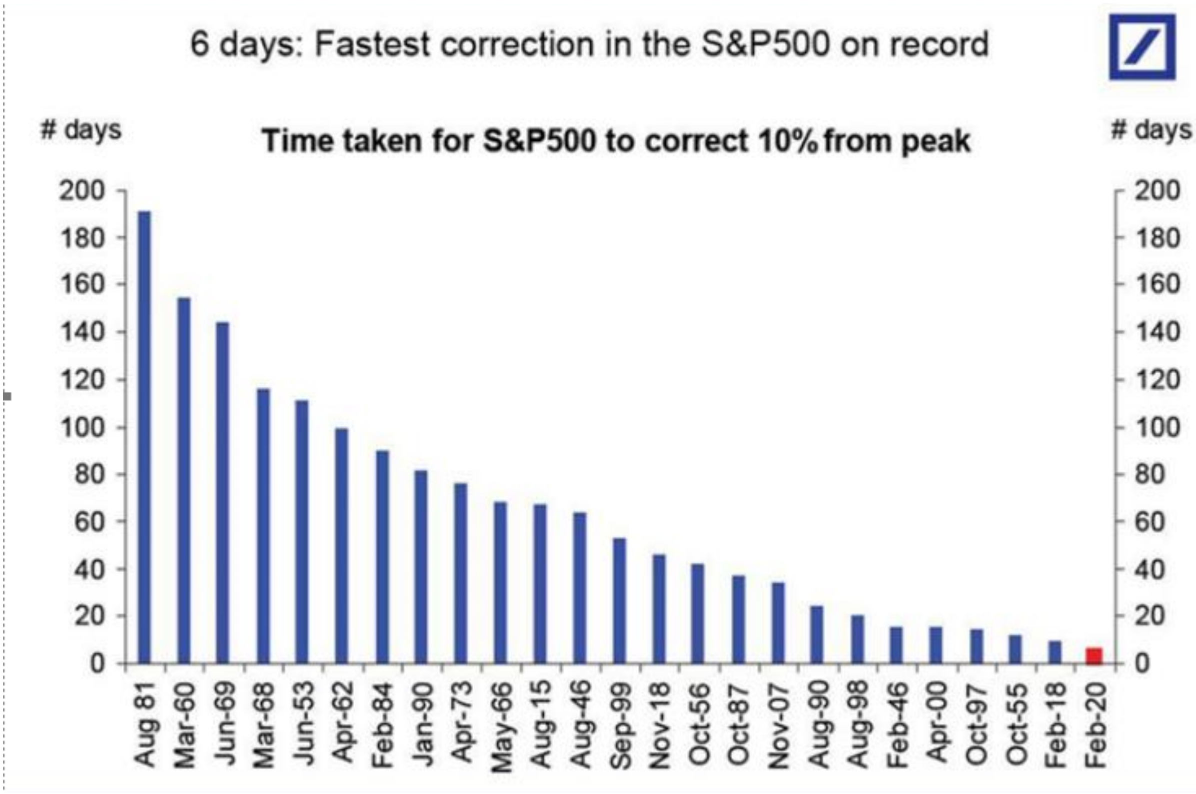
Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

February 2020 Review

The market rout in the final week of February had a meaningful impact on the fund, triggering a decline of 26.6%. Although we had forecast a market decline and our short positions had generated profits in the month, it was not sufficient to overcome the excessive (and in our opinion unwarranted) declines in our key long-term positions.

The coronavirus triggered the sharpest 10% drop in market history, taking just six days. This market drop was largely the result of a global equity market that was extremely mature and very pricey, and, as a result, vulnerable to any exogenous shock. We had noted in prior monthly commentary that this was a significant risk to equities, and we were reluctant to deploy any of the fund's capital to any large-cap investments that are directly influenced by market sentiment. We were always worried that any profits generated from the equity market rally in the past three months could be unwound very quickly. As it turns out, equity markets in some cases have given back more than two years' worth of gains.

