The first quarter of 2021 was a strong one, both from an absolute and relative perspective for the Fund. The Fund returned 27% for the three-month period against a benchmark return of 18.7%. The Fund's long-term track record remains compelling, with it performing well against both its peer group and the benchmark over most meaningful periods.

For the quarter, the Fund benefited from overweight holdings in the platinum group metal (PGM) shares and underweight holdings in gold shares (our overweight in Pan African Resources detracted).

This quarter a year ago, we wrote about the onset of Covid-19 and the uncertainties the world faced. It is amazing the difference a year makes. While there has been a tragic loss of life, human ingenuity in the pace of vaccine response has been a positive surprise, as has the fiscal response from governments worldwide. Cheap money, general optimism and strong infrastructure spend have been conducive to higher commodity prices. The market was clearly overly pessimistic in its reading of the pandemic response. The resources index is up 93% from a year ago (with the Fund up 158%).

Turning to this quarter, the diversified miners performed well, with Anglo American, BHP Billiton and Glencore up 22%, 13% and 24%, respectively. Iron ore remains well supported as Chinese infrastructure spend remains strong, rest-of-world demand rebounds and Vale's production continues to ramp up slowly. Increasing awareness is being brought to battery materials and their role in assisting the world in decarbonising. This theme has been enhanced by a Joe Biden presidency in the US. President Biden is likely to recommit the US as a global leader in transitioning economies away from fossil fuels. While periods of price weakness might be experienced in the early part of the decade (where decarbonisation demand is a smaller part of total demand), we would expect persistent deficits in the latter half, particularly in copper and cobalt. We added to our Anglo American holding during the quarter. We believe the market underappreciates their commodity mix, cost position in most commodities and their value-enhancing growth pipeline.

Energy stocks Exxaro and Sasol rose 25% and 58%, respectively, over the quarter. We think Exxaro's capital allocation track record exceeds its reputation. This was further demonstrated by a well-timed sale of non-core Tronox, with most of the proceeds being returned to shareholders via buybacks and a special dividend. We expect further capital returns should the sale processes at ECC and Leeuwpan conclude successfully. Including ordinary dividends, Exxaro would then have returned circa 25% of its market cap to shareholders in a 12-month window. We added to our Exxaro position during the quarter. Sasol's share price rerated strongly on the back of an oil price recovery and the market no longer assuming the need for a rights issue. At current prices, we think the market is underappreciating the longer-term risks around environmental capex, potential capex to diversify away from their current operations and potential loss of cheap Mozambiquan gas supply. We sold out of Sasol during the quarter.

PGMs performed well this quarter on the back of strong PGM pricing. This was led by a strong rhodium price. A decade of underinvestment cannot be remedied quickly. Companies have started to announce expansion projects, but these will take time to land. Demand for the metals remains robust on increasing PGM loadings in the autocatalyst industry. The supply issues at Norilsk Nickel, the world's largest palladium producer, while temporary, will further tighten the market. We sold out of Sibanye Stillwater. The share has performed strongly. While astute bottom-of-the-cycle PGM acquisitions benefited shareholders immensely, we remain sceptical about them adding value by making acquisitions in the battery materials space, which they have started embarking on. We used the proceeds to buy Royal Bafokeng Platinum. It trades on a 30% free cash flow yield on spot prices and has demonstrated a willingness to return material amounts of this to shareholders at recent results.

We think gold shares look increasingly attractive. Government balance sheets around the world are becoming more stressed as debt is piled on to support the global recovery from Covid-19-induced economic stress. The global printing presses are running hot. For example, 25% of dollars in circulation were issued in the last year. As a centuries-old store of value, gold should thrive in conditions where fiat money is being debased. However, it seems that all the action is taking place in new (untested) stores of value, such as cryptocurrencies. We see upside risk to the gold price, while most of the equities are pricing in a gold price well below spot. We added to our holdings in Pan African Resources and AngloGold and initiated a position in Goldfields.

We believe the resources sector offers compelling value at current share prices. We are very encouraged by the Fund's holdings and their ability to generate meaningful alpha over the long term.

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