to raise the liquidity levels of the portfolio because more the valuations at the larger end of our universe will be more accessible.

The fund remains light in resources and will continue to search for commodity specific opportunities. At the moment coal and gas remain target areas. The oil price decline has changed the dynamic in that sector overnight. We continue to prefer the relative certainty of mining services companies for most of our resources exposure.

We will continue to search for Australian companies doing good things in international markets, particularly as the A\$ remains subdued. Australia is developing a more substantial track record overseas as it switches from a dominance of commodity-led products to services.

## HOW TO INVEST

Glennon Small Companies Limited shares are traded on the Australian Securities Exchange (ASX) under the ticker code 'GC1'.

If you are a first-time investor, you purchase shares through a stockbroker in the same way as you buy shares in other companies. If you do not have a stock broker, the ASX provides a service which can assist you. Please visit their site at:

<http://www.asx.com.au/education/first-time-investors.htm>

## GENERAL ENQUIRIES



GLENNON CAPITAL

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