Australian Gold Fund
Performance Report
For Quarter and Year Ending 30th June 2024

Gold takes off and helps our fund to deliver a second quarter of outperformance

2024 June Fund Performance Statistics				
	Australian Gold Fund	ASX Gold Index (XGD)	Van Eck GDX	Van Eck GDXJ
Quarter Performance	7.84%	1.69%	7.31%	8.74%
Quarter Volatility (%)	25.30%	28.99%	32.65%	35.76%
12 Month Performance	16.66%	13.32%	14.52%	18.99%
12 Month Volatility (%)	22.41%	28.49%	30.90%	34.11%
Performance Since Inception	8.20%	3.47%	25.87%	11.77%
Volatility Since Inception (%)	31.08%	34.89%	39.25%	46.84%
Quarter % Days Outperform XGD	50.77%			
12 Month % Days Outperform	50.38%			
% Days Outperform Since Inception	49.18%			

The Australian Gold Fund delivered a solid return during the second consecutive quarter, outperforming the ASX Gold Index by a significant margin. The Fund was also less volatile than the ASX for both the June quarter and the last 12 months.

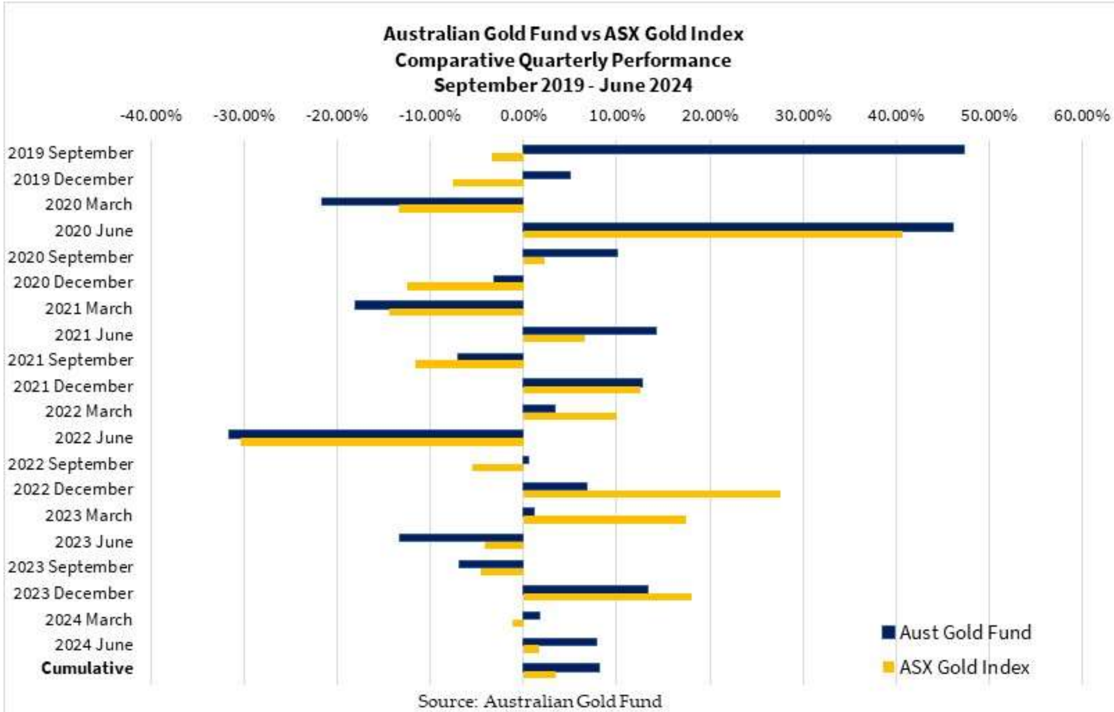
However, a selloff in gold and gold stocks that began on 21st May until 26th June dampened the quarter's performance.

Despite the month-long selloff into the end of the quarter, our fund outperformed the ASX Gold Index this quarter. We attribute it to our timing and stock selection.

Some of our largest portfolio exposures (Black Cat Syndicate, Catalyst Metals, Kingsgate Consolidate, Pantoro, Spartan Resources, and West African Resources) rallied strongly during the quarter, keeping their gains despite the selloff.

