

Gleneagle Asset Management Gleneagle Investment Fund (GT Momentum Portfolio)

April 2021 Review

The GT Momentum Fund drifted 0.1% lower last month as we deployed fresh new capital that had been injected into the fund. This fresh new capital came from a separate Gleneagle fund that was closed, so I welcome those new investors and look forward to a successful journey ahead.

This new capital effectively doubled the size of the fund enabling us to take advantage of a greater number of opportunities so although it's immediate dilutionary effect on our existing portfolio hampered short-term performance, we are excited to put this capital to work in a range of new investments that all feed off the main thematic we have been focused on.

For the purpose of new investors let me recap our key thoughts and ideas for 2021 and beyond and where we are positioned in the fund.

There are some very clear thematic that I see we must be consistently exposed to for 2021 and potentially beyond as not only do they still present an enormous opportunity but are likely to be multi-year trends;

- 1) The ongoing opening of the global economy and the effects of Government stimulus on rising interest rate expectations (bond yields) and the benefit this will provide to the global banking sector
- 2) Zero interest rates in Australia and the surge in mortgage demand
- 3) The renewable energy revolution and its demand on resources to build electric vehicles, charging networks, solar and wind farms as well as nuclear power
- 4) Broad Government spending on common infrastructure (roads, bridges, railway, buildings) in an effort to lower employment and lift economic growth

Of these it is really number 3 and 4 that still dominate the outlook. The banks (especially in the USA) have enjoyed a sizeable recovery and while there is still more to come, in the near-term much of the easy gains have been made.

The long-term demand for raw materials is likely to be far greater than most people expect given it takes years to build renewable energy projects, electrical charging networks and replace the world's transportation vehicles. Everything from rare earths to copper to tin to steel and nickel will be in ever increasing demand and the supply side reaction to meet this demand will take some time to eventuate given the lack of investment in new mining projects over the past decade. Moreover, many nations are now looking to secure reliable resource supply chains outside of China which only supports the upside potential in prices and the value of many western mining projects and companies.

As I write this note I can see copper has traded to a fresh new record high. A report from Bank of America last week noted that London Metal Exchange inventories for copper stand at just 3.3 weeks and are at their lowest level in over decade. They highlight that if scrap metal (recycled copper) does not meet supply side requirements prices could double over the next three years. We believe this is a significant risk and are well positioned to benefit.

That is why the current primary objective of the fund is to have a longer-term exposure to this

thematic where we profit directly from rising commodity prices (by holding direct futures positions), the profits of producers increasing (by having sizeable equity positions) and to the increase in mining investment to bring new mines into production (by trading highly prospective explorers).

In the case of copper the fund has 12% weighting to copper futures, shareholdings directly in copper producers OZ Minerals and Freeport McMoran (US-listed) and at the exploration end in Taruga Minerals which only last week announced drill results of its South Australian project where a new copper discovery looks to have been discovered. We built a position prior to these results and have added to them since given that only 5000m of the 30,000m drilled has been released so far. With a market cap still under \$50 million, further encouraging drill results should see a more aggressive re-rating.

We have similar bullish views on other industrial commodities and thus have exposures to silver, nickel, iron ore, steel and lithium.

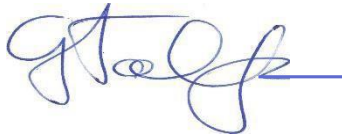
Another area that has attracted a lot of market attention is hydrogen and several of the locally listed hydrogen stocks have enjoyed some strong appreciations. In the attempt to meet Australia's energy needs, hydrogen is being touted as a potential solution especially in the use of "green" hydrogen (created without the use of fossil fuels). The fund took advantage of investing in a pre-IPO round in Infinite Blue which is due to list on the ASX in the second half of this year, with the Company aiming to becoming Australia's first commercial green hydrogen producer via its Arrowsmith plant in WA. A \$2.1 billion binding offtake agreement has already been signed with Hydrogen West. We invested at a very attractive valuation and are excited not only for the IPO (and the increase in valuation) but the potential after IPO given the excitement that continues to surround the hydrogen sector.

While we are on the topic of solving energy problems we also invested in the Energy World Corporation (EWC) as part of the underwriting of the entitlement offer. This represented a very attractive entry opportunity into a profitable business that is severely undervalued relative to not only the money invested so far on its LNG facilities and power plants in Indonesia and the Philippines but also to the forecasted earnings profile. Our invested valuation of \$161 million compares with net assets of \$982 million and currently has \$1.75 billion of assets under construction (this is construction cost value and not the market value after the assets are commissioned). Completion and commissioning is expected over the next 18-24 months and we expect the market to begin repricing the company in the near future as its power plants come into production.

A final word on our short-term trading strategies, which continue to produce consistent profits but over the past few months has been limited in the extent to which it has been able to contribute towards our monthly returns. Markets have been lackluster, choppy and very inconsistent. Unfortunately, this isn't the environment where we can report anything meaningful has changed given that not only is the ASX 200 still hovering at similar levels to several months ago, but currencies and precious metals seem to have also hit the "snooze" button. As an example the Australian dollar is trading just shy of 78c, a level it was trading at in January. The past four months have seen the local currency remain in a 2 cent range with many other markets fairing the same tight and sideways price action.

However, with copper hitting new record highs and our core thematics continuing to play out in the background, I am encouraged by the outlook for our portfolio and markets finally reacting accordingly.

Until next month,

A handwritten signature in blue ink, appearing to read 'GTolpigin', with a horizontal line extending to the right.

Gregory Tolpigin Portfolio Manager
Gleneagle Securities (Aus) Pty Ltd