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Schroder ISF[1] Global Gold Fund update

December 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 -8.96% for December. This compared to the FTSE Gold Mines UCITS Capped Net Tax Index benchmark return of -9.04%.

I shares gross

US$ %	Dec 2024	QTD	Annualised performance				Cumulative Since Inception
			1 Yr	3 Yr	5 Yr	Since inception[1]	
Fund	**-8.96**	**-13.29**	**19.03**	**7.15**	**6.06**	**5.74**	**60.82**
Benchmark[2]	-9.04	-14.17	11.98	3.14	4.20	3.46	33.61

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 fund ended 2024 up 19.03%, gross of fees (versus the benchmark FTSE Gold Mines UCITS Capped Index return of 11.98%). Since launch in 2016 the fund has outperformed in 7 of 9 years in total and in 5 out of 5 up years. Despite that, 2024 still feels like a disappointment. That is because, with bullion recording a 27.5% return, gold producer margins expanding, and equity valuations at multi-decade lows the producers should have recorded a stand-out banner year. The reason they did not is simple: (1) while gold prices have been strong western investors have been sizeable net sellers of gold equities. We are still in the "I don't care" phase of this bull market (2) too many producers (particularly Newmont, but they are not alone) failed to deliver on production and cost guidance.

While gold prices have again effectively been treading water vs. gold bullion the good news is what we wrote in March of last year - that gold equities were at close to 40-year low valuations and could rally 50% and still look inexpensive - remains absolutely true. With the macro underpinnings of gold's bull market still solid, the closure of the gap between record high average gold prices and record low gold equity valuations is likely to be violent.

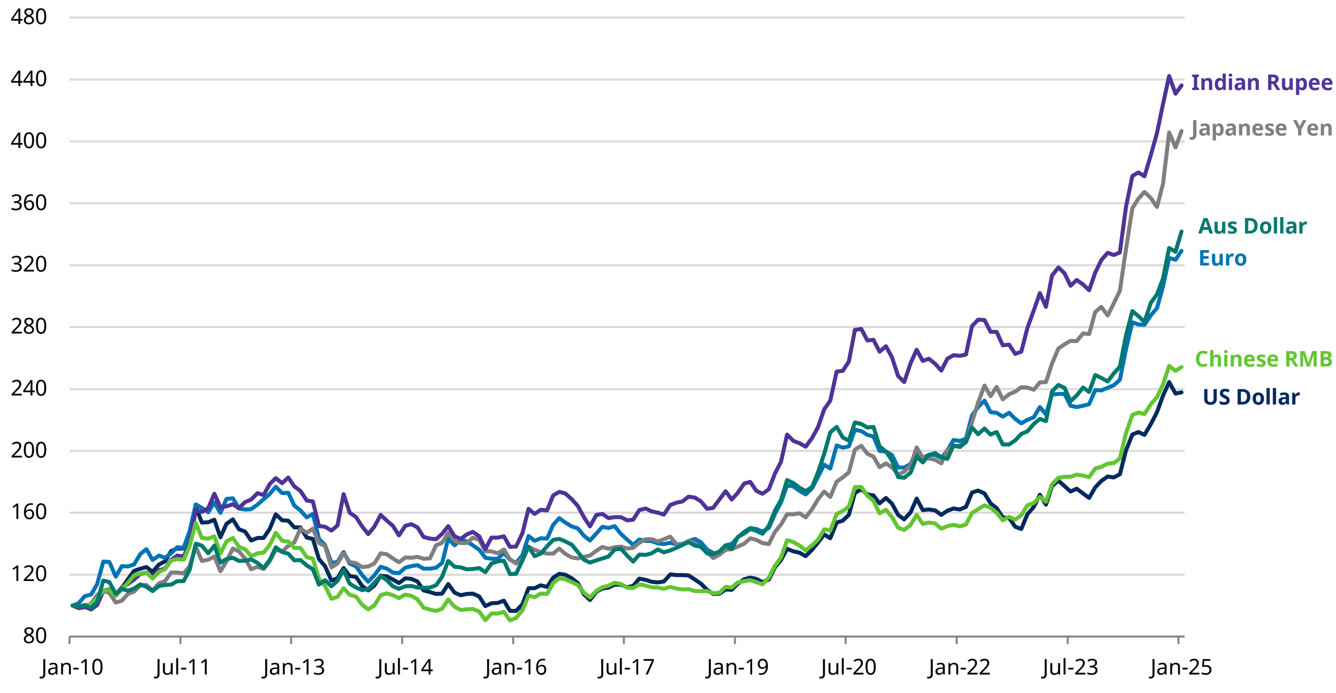
Into 2025 overall fund strategy remains focused on producers with unjustifiably cheap valuations, clear paths to free cash inflections and/or other value surfacing optionality. The fund continues to see the most compelling valuation opportunities in the mid-tier and junior part of the market cap spectrum, 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.

