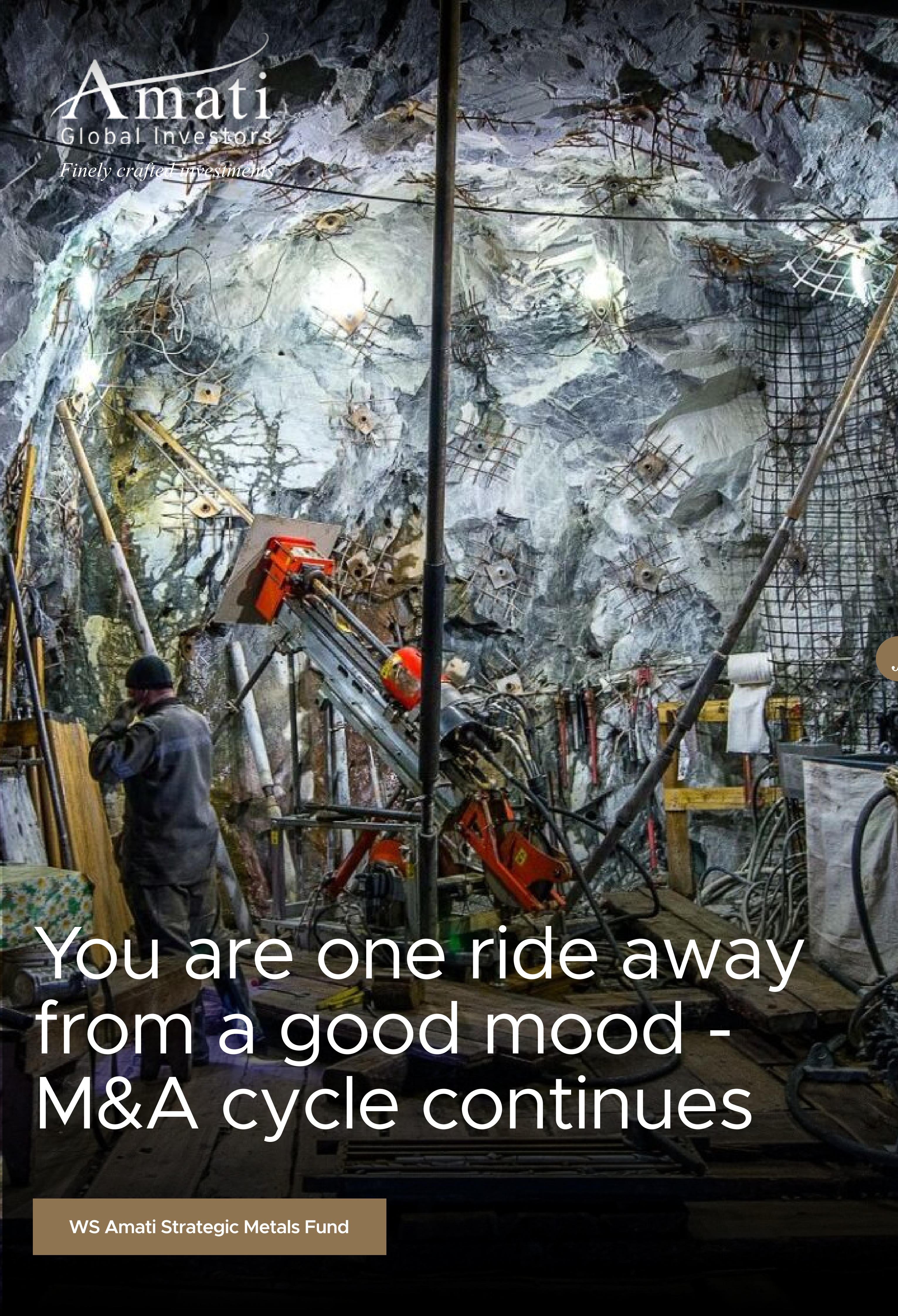


Amati Global Investors

Finely crafted investments

You are one ride away from a good mood - M&A cycle continues

WS Amati Strategic Metals Fund

You are one ride away from a good mood – M&A cycle continues

Written by
Mark Smith

The fund was set up to have two strong investment bookends – (1) precious metals and (2) critical metals for the global decarbonization.

