Gleneagle Asset Management Limited
Gleneagle Investment Trust (Equity Fund)

December 2021 Review

Unfortunately, our industry has also suffered the same difficulties many others have with understaffing and delays in supply chains. Last month's note wasn't attached to the NAV pack and hence, has been combined with this month's note.

For the months of November and December 2021, the Fund gained a net 3.83% in what was a very tumultuous end to the year as the Omicron COVID variant would affect the global recovery.

In recent months we noted that markets were beginning to carry greater risks as the early tailwinds behind markets in 2020 and the first half of 2021 were now shifting to headwinds and that, in itself, would have to result in a different level of performance moving forward. We noted that rising interest rates, volatile energy prices and inflationary pressures are now uncertainties that markets have to deal with and to this list we can now add new COVID variants which can naturally spring up at any time and are impossible to predict.

We are pleased to be ahead of the curve in identifying these market risks and have been adjusting the portfolio and our strategies accordingly to only be focused on those areas which still have some longevity to their tailwinds. Our long-held thematic of decarbonisation has not runs its course and opportunities still exist within this space, while a few months ago our focus on rising energy prices is still justified as oil prices hover at US$80/bbl bringing about another round of profit potential.

The loss this month was solely the result of Helios Energy options expiring at the end of December 2021. When the Company first listed a series of "free" options were awarded to IPO investors with a strike price of 2c while another round of options were granted at 10c – also with a December 2021 expiry. The nature of both options series being "in the money" meant many investors during November and December were either converting their options and selling on market to crystalize their paper profits or alternatively selling just enough Helios shares to pay for the options conversion. This led to significant supply pressures in the market place and why it has experienced one-way traffic despite a robust oil price and no negative news. We expect that once this selling pressure abates shares will spring back aggressively as we quickly approach the beginning of a major drilling program to supplement the prior successful wells.

The emergence of the "metaverse" as the next major thematic to grip markets is one area we are paying close attention to in 2022. The metaverse is the combination of virtual reality and the "internet 2.0" to create virtual worlds that run parallel with the real world and provide endless opportunities for interaction and new found technological capabilities. Currently the main adoption of the metaverse is across gaming, however, it is rapidly gaining traction and value across other industries.

Facebook changing its name to Meta and deploying 20% of its workforce (the equivalent of 10,000 people) is probably the strongest indication of its future potential.

As a child who grew up hating gaming and who preferred enjoying spending time in the real world being active with my body (rather than an avatar), the metaverse in a simplistic form seems ridiculous. Virtual worlds like Decentraland and Sandbox have seen plots of land sell for over $2 million, which many would think is absurd. As a parent I ensure that my household has limited "device time" and more outdoor time but the reality of my nine year old daughter already using her own laptop for school, it is clear to see that the next generation(s) will certainly experience a very different life to the one many of us have experienced. As an investor, this clearly represents an opportunity, with the potential for this to be the next major growth phase of the internet and the way many will communicate and interact in the future.

Depending on your belief of how much of the metaverse will penetrate the lives of the broader population will naturally direct you to where you would invest for this future growth. If you were adamant this is the future and the way the world will operate then purchasing land and the crypto currencies of these virtual worlds would be your investment destination. I am clearly not there yet, nor willing to go out the risk curve for something still so early in its infancy.

Where I do feel comfortable investing and indeed see opportunity is where the real world and the metaverse overlap – content and infrastructure. And this is where I see the biggest risk adjusted profit potential arising. Nothing in the metaverse can operate without infrastructure. Without virtual reality hardware, chips, graphics and so on, the metaverse cannot operate. Companies such as Nvidia, Meta (via Oculus VR headsets), Unity Software are all businesses that are central to the metaverse but also have real world applications and businesses that do not solely rely on the metaverse being the next dot com boom of the 1990s.

My favourite metaverse infrastructure business, though, is Matterport and the Fund has been looking for the right entry opportunity following a sharp fall from US$36 down to US$16. The fall has primarily been the result of a change in its revenue model that improves the long-term outlook but unfortunately means some short-term pain.

Matterport has enormous opportunity in both the real world and the metaverse. Matterport uses 3D cameras and virtual tour software to digitize any real world asset. It can be done by individuals on private projects at home right through to industrial factories. It is worth pointing out that everything in the real world will have to be 3D digitized to be able to be accessed in a virtual world. Matterport is the leader in this space having mapped 100 times more area than all their competitors combined. Moreover, management believe they have only penetrated some 4% of the total market, suggesting enormous runway for growth over the next decade.

However, it is the very basic applications into a virtual world that really makes Matterport appealing. Its virtual software is already extremely popular amongst real estate agents where mapping a home for sale allows prospective buyers to tour the house and truly understand dimensions, outlook, structure etc without physically visiting the property. Something that photos and video just don't capture.

I can easily see this extending to holiday destinations where consumers will be able to inspect potential holiday destinations in a virtual setting before committing. Just use a set of virtual reality goggles and step into the hotel, apartment or house off Airbnb and take a look around. Walk down by the pool, out on the beach and see "virtually" first-hand what this destination looks like and determine whether your real world self would holiday there.

Add the need of businesses to map out factories, offices and even cities before renovations or major expansion initiatives and it's clear that boundless applications exist for 3D mapping both in the metaverse and for the real world.

This is where we are currently most comfortable investing in this new thematic at the content and infrastructure level. For content, companies like Disney and Roblox will play a significant role in the shaping the Metaverse just as they have and continue to do so in the real world.

We were amongst the first to really adopt and foresee the electrical vehicle revolution, having invested in rare earth, graphite and lithium stocks as early as 2012. Over the past decade we invested actively rotating around the thematic depending on which specific ingredient was most in favour. That rotation avoided the many corrections and collapses that littered the journey and our strategy for profiting from the metaverse’s growth will be a carbon copy of that.

In 2022, markets will be choppy as they battle many conflicting factors (like rising interest rates) and while a few sustainable thematics remain, the remainder will come and go and an active approach will be best suited to profit. As a result, the investing time horizon in an increasingly volatile environment narrows substantially. From years and months to days and weeks. Volatility in markets just to start 2022 is a perfect example of how quickly investor sentiment can changes. Almost as quickly as Sydney weather over the summer!

We love active markets and our strategies are well suited to this environment.

Until next month,

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