In terms of December fund activity, we continued to add to our Goldfields position and have now added back close to 90% of what we sold early in 2024. The stock had a tough 2024 (a difficult ramp-up at Salares Norte as well as issues in South Africa and Australia). Expectations around Salares in Chile have been significantly reset and Goldfields now looks very attractive from a valuation standpoint. In the developer bucket we added to both Thesis Gold and Artemis, funded largely from profit takes in O3 Mining (after a takeover bid) as well as Skeena.

Gold market outlook:

After a record breaking 2024, where gold first broke the old all-time high in early March before reaching US$2,794/Oz in September, what does 2025 have in store? January has already seen fresh all-time highs in gold in multiple currencies (chart 1). We think there is a good chance we see fresh US dollar highs through the year. The core drivers of gold's bull market – fiscal fragility and the US-China centric New Cold War – remain prominently on display. Plenty of very good analysts continue to point out that gold is trading well above "financial" fair value based on backward looking regressions. We would suggest that is because old models no longer work when regime shifts occur.

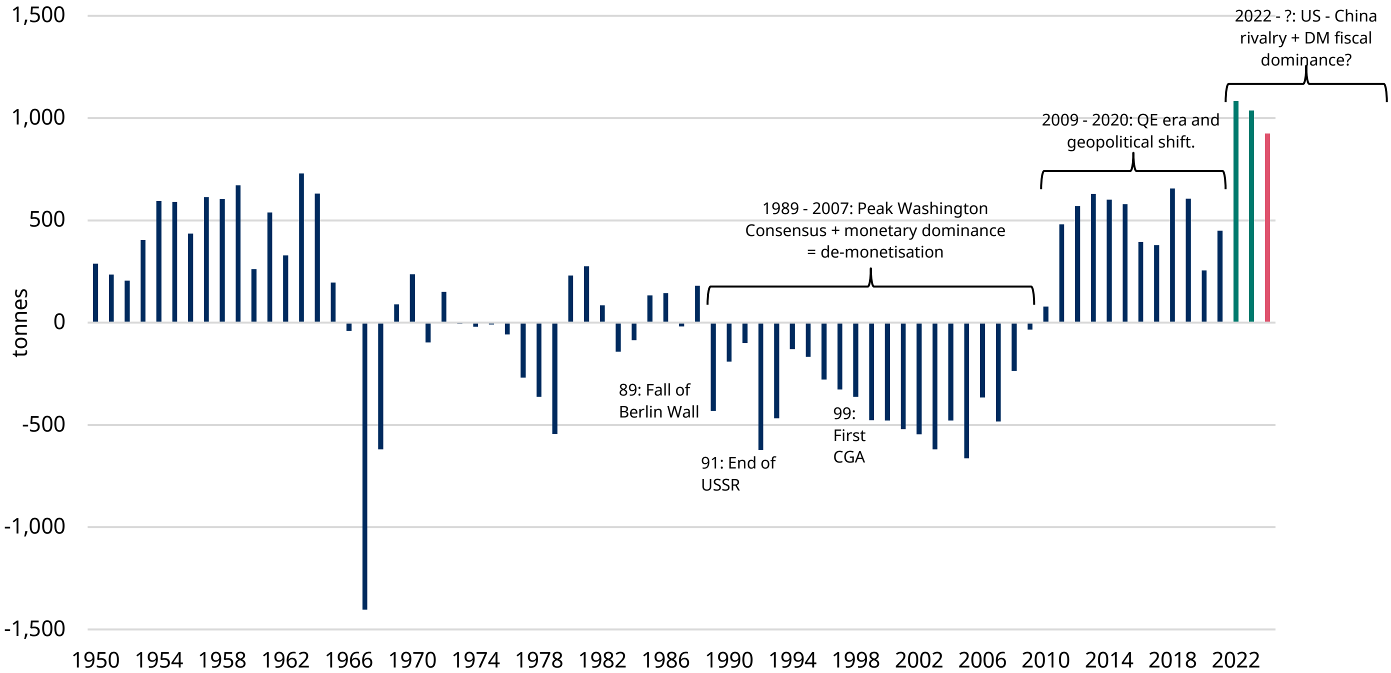
Chart 1: Gold priced in different currencies and rebased (2010 = 100). In early 2025 prices have set new all-time highs in multiple non-US$ currencies.



