Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

September 2020 Review

The GT Momentum Portfolio gained 6.67% (before performance fees) last month despite equity markets experiencing their typical seasonal volatility during September. Both the ASX 200 and the S&P 500 declined 4% over the month in line with our expectation that post US Labour Day equity markets begin to be significantly more sensitive to US election polls.

As we noted last month, the uncertainty surrounding who will be the next US President is the single biggest question that overhangs global markets and thus it was appropriate to begin to alter our strategy from focusing on the post-Covid 19 technology-led recovery to what sectors and industries will be the winners irrespective of who is in the White House.

To this we noted in our report last month that not only is it a policy of both Presidential candidates to spend north of $1 trillion on infrastructure but is also the policy of virtually every OECD Government in the world.

The global demand for raw resources to underpin this level of construction will be significant and will encompass everything from engineering expertise through to aggregates, steel, iron ore etc. Focus on electrifying transportation is also requiring a substantial and widespread charging network while the broader "green movement" has brought the need for additional renewable energy projects into focus.

Together these place a huge demand on specific metals such as nickel and rare earths, with the latter a very contentious issue considering China produces most of the world's rare earths. Companies such as Lynas Corp – the most significant producer outside of China – are thrown into the spotlight not only as an alternative source but also is a globally strategic asset. We have a holding in Lynas Corp as well as other infrastructure related companies. Our exposure to this thematic via companies like Boral (up 13.7% in September) contributed to our positive performance last month.

Another key thematic we touched on last month included the travel related companies that are exposed to the tail wind of the economy re-opening and any positive news regarding a Covid-19 vaccine. Recalling that several Phase 3 trials are due to be completed at the end of this month, thereby presenting a news-driven event that could substantially re-rate many of these travel companies higher. We noted that we were investigating the best possible risk-adjusted strategy to benefit from this, and our preferred play is Qantas. Given that over the past 10 years 70% of Qantas earnings were generated either from domestic routes or its loyalty business, it is probably the best airline in the world to own during a global pandemic. Furthermore, as we head into Christmas holidays and the state borders re-open, we believe there will be a significant lift in inter-state travel primarily benefiting Qantas and its share price has already gained 10% in October. A trend that we expect will continue through to the end of the year.

In keeping with the economic recovery, we spent time building a position in Redcape Hotel Group which has dealt with the Covid-19 pandemic extremely well. This business runs 32 hotels, pubs and clubs along the Australian eastern seaboard (almost all with freehold ownership) and its FY2020 result showed a net profit of $11.2 mln despite the huge disruption to its operations, reflecting its resilient business model. Moreover, the modest asset revaluations resulted in just a 4.4% decline its Net Asset Value of $1.09 vs a current share price of $0.85. After a brief pause in its quarterly dividend distribution, dividends have been reinstated and we calculate based on our forecasts for the business that the fund will be enjoying a yield in excess of 11% in 2021. A return just back to its current Net Asset Value will generate a total return of 35% over the next 12 months. This is a core long-term holding in the portfolio that is aimed to be a strong generator of dividend income for the next 2 -3 years.

The portfolio also benefited from the strong performance of some of our company specific investments including Helios Energy which gained 16% for the month as expectations grow for a future drilling program. Adding to this, a collection of other smaller holdings was mostly positive over the month, underpinning our change in strategy now to focus on company specific opportunities.

Finally, we were short the S&P 500 and the Nasdaq-100 for brief periods over the month, to not only help hedge out our portfolio but to also profit from the bouts of volatility that inevitably appear during this time of year. As the US election approaches in just four weeks' time we remain sensitive to the likelihood for continued volatility and will maintain a cautious but concentrated approach to our investments where we will look through the headlines and focus on the key opportunities that this volatility will present to us.

Until next month,

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