Australian Gold Fund
Performance Report
For Quarter and Year Ending 31st March 2024

Summary

2024 March Fund Performance Statistics				
	Australian Gold Fund	ASX Gold Index (XGD)	Van Eck GDX	Van Eck GDXJ
Quarter Performance	1.72%	-1.12%	1.96%	2.17%
Quarter Volatility (%)	23.32%	30.01%	31.60%	34.50%
12 Month Performance	4.27%	6.84%	-0.67%	-1.21%
12 Month Volatility (%)	21.91%	27.71%	29.38%	32.44%
Performance Since Inception	-0.27%	1.75%	17.29%	2.79%
Volatility Since Inception (%)	31.39%	35.19%	39.59%	47.38%
Quarter % Days Outperform XGD	50.00%			
12 Month % Days Outperform	36.92%			
% Days Outperform Since Inception	49.63%			

The Australian Gold Fund performance for the 2024 March quarter was modest with a gain of almost 2%. However, it performed better than the ASX Gold Index and was almost on par with other benchmark gold stock indices.

This marks the end of five consecutive quarters of our fund underperforming the ASX Gold Index.

Our fund outperformed the ASX Gold Index on 50% of the trading days this quarter. However, it underperformed the index over the past year.

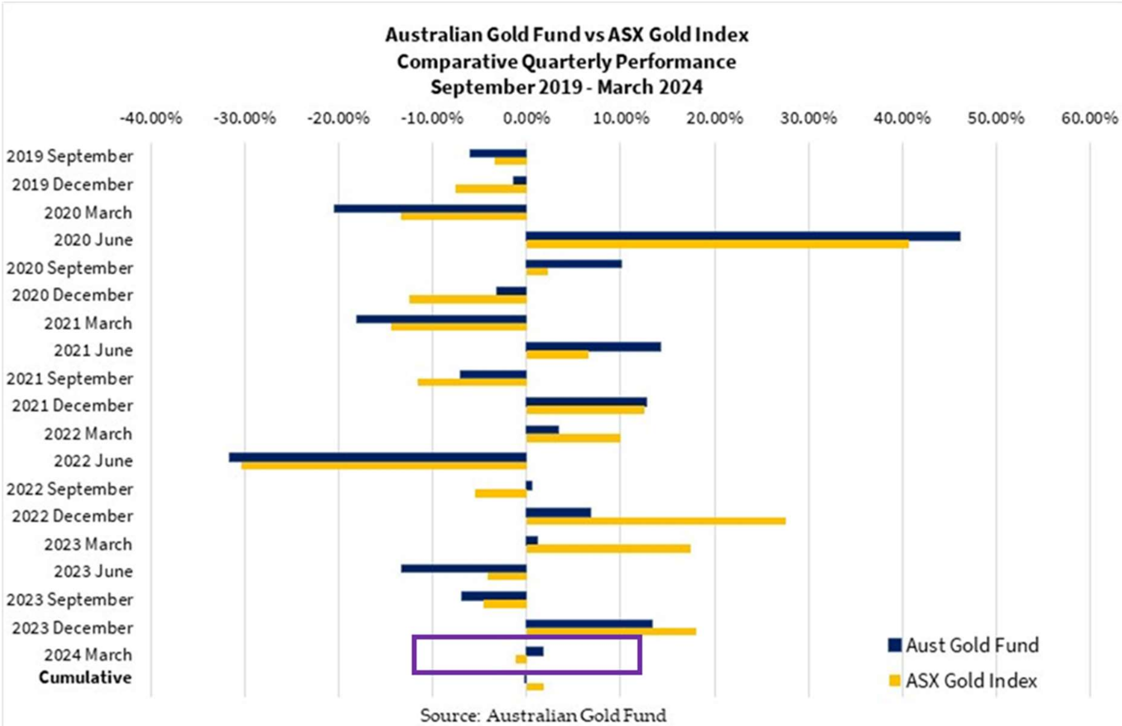
Since inception, the Australian Gold Fund continues to lag behind the other gold indices delivering a cumulative return of -0.27% while the benchmark indices delivered a modest positive return. This result comes from our portfolio's strong bias towards gold mining companies in the early stages of the mining lifecycle.

