This commentary is for the retail class of the Fund.

The second quarter of 2020 (Q2-20) was a much improved one for the Fund, both from an absolute and a relative perspective. The Fund returned 46.0% against a benchmark return of 41.2%, a solid relative performance, but still leaving us 11.8% behind the benchmark year-to-date. The medium-term performance of the Fund is behind the benchmark, but its longer-term track record in comparison to both its peers and the benchmark remains strong. In the quarter, the Fund benefitted from its overweight allocations to Pan African Resources and platinum-group metals (PGM) equities, while the strong outperformance of the gold equities again detracted from performance.

In the quarter, the Fund took profits in our holding of Pan African Resources and invested the capital primarily into diversified miners and PGM producers. We also bought the Rhodium exchange-traded fund in anticipation of dramatic supply shortages in both the short and long term.

Much like the first three months of the year, the news headlines have been dominated by the Covid-19 virus and its impact on the world. Another three months have passed and it seems as though the worst of the demand destruction is behind us. From a commodity demand perspective, the shape of the recovery and which regions recover faster, is very important. China has seemingly contained the spread of the virus for the time being, and we have seen a dramatic recovery in commodity-intensive regions of the economy such as infrastructure build, automotive and property sales. As a result, we have seen China-heavy commodities perform particularly well in the quarter, with extra complications added by supply disruptions. Brazilian iron ore supply has been heavily disrupted this year thanks to heavier-than-usual rains and Covid-19-related supply cuts. Weak supply, combined with strong demand growth from China, kept the iron ore price elevated well above the cost curve, finishing the quarter at c.$100/t. The PGM sector saw the most aggressive supply reduction of all the commodities, with the majority of the South African (SA) industry shut for the month of April and with a slow ramp up towards 100% capacity over the last two months.

Some deep-level underground shaft operators believe they will struggle to hit 100% production capacity, with social distancing and extra health and safety precautions in place. While this is detrimental for these producers, it is beneficial to the sector as a whole as a result of reduced supply. The closure of the majority of the SA PGM industry in April resulted in a 56% reduction in global mine supply, and we estimate SA PGM supply for 2020 could drop by between 20% and 30%, dramatically reducing the potential for inventory build-up. PGMs are easily stored, especially relative to the value they contain. It is much easier to store a ton of platinum, valued at $26.3 million, than a $100 ton of iron ore. Avoiding an inventory build-up is particularly important, as inventories that accumulate in one year are used to supply the market in future years, which can negatively impact pricing.

Over the last year, we reviewed our position on Sibanye-Stillwater and built up a reasonable position in the fund. We have previously been cautious on the highly acquisitive nature of the business, as CEO Neal Froneman transformed the company from a high-risk deep-level gold miner into a global precious metals behemoth, becoming the third-largest PGM producer globally on a 3E basis. This strategy was funded through a combination of debt and equity and, as recently as early 2019, the company was under severe financial pressure due to high levels of debt and a strike at their SA gold operations. Towards the end of 2019, the gold strike

was behind them and Sibanye began to generate formidable quantities of cash from both arms of the business. Another turning point in the investment case for Sibanye was the dramatic increase in their safety performance after a string of fatalities at their gold operation in 2018.

In the last 18 months, they have generated an exemplary safety record and are hitting safety milestones never seen before in the deep-level gold mining industry. While Sibanye still has a large quantum of debt on their balance sheet, we believe that current free cash flow, notwithstanding the impact from the Covid-19 mine shutdowns, will enable them to reduce this dramatically and start returning capital to shareholders. We believe that the company will be in this position at the end of the 2020 financial year and pay their first dividend since 2016. 80% of our fair value is represented by the PGM business, both in South Africa and US. Sibanye have been owners of the US Stillwater palladium heavy asset since 2017, which gives them a highly beneficial geographical diversification. The gold business makes up the remaining 20% of our value and allows the Fund to increase its exposure to gold in addition to Pan African Resources. While we are constructive on the outlook for the gold price over the medium term, we have never found value in the pure gold names outside of Pan African Resources, with Sibanye offering more than 50% upside to our fair value. Of concern for us is the stated ambition of the company to expand its gold business into North America through an acquisition. North American gold assets, particularly in this gold price environment, do not come cheap, but, perhaps given the success of their merger and acquisition strategy to date, this risk may not be as pronounced as we initially believed.

Portfolio managers
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as at 30 June 2020