Source: Bloomberg, Schroders.

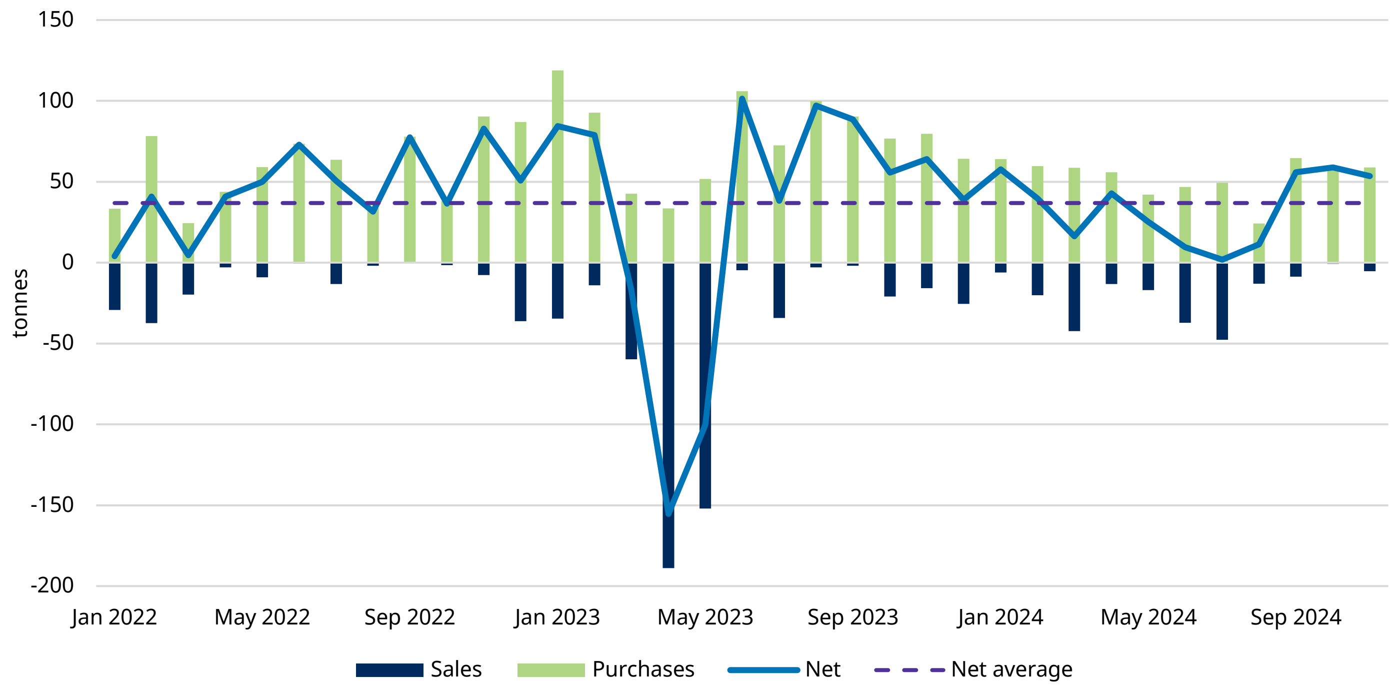
Central Bank participation has again been obvious into the end of 2024. The PBOC's return to the market in both November and December (buying, officially, 180koz and 330koz respectively) has been important and actual purchased volumes have likely been much higher than those officially reported. Poland and India have also been very active. November net central bank reported purchases returned to levels above the post-Russia / Ukraine invasion monthly average and average net buying volumes remain >3x the pre-Russia / Ukraine invasion level (chart 2 and 3). There is plenty of room for Central Banks to keep adding, and plenty of reasons to expect further reserve diversification away from fiat currencies (current global reserve rankings are 1. USD 2. EUR 3. GOLD 4. YEN).

Chart 2: Central Bank demand remains very solid. Even with Chinese buying likely under counted, 2024 is likely to be another year of close to 1,000t of demand



Source: WGC, Schroders. Note: 2024 central bank gold demand based on Q1-Q3 data annualised.

