Gleneagle Asset Management Gleneagle Investment Fund
(GT Momentum Portfolio)

February 2021 Review

The GT Momentum Fund gained 2.5% last month (before fees) in what was a very challenging month in many markets. Despite producing a positive return that many would be proud to see, we were extremely frustrated with the result as the final day of the month saw an aggressive bout of profit taking which affected some of our key holdings.

On the positive side, tin prices continued to strengthen (as discussed last month) with our holding in MetalsX gaining an additional 41% in February, building on the 36% appreciation in January. We still favour higher tin prices over 2021 and continue to hold MetalsX as a key exposure to the metal.

Lynas Corp also surged 25% in February, underpinned by the ongoing thematic of the global renewable energy revolution. Interestingly though, many of its rare earth peers failed to produce any gains that month which could be an early sign the sector has run its course for now. As an example our previously held position in Arufura Resources (which gained 69% for us in January) actually retreated 4.5%. We were fortunate enough to have sold that holding in January.

Outside the commodities space the primary winner for the fund was our holding in Raiz Invest. Last month, we discussed how this "fintech" company was gaining momentum in its funds under management via its investor app in Australia, Malaysia and Indonesia and that we had built a decent exposure in the Company. Another strong report on its exceptional growth lit the share price on fire and it rose from $1.34 to as high as $2.20 before ending the month at $1.65. We took the opportunity of strong buying interest and market attention on the stock to exit the entire position at an average price of $2.03. Our average entry price was 93c in November 2020, representing a gain of 118%. Often with such a rapid buying frenzy, prices can retreat just as fast as they rise and it is important to bank some of those gains. We believe there will be an opportunity to re-enter the stock at around $1.60 in the coming months before the next wave of buying interest returns.

On the negative side, silver prices which started the month under world-wide attention quickly lost momentum. We had a significant position at the end of January in silver with futures, options and silver producers all contained in the portfolio. We stood to gain a significant return if silver could have managed the major rally we expect is coming at some point. Unfortunately in this game there are certain elements we can control and others we cannot. Market direction we cannot control, but we can control what we buy, what we sell, how much and when. So while silver prices did not rise like we were expecting, we did exit our direct silver exposure very quickly (within 24hours) when it became apparent this wasn't going to be the start of the big boom in silver. The negative impact on the portfolio was negligible and currently our only silver holding remains in Manuka Silver. Again we continue to watch silver closely for the next signs of life, from a position of confidence (not frustration) because we managed our downside risk appropriately.

We also had mixed feelings towards the Helios capital raising in the month. While the capital raising now funds the Company for renewing its much anticipated drilling campaign, the size ($11.44 million) was greater than expected, while the price of 12c was insulting to existing shareholders given this represented a 32% discount to the 17.5c it was trading at. Furthermore, 12c was a price that Helios last traded in July when the world was a very different place and oil prices were overly depressed. To be honest we were shocked to see the Australian Stock Exchange permit such a capital raising to proceed. But again we can only control what we can control and our focus still remains on the world class asset the Company holds in Texas. With this raising now in the rear view

Address: Level 27, 25 Bligh St, Sydney NSW 2000 **Phone:** +612 8277 6600 wwwwww.gleneagle.com.au
ABN: 29 103 162 278 **AFSL:** 226199

mirror, Helios should now be moving onto creating shareholder value by proving up its reserves and acreage in the area.

Markets at the start of March have been volatile, reacting to the rapid rise in bond yields that we discussed were likely to be a dominant feature in 2021. The difficult aspect is that rising bond yields is doubled edged sword. As a reaction to an improving economy it is great, but at the same time it triggers panic amongst investors that believe the days of “cheap money” are disappearing.

So far in our monthly note we have highlighted the areas we have been focused that will benefit from the trend to higher bond yields, but there are some areas that we have no interest in being involved in. Naturally, as common sense would suggest, retailers will begin to suffer as conditions that have been “as good as it gets”, have passed. Big mega-cap technology that we liked so much in 2020 are now poised to struggle as their returns and high p/e multiples versus bond yields becomes less attractive. Other pockets of the market like US home builders will also struggle with lower buyer affordability and let’s not forget, defensive high yielding stocks no longer reflect the great returns (above bond yields) they did in 2020.

So as 2021 unfolds, there will be a widening discrepancy between the market losers and winners and we feel we are on the right path by being purely focused on our key cyclical thematics and avoiding these other potential traps.

Until next month,

Gregory Tolpigin Portfolio Manager
Gleneagle Securities (Aus) Pty Ltd