Reversing the trend and building momentum for a strong year

We present our historical quarterly performance below:



Source: Australian Gold Fund

The quarter started off well as gold made new highs in April, followed by silver breaking above the 12-year resistance level of US$30 an ounce. This sparked a recovery for the early-stage gold mining companies, unloved for over two years. However, gold stocks peaked on or around 21st May 2024 before embarking on a month-long selloff to end the quarter. Again, explorers and early-stage developers were hit harder, with many giving back their gains made during the quarter. Few managed to keep their gains.

The top performers in our portfolio were Catalyst Metals (up 76% for the quarter), Pantoro (52%), Spartan Resources (50%), Platina Resources (40%) and Metalstech (39%).

While most of the top performers are early-stage gold mining companies, the more established producers delivered more stable gains during the quarter.

The US Federal Reserve shows its hand on rate cuts, sending gold higher and US dollar weaker

The US Federal Reserve meeting in mid-March sparked a strong rally in gold, allowing it to set a new all-time high.

In April, gold spiked temporarily as fears of Middle East tensions escalating further after Israel and Iran exchanged fire. Fortunately, the situation calmed somewhat, sending gold down a little during the month.

Silver broke out of the 12-year resistance level for the first time in mid-May, sparking renewed buying of gold stocks. This was notable as gold usually leads silver in a precious metals bull market, but silver catches up quickly in the manic phase. Therefore, silver's rally might suggest there could be fireworks with gold stocks in the coming months.

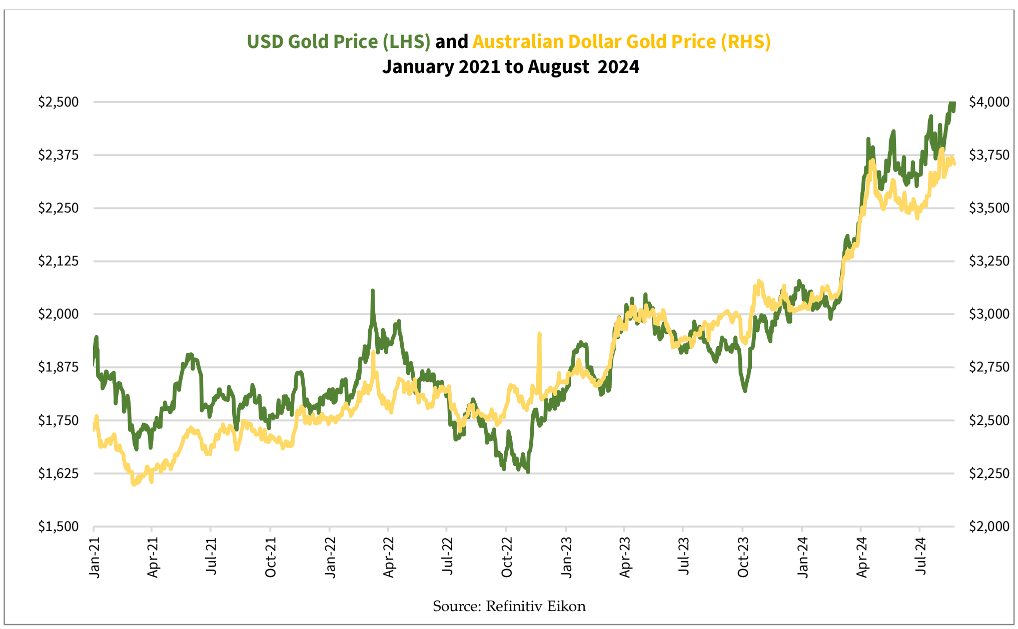
However, silver only held above US$30 for three weeks before following gold down during June. The US Federal Reserve and the US Bureau of Labour Statistics released data that helped drive a bounce in the US dollar. Inflation data also showed the economy did not slow down enough, suggesting a delay in rate cuts from July to September.

We saw an unexpected development on the political front in President Joe Biden's unceremonial replacement after his incoherent performance at the first presidential debate. In his place is Vice President Kamala Harris whose selling point is her giggling and a penchant to speak in rhymes and undecipherable riddles. She also refashioned herself from Jamaican-Indian to black, which required rewriting her ancestry.

Adding to the comedy, one of her crowning glories as Californian State Attorney-General was jailing those who possessed a small amount of marijuana, and giggling in response to a question in an interview afterwards asking whether she used it herself.

Given these, we believe Kamala Harris has given new meaning to "pot calling the kettle black" (we reciprocate her non-sequiturs and illogical utterings with our own matching pun).

