Gleneagle Asset Management Gleneagle Investment Fund
(GT Momentum Portfolio)

September 2021 Review

The GT Momentum Fund gained 1.2% in September against a backdrop of weaker equity markets, as many of warning signs we highlighted over the past two months surfaced. In addition, the Fund also benefited from the travel re-opening trade and being exposed to rising energy prices which is rapidly evolving as a major global concern heading into 2022.

The past few months have been frustrating for us as global indices climbed slowly higher underpinned by just a handful of mega-caps that were substantially overvalued, while other stocks experienced heightened levels of volatility thereby reducing the number of opportunities available to profit. Those leading mega-caps have come crashing back to earth (with likely lower levels to reach) justifying our stance that markets were, and still are, vulnerable to "climbing a stairwell, but falling down an elevator shaft". That is, in just a matter of days or weeks, several months' worth of gains can evaporate. Markets are now littered with examples of stocks that reached record highs in August but are now trading at their lowest levels in 2021.

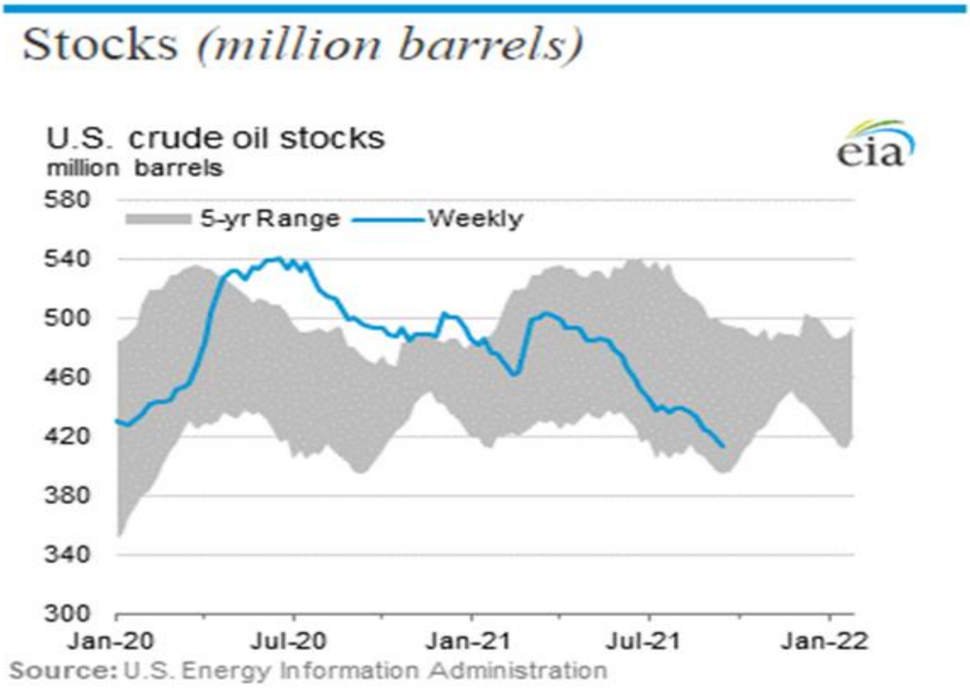
In the month of September, we benefited from index put options that helped cushion longer-term holdings in the portfolio and our positions in the locally listed travel stocks (Webjet, Flight Centre, Rex Airlines that we noted in last month's report as having potential to rally as the focus turns to vaccination rates, travel restrictions easing and summer holidays) rose over 20% during the month. We have since exited the trades with the opportunity now being crystallized.

This market correction and its various causes has finally triggered one of the main issues circulating the global economy for some time, but to date had been disregarded by financial markets as global central bankers have tried to convince us otherwise – inflation. Central bankers the world over have told us that inflationary pressures are a supply issue as a result of Covid disruptions and in time will return to normal. For a while, markets believed that to be true, however we never did and now markets are beginning to reflect this unlikelihood.

