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Schroder ISF[1] Global Gold Fund update

January 2025

Past Performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

Fund performance:

The fund posted a return of 18.00% for January. This compared to the FTSE Gold Mines UCITS Capped Net Tax Index benchmark return of 17.24%.

I shares gross

US$ %	Jan 2025	Annualised performance				Cumulative Since Inception
		1 Yr	3 Yr	5 Yr	Since inception[1]	
Fund	**18.00**	**54.99**	**17.08**	**9.72**	**7.74**	**89.76**
Benchmark[2]	17.24	48.48	11.21	7.71	5.36	56.64

Calendar year performance

US$ %	2015	2016[1]	2017	2018	2019	2020	2021	2022	2023	2024
Fund	-	**-17.6**	**11.3**	**-13.9**	**51.1**	**31.5**	**-17.1**	**-10.5**	**15.5**	**19.0**
Benchmark[2]	-	-23.1	10.2	-10.4	42.7	25.0	-10.4	-12.8	12.4	12.0

Source for performance: Bloomberg I shares gross USD. Performance is on a NAV to NAV basis. [1]Inception 29 June 2016. [2]FTSE Gold Mines UCITS Capped Net Tax Index. The benchmark changed on 15 March 2024. FTSE Gold Mines Index was used prior to this. Typical ongoing charges for I shares are 0.06%.

Risk Considerations:

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested. **Counterparty risk:** The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole. **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. **Currency risk / hedged share class:** The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes. **Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. **Emerging markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets. **Higher volatility risk:** The price of this fund may be more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent. **Liquidity risk:** In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares, meaning investors may not be able to have immediate access to their holdings. **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested. **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund. **Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

Current strategy and portfolio activity:

The largest fund positioning changes in January were a sharp reduction in exposure to Eldorado gold and a sharp increase in exposure to Anglo Gold. Eldorado signalled execution issues at their transformative Skouries project in mid-January. While deep value exists in the stock, progress vs. market expectations at Skouries is key to 2025 performance. We expected the formal update, when it came, to be a clearing event for the stock. That proved optimistic. With labour shortages seemingly unresolved we are in no rush to add back our position, though that time will come.

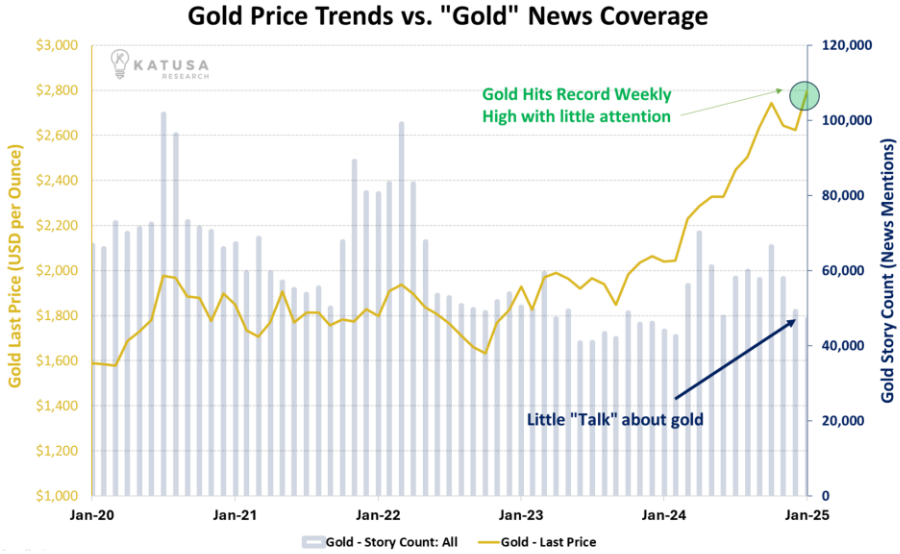
We continue to see compelling valuations in the developer space and have added to positions including Thesis, Vior and Omai. The fund caps developer exposures to preserve the overall portfolio liquidity profile. While individual positions are very small as a percentage of fund NAV, they offer explosive upside optionality to fund investors unobtainable in passive vehicles.

