The Fund pulled back by 4.6% in the quarter, resulting in a 20.8% return year to date. All the absolute return was delivered in the first quarter, and there has been a general softening in the commodity sector since that peak, as a sell-off in platinum group metals (PGMs) and iron ore has weighed on the commodity equities. Our largest contributors to relative performance in the quarter were Glencore, Montauk and Textainer, where we benefited from large overweight positions. After several years of great returns, the PGM sector came off the boil, and our relative overweight in the sector detracted from quarterly returns. The Fund has performed well against its peer group and quantitative benchmarks over all meaningful time periods.

We took some profits on our Anglo American position during the quarter, which we used to further bulk up Textainer after reintroducing it to the Fund in the second quarter. We continued to increase exposure to the gold sector as weakness persisted. Towards the end of the period, we actively reduced our Exxaro Resources position after the capital markets day.

Of relevance to the Fund has been the continued global semiconductor shortage, which has dramatically impacted automotive production. As an aside, it is clear that global supply chains across the board are under stress, and the delicate balance on which they have operated historically has been upset by lockdown-related interruptions and a resurgence in global goods demand that has outpaced capacity growth. The semiconductor industry has suffered severe outages at several points in the supply chain in the last nine months, and these reached a peak in the most recent quarter. Semiconductors are pervasive in modern-day life and, for the sake of this discussion, increasingly important for automobiles, given the rising technological functionality of the average car. The final product cannot be produced without the necessary semiconductors, and original equipment manufacturers (OEMs) have been forced to turn off production lines in response. An estimated 11 million cars have not been produced this year because of these shutdowns, 13% of production estimates at the beginning of the year.

Spot PGM demand has declined materially, and, combined with Amplats releasing their refined inventory, we have seen the industry revenue basket decline by 38% since the peak in April. Given the current surplus markets, we are encouraged that PGM remains above the cost curve, leaving respectable cash margins for the producers. We expect PGM markets to go back into deficits next year as the chip shortage is resolved and automotive production ramps back up. Encouragingly, it is clear that end-user vehicle demand remains strong. Over the first six months of the year, there was a large de-stocking in key regions as cars on the dealership floors were sold and not replaced by the OEMs. This inventory has reduced to abnormally low levels and will need to be replaced, boosting car production and PGM demand when it does so. With tightening markets, there is a scenario that could see PGM prices rise strongly in the years to come. In our modelling and assessment of fair values for the PGM stocks, we are taking a more conservative stance and assume a declining real price profile.

Still, in this price environment, we see material upside in the stocks and the potential for very healthy cash returns in the form of dividends. We have added to the PGM sector in recent weeks, and it remains a key component of the Fund.

Another topical development in the last quarter has been the coal markets and energy complex in general. A confluence of factors has resulted in the world finding itself incredibly short of energy, and commodity prices have reacted accordingly. In thermal coal, we have long flagged that global underinvestment in supply, which, while interacting with resilient demand, has the potential for strong prices. Given the strong increase in thermal power demand this year, we are currently experiencing a period of incredibly high prices, with thermal coal finishing the quarter at $195/t, after having been $82/t at the beginning of the year. Warm summers in the Northern Hemisphere, an underinvested thermal coal supply base, Chinese bans on Australian coal imports, lower Russian gas supply into Europe, lower EU renewable power production and SA coal export issues have all contributed to the current environment. Given the links between gas and thermal coal, prices tend to move in tandem. In 2021, the European LNG price was up 372% in the first nine months, and thermal coal was up 138%. China is actively trying to increase domestic coal production, but this is likely to be offset by Indian coal restocking and disruptions in Indonesian supply. We think the conditions exist for continued high prices in the short term but would expect moderation from current levels. The Fund has solid exposure to these prices through our positions in Glencore, Exxaro and Thungela.

As previously mentioned, we did take some profits recently in Exxaro after their capital markets day. We believe the stock is incredibly cheap, and the cash returns are very attractive, with Exxaro trading on a 13.7% forward dividend yield. We are very discouraged by the company's stated desire to diversify into copper, manganese, and bauxite, commodities where arguably Exxaro has very little experience. This introduces capital allocation risk and does reduce the potential dividend flow from the asset. It remains a 5.6% position in the Fund given the risk-reward trade-off, which we believe still merits its inclusion.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 30 September 2021