Performance

The Fund returned -4.2% for the quarter and 5.4% for the last 12 months. The long-term performance of the Fund remains pleasing against both the peer group and the benchmark.

For the first quarter of 2024, our underweight position in gold shares detracted from performance as the strong rally in those names was compounded by an index up-weighting in March. Contributors to performance came from limited exposure to the PGM sector which continued to sell off in the quarter.

Fund positioning

We meaningfully adjusted our PGM exposure towards the tail end of the quarter as we sold entirely out of the platinum ETF and bought Northam and Impala. The March index reweighting, combined with strong share price returns, has resulted in gold exposure comprising 38% of the FTSE/JSE Resources Index at the end of March. Anglo American was down weighted and now represents a more palatable 14% of the index at the end of the quarter. Given that we manage the Fund on a clean-slate basis and the sector tends to become fairly concentrated at cyclical extremes, there are often large differences between Fund and index positioning. There have been several such weighting adjustments over the years.

A key change in fund positioning, as mentioned above, was the buying of PGM equities (Northam and Impala) from zero to a combined 13.8% at the end of the quarter. The Fund's total exposure to PGMs increased to 18.92% if you include our holdings in African Rainbow Minerals and Anglo American, which have PGM subsidiaries. We remain negative on the long-term outlook for PGMs, but a confluence of events has led us to expect the medium term to have an improved outlook, and provided certainly compared to what was being priced into these equities in the quarter.

From the peak levels in 2021, the PGM basket price sold off by 56% to the lows reached in Q1 this year. Naturally, the equity prices followed suit with declines over this time frame ranging from 65%-80%. These low prices cut deep into the cost curve and rendered many of the producers' assets cash flow negative and their future projects less viable. We have seen a degree of supply rationalisation as well as shelving of projects in the last six months, but we still believe more is necessary for the industry to be sustainable in the longer term. Nevertheless, the low prices reduced our estimates for future supply from the mining sector, which improved the outlook for market balances. A second supply-driven feature has been weakness in the secondary supply from recycled autocats. Low PGM prices, high used car prices and provenance legislation in some key regions have impacted the flow of metal from the secondary sector. Again, this adjustment reduced our estimates of supply going forward and improved market balances.

The third key element has been the stutter seen in global Battery Electric Vehicle (BEV) growth. We continue to believe in the long-term dominance that will be achieved by BEVs. Adoption of any technology comes with speedbumps in the road and the fact that the industry has not brought enough low-price cars to market is one of those speedbumps at present. China is the only market where they have delivered these cars and that comes through in the high levels of BEV penetration achieved in that market. High interest rates further reduce the attractiveness of BEVs without a low-cost option. Based on models coming from the global automakers, it seems that these low price BEVs remain a few years from coming to market in a material way. Having reduced our BEV penetration estimates in the medium term we now see more demand for PGMs over that time frame. The long-term picture remains negative, however, unless we see further supply rationalisation.

These two supply factors and one demand factor have made the next few years a more conducive environment for the PGM sector. The improvement in medium-term fundamentals occurred at a time when PGM equities were being sold aggressively in the market. We took advantage of this opportunity in the Fund.

Outside of PGMs, the commodity markets have been relatively bifurcated from a price perspective in 2024. Gold has been on a tear and making nominal price highs. We have also seen strong price performances from coking coal, oil, and copper. The Fund is well exposed to the energy complex but with little gold exposure, which has hurt our relative performance in the last 12 months.

Portfolio managers
Nicholas Stein and Nicholas Hops
as at 31 March 2024