Overall fund strategy remains focused on producers with unjustifiably cheap valuations, clear paths to free cash inflections and/or other value surfacing optionality. The fund continues to see the most compelling valuation opportunities in the mid-tier and junior part of the market cap spectrum, though large caps such as Goldfields again look compelling. Even Agnico, the standout "quality" large producer and a huge outperformer, trades on an undemanding 7.5x EV/Ebitda multiple. The fund holds zero bullion and zero royalty/streamer exposure.

Gold market outlook:

Gold spot prices made a new all-time high in dollar terms in early February, trading to US$2,908/Oz on a daily close. Has there ever been a quieter bull market? There has been no shortage of interesting news. Outside all-time record prices, significant dislocations have been flaring between London spot and New York futures as banks rush to move bullion to New York ahead of potential tariffs. That has created queues for London vaulted gold and tightness in OTC forwards. These tariff stresses may have had some influence on the level of prices, but we still think the majority of gold's recent gold price strength is explained by bullish secular thematics (fiscal, geopolitical) being amplified and accelerated by the Trump administration. Despite all of that, western media press mentions of gold have actually fallen (chart 1).

Chart 1: A quiet bull market: gold prices have rallied to fresh all-time highs while news coverage has stayed very muted

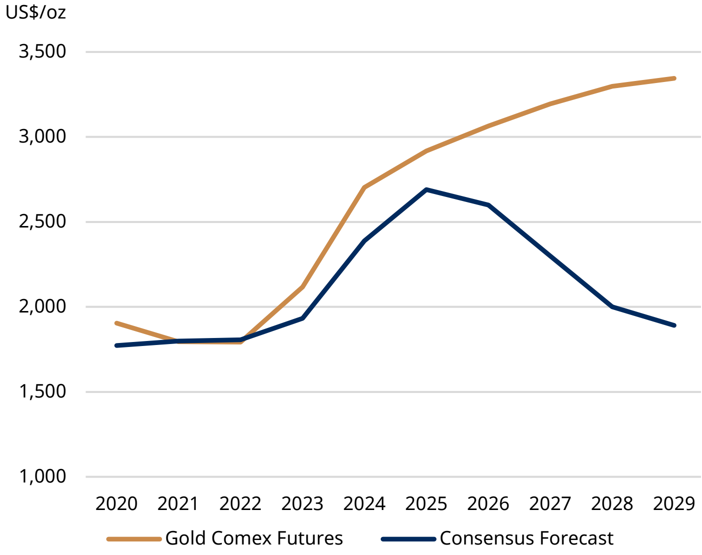


Source: Katusa research.

Flows into physical ETF products have been boring and slow (+700koz or +0.86% YTD), the biggest passive gold equity products have seen US$1.3bn of outflows YTD, and managed money length is high but still below recent year peaks.

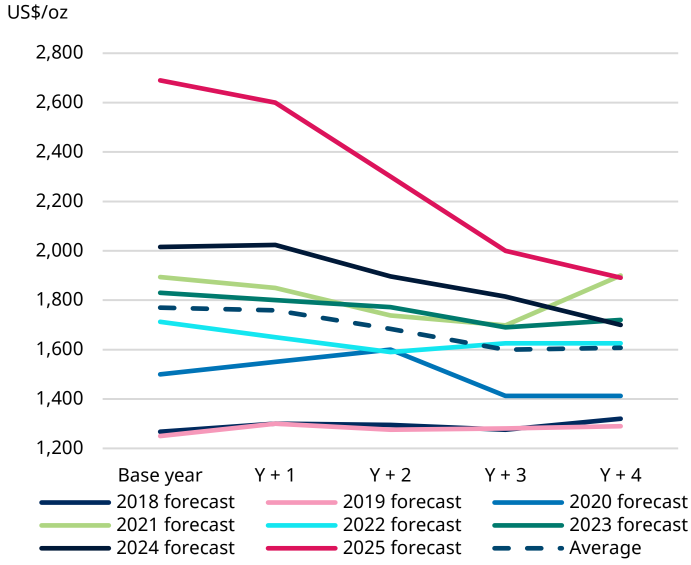
Consensus price forecasts continue to signal zero belief that gold prices could be secularly higher for longer. 2025 consensus is US$230/Oz below spot, 2029 consensus is currently US$1,300/Oz below the futures curve (i.e. the futures curve is 60% higher than consensus – more on the impact of that on the equities below).

