

Schroder ISF¹ Global Gold

Fund update

July 2024

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 9.30% for July. This compared to the FTSE Gold Mines UCITS Capped Net Tax Index benchmark return of 11.74%.

I shares gross

US\$ %	July 2024	YTD	Annualised performance				Cumulative Since Inception
			1 Yr	3 Yr	5 Yr	Since inception ¹	
Fund	9.30	23.46	31.16	6.22	8.53	6.53	66.81
Benchmark ²	11.74	19.67	23.77	3.83	7.59	4.50	42.78

Calendar year performance

US\$ %	2014	2015	2016 ¹	2017	2018	2019	2020	2021	2022	2023
Fund	-	-	-17.6	11.3	-13.9	51.1	31.5	-17.1	-10.5	15.5
Benchmark ²	-	-	-23.1	10.2	-10.4	42.7	25.0	-10.4	-12.8	12.4

Source for performance: Bloomberg I shares gross USD. Performance is on a NAV to NAV basis. ¹Inception 29 June 2016. ²FTSE 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 fund partly switched from Aya Gold & Silver into Mag Silver last month. This part reverses, and takes profit on, a switch made in the other direction late last year. Aya has performed very strongly and operating momentum at Juanicipio (MAG's asset in Mexico) justifies the re-initiation of exposure to the company. We also increased our underweight position in Gold Fields. Weakness at Salares is already known however we still see significant risks around Q2 results as well as 2024 full year guidance and Salares guidance for 2025. We have been opportunistically adding to producers such as Oceana and Centamin where we have conviction on a strong 2H.

Overall fund strategy remains focused on producers with unjustifiably cheap valuations, clear paths to free cash inflections and/or other value surfacing optionality. The whole space continues to trade at historically low valuation levels. The fund continues to see the clearest opportunities in the mid-tier and junior part of the market cap spectrum however underperformance of large cap names (Newmont/Barrick in particular) has also improved risk/reward there especially in the context of a market that is yet to attract any generalist interest thus we continue to see the benefits in adopting a barbell approach to the sector.

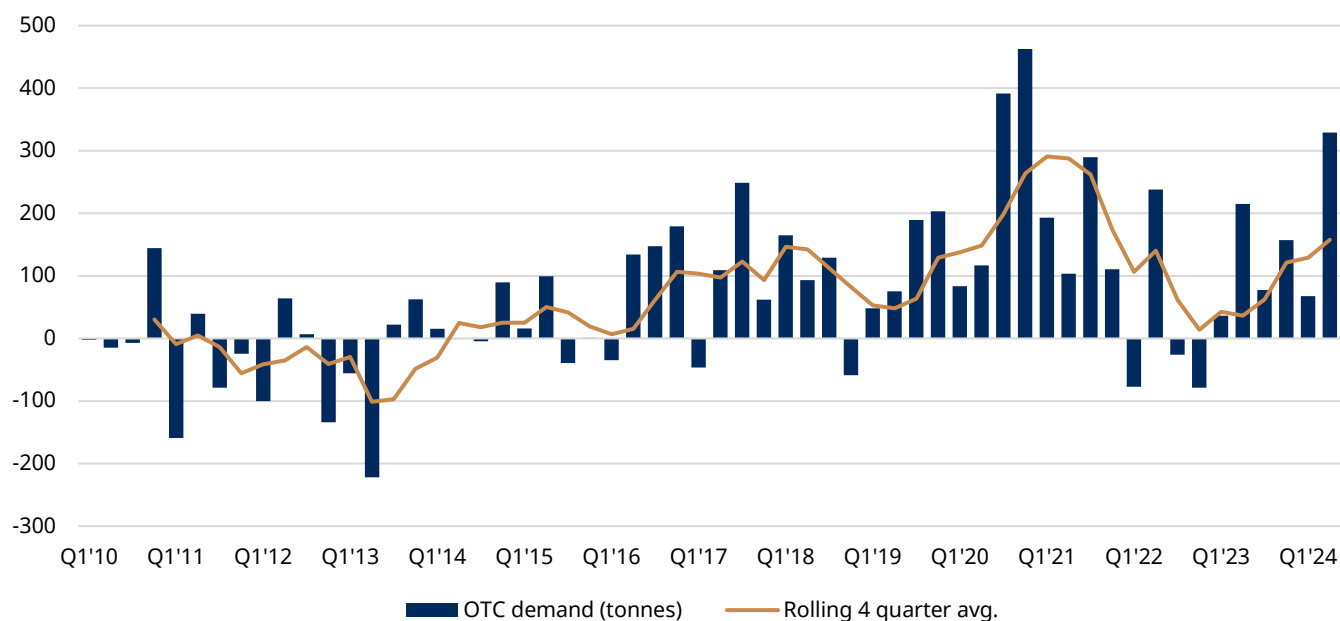
Gold market outlook:

Gold remained rangebound between \$2,300 and \$2,400/oz in the month of July. Clearly the market is somewhat in flux. Central bank buying has eased off in aggregate terms, Chinese price premiums to LBMA prices are at their lowest since May 2023. The "eastern bid" for gold (Asia and the middle east) is far from dead, but a pickup in interest from western investors has been more prominently the marginal source of demand in recent weeks. The most watched indicator of this is simply ounces held in ETF products which do seem to have made a decisive turn; not surprising given increasing expectations of interest rate cuts, higher recession probabilities and, most importantly from a structural perspective, the dire fiscal situations hanging over the heads of (pretty much) all developed market governments.

In the World Gold Council's recent report on quarterly demand trends a standout line item was OTC investment demand. Including this demand, quarterly global gold demand reached an all-time high of 1,258t, up 4% YoY. Excluding this 329t of OTC demand (over a quarter of total global demand) demand fell 6% YoY, weighed down by weaker jewellery demand in particular.

OTC investment demand is a particularly opaque area to follow. Data is not split by country or region, and it is difficult to get colour on who precisely is buying. Talking to both the World Gold Council and other industry sources leaves us fairly confident that the primary actors behind this category are the likes of private wealth allocators, family offices, super HNWI, longer term orientated hedge funds, and potentially even quasi sovereign capital pools such as those that exist across the Middle East. Interestingly much of this buying is likely in the form of larger bars (up to 12.4kg or 400oz - worth US\$980k at spot) since kilobar (1kg) and below demand is included in the general bar and coin line. At 329t, the quarterly OTC number was the third highest on record, just behind the second and third quarters of COVID impacted 2020. Average OTC demand has been ~150t over the past five years.

Chart 1: Quarterly OTC demand since 2010 - Q2'24 the third highest on record



Source: World Gold Council, Schroders

The strength of OTC demand overall supports the view that underlying monetary/investment demand for gold remains very strong in aggregate. We continue to believe that global monetary investment demand for gold is likely to drive further significant upside to gold prices as capital, seeking diversification and protection, is allocated to the market from various gargantuan pools.

As we wrote in March:

"To us the monetary bull case for gold has long been that sufficient pockets of vastly inflated global monetary aggregates (Global M2 US\$105tn, China US\$41tn), global official FX reserves (c.US\$12tn) or financial asset valuations (c.US\$430tn, S&P500 US\$43tn) try to squeeze their way into what is a very small gold market (2023 mine production value c.US\$0.28tn) at roughly the same time. Compelling, but subject to massive time uncertainty. Until now? We think geopolitics and fiscal fragility suggest a tangible path to a sustained global multi-pronged monetary/investment pull on gold now exists"¹

Gold equities:

What do gold producers need to do to regain market trust and improve their valuations? Nothing more than deliver on production and cost guidance, as we have repeated over and over again in response to inbound questions of this nature. If the gold producers can begin to demonstrate that they can reliably capture margin and generate strong FCF then (currently very negative) market opinions will change rapidly, and flows will follow. It is worth noting that returns year to date for the equities have come despite significant outflows from both passive and active gold equity vehicles. Ultimately markets make opinions, or in terms of gold producers, margins make opinions.

