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asset management

Gleneagle Asset Management Gleneagle Investment Fund (GT Momentum Portfolio)

June 2021 Review

The GT Momentum Fund eased 4.6% in June, but finished the financial year with a gain of 30.5%. This compared with a gain of 24% for the ASX 200. The final two months of the year proved to be frustrating and dragged down the overall return for the year, which had stood closer to 50% - a reflection of the outperformance that we can generate when market opportunities are favourable.

While the Fund did not finish the year on its high point, it nonetheless did achieve the objectives we generally hold – outright positive returns irrespective of market conditions and, in positive years, to register outperformance of equity markets. It is worth pausing and reflecting on that point and appreciating the significance of having these as our goals. Naturally, on the journey towards those annual goals, there will be volatility but as a trader for the past 20 plus years, these have only been fleeting, lasting two to three months on average.

While the return for June isn't the way we would like to cap off the last month of the financial year, a high level of tax related selling did artificially depress several of our holdings, only for them to recover immediately in the first few days of July. Positions like American Pacific (ABR) has already recovered 18% in the first few trading days of July. A2 Milk (A2M) has gone up by 17% and BUBS Australia (BUB) by 13%. Energy World Corporation (EWC), while more thinly traded ,has recovered 9%. Tax loss selling does have a brief but significant impact on stocks.

So the first question I am sure many investors are keen to ask is whether we expect another similar performance from the fund during the next financial year? Typically, much of this is governed by the opportunities that markets present to us, which are obviously out of our control, but I do believe that between our unlisted investments coming to market, combined with the broader de-carbonization thematic still playing out, it possible and is certainly our goal.

The near-term frustration continues to be the reluctance of the broader market to provide any real meaningful opportunities. Yes, we have pockets of the odd stock doing well, but collectively it is very messy market which has limited not only the consistency in our trading returns but the confidence with which we can invest larger amounts in the winning trades. Low levels of market liquidity and volumes also reflect the holding pattern in many markets.

Other asset classes have too been caught in this directionless, whippy, range-bound activity. Copper prices retreated 8% last month, Gold and silver prices are l at precisely at the same levels they were at in July 2020, while soft commodities and currencies have been very similar with 2021 producing almost no change in price since the beginning of the year. There have been very little places to extract returns.

A very interesting statistic was put forward to me this week. There have been 1080 new 52-week high made by the NASDAQ Composite since 1984. On those days an average of 50% of stocks advanced on the day. This week only 31% of stocks listed on the exchange advanced, representing the lowest of all the 1080 days. This behaviour does not exude confidence in the sustainability of the current slow but albeit advancing trend. At any given moment – those 31% of stocks begin to stall – and the broader market could easily retreat. Not in a big way but easily a case of wiping out three months' of gains in just a matter of days. It's been a running issue over the past eight months.
So while we are extremely keen to have the fund return back to new highs as quickly as possible, we need to also be wary of not taking risk at the wrong time and in the wrong places.

One area where we have had some success has been in the revival of several depressed companies where the potential for corporate action is beginning to support and even inflate share prices. Private equity firms and pension funds are struggling to find value and yield in the current and sustained world of low interest rates. Interest is beginning to circulate in several depressed businesses that have suffered as a result of Covid, poor management or industry issues but still have a strong operation and brand presence. This week's takeover offer for Sydney Airport is a case in point, while others like A2 Milk, IOOF and AMP arguably have values worth north of their current share prices with businesses that are well ingrained in their respective industries. We currently hold A2 Milk and BUBS on this basis and are carefully watching AMP and IOOF for re-entry opportunities.

On the exciting front, our investment in Infinite Blue – Australia's first and most significant green hydrogen project – achieved further milestones. We invested in the pre-IPO stage at a valuation of $100 million (it was oversubscribed within 22 hours) when an offtake partner for stage 1 (25 tons per day) had been secured. Since then they have secured a partner for stage 2 (an increase to 150 tons per day) with one of the world's largest global energy players. This certainly justifies the 100% uplift into the IPO raising later this year and makes our investment at $100 million attractive when considering ASX listed green energy hopefuls like Provence (PRL) currently trade at a valuation of $170 million with no JV partners. We were also able to negotiate an increase our investment by an additional 50% (at the $100 million valuation) so it now stands at 8.6% of the fund. IPO is currently forecast for October with details of this (and the Stage 2 partner) to be released shortly.

In other developments, COSMOS Capital – a bitcoin miner – is due to list on the NASDAQ in roughly six weeks. Despite the volatility in the crypto currencies, COSMOS continues to trade at 75c a 300% uplift from our convertible note will convert to shares at (25c) upon listing. This has not yet been valued in the fund given we only convert to stock at IPO.

Finally, as I write this note, our pre-IPO investment in Locksley Resources) which we highlighted in last month's note) listed today with a 15% gain. We are expecting further drilling results in the coming month and for a JORC compliant resource in 2021, which should see the stock re-rated strongly.

We produced a strong return for 2021 and although the final two months didn't end as well as we would have liked, we have started July well. Markets right now are unexciting but we are well positioned with our unlisted investments to bear fruit later this year and have 20% sitting in cash waiting for the right time when markets ready themselves for the next move. In the meantime, our current holdings continue to rebound positively.

As I noted last month, I will also be holding a monthly webinar for those interested in understanding our outlook and portfolio in more depth and to ask any questions

Until next month,

Gregory Tolpigin Portfolio Manager
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