Chart 2: Consensus gold price forecasts peak this year >US$200/oz below spot) and then fade sharply to sub US$2,000/Oz by 2029



Source: Bloomberg, Schroders. Forecasts may not be realised.

Chart 3: Post-2020 consensus has always seen the current year as the peak year for gold prices, and has always been wrong (chart shows consensus forecasts from January 2018 – 2025)



Source: Bloomberg, Schroders. Forecasts may not be realised.

Latest World Gold Council global gold demand data for Q4 and full year 2024 was interesting as ever and highlighted a gold market where central bank demand continues to surprise on the upside; 333t in 4Q was +54% YoY and took total demand to >1,000t (c.20% of total demand) for the third year in a row. The market made room for ongoing expanded central bank demand in three main ways; reduced jewellery demand (-11% YoY), increased recycling supply (+11% YoY) and significantly higher average prices (+23% YoY at US$2,386/Oz for the full year).

Table 1: Summary gold supply and demand balance. If the data is to be believed central bank buying shrank 4t last year following a 33t decline in 2023. Investment "grew" but only because ETF flows were less negative.

Gold supply and demand

	2020	2021	2022	2023	2024	YoY % change	YoY change (tonnes)
Supply							
Mine production	3,484.0	3,573.2	3,633.0	3,643.9	3,661.2	0%	17
Recycled gold	1,293.1	1,136.2	1,140.1	1,238.7	1,370.0	11%	131
Total supply	**4,740.5**	**4,704.0**	**4,760.8**	**4,950.0**	**4,974.5**	**0%**	**24**
Demand							
Jewellery fabrication	1,324.0	2,231.1	2,195.9	2,190.5	2,003.5	-9%	-187
Technology	309.0	337.2	314.8	305.2	326.1	7%	21
Investment	1,794.9	991.5	1,112.5	945.3	1,179.5	25%	234
Total bar and coin	902.3	1,180.3	1,222.1	1,189.6	1,186.3	0%	-3
ETFs & similar products	892.5	-188.8	-109.5	-244.2	-6.8	na	237
Central banks & other inst.	254.9	450.1	1,081.9	1,049.1	1,044.6	0%	-4
Gold demand	**3,682.8**	**4,009.9**	**4,705.1**	**4,490.0**	**4,553.7**	**0.0**	**64**
OTC and other	1,057.7	694.0	55.7	460.0	420.7	-0.1	-39
Total demand	**4,740.5**	**4,704.0**	**4,760.8**	**4,950.0**	**4,974.5**	**0.0**	**24**
LBMA Gold Price (US$/oz)	1769.59	1798.61	1800.09	1940.54	2386.2	23%	446

Source: World Gold Council, Schroders.

Two takeaways from the data stand out:

1. **The first takeaway is that Central Bank demand is probably significantly understated.** Central Banks can report what they buy to the IMF, but they don't have to. Post 2022 the majority of purchases have been "unreported". We have a lot of respect for the work and the deep networks of organisations like the WGC and Metals Focus (whose data the WGC release is based on). Yet while the absolute central bank purchased figure is impressive and significantly above expectations, the implied growth (0% growth YoY in 2024, following 0% growth YoY in 2023) is obviously not. And yet prices are up 40% over a year in US$ terms. To us either another source of hidden gold demand has been the marginal price driver, or central bank demand is still significantly underestimated. We suspect both, but more the latter. We can well imagine a central bank, particularly in a country that is a US adversary, declining to advertise the full extent to which they are selling Developed Market bonds to buy gold. In the adversarial post-unipolar world of

Trump 2.0 the tendency to buy more and report less could accelerate and so we should expect more periods of very-hard-to-explain gold price strength, not less.