Our fund's performance this quarter arises from our exposure to several mid-tier gold producers that saw gains of just over 6% during the quarter, notwithstanding the sell-off. Furthermore, a few early-stage mining companies jumped during the quarter, increasing by 50%. These holdings helped us inch ahead of the ASX Gold Index.

https://www.goldfund.com.au

Historical Performance Trends

The historical quarterly performance for the Australian Gold Fund is as follows:



While returns on the ASX Gold Index were negative, our fund's returns were positive and exceeded the ASX Gold Index in the March quarter by just under 2%.

Our fund continues to be overexposed to mid-tier producers, gold explorers and early-stage developers. Producers outperformed the early-stage gold mining companies this quarter, although the largest producers such as Newmont Corporation, Evolution Mining and Gold Road Resources dragged down the ASX Gold Index.

A handful of gold explorers and early-stage developers went against the trend and outperformed. Our fund had exposure to some of these companies including Cavalier Resources (up 81% for the quarter), Magmatic Resources (up 86%), PolarX (up 86%) and Southern Cross Gold (up 46%).

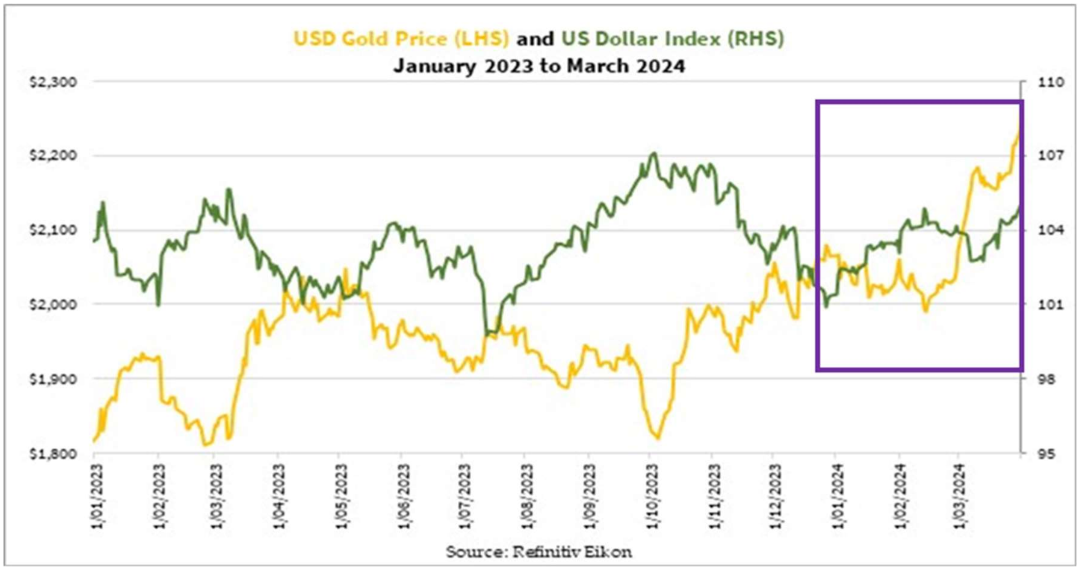
Gold Compared to the US Dollar

2024 began with a reversal in the bullish trend in gold and gold stocks that had begun in October 2023 shortly before the outbreak of the Israel-Palestine conflict. At the end of 2023, the markets expected as much as six rate cuts for 2024 by the US Federal Reserve.

However, stronger than expected employment data and a slowdown in the US inflation rate in January and February caused the US Federal Reserve to resume its rhetoric of keeping rates higher for longer.

While the official economic data surprised on the upside, we suspect this was driven by political reasons as the Establishment sought to prepare for this year's election where the US is likely choosing between a candidate that is hated by the intelligentsia and elite class and a totally incompetent muppet who seems to have little control over his cabinet or his bowels.

This illusion started falling apart in March when the Federal Open Market Committee announced it would target three rate cuts for the year, signalling a weak economic outlook. This caused a reversal in the falling trend in gold since the start of the year. A strong bounce in gold occurred in the final two weeks, taking gold to new highs:

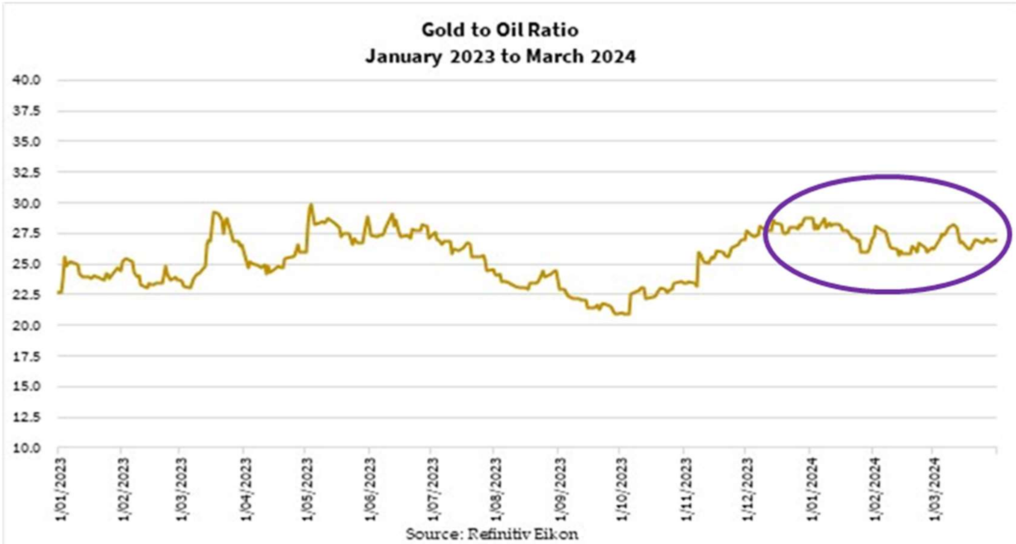


Gold's movement during this quarter was driven more by *economic* factors, which are supportive of gold in the long-term. This contrasts with geopolitical tensions, which impact gold temporarily in the short-term.

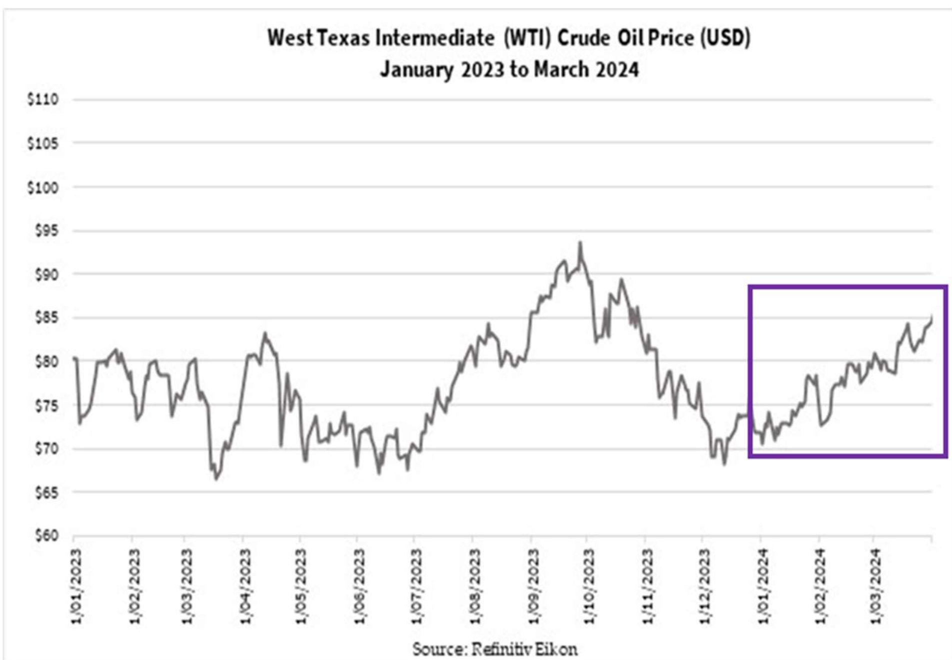
There were no new military conflicts during the quarter, although there was global concern regarding the potential escalation of hostilities in the Middle East, vis-à-vis heightened tension between Iran and Israel.

