Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

June 2020 Review

The GT Momentum Portfolio gained 0.11% for the month of June as we turned very conservative over the month. Following a strong recovery in global markets from the March lows and our aggressive positioning, we viewed carrying this risk throughout June was too high.

I noted in last month's report that we would continue to remain conscious of the potential market risks during these unprecedented times with generally unknown future outcomes. Our move to a more conservative position protected the portfolio earlier in the month when the Dow Jones Industrial Average declined by 1800 points, its 4th largest one day points fall in history. In fact, such are the huge levels of volatility being experiences, that seven of the largest falls in history have come in 2020.

Throughout June, headlines have continued to be concerning for equity markets. Although we remain of the view (as expressed in recent months) that a huge technology bubble is forming, there will be periods of extreme volatility and economic stumbling blocks. It is important that during such periods the portfolio is sufficiently in cash or hedged so as not to be overly impacted and that it continues to head in a positive direction, no matter how tiny those gains will be. We are aiming for a degree of consistency in the returns irrespective of the broader market direction.

While equity markets finished the month strongly, increasing cases of Covid-19 across the USA triggered Apple to close some 60 stores and other retail businesses to take additional precautions. Combine this with a non-market friendly Joe Biden leading in the polls to be the next US President (he has repeatedly indicated that the Trump tax cuts would be reversed) and we have the ingredients for a very uncertain and uneasy investing environment.

As Covid-19 cases have reached record highs in the USA, so too has the Nasdaq with many of the stocks that we had purchased during the height of panic, now looking very stretched and no longer representing any value or attractiveness. With the universe of opportunities narrowing over the month, we have found ourselves raising cash levels (by taking profits on our main technology holdings) and hedging the remaining portfolio constituents. With individual stocks having share prices that are extended and a backdrop of increasing concerns, it is a time for caution. We have also begun to add new positions that will profit from any increases in volatility as we see this as a low risk entry point given the complacency that has overcome investors in recent weeks.

Over the month we had considerable success with positions in the gold sector as the gold price continued to climb helping drive the share prices of producers and explorers. We had positioned small amounts of the fund's capital in in some promising but tiny domestic explorers undertaking drilling activity. Interestingly, the announcement of drilling underway would create some market excitement in the lead up to those results being made public. Successful results can easily see some of these companies double in value and Manhattan Corp (MHC) and Metalicity (MCT) were the two that we successfully captured.

We still hold our two main small cap holdings. Adveritas (AV1) conducted another capital rising in the month sending its share price from 11c to 8c. This was extremely frustrating as management had noted that their cash position would sustain them well into 2021 and this raising came just weeks after an ill-timed one at the market lows (despite my objection to management and advice to wait several weeks for better prices!). A frustrating exercise that cost the fund several percentage points but should provide a benefit when it does recover in latter months.

The rise in the fund’s returns over the past two months has come in the absence of any recovery in either Adveritas or our other main small cap holding, Helios Energy. We are of the view that imminent news flow with either company will play a significant role in adding to fund’s performance. As frustrating as it is, it continues to be a waiting game until such an event occurs.

Due to our cautionary views and the inherent complacency of investors (that were bearish in April and May) we are in a conserving capital mode for the next month and are very defensive in our approach to adding new positions to the portfolio. We will remain patient in waiting for the right formations and indications to add risk back to the portfolio.

Until next month,

Gregory Tolpigin

Gregory
Tolpigin
Portfolio
Manager
Gleneagle Securities (Aus) Pty Ltd