2. **The second takeaway is the extent to which "investment" demand in aggregate has still not made its presence felt.** ETF products still recorded outflows of 6.8t for the 2024 year which compares to average net inflows of 436t between 2015-2020 and a peak of 900t in 2020 (exhibit 1). Total bar and coin demand was flat year over year (growth in Asia and Middle East masking huge declines in Europe) but still some 30% below 2013 levels. Even OTC and other (which we tend to see as mainly a balancing item to be honest) was less than half 2020/2021 levels.

As ever, the really interesting question for gold remains what could prices do if other major global pools of capital (western investors, Chinese households, sovereign wealth funds) actually engage in a more meaningful way alongside central banks? Recent news suggesting large allocations coming from the Chinese insurance industry are interesting.

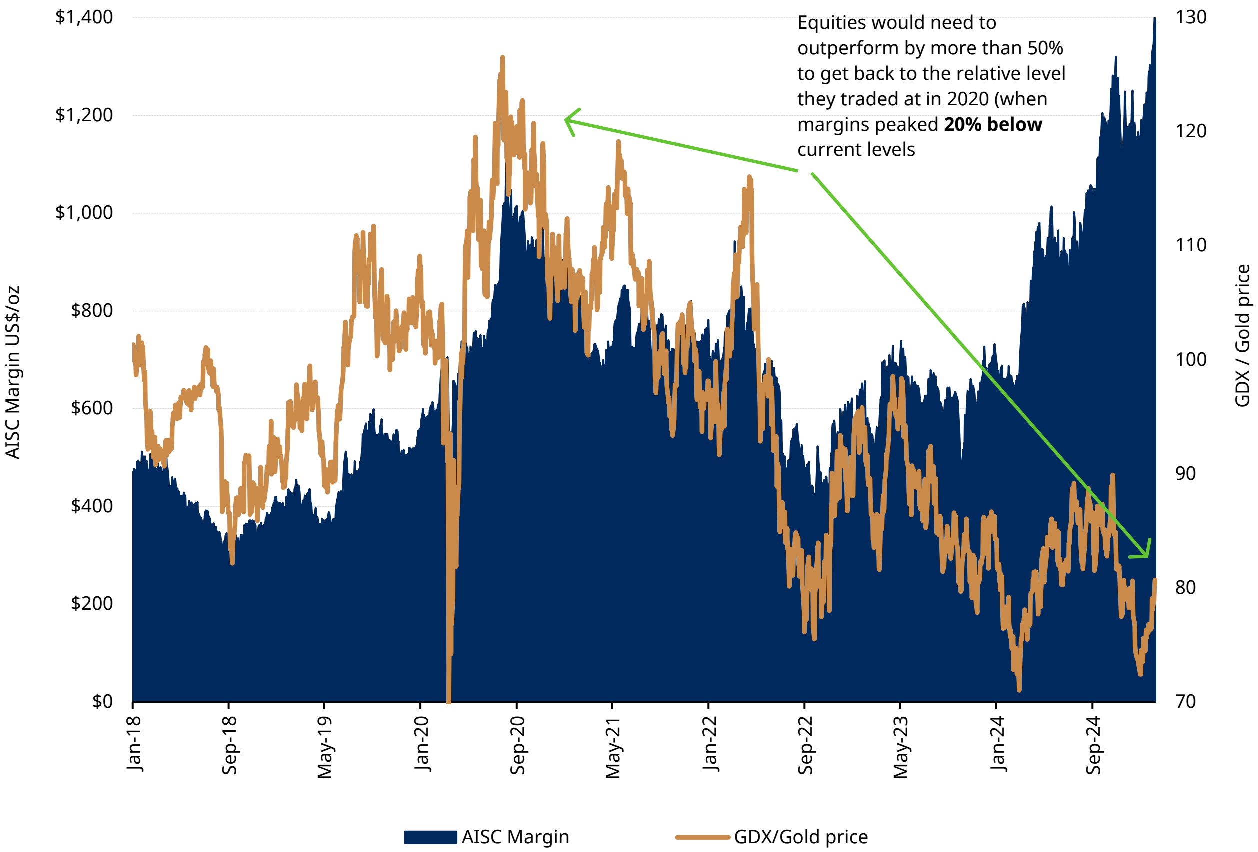
Most starkly, average prices rose 23% in 2024 over 2023, while western ETF investors were still net sellers. Where would they have traded to if ETFs had been net buyers of 500t? Significantly higher, which is why we continue to think we are in the foothills of a Himalayan gold bull market.