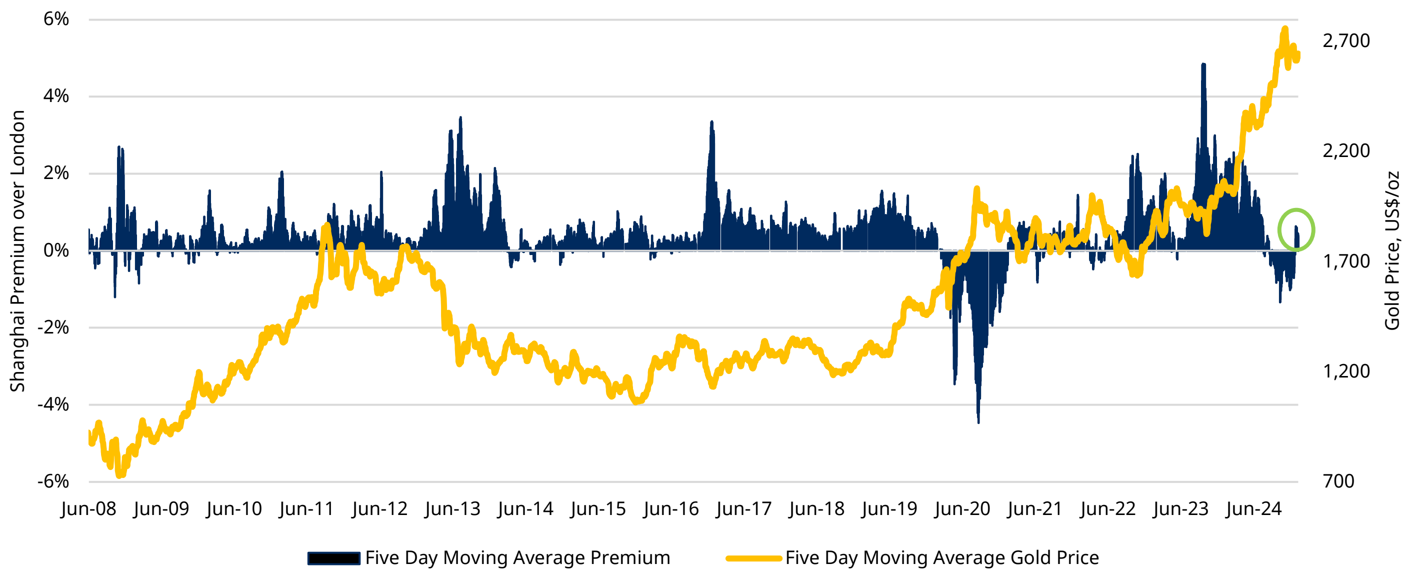
Chart 3: Central Bank demand returned to above average levels late last year



Source: WGC, Schroders.

If gold were a market darling and we had already seen the type of global multi-pronged monetary bid that we think will be the ultimate result of epoch shifting fiscal and geopolitical trends, it would be much easier to call time on gold's bull trend. In reality, while the Central Bank bid has been strong (and probably underestimated), monetary demand elsewhere has been anywhere from lacklustre to dismal. In the west the allure of the US "magnificent 7" and Bitcoin have cast a shadow over investor interest in gold. Western investors sold US$6.3bn of bullion ETFs while ploughing US$34.5bn into bitcoin ETFs (chart 6). European bar and coin demand is estimated by the World Gold Council to have fallen c.55% YoY in the first three quarters of 2024. Chinese retail investor demand has been very mute compared to what we saw in 1H 2024 (though here it is interesting to see Chinese price premiums over London moving back positive) (chart 4).

Chart 4: Chinese premiums have moved back into positive territory over London prices.

