Gleneagle Asset Management Gleneagle Investment Fund
(GT Momentum Portfolio)

August 2021 Review

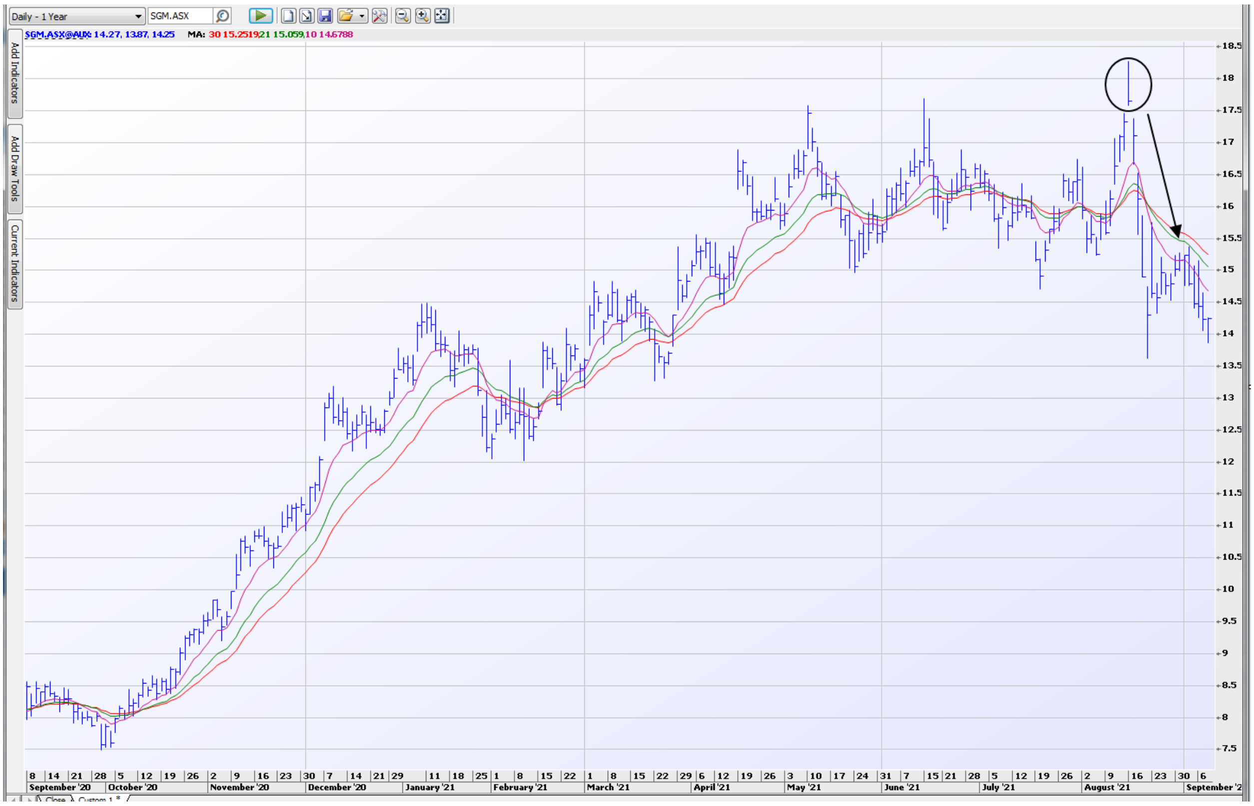
The GT Momentum Fund declined 4.27% in August following a lack of 'news flow' from our key holdings and a reporting season that generated a lot of volatility for individual stocks that was very much masked by a directionless index.

I must stress to family, friends and all others who have invested in the fund that it is difficult to put into words the immense frustration we currently have not only with the lack of news flow on our key holdings, but also the results that we have reported for past few months. We are fully aware as investors in the fund that the results do not reflect the current "buoyant" indices and, moreover, our skill in producing consistent year-on-year outperformance. We want nothing more than to report new NAV highs for everyone and we are working hard around the clock to bring this to fruition. Are we frustrated? Extremely. Are we disheartened? No. We have the confidence that we will be back on track in our results shortly.