Additionally, the Federal Open Market Committee changed its position from three rate cuts to perhaps one or two rate cuts over two months. Their credibility is in tatters, which helped drive gold's continual strength, punctuated by a month-long stagnation.

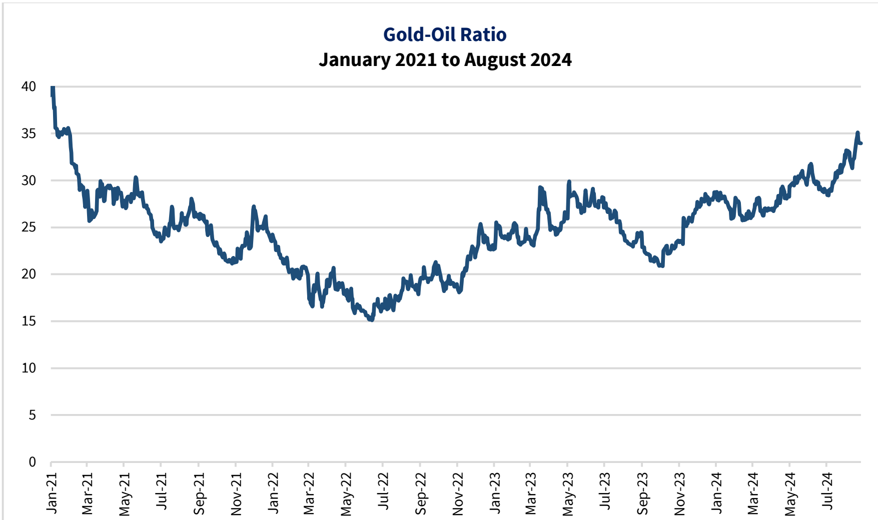


Source: Refinitiv Eikon

Aside from the US Federal Reserve, the war premium contributed partly to the rising price of gold. In April, tensions between Israel and Iran temporarily escalated to the point where the world expected a full-scale conflict after Israel fired missiles at Iran, killing key military figures in the Iranian government. Fortunately, this de-escalated and contributed to gold nudging down in June.

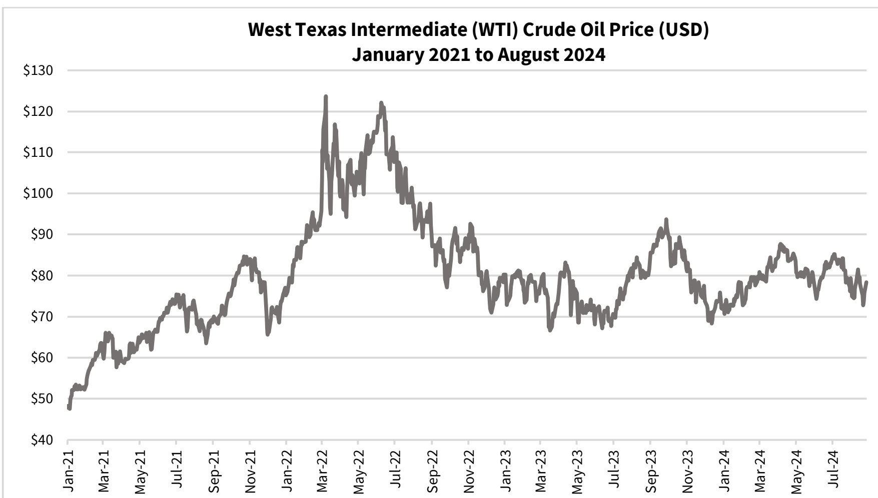
Bullish Gold-Oil Ratio trend points to better operating margins for producers

Gold rose against oil in the June 2024 quarter, continuing last quarter's trend. It increased from 26 to 31.5, despite experiencing a drop at the beginning of June, as seen below:



Source: Refinitiv Eikon

During the quarter, the price of oil decreased from approximately $85 to $80, partly driven by the de-escalating tensions in the Middle East and also a weakening global economy:

