

Performance and fund positioning

The Fund returned 26% for the quarter and 27.3% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark. However, shorter-term performance has lagged both comparisons meaningfully.

Our underweight position in Gold Fields and overweight position in Mondi detracted from performance during the quarter.

Parking gold, the rest of the commodity complex has been quite rangebound. Given US President Trump's tariff announcements, various wars, and trade sanctions, this could be considered a buoyant outcome for commodity prices. The weakening US dollar has been a supporting factor for commodity prices.

Turning to gold, we note a significant investment conundrum for both gold and gold equities. Both the gold price and South African (SA) gold miners are trading at all-time highs, and commentary and news headlines suggest we are in the "frothy phase" of a bull market. The bull case for gold rests primarily on increasing systemic risks and consistent, price-insensitive central bank buying. This buying activity is a reaction to the US weaponisation of the dollar after Russia invaded Ukraine, coupled with fears that future administrations might further undermine the dollar or attack the independence of the Federal Reserve. Other major drivers include increasing global geopolitical risk, such as brittle US-China relations, and the slow-brewing crisis associated with overindebted sovereigns globally. Given these accumulating risks, gold is seen as one of the very few legitimate monetary assets and hedges that continues to be under-owned by global investors looking for an alternative to fiat currency.

Despite the compelling bullish arguments, we maintain a cautious stance. Historically, every comparable gold bull market has been followed by a downcycle, resulting in steep losses for shareholders. Costs tend to follow prices higher, albeit with a lag. We expect the same this cycle. Furthermore, SA gold miners are characterised as inherently poor businesses due to being high-cost and having short mine lives that necessitate ongoing capital expenditure. These companies have also historically been poor stewards of shareholder capital, exhibiting poor cost control, engaging in value-destructive pro-cyclical corporate action, and failing to return cash to shareholders consistently. This informs our material underweight in gold equities. We are managing the overall size of the underweight, given the range of outcomes for the metal. This quarter, we bought Gold Fields and maintained our AngloGold position.

We have reduced our Anglo American holding. Anglo American has been a strong performer, with the market crediting it for its increased copper exposure and successful implementation of its simplification strategy. Anglo American recently announced a merger bid with Teck Resources (a Canadian-listed primarily copper producer). We view this bid as a rare "unicorn" in mining M&A: a deal in the right commodity, at a fair price, with legitimate operational synergies. We have increased Glencore. Glencore has lagged due to production mishaps in their copper assets, as

well as a lower thermal coal price. We see both factors as temporary, with the share price discounting continued bad news.

Grindrod has been a long time holding of the Fund and has not received much airtime. The exit from non-core activities (Cockett and KwaZulu-Natal land) allows greater focus on their core businesses. Grindrod's crown jewel is its stake in the Port of Maputo and Matola Terminal in Mozambique. These provide a very efficient export route to market for numerous commodities. Grindrod recently increased its ownership stake here. Plans are in place to materially increase throughput through these facilities. Grindrod is also well-placed to participate in the liberalisation of South Africa's port and rail assets, historically the sole domain of Transnet and its subsidiaries. Grindrod trades on an undemanding 8x multiple, which unwinds quickly as terminal volumes are expected to rise. Our view is that Grindrod will either rerate or risk being targeted for an international logistics player looking to secure a Southern African route to market.

Mondi, which generates 85% of its revenue from sustainable paper packaging, operates with significant competitive advantages, or "moats". These include its market leadership positions, such as being the global number one producer of kraft paper and sack kraft bags, and the leading virgin containerboard producer in Europe. The business is supported by a vertically integrated model, stretching from forest ownership to placing box-making plants near customers, which ensures a captive route to market and allows the company to be 90% energy self-sufficient using biomass energy. Furthermore, Mondi is a low-cost operator, with approximately 75%-80% of its production capacity situated in the lowest half of the industry cost curve, enabling profitability throughout the business cycle. The downcycle in Mondi's key markets caused by an initial supply wave and then Europe's economic softness has been longer and deeper than initially expected. However, we see it as a cyclical rather than a structural issue. Mondi's share price is discounting the latter.

Portfolio managers

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