

Gleneagle Asset Management Limited
Gleneagle Investment Trust (Equity Fund)

April 2022 Review

The Equity Fund declined 3.25% in April as equity markets experienced sharp declines over fears over inflation and central banks rising rates.. The Nasdaq Composite index declined 13.3% to post its worst month since October 2008 and the S&P 500 plummeted 8.8% for its worst performance since 2020.

In the very early stages of April, we exited all of our positions except for our core group of cherry-picked mid/small-cap companies and moved to cash to shield ourselves from the high levels of volatility and uncertainty gripping markets. Even those sectors in strong trends, such as energy and other commodities (lithium, rare earths), reversed in the month of April, giving little place to hide.

As noted last month, we are concerned of the impact of rising rates on the global economy and in April the International Monetary Fund downgraded its global growth projection to 3.6% for 2022 and 2023. We still think this is too optimistic, especially as the Federal Reserve is looking to embark on a series of 50 to 75 basis point rate increases and the current average 30-year fixed mortgage in the USA has hit 5.5%. The RBA itself began its rate hiking cycle this week with a 25 basis point hike and, even in anticipation of this rate increase, the domestic housing market has already experienced a slowdown.

As markets continue to adjust to these headwinds, the opportunity lies in identifying where value emerges and of course which businesses over the longer-term will not only survive but thrive. Many tech stocks, which have boomed since 2020, have lost 80-90% of their value which could begin to present extraordinary opportunity in due course. For example, in the post-2000 tech wreck, Amazon lost 90% of its value only to emerge as one of the best performing stocks of the past 20 years. In this cycle stocks like Teledoc which provides online doctor consultations removing the need to visit a doctor's surgery peaked at \$300 in 2021 but last week dipped under \$30. Similarly Zillow, the leading online real estate advertising platform (equivalent of realestate.com.au), peaked at over \$200 but this week traded sub-\$40. Many more examples exist of such enormous declines and even household names like Netflix and Disney have plummeted 70% and 50% respectively.

We have avoided the routs in these companies but do believe the potential for long-term value may appear in the middle to latter months of 2022 as we gain some clarity over where the earnings trough will be. Typically individual stocks will peak or bottom before the overall index does, and the index itself will pre-empt the economic peaks and troughs. Therefore, while indices are still in retreat, we will begin to assess individual companies to find those that have the potential to not only bottom first but have the greatest ability to recover.

In the meantime, our immediate interest is with Helios and its drilling program at the Presidio project in Texas. The goal has been to reach the primary target of the Ojinaga Formation at approximately 7,000 feet but the well will be drilled to a maximum 10,000 feet and then test multiple formations at various levels. All the wells so far drilled into the Ojinaga Formation have produced oil so we are expecting positive results from this latest drilling campaign. Furthermore, Helios currently trades at an equivalent price of US\$3000/acre while sales of land in the broader Permian Basin in Texas during the past 12 months have occurred in the range of US\$15,000 to US\$60,000/acre presenting significant upside if Helios can further prove the size of its oil project.

Elsight, the developer of the Halo high security communication device being used within drones to fly beyond the line of sight to deliver packages and for first responders, frustratingly rallied from 36c to 52c over January to March only to give those gains up last month. The decline was primarily on the back of a block trade at 35c that allowed the co-founders of the Company to exercise their options and during this process the stock traded sub-40c again. However, during this period the Elsieht has continued to add new partners using its Halo technology solution – bringing the total to 51. In addition to this, Austerion, which operates one of the world’s most used open-source flight controller platforms for drones, will be integrating Elsieht’s Halo unit into their platform to improve its functionality for Austerion customers. Unfortunately the decline in April in Elsieht’s share price didn’t reflect the improving developments and progress of the business, but we see a rapid rebound now that the overhang of options expiry has passed.

Our third core small-cap holding Wellnex eased in the month despite rapidly improving sales and business development. A manufacturer and distributor of health and wellness products through channels such as Chemist Warehouse, Coles, Woolworths etc announced that customer receipts had improved by 606% to \$3.6 million, cash loss improvement of 71% (despite increasing inventory levels to overcome supply issues as well as establishing a key supply agreement with GlaxoSmithKline (GSK) for the supply of its existing paracetamol soft gel across Australia and NZ. With a market capitalisation of just \$30 million we see this as an attractive investment in a well-run business growing strongly in an expanding category.

The ongoing global headlines affecting markets are something we are largely avoiding for now and instead of being caught up in the volatility, we are watching and assessing closely the big opportunities that will present themselves as we did following the Covid lows of April 2020. It’s important to be patient and wait for the panic and fear to subside and then deploy our capital appropriately.

Until next month,



Gregory Tolpigin Portfolio Manager
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