Of the fund's capital, a portion is always set aside to hedge/short sell when risks of a market decline present themselves. The sudden and rapid nature of the decline (as the chart below shows) means we were not as aggressively short as we would have liked but these positions still managed to produce a 2.6% positive return for the fund.



Address: Level 27, 25 Bligh St, Sydney NSW 2000 **Phone:** +612 8277 6600 wwwwww.gleneagle.com.au
ABN: 29 103 162 278 **AFSL:** 226199

The aggressive nature of the decline triggered not only market panic but also consumer panic (as reflected in the retail behaviour of consumers in supermarkets) and a widespread breakdown of traditional relationships.

As an example, gold prices jumped to US$1691/ounce before the equity market sell off but once the panic set in – a normal safe haven asset – dropped back to US$1561/ ounce or 8% and unwinding the entire gain for the year. Silver prices fared even worse with prices declining 13% from 6-month highs to 9-month lows. We were fortunate enough to take profits on our long gold positions on the move to US $1691 prior to the sharp reversal.

We noted in the last two month's that gold was an asset we expected to see appreciate significantly and we still view this to be the case. The performance at the end of February highlights the disconnect and breakdown in the rational behaviour of markets during periods of panic.

During such periods of panics typical market relationships break down and correlations rise. After all, investors sell what the can, not necessarily what they want to. As a result, many markets, sectors and stocks can be unfairly impacted under such circumstances and there can be widespread selling.

Our philosophy has always been to deploy capital into those companies where we have confidence that the underlying business will grow substantially over the next 1-3 years, where we have excellent visibility, contact with management and operating in a globally significant industry. At times markets will disregard the opportunity, the value and the growth of these businesses and misprice them due to external factors. This is the nature of "listed" investments and February was one of those periods as a result of the wider market panic.

The main impact on the fund's performance was the drop in Helios Energy (HE8). Here is a company that possesses the same team from Aurora Oil and Gas that successfully discovered oil in Eagle Ford region of Texas and as a result of the discovery sold the business to Baytex for US$2.4 billion. Helios was their second venture into Texas, this time looking to uncover a new oil basin in a region of Texas that had never produced oil. When I first became involved with the Company in 2017, this was a high-risk investment given oil was yet to be discovered in the region. Since then, Helios has drilled three wells, proving oil exists in the region. Additional land purchases increased the stranglehold of the Company on the area and the latest well – a seven stage frack – has been left since September to flow naturally before being placed on a pump. Once on a pump, a better understanding of daily oil production will be attained as well as directing the next series of wells to be drilled. Helios is now significantly de-risked as a result of actual oil being discovered, flows to date being commercially attractive and an increase in land leases in the area increases the overall value of the discovery.

So why did the share price drop 40% from 18.5c to 11.5c in February? It's because of the broader market panic over coronavirus fears where several investors sold very aggressively. Does this market panic over coronavirus change anything to the Helios oil discovery? Not at all. As a result, we have started to see Helios (and other stocks) begin to recover In March. Our view is unchanged that Helios is in the process of uncovering a significant new oil basin in a previously unexplored region of Texas. Until actual evidence from future drilling and oil flow testing prove otherwise, share price volatility in these core holdings will hold a lower influence over our decision-making process.

We also used the market volatility to further increase our exposure to Adveritas where additional contract wins with Nasdaq-listed leading gaming company Glu Mobile and global mobile advertising agency Lemmonet. We continue to personally work with management directly on securing more trials of TrafficGuard with major global telecoms and international media companies. Directors too have been taking advantage of the share price drop by buying additional shares.

With regard to the broader market, we are pleased to see this pullback occur in line with our view of not committing capital at valuations that represent zero value. Following this pullback, a number of exceptional opportunities have presented themselves to purchase some large-cap companies at levels not seen in several years on very attractive valuations. I strongly believe that this represents some very favourable entry points that were have not been available for some time.

Naturally, I continue to express frustration on the basis of the raw return of the fund. I have personally invested over $1 million in the fund and continue to increase my investment as the GT Momentum Fund is my primary investment vehicle.

Until next month,

Gregory
Tolpigin
Portfolio
Manager
Gleneagle Securities (Aus) Pty Ltd