2Q results so far have been validating our overall view, though we would say that in general the larger producers have been demonstrating greater operating consistency and cash generating momentum than their intermediate peers. Of the "majors", Newmont, Agnico, Kinross and Alamos (not really a major but the highest quality intermediate producer now) have all now reported.

Newmont produced, if we are honest, fairly mixed operational results with production coming in line with consensus estimates and All-in-sustaining costs slightly missing. The 2H will be much stronger as has long been guided. Despite broadly in line operating metrics FCF was very strong at US\$594mn for the quarter, earnings were comfortably above consensus and the company moved ahead with both debt paydowns (US\$250m) and share buybacks (US\$250m).

Kinross also put out positive results as production came in above consensus and costs came in line. A stronger realised gold price of \$2,342/oz up from \$2,070/oz in Q1 and good cost control led to an increase in AISC margin from 37% to 41%. This in turn supported higher FCF generation of \$346mn for the quarter, 83% higher than consensus.

Agnico results were also strong not just in absolute terms but relative to consensus. Earnings beat consensus comfortably, FCF of US\$557m was a new quarterly record (three quarters in a row) as higher production enabled cost of production to come in below the low end of their AISC cost guidance (US\$1,169/Oz vs. guidance of US\$1,200-1,250/Oz).

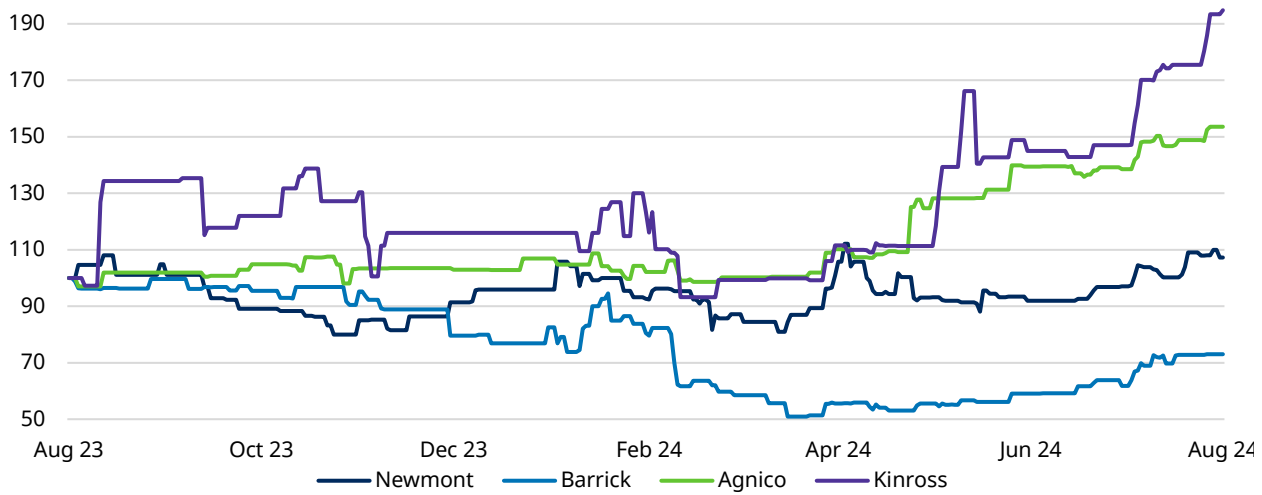
Alamos: large earnings beat (24c vs. 19c consensus), record FCF generation of US\$107m (triple 1Q) driven by AISC dropping 13% on 1Q...

You get the picture. Given where gold prices are trading this should be generating interest. So far it is not generating much. Average flows out of passive equity products (our mortal enemies) have re-accelerated in the latest data print. Our own flows are flat for the YTD despite very strong performance.

We continue to think this strong cash generating power will become hard to ignore for investors. Analyst forecasts still lag and are only slowly being upgraded. Chart 2 below shows Bloomberg consensus forecasts for free cash flow generation for FY24. Agnico and Kinross have seen forecasts upgraded strongly meanwhile Barrick and Newmont have not. We still think the bar is low for many producers across the sector across the balance of 2024.