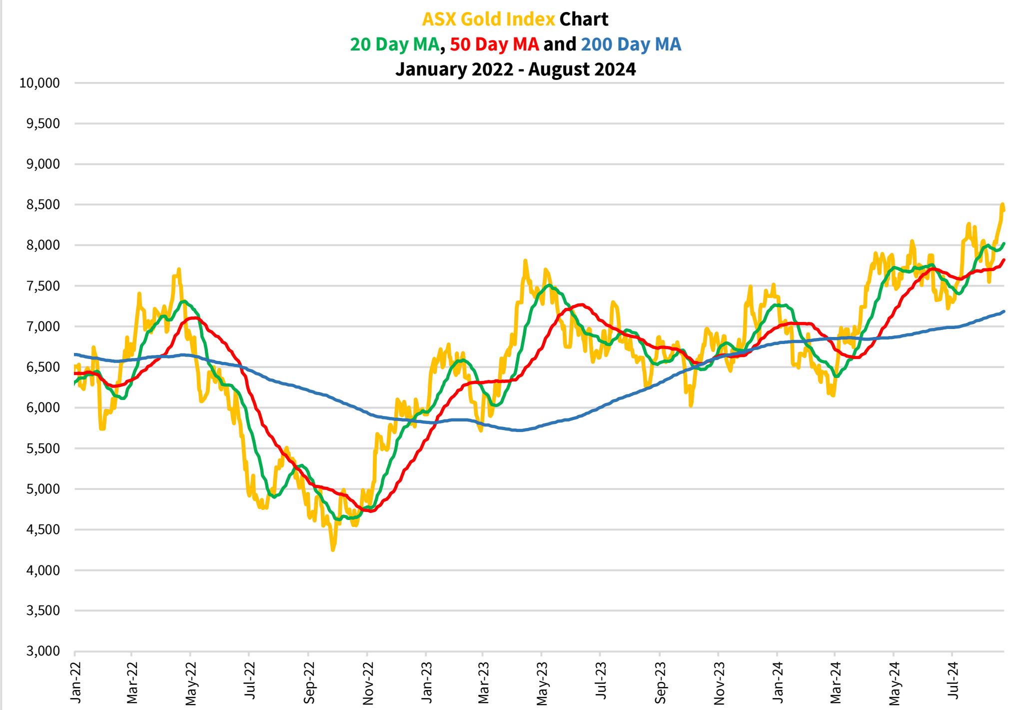


Source: Refinitiv Eikon

In addition, Saudi Arabia opted out of the petrodollar system at the end of June. The country helped establish this system in 1972 when the then-Secretary of State Henry Kissinger entered a treaty with the Saudi Royal Family. Saudi Arabia's decision to do this will cause other nations to shift to trading oil in alternative currencies. In turn, this could cause the US dollar to weaken and threaten the status quo of the existing financial system.

Gold producers – Making a new intra-quarter high

Moving to gold stocks, the ASX Gold Index staged a 21% bounce from its lows of around 7,000 points at the end of March to over 8,000 points in May. It ended the quarter at its highest level since April 2022 and 2023, as seen below:



Source: Refinitiv Eikon

During the quarter, the index made its first new high since 2022 but failed to hold it. This arose from the 2024 March quarter results being below expectations, thereby giving investors an excuse to take profits. Despite the higher gold-oil ratio, operating costs continued rising, and operating margins only increased slightly.

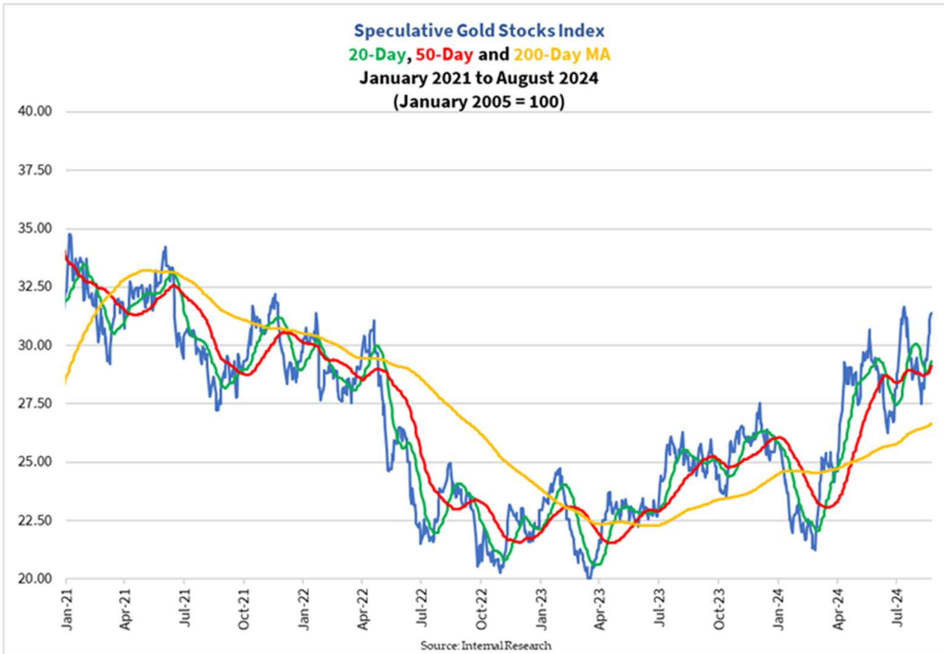
The largest gold producers including Newmont Corporation, Northern Star Resources and Evolution Mining did not follow gold's rally to break to new highs in April and May. A few producers such as Emerald Resources, Perseus Mining and Westgold Resources delivered outperformance, however, but this was insufficient to draw in more general investor interest to take the ASX Gold Index higher.