Gold equities:

After a disappointing end to 2024, gold equities have started 2025 more strongly, posting gains of between 14% and 17% depending on the index in January vs. 7% for gold bullion. Has the bounce higher in gold equities to start the year closed the huge gap between record producer margins and the relative pricing of gold equities compared to gold bullion that we have been highlighting?

No. It absolutely remains the case that gold equities would need to outperform gold bullion by 50% just to get back to the level they were trading at in 2020. Implied all-in-sustaining-cost margins per ounce have broken US$1,400/oz for the first time early in 2025 (see chart 4).

Chart 4: Gold producer AISC Margin vs. relative performance of gold equities vs. gold bullion

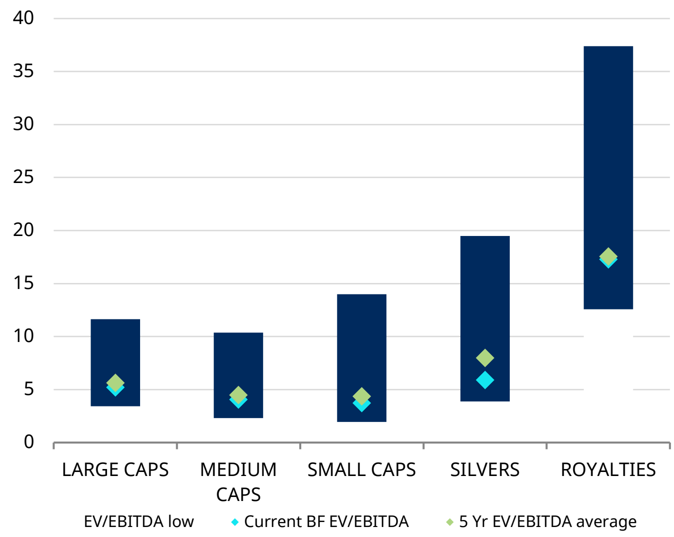


Source: Cormark, Bloomberg, Schroders.

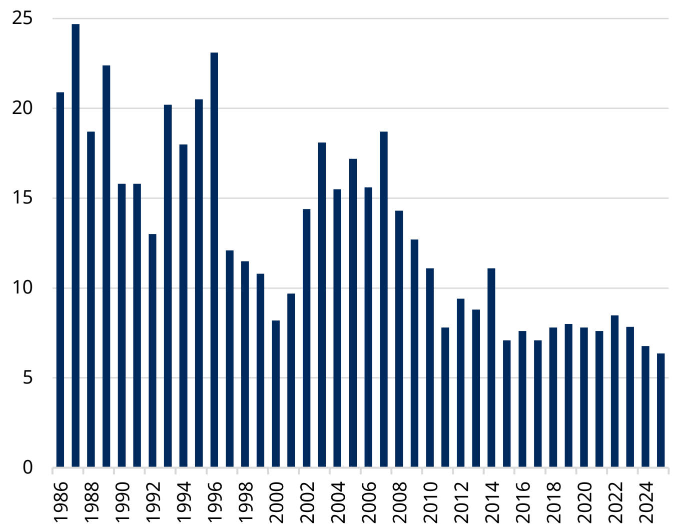
As we have said many times, multiples valuations for gold producers based on near year (2025 or 2026) financial forecasts are very cheap, close to record cheap in fact (see chart 5 and 6 for example). Part of the reason short dated multiples are so depressed is because the market has been un-willing to ascribe much value to longer dated cashflows.