Within this investment framework we designed 3 legs to the fund (stool) – investing in development risk; investing in exploration geological potential; and M&A.

While the broader equity markets have largely been risk off in 2023 due to growing western world recessionary fears, Chinese deflation and widespread geopolitical risk, the M&A cycle has quietly been turning.

Copper - The depressed copper price due to global economic growth concerns, is forcing some small-to-mid sized companies to cut back exploration budgets and other expenses. But that may not be sufficient for them to survive and the current scenario may pave the way for more M&A in the sector. So far this year, some $22 billion worth of copper M&A has been launched: Hudbay Minerals' $439 million bid for Copper Mountain, Lundin Mining's purchase of Japan's JX Nippon Mining and Metals stake in Caserone mines in Chile, and Newmont Corp's acquisition of gold and copper miner Newcrest for $19 billion. Copper M&A more than doubled in 2022 to $14.24 billion from the previous year.

Gold - The world's biggest gold miners have made blockbuster deals in the past couple of years to boost production and replace older assets. Newmont Corp. acquired Newcrest Mining Ltd., solidifying its position as the top bullion producer. Agnico Eagle Mines Ltd. has done two major deals since 2022 to become the third-largest producer of the precious metal. Barrick, the No. 2 gold miner, is reported to have approached copper producer First Quantum Minerals Ltd. earlier this year to informally discuss a deal and was rebuffed.

M&A is a component of any industry rearrangement — but the problem is that, in the gold and base metal industries, most of the tier one assets remaining are embedded in bad assets or difficult corporate structures and you can't unlock them to monetize them. With lack of large mines up for grabs, we expect that large miners will be looking to expand their production by acquiring smaller mines.

Lithium - Driven by receding prices of lithium and by major producer Chile nationalizing the industry earlier this year, companies such as Albemarle Corp, the world's biggest lithium producer, have been sniffing around for buys in Australia, which makes the most lithium in the world and has more than 80 lithium-related companies listed on its main stock exchange. However, they are reluctant to pay up for listed producers whose market valuations have sky-rocketed on the back of booming prices, while offers have been rebuffed on the promise of soaring demand to come from sales of electric vehicles and the lithium-loaded batteries that power them. This is forcing acquirers to shift their hunt to earlier stage lithium developers.

- Develop Global, a base metals explorer backed by diversified miner Mineral Resources, last month proposed to acquire lithium developer Essential Metals for A$152.6 million ($97.98 million).

- Chile's SQM, the world's second-biggest lithium producer, made an offer last month for Azure Minerals after buying a 19.95% stake in it for A$20 million in March.