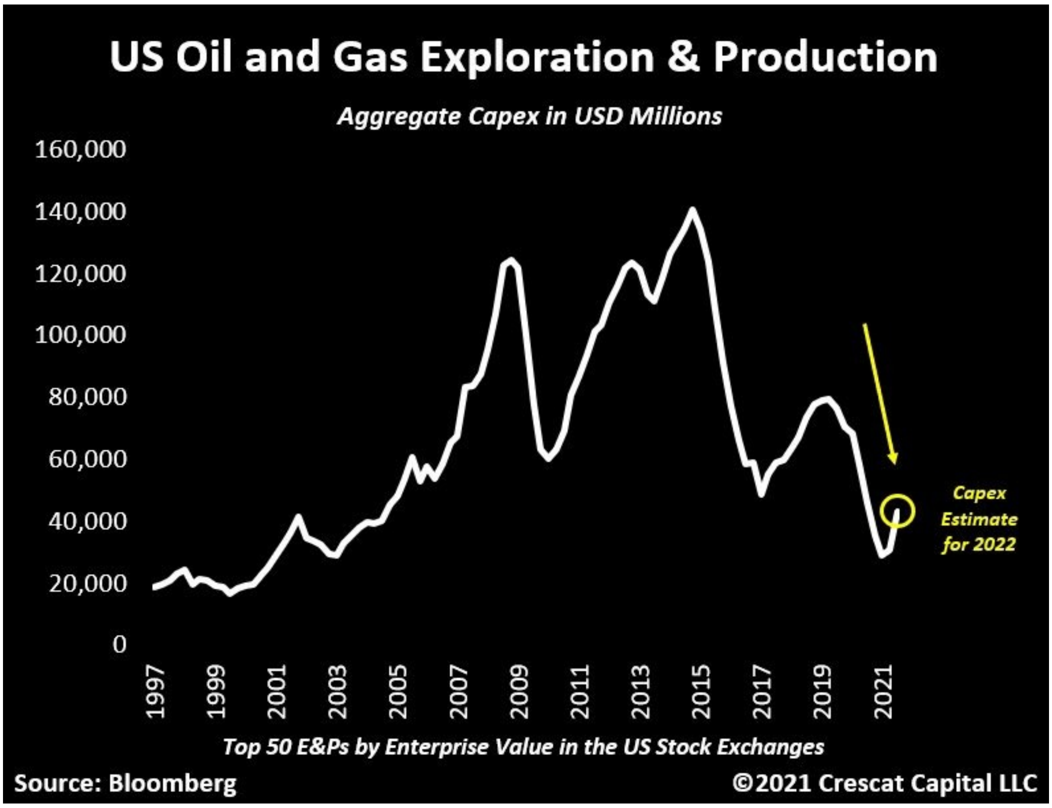
To fully appreciate the inflationary risks that are growing, it is first important to understand what is driving inflationary pressures and how long they will persist. Fingers are being pointed at supply disruptions due to Covid, but it is more than that. A lot more. And this is where the ramifications for consumers, Governments, central banks and markets in general will be huge. And I am glad to say the Fund is positioned well to benefit.

Inflation is, and will be fueled for the foreseeable future, by rising energy costs. We have been big investors in the renewable energy and de-carbonization thematic. It's been a trend I have been investing in since 2015. However, the world cannot experience such a rapid revolution without consequences. Newton's Law points out that any action has an equal opposite reaction and in this case, the world's love affair with climate change has meant that much of the world's existing and traditional power sources have been decommissioned before there is sufficient consistent renewable energy to plug the gap. The consequences are rapidly rising energy prices with Europe experiencing its highest natural gas prices on record, ten UK energy providers declaring bankruptcy, rolling blackouts across China with factories on reduced operating hours, record high thermal coal prices and the lowest level of investment in fossil fuel supplies in years. Even clean fuel sources such as uranium is being shunned in energy intensive places like Germany and California where the Diablo Canyon nuclear reactor is due to shut shortly but supplies 9% of the state's energy requirements.

As renewable energy sources struggle to meet demand (droughts in China impacted hydro power stations, historically low wind levels limited wind farm power generation in the UK), national reserves of fossil fuels have also been depleted to historically low levels. The chart below shows US crude oil stock levels versus their historic five- year range and its clear to see that stockpiles are about to hit their lowest point in years.



Meanwhile investment in oil exploration and production into 2022 is at its lowest levels in almost two decades!

