

Observations from the Precious Metals Summit

WS Amati Strategic Metals Fund - September 2024

Precious Metals Summit Observations



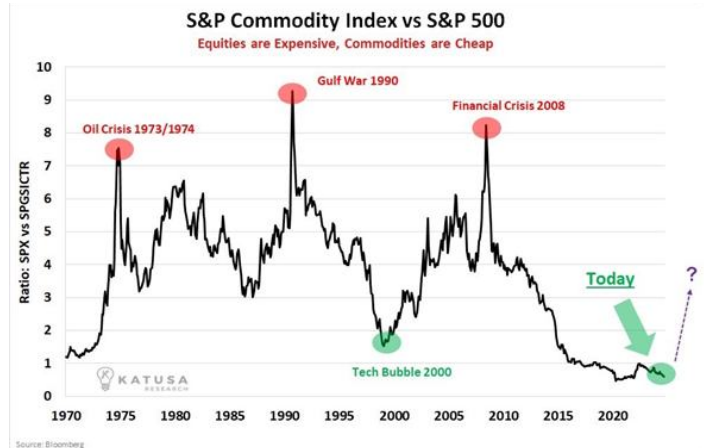
Written by
Georges Lequime

The Precious Metals Summit is held each year in the small Rocky Mountain village of Beaver Creek (at an altitude of +8,000 ft!!). It is arguably the world's most prominent conference for explorers, developers and mid-tier growth gold and silver companies. Base metal and uranium companies were also prominent at the conference this year. The attendance this year was just under 1,400 delegates, although by our count, corporates made up 85%-90% of this figure, brokers 5-10% and investors less than 10%. The concept is one of having 25-30 min long one-on-one meetings throughout the day with ongoing presentations taking place in the Main Hall. We usually have 10-15 meetings per day getting updates from the management teams for the companies held in the Amati Strategic Metals Fund, as well as introduction meetings to prospective investment ideas. This year, we scheduled 35 formal meetings across the three and a half days with multiple informal meetings over lunch and dinner functions.



Typical one-on-one meeting in a 9ft x 9ft warm cubicle. This one is with the management team of G2 Goldfields, a stock that has generated over 120% returns for the Fund and is on everyone's lips as the next company to be taken out, with AngloGold already having bought up to 15% of the company.

With gold at an all-time high, we were surprised to find the mood being extremely downbeat. Someone referred to it as attending a wake....which is probably the most accurate description of the mood. When pressed to find reasons for the downbeat mood, the answer was not hard to find.....a complete lack of capital - fund managers are moaning that they are not seeing any inflows into their funds while development companies with excellent projects cannot find any market support, forcing them to consider highly dilutive equity offerings or alternative funding sources like highly-punitive royalty and streaming deals.



The chart above, initially published by Bloomberg a few weeks back, is widely used to visually explain the reasons for commodity companies not seeing any capital flowing into the sector, given the lack of momentum over the past 15 years. No wonder the managers of mining equity funds look so beaten up. Commodities threatened a recovery in 2022 only to fall back to previous lows while broader markets charged ahead. While it is impossible to get the exact timing right as to when the cycle will turn for commodities versus broader markets, the cyclical nature of the sector cannot be ignored. There was a broader consensus at the conference that many commodities are completely oversold, especially the battery metals – lithium, nickel, graphite, cobalt, manganese – while we started detecting concerns about the economically sensitive metals like copper and aluminium with the constant stream of disappointing economic numbers out of China and Europe. The US economy is also starting to worry fund managers. Gold and silver companies were of greatest interest with the gold price hitting all time highs and equity valuations being so attractive.

The very sombre mood at the conference was very weird at a time when the fundamentals for the industry has never been so good and the valuations as attractive as right now. Companies with de-risked world class projects are trading at 0.1-0.2x Net Asset Value (NAV). The air felt heavy with the scent of M&A as many large mid-tier companies also had representatives at the conference. Some companies told us that more than 50% of their meetings were with larger corporates. Perhaps it will take a few more M&A deals to attract capital back into the sector?

On everyone's lips was the eye-wateringly expensive acquisition of Centamin Egypt by AngloGold, which was announced a day before the conference. While Centamin Egypt is not a widely held stock among actively managed gold funds, the sum of \$2.5 billion for a half of a 420-440,000 ounce per year highish cost producer in Egypt raised many eyebrows – especially when there are so many producers and developers trading at 0.1-0.2x this valuation. Clearly, AngloGold had their particular reasons for pursuing this deal. However, it provided encouragement to investors that M&A could well accelerate over the coming months.

We met up with many companies with operations and projects in Mexico to discuss the change in government coming up on October 1 and how it relates to the previous President's plans to ban new openpit mining projects in Mexico. We were relieved to learn that the incumbent government recognise the shortcomings of such a plan and have already had high-level discussions with Canadian government mining officials to streamline their mining policies along the same lines as Canada's. It is clear that many exceptions will be made and companies who already have exploitation and exploration permits in hand will more than likely be exempt from any changes. It is also clear that the incumbent government will be far more pragmatic with regards to mining activities in Mexico, and they have already requested the mining companies to open a dialogue with the mining ministry to discuss workable solutions.