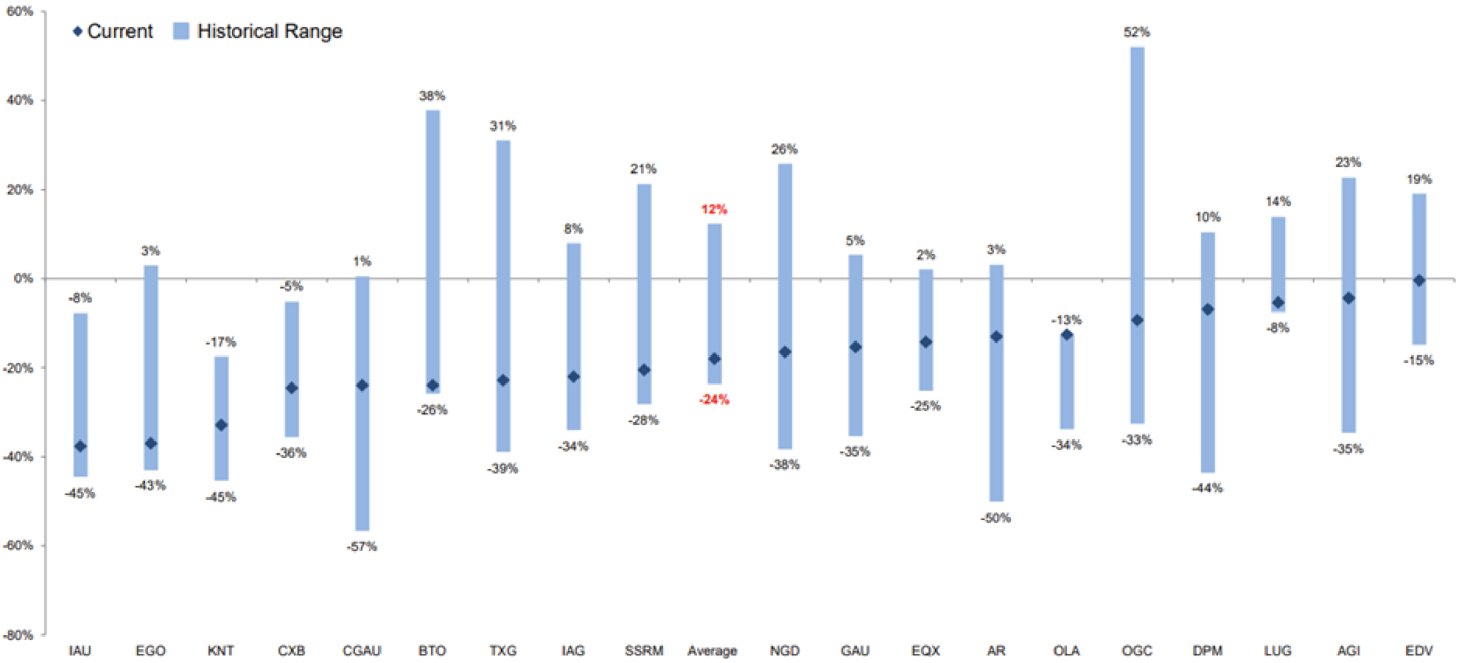
- Albemarle's $3.7 billion bid earlier in 2023 for Liontown Resources before it starts producing the material next year was also rejected.

- Albemarle invested c$109m in Patriot battery Metals (4.9%).

Consolidation of the industry is also being driven by companies expanding activities across the value chain. Downstream facilities need product, so that continues to drive M&A.

