

Gleneagle Asset Management Gleneagle Investment Fund (GT Momentum Portfolio)

July 2020 Review

The GT Momentum Portfolio gained 16.07% (before fees) for the month of July as Helios Energy enjoyed a strong rise as well as the price of silver, to which we had a significant exposure.

We had noted in the past that the outcome of the Federal Reserve stimulus and Covid-19 Government cheques being splashed around the world would create financial bubbles and unintended consequences of which we are seeing many coming to fruition. Technology stocks have surged through to new record highs, the US dollar has weakened, bond yields are at record lows while gold has reached record highs followed by enormous gains in other metals.

While on the surface this may appear to be cause for concern, it presents an enormous opportunity and truly highlights the variety of paths to profit investors can take to benefit from these unprecedented times. The key is to focus on those market outcomes that not only present the best returns but also the highest probability.

It's been discussed before in our monthly note but let's shine the spotlight on gold and silver again. The upcoming Presidential election has not only one of the most uncertain outcomes but the policy differences between both candidates is so wide, the ramifications for equity markets will be significant depending on the victor. However, irrespective of who is in the White House for the next term, gold and silver are likely to continue to head higher, given the weakness in the US dollar, unprecedented stimulus and general uncertainty over the global economic recovery post Covid-19. As I have said in the past "all roads lead to gold and silver higher".

From an investment perspective it really reflects where our attention should be and how we should structure our portfolio. We see no reason to continue to try and predict outcomes outside our control and certainly outcomes that are binary. As a result, a cautionary outlook does not need to equate to lower returns if the focus remains on those markets where the outlook is far more certain.

Another example of focusing on the knowns is that, irrespective of who the next President will be, both will spend a significant amount of money (over \$1 trillion) on infrastructure projects. Given this sector will be a beneficiary of Governments needing to stimulate economic activity, we are specifically focused on identifying who the primary winners will be.

As we approach the seasonally weak and volatile period of August through to October, we remain cautious and conservative. Like our strategy in March and April was to bring investing time horizons into shorter time frames, we are doing the same again which results in a more active portfolio.

As noted, Helios was a major contributor in the month, appreciating 44% and finally rewarding us for our patience. The recovery in the oil price has improved sentiment in the oil and gas sector and although the existing well is still flowing oil, we are anticipating that the next drilling program will be announced soon and this will bring back into focus the size and attractive economics of this new oil basin in Texas.

We also added some new additions to the portfolio in mid-cap space where we see specific company developments over-ruling any broader market volatility. New investments were made in Proteomics (PIQ) which has successfully created a kidney disease test that can predict the onset of the disease up to four years in

advance. The benefits of such a test are clearly evident as pre-emptive measures can then be taken by doctors to ensure patients can avoid expensive drugs and dialysis which can cost north of US\$70,000 per annum.

We also added Lynas Corp (LYC) to the portfolio as a core holding. As the only meaningful rare earth producer outside China, Lynas has been a long-term favourite as its assets are extremely strategic within the universe of increasing US-China tensions. The long-term demand for rare earths is sizeable considering the push towards electric vehicles and renewable energy power sources such as wind and solar (silver is a significant input into solar energy panels as well). Recalling Wesfarmers made a take-over bid for Lynas at \$2.25 in March 2019 such was the attractiveness of the asset to them. Given 12 months later the Lynas share price has not improved by much but the underlying rare earth prices are witnessing positive momentum again, there is scope for a substantial re-rating.

Markets continue to reflect enormous levels of uncertainty surrounding Covid-19, the economy and the Presidential race. We are acutely aware of the risks markets currently present and continue to focus our attention to those areas where we have greater knowledge and confidence rather than trying to second guess outcomes just because they are the current focus of other investors and the media.

Until next month,

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