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WS AMATI STRATEGIC METALS FUND

Quarterly Review

March 2025

By
Georges Lequime, Fund Manager

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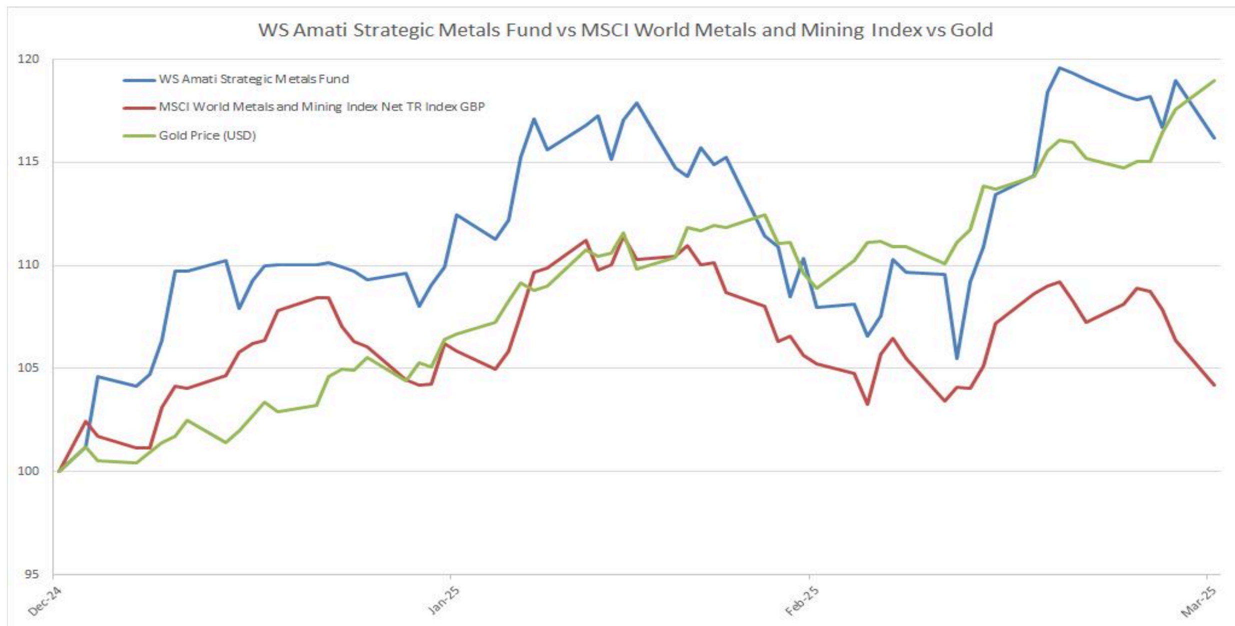
The quarter was largely dominated by precious metals. The Fund reported one of its best performances on record in the first quarter of 2025, justifying holding an overweight position in precious metals stocks during an uncertain economic and geopolitical environment. U.S. President Donald Trump's proposed tariffs sparked safe-haven demand for precious metals, as well as the onshore hoarding of certain commodities, such as copper, during the reporting period. Tariff uncertainties have led to the expectation of slower economic growth and higher inflation globally, which is expected to weigh down on economically sensitive industrial metals in the short-to-medium term. The Chinese infrastructure and property construction sectors remain sluggish, despite efforts to stimulate the broader economy in China. On the positive side, Electric Vehicle (EV) and Battery Electric Storage Systems (BESS) reported sturdy growth in the first quarter of 2025, with Global EV sales (driven by Chinese demand) up by 30% year on year in 2025 and BESS demand up by 30-40%.

The fund was up by 16.2%, against the benchmark that was up by 4.2%. The performance was largely driven by a high (65-70%) exposure to precious metals in the fund, mostly in the mid-cap and developers, while keeping the optionality to the battery metal sector at around 16%. We believe that the battery metals sector (lithium, graphite and nickel) offers the most upside potential, given how oversold the sector is and the fact that commodity prices are finding a floor at current levels, which remain well below the levels required to incentivise new supply. However, sentiment towards the sector remains very weak and could remain so in the short-to-medium term. We also used the opportunity of the weakness in spot uranium prices and uranium equities to reintroduce a uranium position into the Fund.