Looking at the moving average trendlines, the 50-day moving average initially rose strongly following the momentum from the previous quarter. It slowed after the ASX Gold Index peaked in May and plateaued into the end of the quarter.

Meanwhile, the 200-day moving average maintained its rising trend, further reinforcing a positive, long-term outlook.

Gold explorers and developers – Strong trends remain, but many still lag behind

We now move to the Speculative Gold Stocks Index, our in-house proxy metric for the performance of explorers and early-stage developers. The graph below shows the index performance over the past year:



A significant rally happened during the quarter coinciding with silver breaking above US$30 an ounce in May. However, this trend did not last and the index retreated at the end of the quarter. The bright spot is that the upward trend in the 200-day moving average remained, pointin to the strongest trends for the year, thus far.

Several companies raised capital during the quarter, with investors even oversubscribing to their offers. This shows increasing investor interest in this space, albeit not across the board.

That said, some explorers continued to sell down, during the lull in June, with a handful of companies even making a new low. Companies continued to report positive progress with their exploration and development, but news announcements that were anything short of spectacular failed to lift them from their doldrums.

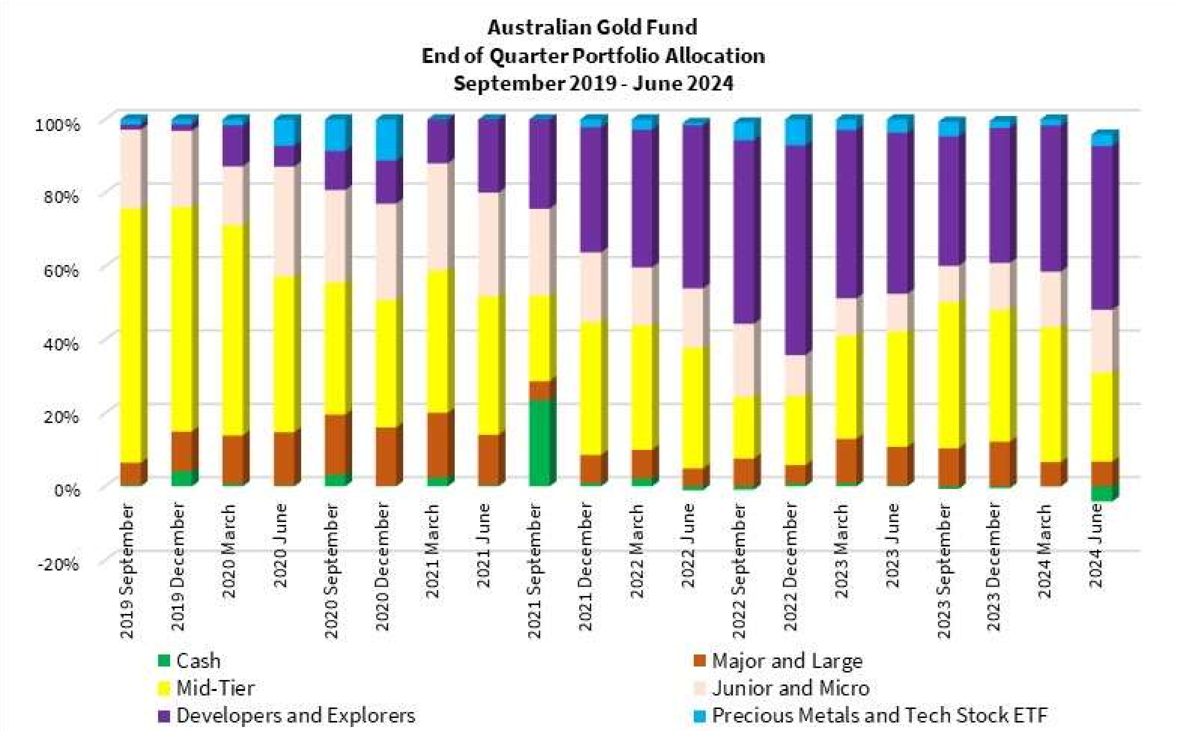
Pushing our portfolio to the limit to capitalise on risky gains