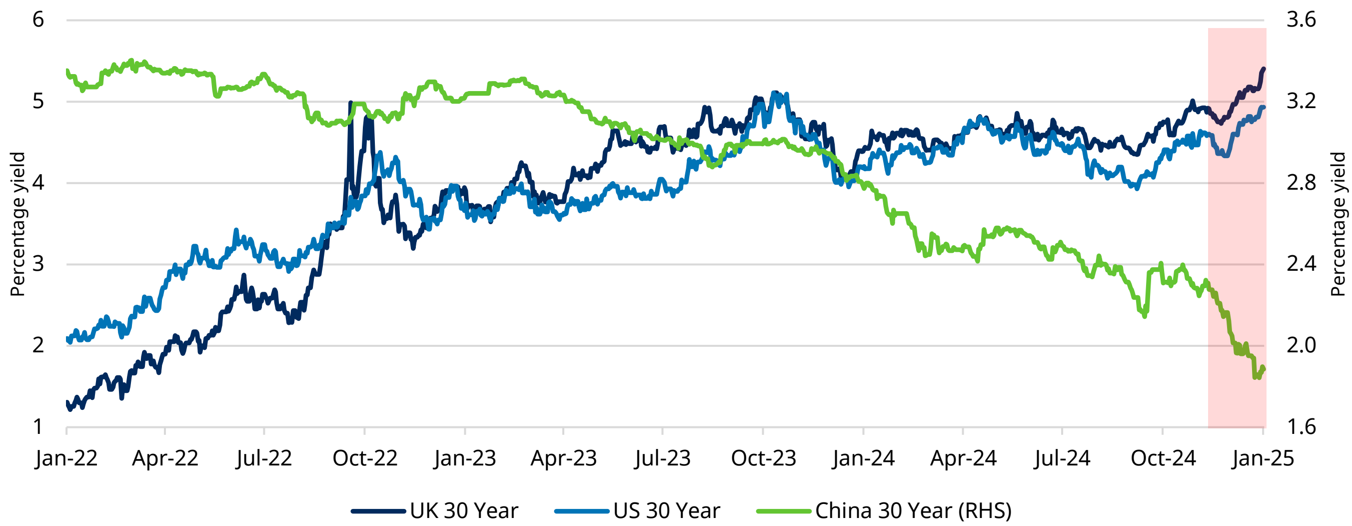


Source: Bloomberg, Schroders.

An absolutely key argument for gold allocations, and one made very clearly by our own multi-asset team, is that sovereign bond holdings may no longer offer traditional 60/40 investors protection in recessions or through-cycle. Periods where very high debt and very high deficits combine often lead to fiscal dominance, inflation and very politicised central banks. Global bond markets are illustrating fiscal stresses, in our view, very clearly (chart 5). In Europe UK yields have now surpassed Liz Truss highs despite CPI inflation of 2.6% today vs. >8% in October 2022. In the US long end bond yields have increased 100 basis points since the Fed started cutting rates in September. By contrast, in China collapsing 30-year bond yields scream deflation.

The "I don't care" mindset which western investors are reflecting with the paltry size of their allocations is thus ironic given the “complexity” of the macro landscape that lies ahead.

Chart 5: Comparing trends in US, UK and Chinese long end bond yields highlights very different macro stresses.



Source: Bloomberg, Schroders.

Gold equities:

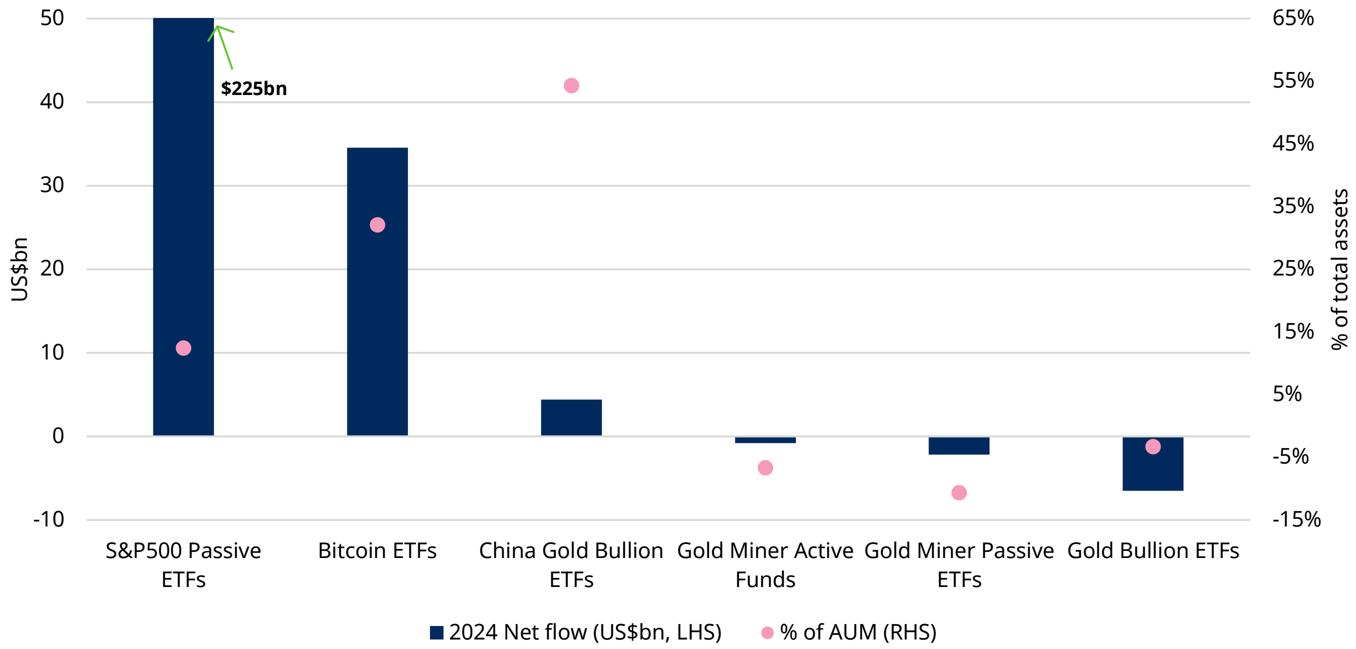
December was a tricky end to the year for the gold equities which traded down c.10% over the month. For 2024 as a whole the fund ended up 19.03% gross of fees (versus the benchmark FTSE Gold Mines UCITS Capped Index return of 11.98%). Since launch in 2016 the fund has outperformed in 7 of 9 years total and in 5 out of 5 "up" years.