Figure 1 – Fund Performance vs Base Metals & Gold



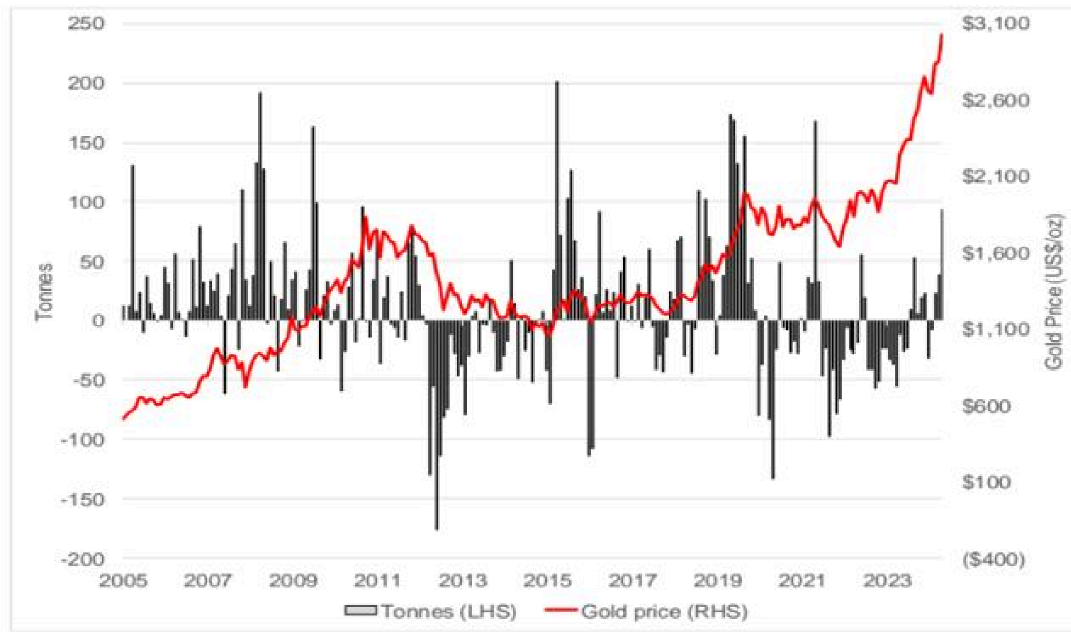
Source: Refinitiv as at 31/03/2025

Precious Metals

The gold price reached a new closing price high of $3,124/oz on March 31, ending 18% higher for the quarter. Continued strong central bank buying, combined with the return of investor buying of physical gold, pushed the gold price above $3,000/oz during the quarter. There was also a surge in gold and silver deliveries to the U.S. on speculation of

potential import tariffs. Silver slightly outperformed gold (19%) to reach a new closingprice high of $34/oz on March 31. The release of stronger than expected fourth quarter of 2024 financial results for the precious metals companies saw investor buying returning to the sector, with gold and silver stocks up around 35% over the quarter. After a hiatus of 2-3 years, physical gold exchange traded funds (ETFs) reported inflows of 6% in the first quarter of the year, worth £8 billion (figure 2).

Figure 2 – Gold ETFs: Monthly Inflows and Outflows



Source: Bloomberg; Cormark Securities

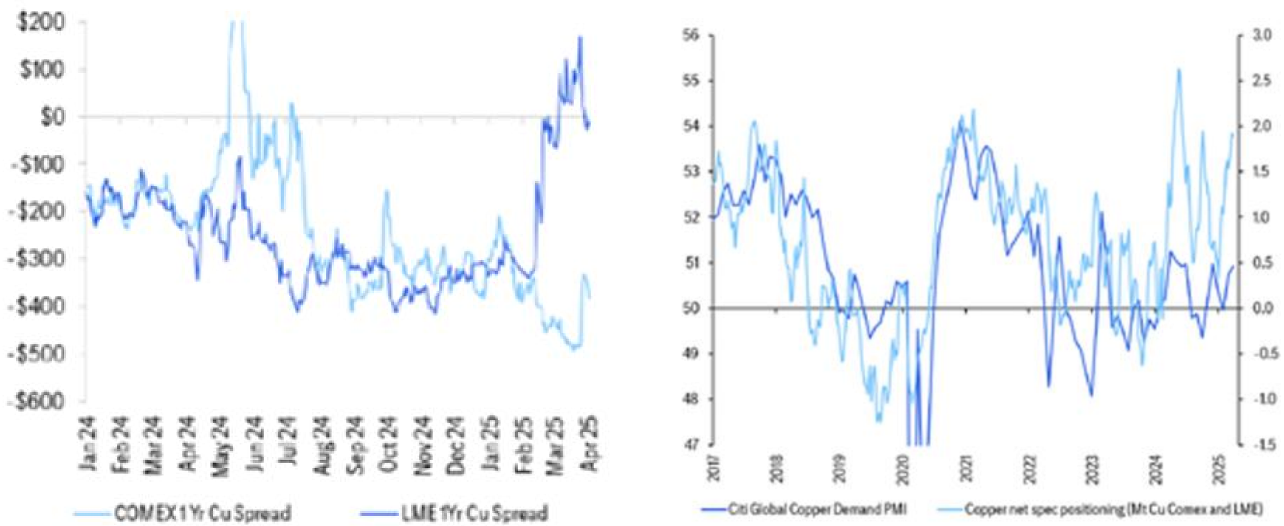
Concerns over tariffs, and the wide-ranging impact they could have on global growth, is continuing to drive market uncertainty and a mistrust of US policy decision making. This has added to already rising geopolitical risk. Recent events have highlighted the need for greater military spending in Europe and in the US, which will likely result in even higher deficits. Tariffs have also reintroduced concerns about higher inflation, especially at a time when deteriorating economic conditions may necessitate interest rates staying low, which could see the US economy entering a 'stagflation' era.