We totally understand that some investors have chosen to not stick with us and, for the first time since the fund began, we have experienced new outflows from the fund. We totally respect the loss in confidence by some and underline the fact that we too are not impressed. It brings no joy to report a negative result to investors.

As we have noted before – typically while waiting for our core positions to be re-rated – our short-term trading portfolio is our buffer that generates between 1-3% return each month on average for, give or take, 10 months of the year. This month our short-term strategies again struggled with a reporting season that failed to make a lot of sense and solid trading profits leading into some individual company results were erased immediately following the release of better-than-expected results.

None explain this better than the performance of Sims Metal (SGM). Here is a company that upgraded its EBITDA forecast three times to a range of \$360 -\$380 million on the back of strong scrap metal prices. Its year-end result even beat the top end of guidance with a result of \$386 million and a share price that was reaching its highest levels since 2018. The Company also gave a strong outlook for 2022. A case of strong earnings momentum and share price momentum both in full swing. The market's reaction, as shown below, was to drive the share price 25% lower in 5 days! We can genuinely say we still don't understand the basis behind this. SGM management even announced a share buyback following the fall such was the opportunity the share price decline presented. A very muted bounce resulted and we exited SGM, frustrated with the market's unwillingness to reflect the solid state SGM's global recycling business is in at a time when demand is increasing strongly. If the market is unwilling to reward an improving business, we are unwilling to sit in hope. This was just one example of where good profits evaporated by (in our view) ridiculous market moves post earnings, frustrating us to no end.



Last month, we noted that September is typically the worst month of the year where months of slow grinding gains can evaporate in mere days or weeks, and as a result of this risk we are adopting a cautious approach to the markets behaviour. Last September the S&P 500 experienced a pullback of 11.5% taking it back to levels it traded in June and the ASX 200 dropped 6% back to its May trading levels. That same very month the fund gained 6.67%, reflecting of strong ability to produce gains in a down market.

The index's relative stability has masked much of the volatility that has been seen within individual stocks. Over the month of August there have been some spectacular declines that have reflected the saying "up the stairwell, down the elevator shaft", something that we remain fearful of.