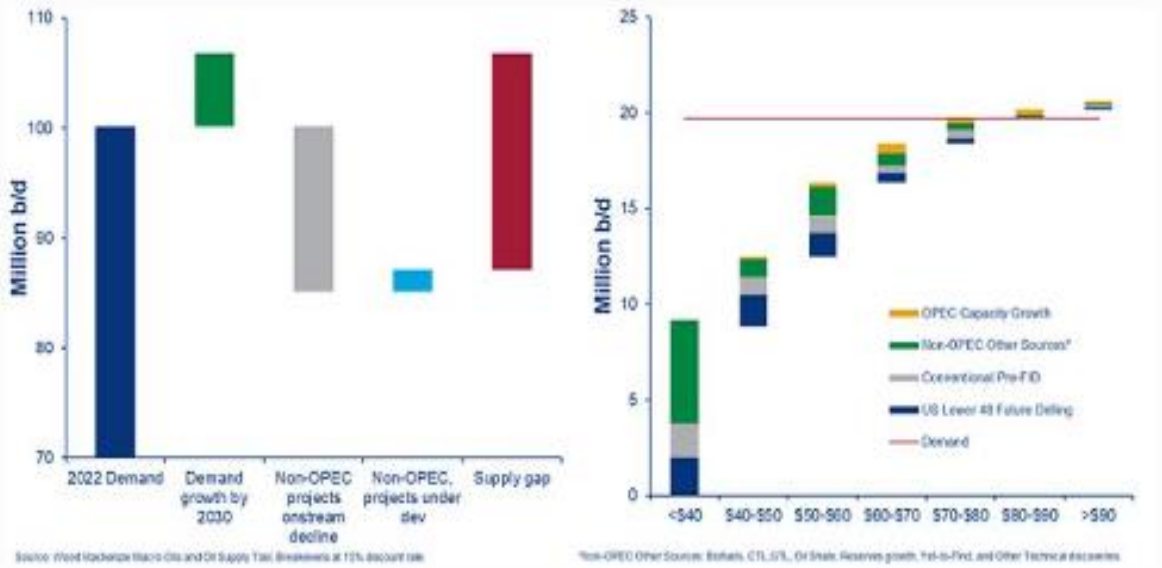


No surprises that we are staring down the barrel of a genuine energy crisis, some of which you may have already heard about. Heading into a Northern Hemisphere winter and the situation looks very troublesome.

Given oil and energy feeds into almost every product in the known universe we can quickly ascertain that low levels of exploration and production, combined with unpredictable and extreme weather patterns could fuel an energy crisis and thus an inflationary crisis throughout 2022.

In fact, the supply gap until 2030 is significant as the chart below shows. The red vertical bar represents a probable supply gap of near 20 million barrels per day out of demand of near 110 million barrels per day. The result is substantially higher oil prices.