Despite that, 2024 still feels like a disappointment. Perhaps there is some recency bias in that statement given the rough end to the year for the gold producer equities. Overall, though, with bullion recording a 27.5% return, gold producer margins expanding, and equity valuations at multi-decade lows the producers on aggregate should have recorded a stand-out banner year.

The reason they did not is simple: (1) while gold prices have been strong, western investors have been sizeable net sellers of gold equities (2) too many producers (particularly Newmont but also Barrick and other larger producers such as Goldfields and Endeavour had difficult years) failed to deliver on production and cost guidance.

Chart 6 gives a sense of the flow problem for gold stocks. On our numbers, active gold equity funds saw outflows of close to US$800mn in 2024, passive vehicles lost US$2.2bn cumulatively or roughly 10% of total holdings on a net money basis. That despite record high gold prices and expanding margins. Compare that to the US$225bn that went into the three largest S&P500 trackers to chase the "magnificent seven" higher, or the net US$35bn that went into Bitcoin vehicles.

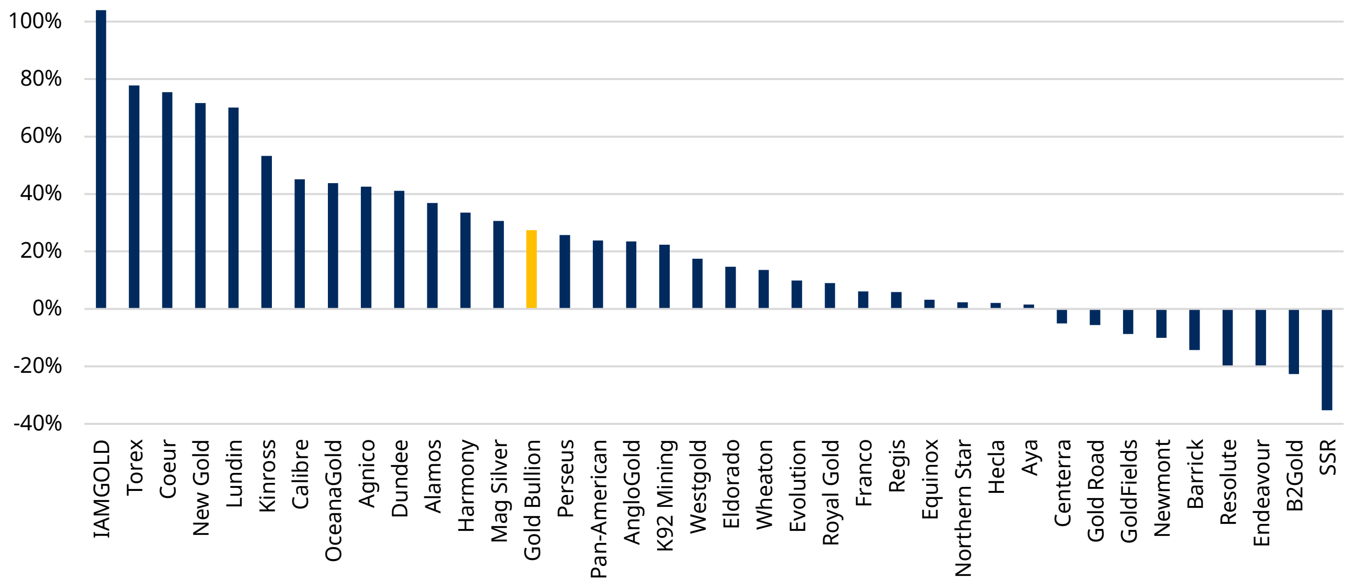
Chart 6: Crypto and US stocks saw record inflows in 2024 whilst gold bullion ETFs and gold miner ETFs/active funds both saw outflows



