Gleneagle Asset Management Gleneagle Investment Fund
(GT Momentum Portfolio)

December 2020 Review

The GT Momentum portfolio declined by 5.45% last month as several of our long-term mid-cap positions experienced some slight pullbacks in December after several months of strong gains.

We noted in the November 2020 review that in early January the Georgian state re-elections provided a significant level of uncertainty to how the political landscape would look like in early 2021 and thus what policies could be implemented by the Democrats. The possibility of Democratic control of the Senate was a concern given the free reign they would then have to begin implementing some unfriendly policies to companies by reversing the Trump tax cuts and raising taxes on those earning over $400,000 per annum (including capital gains tax). As indicated we would use any strength in December as an opportunity to take profits in many stocks that had done well on the back of our thematics and reduce risk.

As an example, rare earth producer Lynas Corp, which we had a position in for several months peaked in early December (after gaining 36% for us in November) at $4.33 and then proceeded to drop 16% in just 4 days. We were fortunate to exit the position prior to the peak and avoided such a decline, however, with that kind of volatility and upcoming political uncertainty in 2021 we saw little advantage or benefit to trade Lynas or many other stocks for that matter that also displayed similar levels of sudden and wild swings.

More conservative positions such as the banks (as discussed last month) also failed to break out of their tight consolidations and thus provided no profit opportunity as well.

Sometimes without strong conviction, raising cash levels and reducing trading activity is the best option and December proved to be one of those months.

Our short-term trading was also substantially reduced during the month due to the wild behaviour of financial markets and while all our closed positions were for a profit in the month, it was only a small gain and not enough to overcome the drawdowns in our longer-term positions. As an example Helios Energy which has doubled from the lows in June eased from 17c to 15c in December. We expect it to start 2021 with some clear drilling plans given the oil price has now surpassed the key US$50/bbl level for the first time since March 2020.

Looking into 2021 we see some very clear thematics unfolding that provide strong potential for profit, almost all of which we have discussed throughout 2020. In short these are:

1) The ongoing opening of the global economy and the effects of Government stimulus on rising interest rate expectations (bond yields) and the benefit this will provide to the banks
2) Zero interest rates in Australia and the surge in mortgage demand
3) The renewable energy revolution and its demand on resources to build electric vehicles, charging networks, solar and wind farms as well as nuclear power
4) Broad Government spending on common infrastructure (roads, bridges, railway, buildings) in an effort to lower employment and lift growth.

Each of the above factors have the potential to run for several years considering infrastructure demand and renewable energy changes are not factors that will be completed overnight. The European Commission in a report called Critical Raw Materials Resilience highlighted that EU demand for lithium will be 18 times more by 2030, five times more for cobalt extending to 60 times more for lithium by 2050 and 15 times for cobalt. Rare earth demand would see a ten-fold increase in demand.

This all supports the thematics that we have presented to investors in our monthly notes and will be a key feature of our investment strategy and focus in 2021.

Until next month,

Gregory Tolpigin Portfolio Manager
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