



NTA

NTA (before tax)	\$0.95
NTA (after tax)	\$0.95

ASX Code	GC1
Inception date	21 August 2015
Share price	\$0.85
Cumulative dividends*	14.75c

* Excluding GST and franking

PORTFOLIO

Cash weighting	52.5%
Number of holdings	31

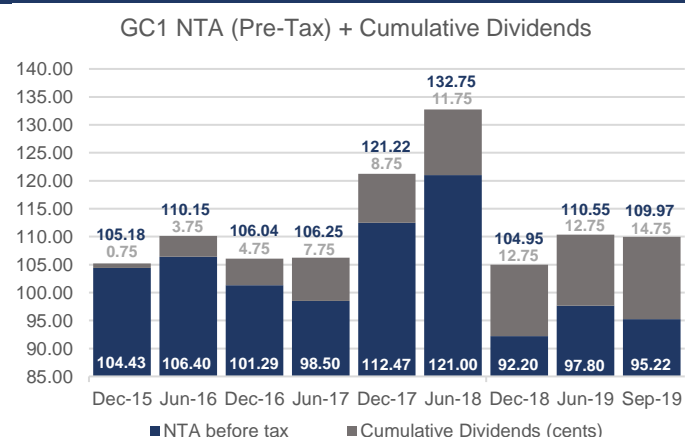
DIVIDEND HISTORY

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
31 December 2018	Interim	1.00
30 June 2019	Final	2.00
Total dividends		14.75

TOP 5 HOLDINGS

Company Name	ASX code
Collins Foods Limited	CKF
Hills Limited	HIL
IPH Limited	IPH
Money3 Corporation Limited	MNY
Noni B Limited	NBL

NTA + DIVIDENDS



REVIEW OF THE QUARTER

The September quarter was a volatile quarter. Locally, the economic data did not appear to respond to the two consecutive rate cuts by the RBA. The unemployment rate remained steady at around 5.25%. Wages growth only had tepid upward pressure. GDP growth was weaker than expected, rising by 1.4% over the year to the June quarter. The Australian economy is growing at a notably slow rate.

Internationally, the trade war tensions from the U.S. and China continued. More importantly, the damage from tariffs became evident as the global economy slowed down. The U.S. announced an additional tariff and then delayed it later in August. The market reacted negatively, assuming the relationship with China would worsen. Regardless, the trade war is damaging the world's economic activity and retarded manufacturing output. The U.S. central bank reacted by cutting rates twice, in July and September.

The Small Ordinaries rose 2.61% for the month and 3.11% for the September quarter. Small Industrials advanced by 3.88% for the quarter, with the Small Resources rising 0.29%. GC1 posted a return of 0.62% for the month and returned -0.36% for the quarter, lagging the market.

STOCK STORIES

The fund's best performing stocks for the quarter were Hills and Collins Foods.

Hills Limited (HIL) is a value opportunity with some growth potential. We started accumulating the shares in May and completed our position in August. HIL is a provider of nurse call solutions, patient engagement systems and wi-fi networks in Australian hospitals. The company has divided its operations into two segments, health and distribution. We think that the health segment is a hidden gem. The segment includes nurse call solutions and patient engagement systems. The nurse call and patient engagement systems are installed in more than 40% of Australian public hospital beds, and more than 20% of Australian private hospital beds. Revenue from this segment grew by 23% to \$38.1 million. EBIT was \$9.0 million, up from 5.6 million. EBIT margin was up from 18.0% to 23.6%. This segment is very capital light and achieved a return on capital employed of 48.7%.

The value of the health segment is masked by the distribution segment. This segment is declining because of changes to the vendor mix, lower than company's expected performance in the small to medium business sector and the continued decline of Foxtel revenues. Revenue from this segment is \$229.3 million, down by 11.5 million. EBIT was \$-2.8 million, down from \$-0.1 million. The falls in revenue and EBIT from distribution were

higher than the growth in the health division. As a result, the profit is falling as a group. That's why this company is a hidden gem.

HIL undertook operational and strategic reviews and will exit its underperforming Antenna and STEP satellite services businesses and discontinue its contract to supply Foxtel satellite dishes. The company claimed that the additional annual costs savings from the distribution business would be \$3-5 million. The cost saving combined with growth in the health segment presents a growth opportunity to us. Moreover, the company is trading close to the net asset value, providing some margins of safety. The share price rose by 39% in the past quarter. We will continue monitoring the company.

Quick service restaurant operator, Collins Foods (CKF), operates KFC in Australia and Europe, Taco Bell in Australia and Sizzler in Australia and Asia. The company has grown KFC through store expansions and expanding the delivery channel. KFC Australia has 64 restaurants supporting delivery through Deliveroo and Menulog. CKF has also grown its app sales by providing app-only offers. This is why the company achieved same store sales growth of 3.7%.

Opening stores is a growth driver for CKF. According to the agreement with Yum!, CKF will open up to 50 restaurants in 3 years. CKF opened four Taco Bell restaurants in FY19, with 10 restaurants planned for opening in FY20. Taco Bell diversifies CKF into a multiple food culture restaurant operator. KFC Australia and KFC Europe are planned to open 4-5 restaurants and 5 to 6 restaurants respectively. The shares performed strongly and rose by 22% in the past quarter.

PORTFOLIO OUTLOOK

The global economy is slowing. This development is acknowledged by the market, economists, investors and governments. The damage from the trade war is now showing on key economic indicators. However, there is no sign that the trade war will end soon. In this environment, we are cautious, yet we see opportunity. We are cautious about picking growth stocks because they may impose serious risk of loss of capital. We are more attracted to value stocks which appear oversold. In other words, we are prepared to invest in businesses with attractive earnings multiples and with healthy balance sheets which are better equipped to withstand any potential economic setbacks.

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



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