

Gleneagle Asset Management Gleneagle Investment Fund (GT Momentum Portfolio)

January 2020 Review

The GT Momentum portfolio declined 9.31% in January, reflecting a frustrating three month start to the fund.

As we have noted in our recent commentary, market trends are very extended and equity valuations in general are stretched. Companies contributing to the performance of equity indices are very concentrated, representing a difficult and a dangerous time to be committing funds to large-cap companies. We remained cautious over the month of January and the spread of the Coronavirus created some sharp declines towards the end of the month that warranted that need for caution. In some cases, stocks gave up two-month's gains in a matter of days.

Opportunities outside equity markets have also been limited with little volatility in currencies, almost zero returns in bond markets and, despite equity market volatility lifting gold prices, its performance was still lacklustre in the context of the global risks.

Last month I indicated that our strategy (until these global trends present an appropriate entry) will be to focus on specific companies where we can work closely with management to help grow the business or add value through educating the market on the specific merits of that business. I highlighted three specific longer-term opportunities: Adveritas solving the US\$70 billion global ad fraud market with its world leading Traffic guard system, MGM Wireless with its all in one children's smartwatch and phone (Spacetalk) plus Helios Energy which is proving up its oil discovery in South West Texas.

A brief update on each.

Adveritas enjoyed a solid month where the competition of selling by one sizeable fund manager presented us the ability to increase our holding. Once the selling pressure lifted, Adveritas managed to jump as much as 52% with zero news flow, finishing the month up 31%. We are expecting a strong first quarter in 2020 with additional contract wins and see this as a core position given its world leading technology that is already delivering tier one global clients. We have been working with management to identify new customer opportunities and provide as much support as possible in helping to grow their global reach.

Helios Energy had a quiet month from an operational point of view with the current testing and flow measurement of the current well has persisted longer than expected. Such a shallow well still flowing naturally is a rare occurrence and while investors (and thus equity markets) have grown frustrated with the lack of progress, we are understanding of the longer-term benefits of understanding the geological composition of the area in order to improve drilling success in the future. Having said that, this month should see a pump added to the Presidio 141 #2 well where flow rates will give a clearer indication of the economics of the project. Given our views that this is a major new oil basin, we continue to be very excited and optimistic about the future of the Company.

MGM Wireless was extremely disappointing in January, having dropped 31% over the month due to a sales number that fell short of some fund manager expectations that instigated an abrupt sell down. In January, MGM announced that its recurring app revenue had jumped to \$109,000 in December – a jump of 30% from the prior month and over 500% in the year. This equates to an annual run rate of over \$1.2 million in recurring revenue. Spacetalk sales for the half-year had jumped by 127% to 25,000 units contributing to an 86% increase in

total revenue to \$7.6 million. Clearly the business is growing strongly and while some in the market had overly optimistic expectations, we continue to look through short-term fluctuations in sales to focus on the increasing retail and geographic distribution footprint and the rapidly growing wearables category for kids.

With the current market cap of \$28 million, this represents just 2x annual revenue signalling just how cheap the business currently is. This multiple should be 3 to 4x, especially given that the business is close to break even, contains recurring app revenue (unique amongst businesses selling consumer hardware) and supported by a profitable school's communication business.

It seems that the MGM is currently suffering from a similar fate to Adveritas where a small collection of sellers have influenced the short-term direction of the share price and, once completed, represents a decent opportunity for a solid recovery. The focus on releasing its next generation 4G watch in a few months, plus the expectation of adding a large telecommunications company to its distribution network, are all trigger points to reinflate its market capitalisation. We continue to work closely with MGM management in pursuing new distribution paths to increase sales of Spacetalk and with such a low valuation we see an increased probability of a return back to prior levels. Other notable large fund managers have been increasing their holdings in MGM, taking advantage of this over-reaction, so we are not alone in our views.

Naturally, I am very disappointed in presenting a return of this nature to investors this month. However, given the circumstances presented by the short-term fluctuation in the fund's value, I personally increased my holding in the fund. I will continue to increase my personal investment in the fund throughout 2020 and I would like to stress to investors that monthly reporting has a habit of bringing fund manager focus to be too short-term. Protecting month-by-month performance to save "face" with investors is a real influencing factor in this business that can hamper decisions and timing of when to make investments. This may help reduce month-to-month volatility in returns but impact longer-term performance.

While I am very conscious of the desire to see consistent monthly gains, particularly in an environment where equity markets have reached fresh record highs, there is a need to stay disciplined in the strategy and not be influenced by such headlines of record highs by taking unnecessary risk.

I strongly believe that the seeds planted in our currently small-cap companies will bear fruit in 2020 and while growth for the overall fund is yet to begin, I am satisfied that these still represent some of the most exciting potential this year.

Until next month,



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