For us, the conference felt like late 2015 again, where we walked out of the meetings shaking our heads at the attractiveness of the investment cases. About a third of the companies that we met up with are current investments in the Fund. Another third have now become priority work for us in putting together investment cases for the Fund. Especially since we believe that at least 2-3 of the companies that we are invested in will be subject to takeover bids in the near future and we need to look at opportunities to reinvest the Funds in the sector.

The conference also reinforced our view that the best investment opportunities right now remain in the gold and silver sectors. Everyone agrees that the battery metal sector looks woefully oversold but there is still much uncertainty as to when it will meaningfully turn around. The production curtailment announced by CATL last week (5-6% of world supply) sparked a bounce in the lithium stocks. Fingers crossed that we are near the bottom for equities in this sector – sentiment is still very negative/uncertain. Maybe the best tell-tale sign was that we could hardly find a lithium company present at the conference.

Sentiment towards copper and uranium still seems quite strong, although the very bullish views that we saw last year have been watered down by the pullback in both commodity prices as well as concerns about weak economic data out of China.

We came away thinking that the sector is very nicely poised to move higher in the coming months, especially as brokers and investors start factoring in much higher gold and silver prices in Q3 2024 – as well as lower than expected costs relating to lower oil prices.

Another important conference – the Denver Gold Forum – took place this week in Colorado Springs – this conference involves all the major and mid-tier producers with the large generalist fund across North America and Europe in attendance. We still believe that the sector will only re-rate once the generalist funds start getting involved. Perhaps the message sent by AngloGold that they are buying expensively because they believe gold prices are going much, much higher, could resonate among the generalist funds.

A comment by Frank Guistra, a billionaire mining investor and executive, who delivered a keynote speech at the conference last week:

"I have been doing this for 45 years. This is the most incredible disparity I've ever seen. There's no capital coming into this sector. Having said that when gold goes higher it will come, it's blowing my mind that it hasn't happened yet. You've had other sectors with tremendous momentum (AI, Tech). Value investors are gone. Most investors today are momentum players, and the industry hasn't had any momentum. ESG has labelled our industry as a dirty business...eventually as these metals gets scarcer and scarcer...it's going to drive up these metal prices. In the meantime, it's a great buyers' market. If you have cash, there's some amazing bargains out there. The value is still there just no one cares. If a junior mining company doesn't have a financial sponsor behind it, they are going to run out of money. I hope it changes soon, everyone's been hurting. But I do know that gold is going higher, copper is, and silver is going higher"

This pretty much sums up the mood.

We see Wednesday's 50 basis point cut in interest rates by the US Federal Reserve as a significant moment for commodities in general. This is first cut since 2020. More cuts are being signalled with the Summary of Economic Projections (SEP) and its 'dot plot' showing the median FOMC projection supports a further 50 bps of cuts for this year to a 4.375% range midpoint, 100 bps next year to 3.375%, and 50 bps in 2026 to 2.875%.

In the press conference, Chair Powell said policy was not on a “preset course”. Given the current economic data, this move seems aggressive and should be dollar negative and commodity positive (commodities priced in US dollars become cheaper in non-dollarized regions as the dollar weakens).

Historically speaking, gold and silver prices have rallied in the weeks following the start of rate cut cycles. It is a bit more complicated this time around given the strong performance of the gold price during the rate hike cycle, which was heavily influenced by central bank buying, Chinese household buying and a significant rise in geopolitical tensions (Ukraine and the Middle East). On balance, we think it should be supportive of gold and silver prices, given that the allocation of investments funds to both metals is currently near record lows. However, we are more interested in investing in precious metal companies, where current market valuations are discounting some 30-35% lower gold and silver prices.

The Amati Strategic Metals Fund currently holds a 69% exposure to precious metals companies (our maximum weighting), 21% in the battery metals sector, principally lithium and graphite, and 10% in nickel and mineral sands.

Sales Team Contacts

Rachel Le Derf

Head of Sales & Marketing
rachel.lederf@amatiglobal.com
07979601223

Colin Thomson

Head of Intermediary Distribution
Northern England, Scotland & NI
colin.thomson@amatiglobal.com
07884026517

Jonathan Woolley

Sales Director
London, Midlands, SW England & Wales
jonathan.woolley@amatiglobal.com
07818203013

Samantha Dalby

Sales Manager
samantha.dalby@amatiglobal.com
+44 (0) 131 503 9116

Olivia Pattison

Senior Sales Support Executive
olivia.pattison@amatiglobal.com
+44 (0) 131 503 9126

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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, the Key Investor Document (KIID) and Supplementary Information Document (SID). The Prospectus sets out the main risks associated with the fund, the KIID shows you how costs and charges might affect your investment, and the SID details your cancellation rights. If you are in any doubt as to how to proceed you should consult an authorised financial intermediary. Fund documentation can be requested from T.Bailey or Amati and is available to download from our website.

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