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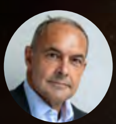
WS AMATI STRATEGIC METALS FUND

Quarterly Review

September 2023



By
Georges Lequime, Fund Manager

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The third quarter of 2023 proved to be the most challenging on record for the Amati Strategic Metals Fund as the junior end of the market saw capitulation selling and battery metals sector came under severe pressure due to a weakening global economic outlook. The fund was down -8.44%, against the benchmark that was up slightly at 0.82%. Fears of a recession in the West and growing concerns about slowing growth in China put significant pressure on lithium prices during the quarter, especially as this came as inventories were being drawn down in China. Precious metals remained under pressure as short-term rates soared to levels last seen in 2007 on the back of an acceleration in US debt and aggressive quantitative tightening. The GDXJ (the junior and mid-cap gold index) was down for the second quarter in a row (-12.62% on the quarter). Since we had 45-50% exposure to precious metals in the fund, as well as 27% exposure to Lithium stocks, the performance of the fund negatively impacted over the quarter.

Figure 1: Fund performance vs Base Metals & Gold

Source: Refinitiv as at 30/09/2023

Past performance is not a reliable indicator of future performance

In its September meeting, the US central bank kept its key interest rate unchanged as it debated whether it had done enough to stabilise prices. The decision left the Federal Reserve's rate target at 5.25%-5.5%, the highest level in more than two decades.

Forecasts released straight after the meeting showed that a majority of policymakers expect rates to be increased to above 5.5% by the end of the year, implying at least one further hike. They also saw rates remaining higher next year than previously forecast. As we moved towards the end of the quarter, some market commentators started to see short-term bond yields rising even higher over the next twelve months, perhaps exceeding 7%.

Fed officials appear increasingly optimistic they will be able to bring inflation under control, without triggering a painful economic downturn, which is the scenario that seems to be currently discounted in the market. The latest inflation figures showed that prices in the US rose 3.7% over the 12 months to August, down sharply from more than 9% in June 2022. Policymakers expect the economy to grow 2.1% this year and 1.5% in 2024 - more than previously estimated. They also see the unemployment rate rising less. But inflation remains higher than the Fed's 2% target.

Risks that threaten to complicate the Fed's task have also been mounting, including a jump in fuel prices, which could act as a spur to inflation while also weighing on household spending and economic growth. The US central bank has already raised interest rates eleven times since last year which has dampened investor appeal for precious metals.

Higher interest rates coupled with falling inflation has fuelled the dollar in recent months putting significant pressure on the gold price, resulting in lack of investor interest in the sector despite the glaringly obvious value that the sector is offering at the moment.

Investors and traders are clearly waiting for the top of the interest rate cycle before moving back into precious metals.