Source: Bloomberg, Schroders.

The good news is that those that did deliver, and have built a track record of delivery, performed very strongly and well ahead of gold prices. Some examples are shown in chart 7 but worth highlighting Alamos (up 37% in 2024 and up c.200% from late 2023), Kinross (+53% in 2024), Agnico (+43%) among the larger producers. Among developers G-mining delivered the TZ project in Brazil on time and on budget and rose 92% for the year. Artemis, at worst, look likely to pour first gold at Blackwater in British Columbia (Canada) within two weeks of the "end 2024" target and on budget (stock +99% over 2024). In short it is abundantly clear that even with across-the-board net outflows from active and passive funds the market will reward consistent operational delivery and project execution.

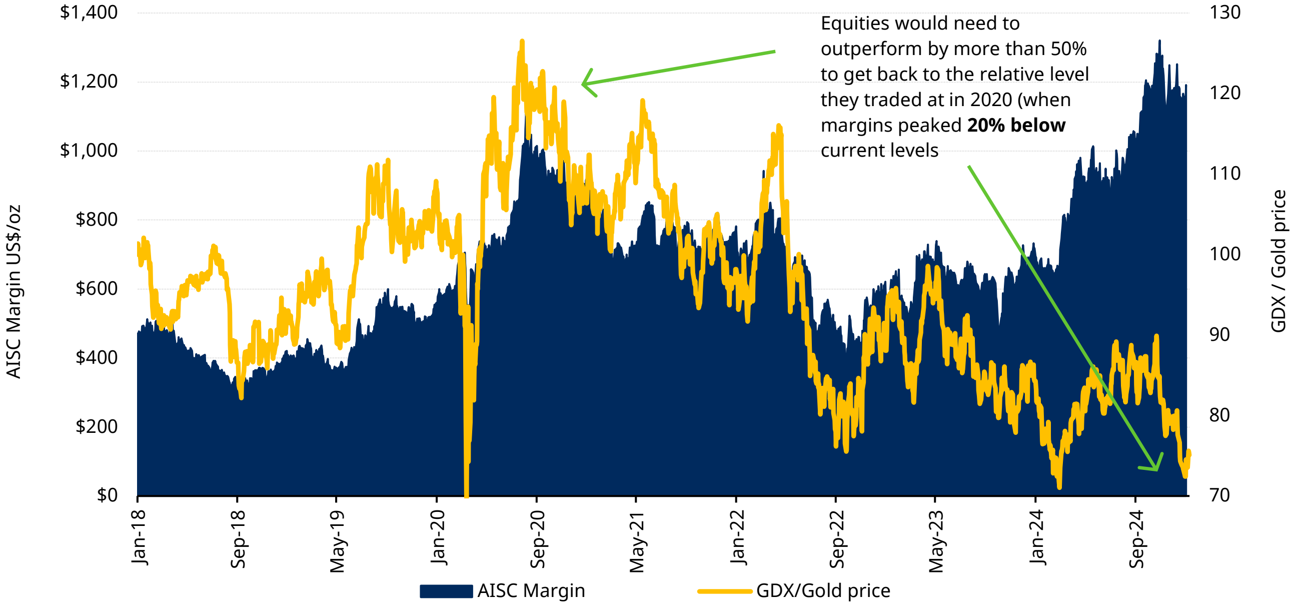
Chart 7: 2024 US$ percentage returns for selected gold producers with gold bullions return highlighted in yellow



Source: Bloomberg, Schroders.