Gold Compared to Oil

At the same time, the decreasing price of gold and the rising price of oil caused the gold-oil ratio to deteriorate in the March 2024 quarter. It decreased from 28 to 26 during this period, as is seen in the graph on the following page:

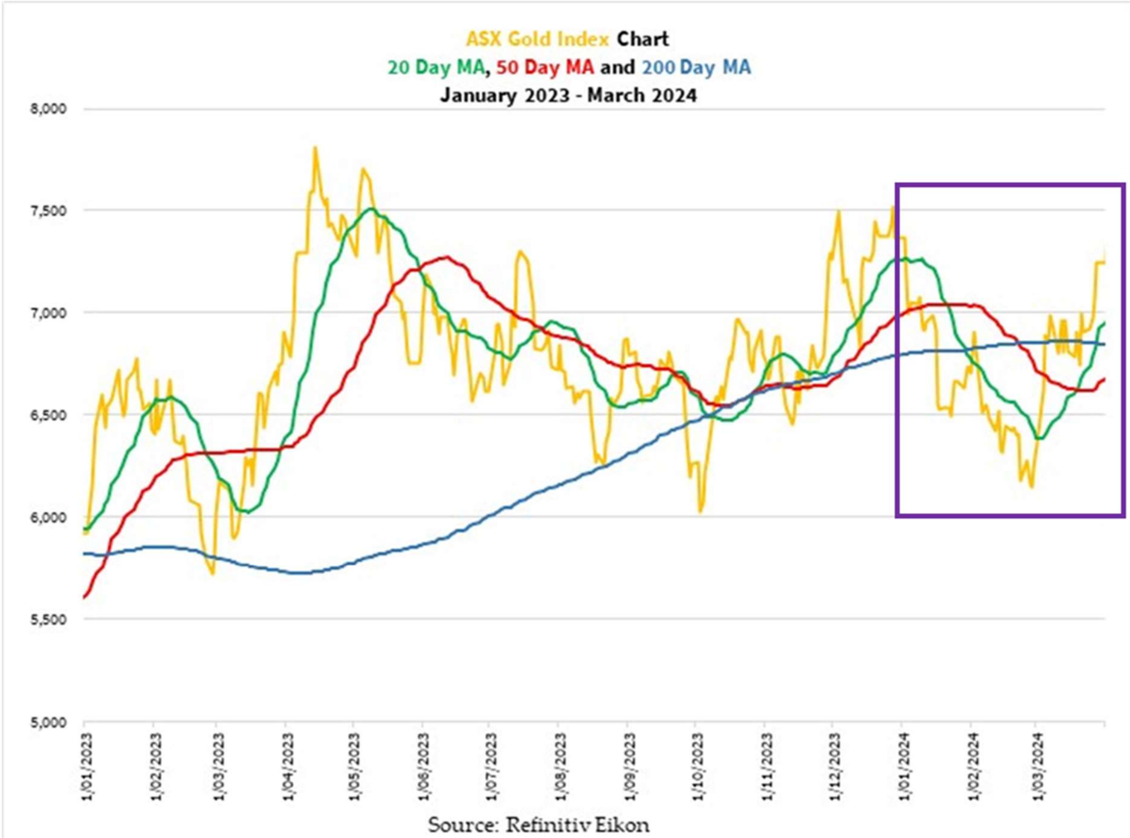


During the March 2024 quarter, the price of oil increased from $70 to almost $85, as the following graph indicates. With gold stagnating and oil rising, gold producers faced higher operating costs and lower margins.



The trend changed from mid-March when gold rose quickly following the US Federal Reserve announcing three rate cuts for 2024. Oil closed the quarter higher but gold rose faster, resulting in a rising gold-oil ratio. As expected, the gold-oil ratio placed downward pressure on the ASX Gold Index following gold's stellar performance at the end of 2023.

The index staged a 15% at the end of the March quarter, bouncing from its lows of around 6,100 points at the end of February to approximately 7,300 at the end of March. It ended the year at its highest level since mid-April 2023. This can be observed in the index performance below:



With the benefit of hindsight, the 200-day moving average maintained its rising trend, indicating a positive, long-term outlook. The 50-day moving average also staged a promising up-turn in the final days of the quarter. This current setup is strongly bullish as the shorter term trendlines are pulling up the longer term trendlines.

Speculative Gold Stocks Index

Now we will look at 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:

The early-stage gold mining companies appeared to have bottomed in February to March 2024. Note how the selloff during the quarter did not create a new low.

The rising trend prevailed with the 200-day moving average continuing to rise; the 50-day average also appeared to rise slightly at the end of the period.