The following table outlines the Australian Gold Fund's portfolio composition:

	% Portfolio by Market Value	Range
Cash	-4.5%	2-10%
Major and Large Producers	7.4%	0-20%
Mid-Tier Producers	26.3%	0-60%
Junior and Micro Producers	18.8%	0-60%
Developers and Explorers	48.6%	0-25%
Precious Metals and Tech ETF	3.5%	0-30%

We overexposed our portfolio at the end of the quarter, leading to a negative cash position. We made some trades a day before the quarter's cutoff date, with the cash settlement occurring after the quarter.

Our historical allocation is in the figure below:



Source: Australian Gold Fund

During the June quarter, the Australian Gold Fund took the opportunity to sell some producers, taking part profits during the April and May rally. Expecting the speculative gold stocks to continue outperforming producers, we continued adding to our positions in the early-stage developers with the proceeds from selling producers.

At the end of the quarter, we had just over half of our portfolio in producers and almost half in developers and explorers. However, we again moved early increasing our exposure to the speculative gold stocks. This partly dampened our portfolio's returns, which were otherwise solid relative to our benchmarks.

Top 5 Holdings

Our Top 5 holdings are given below:

Top 5 Holdings
Ramelius Resources
Kingsgate Consolidated
Oceanagold Corporation
Black Cat Syndicate
Westgold Resources

Out of the top 5 holdings, 4 remained the same but in a different order compared to the March 2024 quarter.

We increased our exposure to Ramelius Resources during the June quarter given our confidence in the company's ability to generate an operating surplus. The company rallied more than 30% during this time.

We reduced our exposure to Kingsgate Consolidated slightly to reallocate some funds to the more speculative gold stocks. This company rallied more than 30% during the quarter, allowing it to retain its place as our Top 5 holdings.

We made no trades in Oceanagold Corporation during the quarter. The company's share price remained steady, while the company's operations in New Zealand, the Philippines and the US reported improvements. We remain hopeful of the company's long-term growth potential.

We reduced our exposure to Westgold Resources during the quarter. Despite announcing a merger with Karora Resources and its shares performing strongly, the company's operations for the 2024 March quarter disappointed. It delivered a modest increase in its cash balance, with significant investments needed to develop the Fender and Great Fingall underground mines at the Meekatharra operations.

Black Cat Syndicate re-emerged as one of the Top 5 holdings as its share price recovered over 35% during the quarter. The rally is driven by the company announcing that it will commence production in Kal East, in addition to progressing Paulsens to resume gold production by the end of the year.

Valuation Thesis (Updated 18th April 2021)

We analyse gold producing companies using the **Valuation to Profit Margin Multiple.** Our empirical studies have shown that the stock price is most aligned to this metric, as opposed to earnings, production, resources and reserves. Our metric is comparable across different classes of gold producers as it standardises by the company's scope of production. We observe that investors prefer companies with higher production and reward them with a higher multiple. The multiple combines the valuation metric, which we use the **EV/AISC-Adjusted Production,** and the **Profit Margin**.

The EV/AISC-Adjusted Production calculates the market value of one ounce of gold produced, adjusted by the All-In Sustaining Cost. The reason for scaling production by AISC is because we believe that not all ounces are equal. Companies that can produce gold at lower cost are naturally more profitable and deserve a higher multiple of their production and other operational or financial performance measures. The Profit Margin is the difference between the Realised Sale Price and the AISC.

