

## Performance

The Fund returned 3.4% for the quarter and 3.8% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark.

## Fund positioning

For the fourth quarter of 2023, overweight positions in Textainer and Mondi, as well as an underweight position in Anglo American, contributed to relative performance, while our underweight position in gold shares detracted.

The calendar year 2023 marked a tough 12-month period for the mining sector, especially when contrasted to global general equity indices. In US dollars, the JSE Resources Index was down 17.5% for the year, versus the MSCI World Index which was up c.24%. Mining margins came under pressure over the course of the year, with prices generally lower and costs generally higher. In terms of the commodities, gold and iron ore performed notably well, while PGMs and thermal coal were weak. Base metal performance was muted.

Over the years, the Fund has built a reasonable position in Textainer. In Q4-23, it was announced that Textainer was being bought by Stonepeak Partners, an alternative investment firm. The \$50 per share acquisition price was a 46% premium to the pre-deal share price and a meaningful five times higher than the \$10 it was trading at in 2020. Textainer has been a meaningful contributor to performance over the years and in Q4-23.

On the diversified miner front, news flow was dominated by Anglo American. The company's share price has been under pressure over the course of 2023, driven by lower PGM and diamond prices. In December, they slashed their production guidance across almost all of their commodities, sending the share price even lower. While our material underweight position helped relative performance, our absolute position size was a drag on overall Fund return.

We added two new names to the Fund within the diversified mining space – African Rainbow Minerals and Afrimat. African Rainbow Minerals is a local producer of iron ore, manganese, PGMs and coal. They also own a stake in Harmony Gold. Iron ore and manganese make up c.60% of the business's fair value and are very cash-generative assets. While the market is nervous about capital allocation concerns, we feel these are discounted, with the share price trading on a PE ratio of 4.5 times and 2.8 times when excluding cash on the balance sheet. Afrimat is a local junior “diversified miner” producing iron ore and anthracite and also has an aggregates/construction business. The business is entrepreneurial, with acquisitions having added meaningful value over time. We don't think the market gives sufficient credit for its recent anthracite acquisition, nor has it discounted the strong run-up in the iron ore price.

The gold price has a number of drivers, but the one with the strongest correlation is real interest rates (typically expressed via US 10-year TIPS). The logic here is that gold offers investors no yield. So, when real rates

are low or negative, the opportunity cost for holding gold is low, and gold prices are typically buoyant. Conversely, when real rates are high, the opportunity cost of holding gold is high. With real rates now close to 2% (from 0% two years ago), we would have expected a soft gold price. We believe the strength in the gold price can be attributed to heightened geopolitical risk (Russia-Ukraine war, Middle East conflict), as well as central bank buying in the wake of Russian sanctions. This may cause the gold price to remain elevated in the short to medium term, but ultimately, we expect the real rates relationship to reassert itself. The gold equities are discounting gold prices close to spot, and consequently, we do not believe they offer a sufficient margin of safety. It remains a large underweight for the Fund.

Oil prices softened during 2023 despite the flare-up in conflict and the threat of broader unrest in the Middle East. Russian production has held up better than initial forecasts at the beginning of the year. We continue to believe longer term oil production will be challenged, as US shale productivity declines and general ESG pressures make new well development difficult. The Fund remains overweight oil, electing to take most of that exposure via a basket of offshore names, rather than Sasol. This position has benefited the Fund this quarter and over longer periods.

## Outlook

The outlook for the commodity sector is mixed, with prices both above and below normal levels, depending on where you look. We believe the Fund's energy and diversified commodity exposure will outperform the precious metals that are not held in the Fund.

## Portfolio managers

**Nicholas Stein and Nicholas Hops**  
as at 31 December 2023