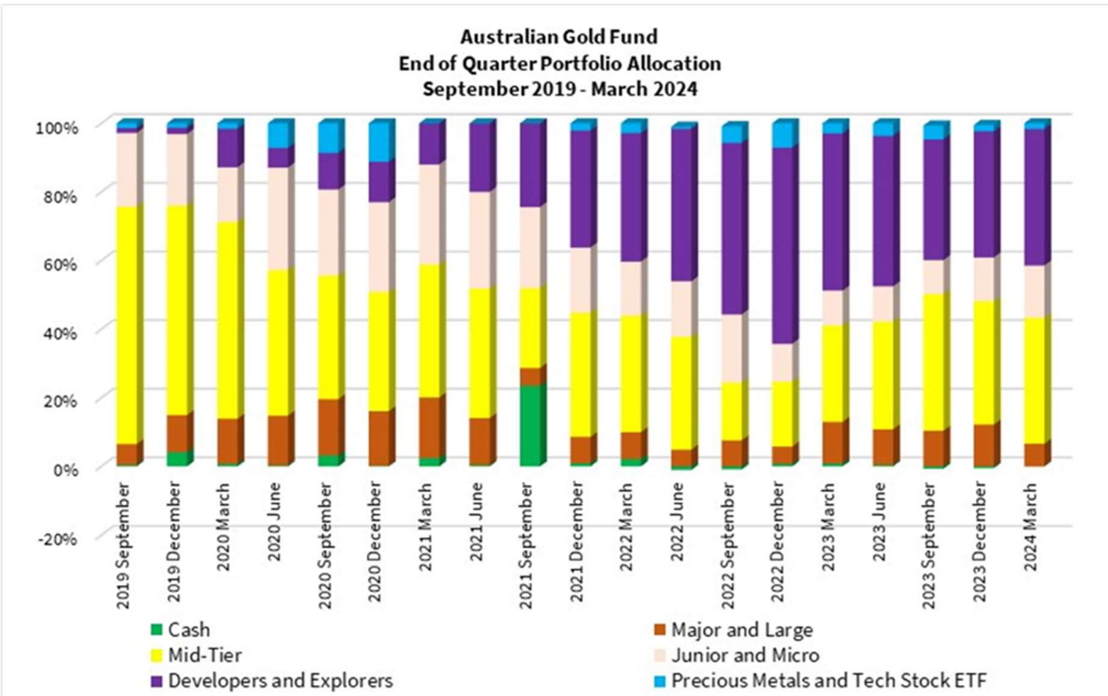
Although the index rose, several companies made new lows even at the end of the March 2024 quarter. Nonetheless, this space is seeing a recovery overall.

Portfolio Composition

Several companies managed to raise capital during the quarter and investors even oversubscribed their offers, showing increasing investor interest in this space, albeit not across the board. The following table outlines the Australian Gold Fund's portfolio composition:

	% Portfolio by Market Value	Range
Cash	0.0%	2-10%
Major and Large Producers	6.6%	0-20%
Mid-Tier Producers	36.7%	0-60%
Junior and Micro Producers	15.2%	0-60%
Developers and Explorers	39.8%	0-25%
Precious Metals and Tech ETF	1.6%	0-30%

Our historical allocation is in the figure below:



Source: Australian Gold Fund

At the start of the March 2024 quarter, the Australian Gold Fund continued shifting its exposure towards more explorers and early-stage developers as gold and gold stocks pulled back. Minimal trading occurred in February as the selloff gained momentum. The Fund sought to avoid selling low while avoiding catching a falling knife.

In March, the fund again increased its exposure towards explorers and early-stage developers, given they lagged behind the producers in the recovery. Our expectation is for this space to experience a recovery that could dwarf the rally in the larger producers later this year.

Top 5 Holdings

Our Top 5 holdings are given below:

Top 5 Holdings
Oceanagold Corporation
Westgold Resources
Ramelius Resources
Kingsgate Consolidated
West African Resources

The top 5 holdings were the same companies that we had invested in previously, but in a changed order to reflect their relative performance during the March 2024 quarter.

Our fund decreased our holdings in Ramelius Resources, West African Resources, and Westgold Resources slightly during this period. We shifted our funds to early-stage gold mining companies despite producers delivering a solid performance during the quarter. As such, they remain our largest holdings.

Our increase in exposure to the smaller companies were towards companies which we previously had smaller holdings. This was to avoid undue exposure to these companies as a proportion of our portfolio, given their high risk. We recognise there is no guarantee in their future return so we exercised prudence, despite our optimism about their potential.

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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