FMG	-16%
BHP	-15%
RIO	-16%
WPL	-11%
NCM	-6%

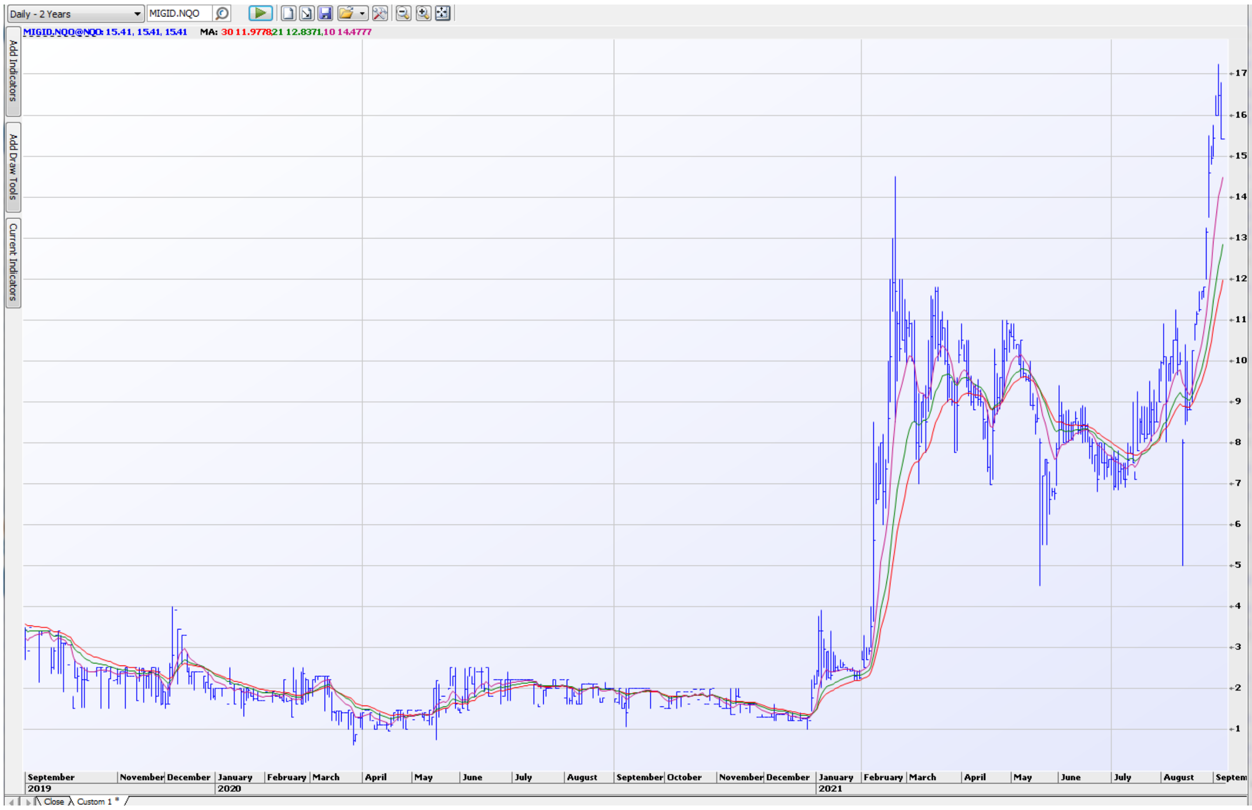
Even the banks failed to produce anything meaningful over the month with less than 1% gains or declines over the month. In the case of ANZ, WBC and NAB their trading levels at the end of August still equate to levels they were trading at months ago. Wesfarmers (WES) is another stock that reflects how fickle investors are and after two months spent as a "market darling" rising from $57 to $67, it now trades once more at $57 – registering zero gains for anyone who bought the stock since June.

We owned none of these resource or bank stocks over the course of August, avoiding them largely to that vulnerability to a short and sharp decline. We suspect that these major miners have reached their cycle peaks and will experience outflows as investors look to rotate to other commodities such as nickel, cobalt, aluminium, rare earths and uranium. Some of this is clearly underway.

So what is all this telling us? Generally buy and hold strategies are vulnerable to seeing good profits evaporate. Investment horizons need to be reduced and an even more active approach adopted. It is something that we have implemented and on a positive note, returns so far in the first week of September have recovered the declines of August.

Moving forward, some of the news flow that failed to surface in August has in the first week of September begun to trickle through. Helios announcing plans for drilling their fourth well is the start of much anticipated additional news which should include the securing of additional land.

Bitcoin miner Cosmos Capital, in which we own a convertible note (converts to equity upon Nasdaq-listing), provided us with an update that although the scheduled listing for August was delayed, they are expecting a potential listing in September. Our investment will convert at a price of $3.40/share and currently in the secondary market (shown below) is trading at $15.40. This would equate to an approximate 5% increase in the NAV of the fund based on current prices. As we currently own a convertible note and not equity, we cannot include this current gain in the NAV of the fund.



Towards the end of August we have also turned positive on the locally exposed travel stocks, specifically, Webjet, Flight Centre, Qantas and Regional Express. Despite much of the country in lockdown (it is proving very frustrating working as a school teacher too), there is clearly pent up travel demand ready to explode once vaccination rates reach over 70%, lockdowns end and borders are re-opened. Regional Express highlighted that forward bookings are growing and many consumers are ready to travel as soon as it is allowed. This together with significant short sell interest in Webjet and Flight Centre, could spark an aggressive rally as the market looks forward to better economic conditions in 2022.

Until next month,

gleneagle
asset management

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