According to the World Gold Council, rising geopolitical risk, increased inflation expectations and falling yields have all been positive environments for gold historically, and we have all three at the same time right now. A move up in the Geopolitical Risk (GPR) Index of 100 points is typically linked to a 2.5% increase in the price of gold, all else equal. Similarly, a rise in 10-year break-even inflation expectations of 50bps is typically associated with an approx. 4% rise in gold prices, and a 50bps fall in 10-year Treasury rates over the long-run has been associated with a 2.5% rise in gold. Although these drivers seldom occur simultaneously, their combined effect can create an environment in which gold can continue to perform positively.

Base Metals

On February 25, the US announced a Section 232 investigation (White House) into US copper imports, citing the metal's vital role in US defence, infrastructure, emerging technologies (including the energy transition), and vulnerability to rising reliance on copper imports. President Trump mentioned a 25% tariff on copper in his Congress speech, matching announced duties on aluminium and steel. This sparked a flood of imports into the US with a large disconnect between the LME price (UK) and Comex price (US) withwith the market quickly pricing in an 18% effective copper tariff on 1yr forwards (figure 3, left hand side). This also sparked a significant increase in investor positioning, despite sluggish demand for the metal (figure 3, right hand side).

Figure 3 Comex/LME Cu price spreads and Net Spec positioning in Copper



Source: Citi Research

The relationship between positioning and cyclical demand sentiment has weakened since 2023, as copper's current and future physical balance has become more influenced by structural energy-transition and AI-related demand and supply constraints. However, we expect investor expectations for broader copper demand strength to come under renewed pressure through to the second half of 2025 from the impact of broader US tariff hikes (announced on 2 April and implemented in the second quarter), and the unwinding of earlier tariff-related frontloading of demand. The expected pullback in copper prices should provide us the opportunity to invest in copper companies at reasonable valuations.

Outlook

Looking ahead, we continue to prefer commodities that are underpinned by compelling supply dynamics and demand supported by energy transition applications, as well as gold, which benefits from lower real rates and geopolitical uncertainty. We expect:

- Gold & Silver equities to continue to outperform. Despite the outperformance in the first quarter, sector valuations are still lagging historic metrics by over 50%, and analysts are continuously upgrading their earnings and cash flow projections.
- Lithium will have to wait for cost curve economics to play out. The shares look extremely undervalued. However, there are no obvious catalysts for any recovery in sentiment towards the sector in the short-term. That said, we expect the market to move into deficit in 2026 and equities could move ahead of that time.
- Underlying demand for copper remains weak in China and prices could weaken further if the US slips into recession, just as new production hits the market in 2026.
- More attractive risk-reward in Nickel, as the sector is so beat up and Indonesia are looking to reduce supply.
- Specialty metals (REE's; Titanium; Antimony), outside of China, is expected to be a big beneficiary of the China-US trade wars, with China responsible for all US imports of the metals.
- The uranium sector is starting to look interesting again after the collapse in spot uranium prices and uranium-related equities over the past 12 months.

Due to the short-term uncertainty in the global economy, we are keeping our precious metal weighting at 65-70% in the portfolio and looking to increase our exposure to industrial and battery metal companies on weakness as we approach the summer months.

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Risk Warning

Past performance is not a reliable guide to future performance. The value of investments and the income from them may go down as well as up and you may not get back the amount originally invested. Tax rates, as well as the treatment of OEICs, could change at any time. The investments associated with this fund are concentrated in natural resources companies, which means that the fund is subject to greater risk and volatility than other funds with investments across a range of industry sectors. The fund invests in companies that have operations in developing markets and which therefore may be subject to higher volatility due to political, economic and currency instability. Shares in some of the underlying companies in the fund may be difficult to sell at a desired time and price. A dilution levy may be applied to the share price when the fund is expanding or contracting. Should you buy or sell in these circumstances it may have an adverse impact on the return from your investment.

This review does not provide you with all the facts you need to make an informed decision about investing in the fund. Before investing you should read the Prospectus and the Key Investor Information Document (KIID). The Prospectus sets out the main risks associated with the fund and the KIID shows you how costs and charges might affect your investment. If you are in any doubt as to how to proceed you should consult an authorised financial intermediary.

Fund documentation is available on request and can be downloaded from Waystone here or from our website.

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