Mind the gap

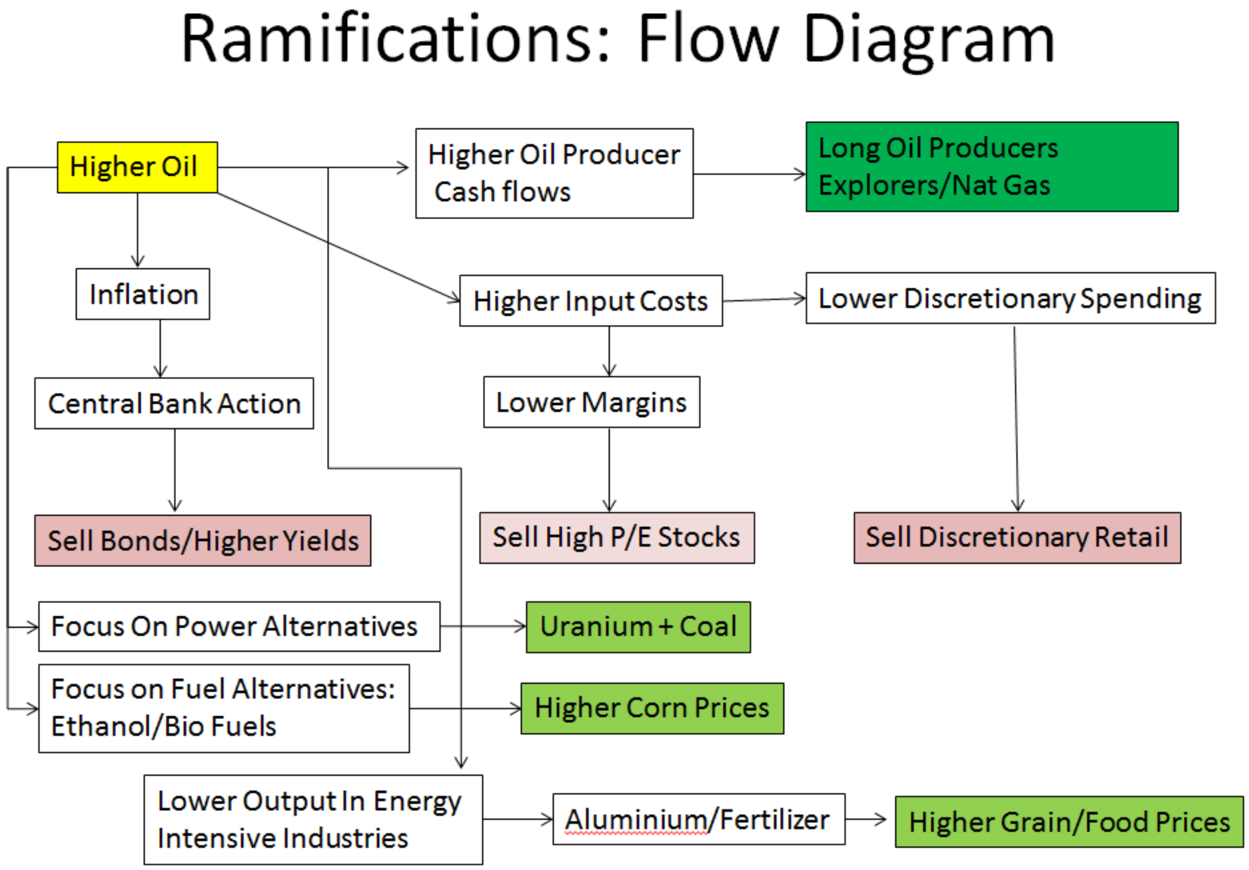


The 2030 'supply gap' (left) and the Brent breakeven price of the new volumes needed to fill it WOOD MACKENZIE

So as energy prices continue to stoke inflation, wages are also on the rise as tight labor markets are creating shortages while minimum wages are being increased across the globe (rightfully so). Margin pressures for businesses are clearly underway and we are therefore likely to see earnings downgrades for many companies battling with rising costs, labor shortages and limited supply.

The biggest concern though is that central banks will be somewhat powerless to stop inflation. Given that the significant portion of an energy crisis has to do with under-investment, intermittent renewable energy sources, supply gaps and extreme weather conditions, rising interest rates will have limited effect in solving any of these issues. They will negatively impact employment levels and central banks will need to choose between two “necessary evils” – high inflation or high unemployment.

Below is a quick flow diagram I constructed to really highlight the global impact and the action points for the fund as a result of higher energy prices discussed.



Based on this diagram, there is one very clear point to make. Firstly, for the first time in my experience, the epicenter of market influences is not the Federal Reserve and US bond markets (that control the flow of money) but rather energy prices. This changes the landscape completely in which we will be operating and the levers pulling and pushing financial markets will swing wildly. As a result, we will need to remain reasonably active as money may not necessarily leave equity markets in droves, but rather rotate its way around various sectors jumping on to the latest "fashionable" investment idea and exaggerating that very trend before losing momentum just as quickly. A perfect example is uranium recently, and solar power earlier in the year, and even last month, the aforementioned locally listed travel stocks.

The portfolio is well positioned to benefit with our combination of listed and un-listed investments focused on energy. Helios is perfectly placed in Texas at a time when oil prices are trending higher, while our pre-IPO investment in Australia's first green-hydrogen investment is benefiting from the accelerated push to cleaner energy sources.

The past month was largely absent on the news front in our other holdings with bitcoin miner Mawson Infrastructure (formerly Cosmos Capital) conducting a $40 million capital raising at $12 (our bonds convert at $3.40) as part of its NASDAQ listing. Expectations were for a September listing, but it seems in a post-Covid world, many now blame Covid itself for moving at an even slower pace. I will be very surprised if Mawson is not listed by the end of October.

Until next month,

Gregory Tolpigin Portfolio Manager
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