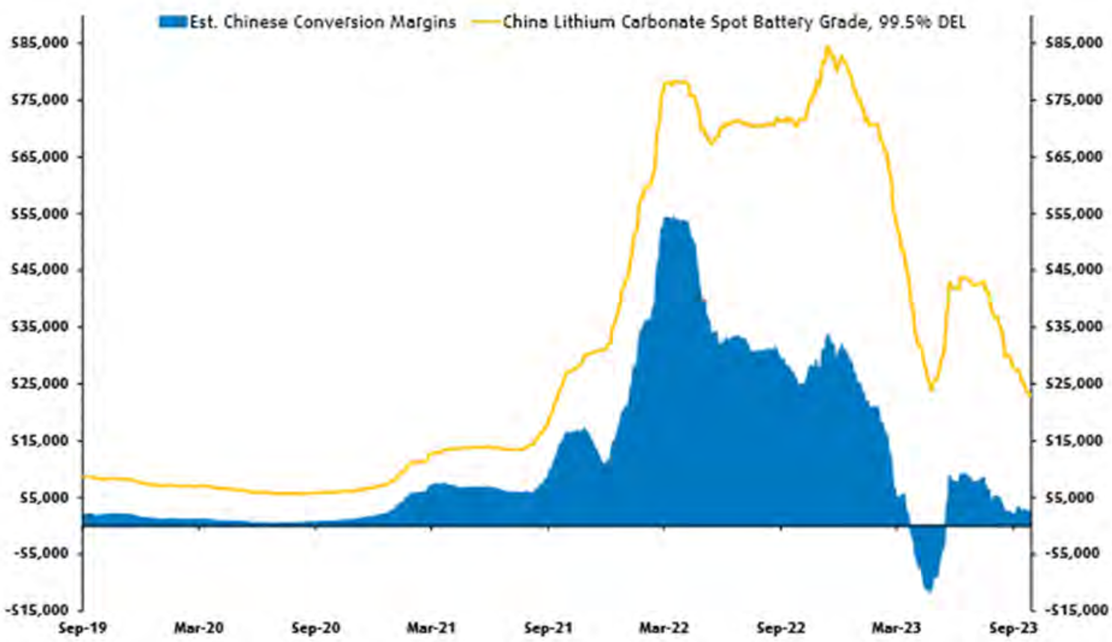
Figure 2: Industrial metals and precious metals weaker through the end of the quarter

