gleneagle
asset management

Gleneagle Asset Management Limited
Gleneagle Investment Trust (Equity Fund)

March 2023 Review

Summary

Rising interest rates finally saw things break in March, with the demise of Silicon Valley Bank and Credit Suisse. Only after the Fed backstopped the entire deposits of all banks did markets recover, with the ASX200 managing to close in the green up just 0.39%. The portfolio was down -3.15%, although we were largely on the sidelines trying to avoid the carnage, holding only the core positions which continue to underperform.

What this going on with the portfolio?

When I took over running the fund in July last year, I was made acutely aware that many investors in the fund had lost a lot of money, and the last thing they want to see is further large drawdowns. My aim has thus been to build a profit buffer so that we can start taking on a bit more calculated risk and then start building the returns. Hit singles rather than swing for the fences, as we give our core positions time to play out. Unfortunately, it feels like we are trapped in a scene from 'Waiting for Godot' with Helios and Elsight, which I honestly had thought would have moved a lot sooner. I will get to these later.

I must admit that I haven't been that impressive with building our profit buffer either – the last 9 months have been particularly choppy which isn't ideal for my style of trading. My primary method of making money has always been to ride macro themes (trading the index futures, currencies, and bonds). When banks started blowing up in March I moved into defence mode - often the best method of 'loss avoidance' is to sit on the sidelines. We did dodge a massive rapid move in the US bonds – the kind of moves that if you are on the wrong side can be career ending. Google 'Graticule Macro Hedge fund' is just one example. When one is focusing on not losing money you are at the whims of your core holdings, and ours are yet to perform.

The core holdings

I'm still confident we should finally see some solid returns in the coming months. I know it's been a long haul and patience is being tested… I understand the frustration. To paraphrase Trump, ''no one knows frustration better than me.'' I am sure that if July comes around and I haven't been able to generate a return by then, I will get the tap on the shoulder.

Vectus, while it's only been small portion of the portfolio, needs 16 patients for its 1B trial. They are struggling to recruit suitable candidates in a timely manner and thus the market started sniffing out another capital raise. I reduced this position last month into the decline. At ~50c there is now limited downside, but, unless they change their recruiting strategy (which they are fully aware is a major issue and are working on) I would say they are still at least 12 months away. I probably won't mention this one again until there is a material change but will be monitoring.

Helios is our leveraged bet on oil and they aren't keeping the market informed of what is going on. I have been too optimistic about expecting news. However, I must emphasise that nothing about the thesis has changed to warrant selling the position. They have oil and gas, they have an excellent technical team that is highly experienced in developing new fields, we are likely to see more land announced, and with recent OPEC cuts and the US failing to refill the SPR sub $70, oil prices are back on the rise. Their downside has always been their terrible communication. When you don't give the markets news in a timely manner, the only thing people go on is the price, which is sagging. They have always said that once they prove the oil and gas in an area they would secure more leases of the surrounding land, so the working theory is that until the land is secured, they are strategically going slowly with finalising their flow rate testing – which, good or bad, they must make public by Texas Law. Texas landowners won't lease their land cheaply if they know the full extent of the find, and there are competing oil companies that are also interested in oil bearing acres. Ovintiv just acquired EnCap oil and gas assets in the Permian basin for AUD$6.4 billion – for 65K acres of land. This is the type of exit that Helios are building to, and we are still at the starting line.

Elsight

The issue that Elsight has faced is not to do with their business which we believe is growing strongly – it is that they currently have been unable to update the market. The last decent piece of news was in November 22, and it feels like we are in a news vacuum. Design wins continue to grow and they have recently partnered with some big names including Lockheed Martin, Honeywell and Qualcomm. Existing customers have been continuing to announce expansion (Walmart rollout accelerating with thousands of new items now available for drone delivery, and Flytrex just announced a 7-fold increase year on drone deliveries in just one year). However, Elsight have not been able to put out any 'market updates' as the ASX has a provision that unless a piece of news is material in nature, it cannot be announced. With over 70 design wins, it is clear they are selling their Halo units, but they cannot announce the number of units sold to each customer in a separate announcement. We have been told by the company that it will all be laid out in this month's April quarterly report. If Elsight, who have been losing money for years, can show they are on the path to break even and are growing exponentially, the price should re-rate and I believe significantly. They still have plenty of cash and if you believe drone delivery and drone usage will be part of our future, this is one stock you want to own.