Thus, while gold prices have again effectively been treading water vs. gold bullion for another year the good news is what we wrote in March of last year - that gold equities were at close to 40-year low valuations and could rally 50% and still look inexpensive - remains absolutely true. With the macro underpinnings of gold's bull market still solid, the closure of the gap between record gold prices and record low gold valuations is likely to be violent (chart 8). The other good news for investors in the fund, is that the gold sector is likely to remain a stock pickers market with ample scope to outperform the passive benchmarks.

Chart 8: AISC Margin vs. relative performance of gold equities vs. gold bullion

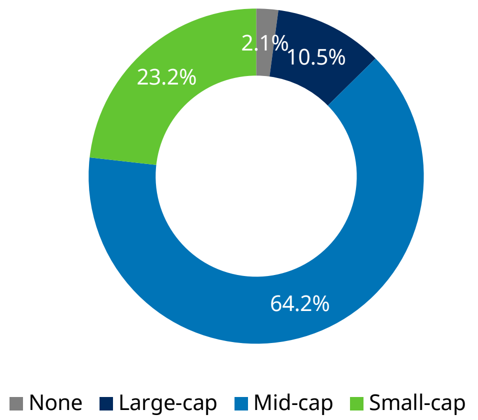


Source: Bloomberg, Cormark, Schroders.

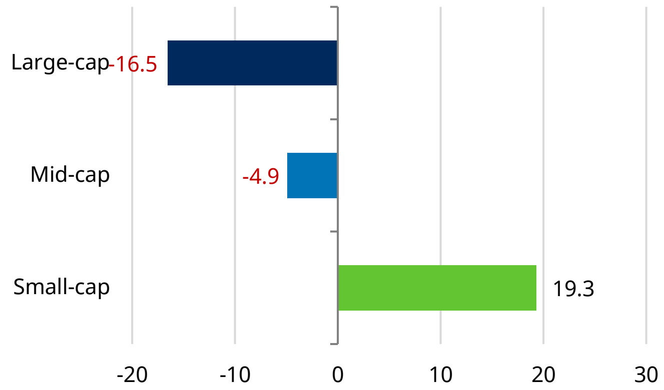
Performance attribution:

Fund performance in December was -8.96% vs. -9.04% for the benchmark. Positive attribution primarily came from Robex Resources, Hochschild and G Mining which helped to offset negative attribution from St Barbara which fell sharply late in the month following a reported tax grab from the PNG revenue service.

Market cap (%)

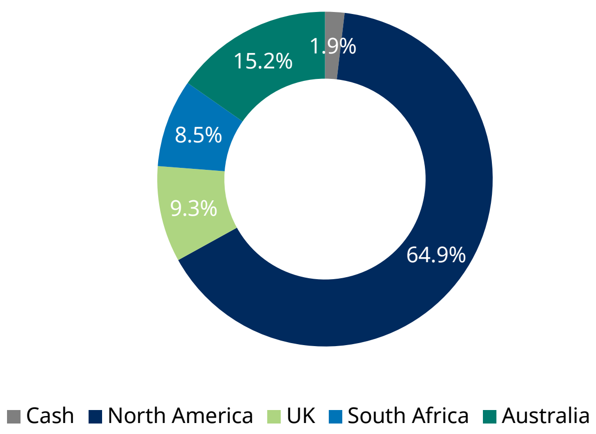


Source: Schroders, Bloomberg – December 2024.



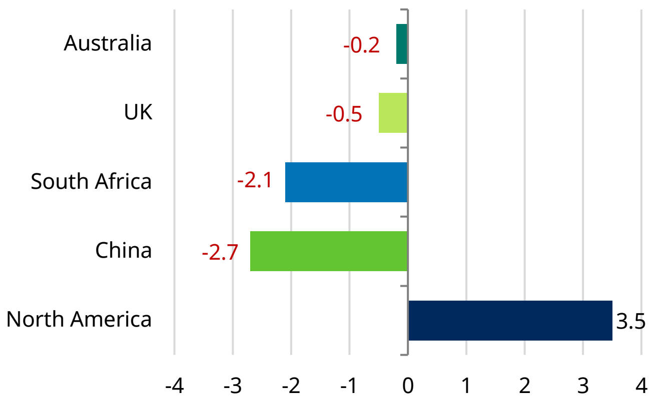
Source: Schroders, Bloomberg – December 2024.

Regional (%)



Source: Schroders, Bloomberg – December 2024.

Regional over/underweight (%)



Source: Schroders, Bloomberg – December 2024.

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