Source: BMO Capital Markets

Figure 3: Higher rates drives the US dollar which sinks gold

Source: BMO Capital Markets

Figure 4: Estimated Chinese Battery-Grade Carbonate Converter Margins



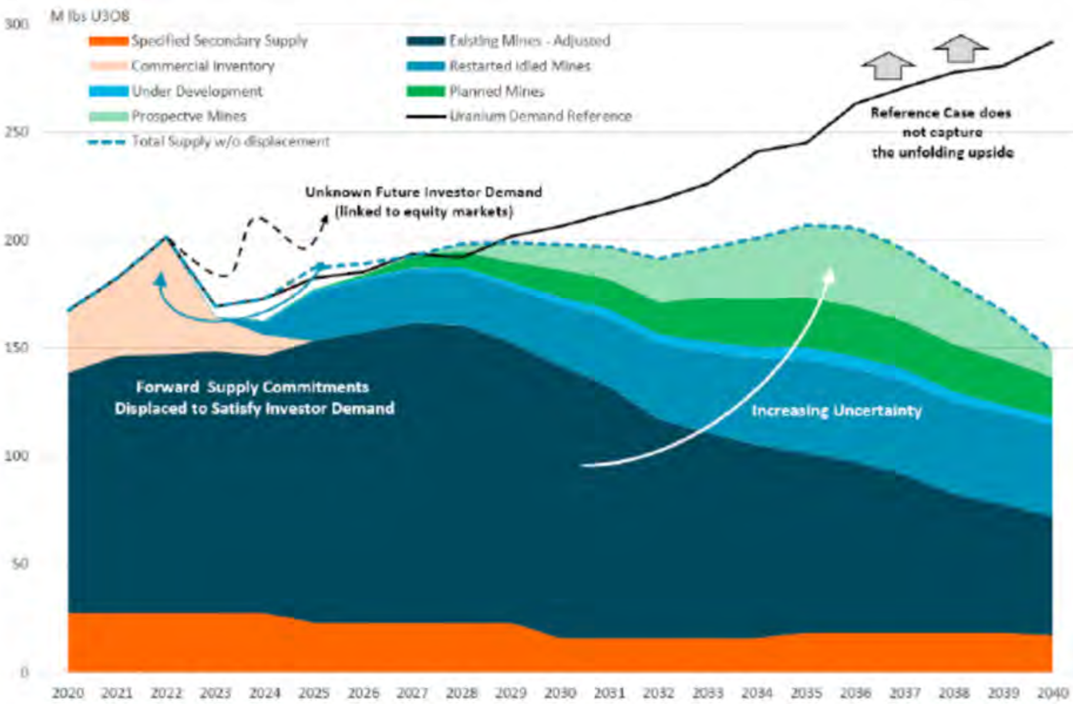
Source: BMO Capital Markets

Downstream destocking saw Chinese lithium carbonate and hydroxide spot prices fall sharply over the quarter. Prices are now approaching what is widely believed to be the cost curve support of ~$20k/t (Chinese extraction of lithium from lepidolite ceases to make economic sense at these levels). The Jan-Sep/24 futures also fell to $18-20k/t, with the gap between spot and futures pricing weighing on consumer sentiment for lithium and lithium equities.

Not only do we believe that lithium prices are now down to cost curve support levels, we also note that Chinese converter margins of spodumene to carbonate have now dwindled to zero, suggesting that prices may have fallen too low.

The Fund is invested in lithium producers and developers with world-class assets in the lowest quartile of the cost curve, with valuations that continue to discount much lower longer-term prices. This supports our investment thesis in the sector. We also believe that the current low valuations will spark M&A activity in the sector over the coming months.

Figure 5: WNA Uranium Supply/Demand outlook



Source: World Nuclear Association and Fuel Link

In September, the World Nuclear Association held its annual conference in London and we were able to conduct many meetings with uranium companies over this period. The WNA also published its latest supply and demand outlook at the conference. The market is clearly extremely tight in the short-term, as well as in the longer-term as we have about 60 nuclear reactors currently under construction across 15 countries, notably China, Russia and India. Short-term disruptions to supply to utilities in the West from Kazakhstan and Niger has encouraged financial players, such as Yellowcake and SPUT, to raise additional funds to mop up any available uranium on the spot market. This is causing a short-term price squeeze at a time when utilities typically enter into new term contracts (September and October).

We have been adding to our uranium exposure over the past 9-12 months and decided to trim some of this exposure late in the quarter as the shares of the two companies that we were invested in – **Cameco** and **UEC** – broke through the target prices that we had for both. We switched some of the investment into **enCore Energy** – also a US-based near-term producer – purely on relative valuation and the fact that enCore is about to restart production at one of its facilities in Texas in November. At quarter-end, the world's largest producer, Kazatomprom, announced its intentions to restart idled capacity from 2025 onwards, which took some steam out of the market and justified our decision to take short-term profits on our investments. We remain very positive about the longer-term outlook for the uranium industry and uranium's role in the energy solution going forward and will continue to build an exposure to this sector over the coming months.

The portfolio structure has remained fairly constant with 40.5% invested in specialty metals and 51.5% in precious metals (the 2 book ends to the fund). As mentioned, we reduced our uranium weighting to 3.6%, and started to increase our exposure to nickel. The themes that we launched the fund on are still very much intact and we are very reluctant to change the portfolio too much, even more so during times of very low market liquidity.

Gold and silver prices should perform much better in the fourth quarter of 2023. Sentiment towards the sector remains at record lows while the market is positioned for a higher-for-longer rate cycle and a soft landing scenario. This could all change over the coming months as concerns about rising global debt levels and the cost to service this debt takes centre stage. Silver continues to look particularly interesting with more than 10% of silver demand now directly attributed to the very high growth photovoltaic (PV) cell market for solar energy panels. The silver market has been in a supply deficit for the past three years with the deficit expected to widen significantly in the coming yearrs.

With gold and silver equities so out of favour, as reflected by the record low multiples, any return in investment demand for physical gold and silver will be extremely positive for these stocks. We also expect heightened M&A activity in late 2023 and 2024, with the Fund well positioned to benefit.

The same can be said for the lithium sector where equity prices have fallen to such a low level, relative to what can be justified by spot and longer-term sustainable lithium prices, that we expect a pick-up in M&A activity in the coming months.

Should you wish to hear the audio/video presentation from the fund manager, please click **here**.

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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, 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 effect 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 Waystone or Amati and is available to download from our website.

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