Chart 2: Large caps FY24 FCF estimate evolution (normalised, Aug 2023 = 100)

¹ See "Gold's bull market: Just the start? March 2024 for full details

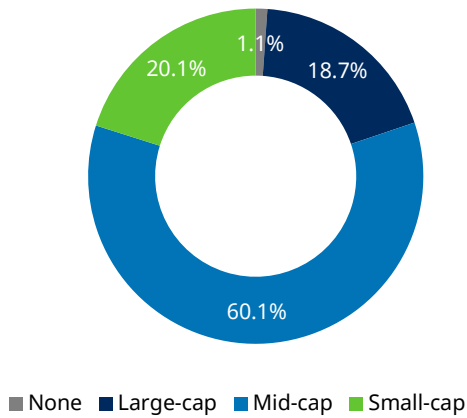


Source: Schroders, Bloomberg

Performance attribution:

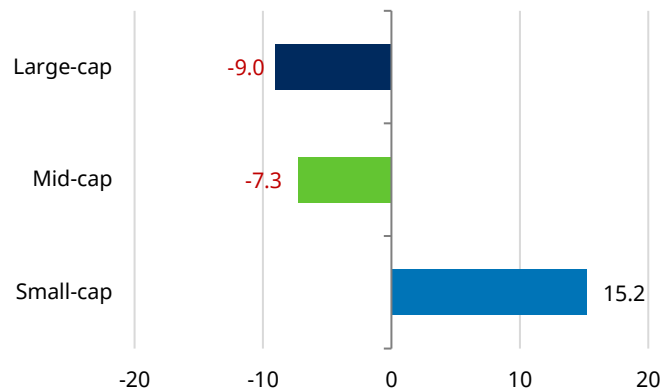
Fund performance in July was 9.30% vs. 11.74% for the benchmark. Positive attribution came from Freegold, a small developer position, as well as through our holding of small broader equity hedges. This helped to partially offset negative attribution primarily seen in Hochschild which gave back some of its recent outperformance as well as negative attribution from Gold Fields, where we continue to be underweight with a negative view for upcoming Q2 earnings.

Market cap (%)



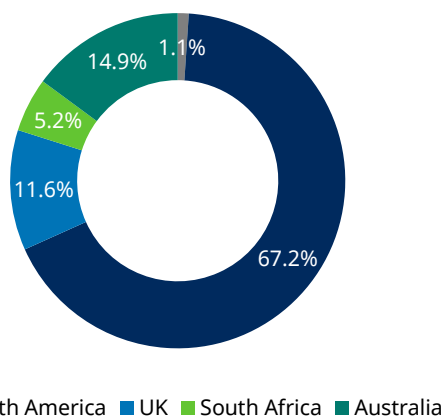
Source: Schroders, Bloomberg – July 2024.

Market cap over/underweight (%)



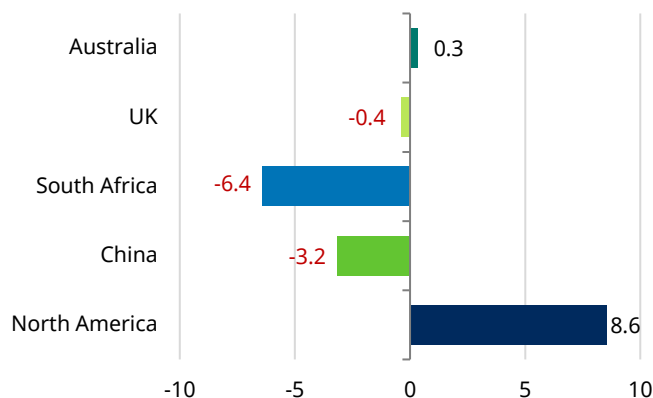
Source: Schroders, Bloomberg – July 2024.

Regional (%)



Source: Schroders, Bloomberg – July 2024.

Regional over/underweight (%)



Source: Schroders, Bloomberg – July 2024.

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