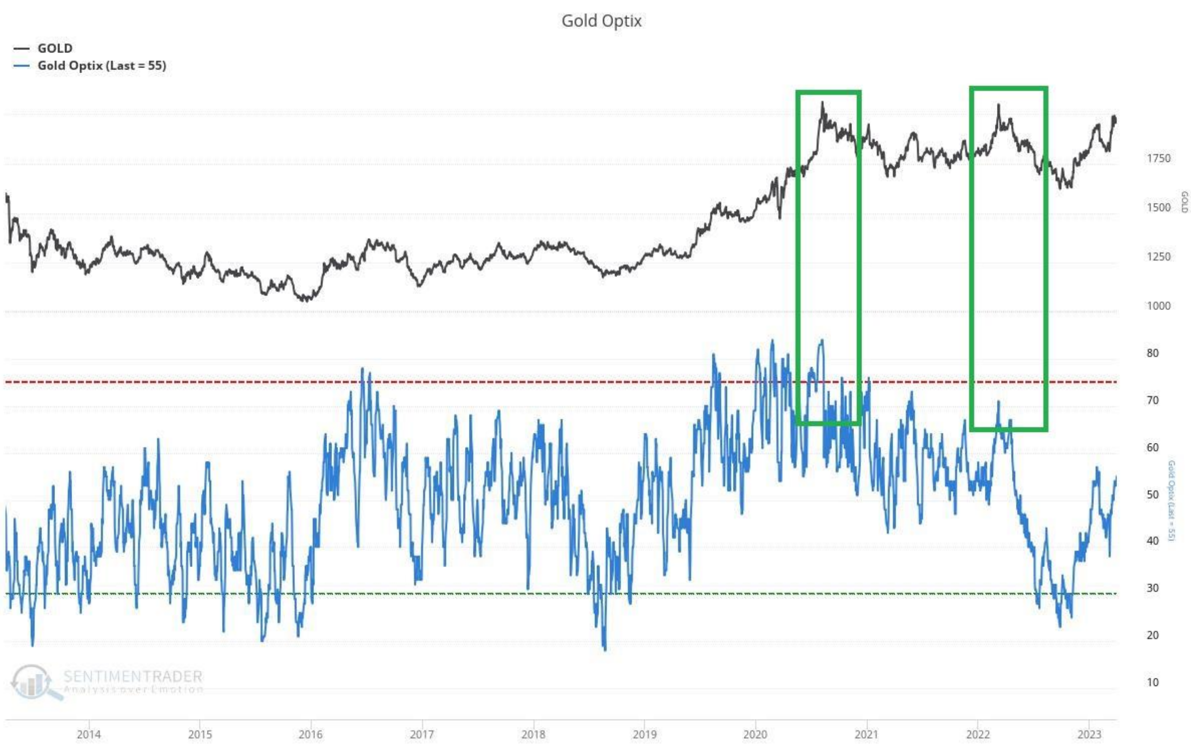
Infinite Green

Infinite Green is an unlisted Hydrogen investment which is the Australian market leader in Hydrogen by 2 years. They just announced a major partnership with Samsung C&T and continue to grow strongly. They are due to IPO in second half of this year, as the demand for green hydrogen projects is high due to ESG mandates and 'green' investments. The company is expecting a much higher price for the IPO than what we currently have it valued in the book, so this should have a material positive impact on the portfolio.

Gold

We currently have some long exposure to gold, and this has had a good uptick in that last couple of weeks. I could spend a lot of time on why I believe gold will move significantly higher this year, but in the interests of brevity I will give you the cliff notes version.

- The BRICS (Brazil, Russia, India, China) are currently ditching the US Dollar for trade payments, and moving to Chinese Yuan backed by gold, which is reducing demand for US dollars.
- The US national debt is currently at record levels, and the government has been consistently running budget deficits with no end in sight. This has led to concerns about the sustainability of the US economy and the value of the US dollar.
- Higher interest rates are forcing the government to pay more to service their debt leading to concerns of a debt spiral. We also have another US debt ceiling debate approaching which will bring this to the market's attention.
- When a twin deficit sovereign loses sufficient quantities of foreign capital and then prints money to pay the interest on this debt to avoid default, this leads an inflationary spiral.
- The US will thus face a choice of either killing the economy to bring down interest rates and inflation OR print the money and kick the can down the road.   Politicians want to get re-elected and have an election coming up next year, so the path of least resistance is to print.
- There has been record central bank buying of gold in the last 12 months.
- Gold sentiment as shown by the following chart is muted when compared to where gold was previously at these levels. This suggests the current rally has room to run.



Source: Sentimenttrader via twitter

In summary, the USD is losing favour with the world and is slowing losing its reserve currency status, a trend that likely plays out over the decade. With gold breaking to new highs in USD, JPY, GBP, EUR and CAD, it's likely we get a serious leg up in gold pricing over the coming year. Just remember that nothing goes up in a straight line.

If you have any questions or comments, please drop me a line at tim.muirhead@gleneagle.com.au

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