Chart 5: 1-year blended forward EV/EBITDA multiples are trading towards the bottom of 5-year ranges across the producer spectrum

Chart 6: EV/EBITDA multiples for the North American producer sector are depressed at c.6x vs. 16x average in the 1985-2013 period



Source: Bloomberg, Schroders.

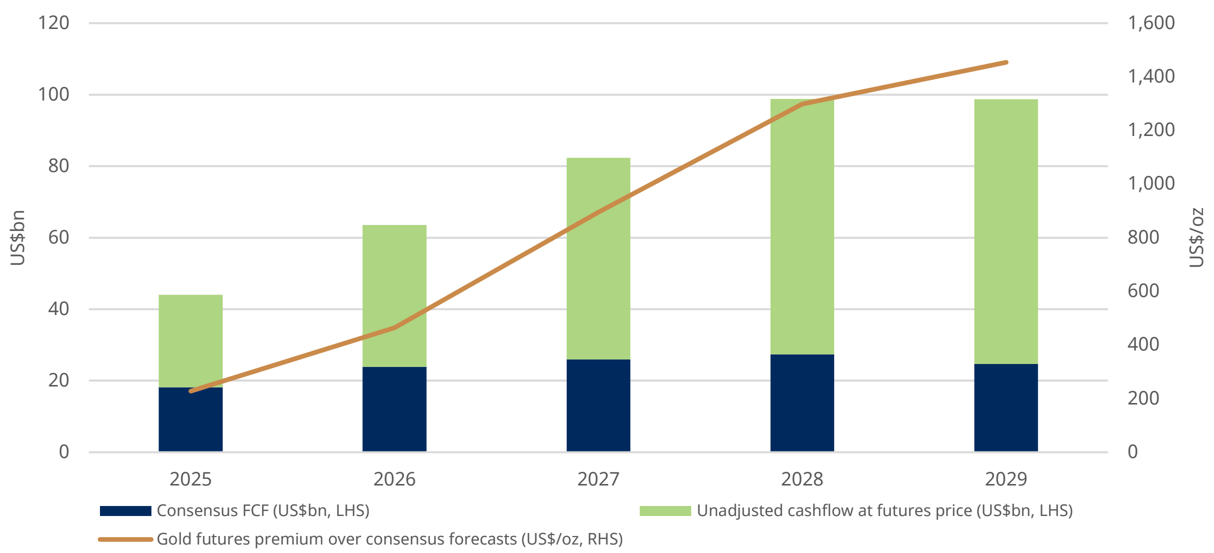


Source: Scotiabank.

Many factors feed into that. Probably the most important (in our humble opinion) is simply lack of faith from western investors in the idea of secularly higher gold prices. Each year gold prices move higher, consensus marks to market for one year and then fades prices sharply down to much lower levels several years out (chart 2 above). This applies industrial metal logic (prices fade to marginal or incentive prices) to a monetary metal. To us that makes little sense and leaves enormous un-forecast cash generation potential embedded in the huge forward gap between consensus forecasts and current spot futures prices.

It is worth pondering just how much. Listed North American miners will produce around 34Moz of gold in 2025, and Bloomberg analyst consensus currently forecasts c.US$18.2bn of free cash flow for the group. Every US$100/Oz difference between realised and forecast prices implies c.US$3.4bn of additional unadjusted cash flow. In 2025 that gap is currently c.US$230/Oz (chart 7). This implies an additional US$7.7bn in extra cashflow which equates to 43% extra free cash flow generated from 9% higher realised prices. By 2028 the gap between spot and consensus is c.US$1,300/Oz which implies c.US$44bn in incremental cashflow, 160% above current consensus. Cumulatively, on the same logic, there is roughly US$150bn of uncaptured cashflow embedded between 2025 and 2029. Before we get accused of laughable oversimplification, yes, we are very aware these numbers won't actualise for several reasons, not least because a portion of cost inflation is directly linked to higher gold prices themselves via royalty payments. Yet the overall point remains absolutely valid: the market is paying almost no attention to the significant producer cash generating power implied in spot gold markets.

