

## Performance and fund positioning

Over the quarter, the Fund delivered a 10.4% return, which is ahead of the 9.2% delivered by the benchmark. The medium term has been challenging from a relative return perspective, but alpha remains compelling over the long term at 4.6% p.a. since inception.

Key contributors for the quarter were the Fund's holdings in the PGM sector, whilst the key detractors were the PGM stocks we do not own. On a net basis, being overweight the sector has been the key driver of returns. The gold sector took a breather in the quarter, which was positive for relative fund performance. A key disappointment has been the Fund's position in Afrimat, which finished the quarter nearly 25% lower than where it started.

Key trades in the quarter included some profit taking on Impala Platinum as well as on Valterra Platinum (the old Anglo American Platinum). During the "Liberation Day" sell-off, we sold out of our rhodium position (which held up very well) to buy into Glencore and Anglo American.

A key feature of commodity markets is their cyclical nature. At the top and the bottom of each cycle, there are always many well-thought-out reasons why this cycle is different, and equally why the future will not resemble the past. As an investor, it is crucial to keep an eye on the long-term opportunity for any commodity and to look through the (typically very noisy) short-term noise. Being on the sidelines when the cyclical top continues to extend is an uncomfortable feeling, and a similar feeling takes hold when you are buying into a sector at a cyclical low. In trying to identify these longer-term investment opportunities, one will invariably look wrong for a period of time as the momentum continues contrary to the fundamental outlook you have identified. We believe that gold (the commodity) and the gold equities are currently at a cyclical high in every aspect. To buy gold shares now, you need to believe that margins will normalise at levels that have never been maintained for more than a quarter or two. Markets spend very little time "at the average" and tend to go from extreme pessimism to extreme optimism in short order.

The PGM sector was in extreme pessimism up until very recently. Having been overweight the sector throughout most of 2024 with little result, we have seen a spectacular rally in the last few months, which potentially indicates the turning of the cycle. While the longer-term outlook for palladium and rhodium is poor due to rising surpluses, we see a more favourable outlook for platinum. Platinum has been in deficit for a few years, and as stocks are whittled down, this tightness is starting to be reflected in the spot markets, with platinum hitting levels (above \$1400/oz) not seen in almost a decade. We remain overweight the sector, but our memories from the previous bull market are fresh. At the top of the last cycle, we saw massive cost inflation, new projects approved with mediocre economics, and M&A, which wiped out tens of billions of rands worth of shareholder value. As a result, we have been particular about the companies we do own to get exposure to rising PGM prices. Northam Platinum remains our preferred choice, but we also own Sylvia Platinum, which excelled in the last bull cycle through buying back shares and paying material dividends. Capital allocation is crucial in all industries,

but particularly at the top and bottom of the cycle in cyclical sectors. Going forward, it is the capital allocation decisions of the companies in the PGM sector that will determine the outcome for shareholders and the sector winners on a relative basis.

Afrimat is a lesser-known midcap miner which we have owned for some time. It started out as a quarrying business but successfully diversified into iron ore and has attempted to enter several other commodities with mixed success. Management has proven itself to be a credible operator over time, with a knack for picking up unloved assets, turning them around, and delivering significant value for shareholders. In mid-2023, Afrimat announced the acquisition of La Farge SA and took delivery of the asset in Q2 2024. The last 12 months have been a much tougher period for the company, with a number of short-term issues coming to the fore. Local iron ore sales were materially impacted as their primary customer, ArcelorMittal, declared force majeure. The business's anthracite mine, Nkomati, struggled with some operational issues. La Farge losses continued as Afrimat implemented its turnaround strategy in the asset. The operational woes caused working capital and debt to accumulate, further impacting earnings. We believe the market is placing undue emphasis on these short-term events and ignoring the normal earnings base of Afrimat, as well as the multi-decade track record of management. We have added to our position during this turmoil.

## Outlook

In general, we still see the most attractive investment opportunities outside of the large cap diversified miners and the gold stocks. The Fund remains sufficiently diversified in the context of a concentrated sector.

## Portfolio managers

**Nicholas Hops and Nicholas Stein**

as at 30 June 2025