The Fund returned 26.7% for the quarter and 53.1% for the last 12 months. The Fund's long-term performance remains pleasing against both the peer group and the benchmark.

During the fourth quarter of 2021 (Q4-21), the biggest contributor to performance was our overweight position in RB Plat, followed by our underweight in Sasol. Our Exxaro overweight and BHP Billiton underweight detracted.

The major news of the last quarter was the ongoing potential takeout of RB Plat, with both Northam and Impala vying for control. Initially, Impala announced they were in talks to acquire RB Plat. Subsequently, Northam surprised the market by buying RB Plat's parent company's 34.9% stake in RB Plat for R180 per share. Impala subsequently bought stakes from other shareholders and now sits with circa 35% of RB Plat shares. Immediately prior to the announcement, our RB Plat stake represented just under 11% of the Fund (the maximum permissible position size). The bun fight over the business supports our view around the quality of its assets and its valuation attractiveness. With the share price having run from R90 to over R150, we sold our RB Plat stake during the quarter.

We are somewhat uncomfortable with Northam paying R180 per RB Plat share, with Impala paying closer to the R150 level for their stake. Impala has contiguous operations to RB Plat and is able to extract meaningful synergies. Northam's operations are far from RB Plat, and it has no such opportunities. As a result, Impala should be able to offer a higher price than Northam, and our concern is that Northam overpays for the remaining stake, should they pursue this avenue. A primary concern of ours regarding the potential Northam acquisition is the relative size of RB Plat compared to Northam and the impact this has on the affordability of the transaction. Impala was able to fund a large portion of the acquisition from their substantial cash reserves. We deployed our RB Plat proceeds into Impala and reduced our Northam position size.

The gold price and gold equities performed well over the quarter. Investors grew increasingly concerned that the high levels of inflation we have seen will prove to be persistent and not transitory. This, coupled with concerns that the Fed is behind the curve in hiking rates to curb inflation, provided a buoyant environment for gold. Goldfields and AngloGold advanced c40% over the quarter. We switched some of our AngloGold and Goldfields positions into Pan African Resources, given relative performance and increased margin of safety in the latter.

Iron ore prices fell precipitously over the preceding quarter and Q4-21. Chinese steel production fell due to industrial production curtailment (bought on by intermittent electricity due to limited coal availability), a desire to curb air pollution/carbon emissions and attempts to cool property development, which the government is concerned is overheating. Iron ore prices fell from over $200/t and bottomed at $95/t. They have since corrected to $125/t as Chinese steel production appears to have troughed. Despite the fall, we consider $125/t a high price, with large producers still making very good money at these prices. This includes Kumba Iron Ore, Exxaro (via its stake in Kumba) and BHP Billiton.

Coal stocks (Exxaro and Thungela) came under pressure as coal prices corrected from extremely high levels. Coal started the quarter at $195/t and ended at around the $140/t level. Like iron ore, we still regard $140/t as a compelling price for producers. We added to both stocks during Q4-21. Thungela is high cost and short-lived, but its price is compelling on a two to three times PE. We have noted Exxaro's capital allocation concerns in the past, but on a dividend yield of more than 10% and a free cash flow yield of more than 20%, we think the market has become too pessimistic on its prospects.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 31 December 2021