Chart 7: Premium of gold futures prices over consensus forecasts and additional unadjusted cashflow generated by listed North American producers assuming futures gold prices are realised

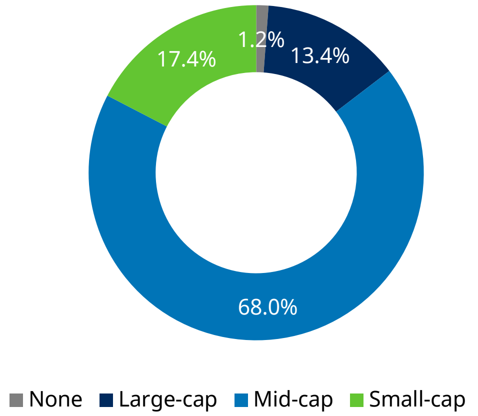


Source: Bloomberg, Schroders.

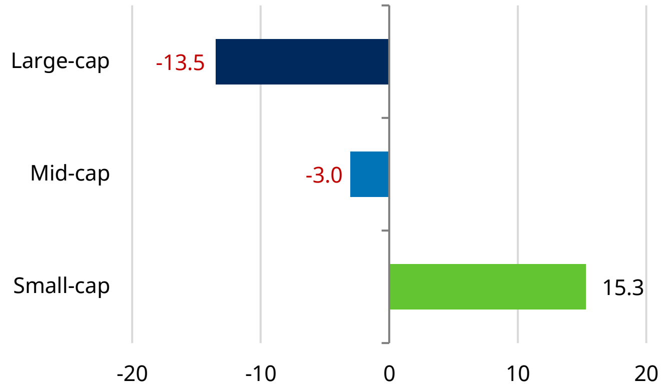
Performance attribution:

Fund performance in January was 18.0% vs. 17.2% for the benchmark. Active underweights in Barrick and Eldorado contributed positively as did our small position in Discovery Silver. Hochschild Mining and Robex were by far the largest negative contributors. We expect both to contribute strongly to fund performance over the balance of the year and have added to our Hochschild position.

Market cap (%)

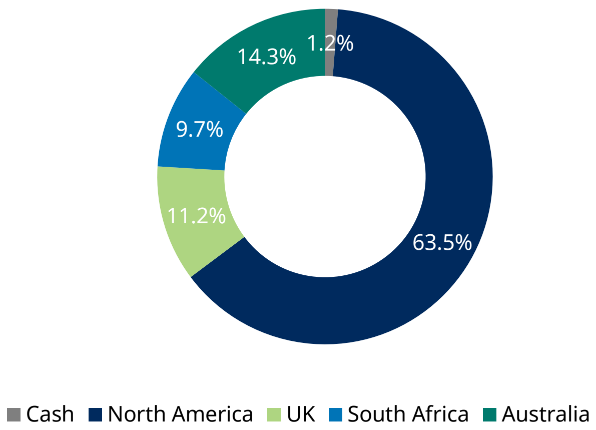


Source: Schroders, Bloomberg – January 2025.



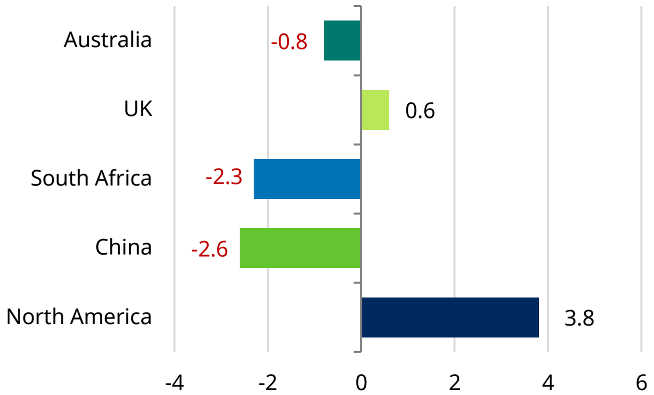
Source: Schroders, Bloomberg – January 2025.

Regional (%)



Source: Schroders, Bloomberg – January 2025.

Regional over/underweight (%)



Source: Schroders, Bloomberg – January 2025.

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