As a rough guide, the fair value ranges for different mining company classes are as follows:

EV/AISC-Adjusted Production

***Major and Large Companies** – $8 000-$12 000/oz*

***Mid-Tier Companies** - $4 000-$7 000/oz*

***Micro and Junior Companies** - $1 500-$4 000/oz*

Valuation to Profit Margin Multiple

***Major and Large Companies** – 8-12*

***Mid-Tier Companies** – 6-10*

***Micro and Junior Companies** – 3-5*

We believe a multiples method for valuation is more suitable than the typical Discounted Cashflow approach because the latter approach requires projection of cashflows into the future. We consider projection even beyond the next twelve months to be very speculative, especially in mining. We have observed the unreliable nature of management outlook on production and costs after seeing their track record. On top of that, forecasting the gold price and broader economic conditions that impact on the company's performance are also difficult.

We use the following classes for the different tiers of gold producing companies – **A** (major producer – 1Moz p.a. or more), **B** (large producer – 0.5-1Moz p.a.), **C** (mid-tier producer – 150 000-500 000oz p.a.), **D** (junior producer – 50 000-150 000oz p.a.) and **E** (micro producer – less than 50 000oz p.a.).

The **Enterprise Value** is the sum of the market value of equity (stock price multiplied by number of issued stocks) and net debt (total borrowings less cash and gold bullion, but excluding gold in circuit and ore stockpiles). This calculates the market value of the company's assets deployed in the company's operations. The **AISC-Adjusted Annual Production** calculated as the annual production of gold per oz divided by the AISC adjusted by a factor of 1 000. The factor of 1 000 is arbitrarily chosen as a way to standardise the final metric. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

We use the management guidance in our valuation input as this is the most objective information to base our estimates. We believe that investors similarly use this information in guiding their analysis and decision making. We recognise taking the management guidance at face value may not always be optimal as they tend to report favourable outlooks and may try to delay bad news. In such cases, we seek to qualify this in our SWOT analysis and adjust it in our Valuation to Profit Margin multiple.

The **Fair Valuation Range** in our reports reflects the price range we consider to be sensible based on the company's performance and the prevailing market conditions. We trade based on this range. We adopt the **margin of safety** approach (refer to Seth Klarman's book of the same title) and hence this range is wider than what typical equity research analysts would use in their reports. Companies trading outside the fair value range are significantly over or undervalued. Investors should look more deeply into the company's operations, financial performance and recent market announcements to determine if the market anticipates a possible re-rating. This range should not be taken as the sole driver for investment decisions, but as a starting point for further research to identify the potential causes for the current stock price.

We recognise that many analysts consider discretionary forecasts and adjustments on the company's production level, ore grade, cost levels, resources and reserves and economic factors into their valuation. We have studied many of these reports and recognise their merits. However, our view is that such subjective adjustments may not necessarily improve the accuracy of their estimations. This is because with mining companies, both internal and external drivers that affect the company's future performance are unpredictable. Furthermore, we understand that a company have potential to convert their resources and reserves into cashflows in future. Their success is contingent on building the infrastructure, extracting the ore from the ground and processing it in a cost-effective manner. We recognise the criticism by many regarding our approach. We have tried and tested our valuation against the actual price estimates and our investment returns. We let these results speak for themselves.

Glossary

The **All-in Sustaining Cost (AISC)** is a measure adopted by the World Gold Council as a standardised measure of production costs. This cost includes typically the **Cash Cost** associated with the direct production (extraction, transportation, processing and refining costs, staff salary and wages and relevant corporate costs) as well as **Sustaining Expenditure** that may include maintenance of mine equipment and infrastructure, insurance and administration costs over its production life. Companies may still have discretion in apportioning their expenses.

The **Net Cash/Debt** is the net amount of cash and bullion the company holds after their borrowings and interest-bearing debt are paid. This represents the liquidity position of the company, although this measure does not consider whether the debt is current (due within the next twelve months) or not. A company in a significant net debt position is owing more than they currently have in cash and bullion, which may potentially put them in financial distress if the debt is due soon.

The **Net Cashflow from Operations Excluding Maintenance Capital Expenditure** measures to what extent the company can generate cashflows from its operations after paying for its operating costs as well as Cash Paid for Purchases of Property, Plant and Equipment and the Cash Paid for Development Expenditure in the Investing Cashflows section of the Statement of Cash Flows. It does not include Cash Paid for Exploration and Evaluation, which is assumed to be growth capital expenditure. This is by no means a stable and comparable measure as different companies may have discretionary interpretation of what constitutes as Operating Activities and Investing Activities or Development, Exploration and Evaluation expenditures.

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