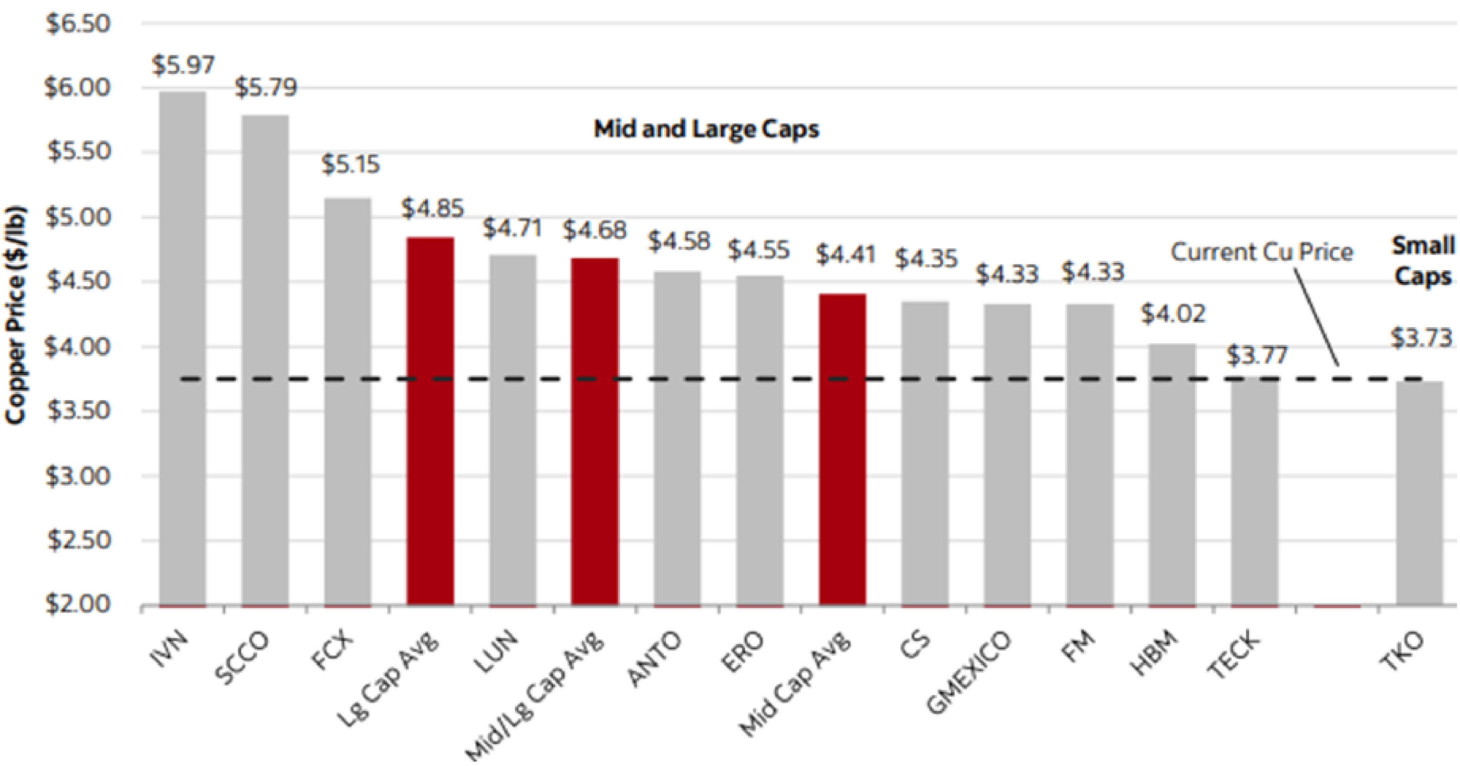
With these strong industry thematics we continue to invest in small and mid-cap companies which can create value from derisking mine development or by making geological discoveries. The frustrating part of this strategy over the past 12 months has been the low market value of acquisitions. When the market goes risk off, equity valuations fall, as can be seen in Exhibit 1.

Exhibit 1 - Implied Gold Producer Premium/Discounts to Spot



Source: Scotia Bank

Exhibit 2 - Implied Copper Price in Current Equity Share price (based on 8% NAV) for large/mid caps



Source: Scotia Bank

However we are cautious over the current copper equity valuations, trading over 1.0x Price/Net Asset Value (P/NAV). Valuation multiples appear elevated in the context of current spot prices. However, this is likely supported by the very constructive medium to long term fundamental picture, the energy transition thematic, and by ongoing M&A speculation. However, these thematics are not reflected in the other critical metal equity valuations. The lithium producers are trading at 0.76xP/NAV and lithium developers 0.47x P/NAV, while you could argue the future fundamentals for lithium are much stronger.

So while the markets have shied away from commodity risk and development risk we have picked stocks that the mining companies want. As value investors we recognise the same investment opportunities as the mining companies, and are waiting for the broader market to play catch up. Since the launch of the fund we have had 8 stocks taken out. We will continue with our strategy.

Exhibit 3 – Stocks taken out in the Amati Strategic Metals fund since launch

Lithium:

1. Bacanora Lithium by Ganfeng Lithium
2. Arena Minerals by Lithium Americas

Nickel:

3. Mincor Resources by Wyloo Metals

Gold:

4. Golden Star by Chifeng Jilong Gold
5. Yamana by pan American Silver
6. Sabina Gold & Silver by B2Gold
7. Orecorp by Silver Corp
8. Cheser Resources by Fortuna Silver

Source: Amati Global Investors

Most of these deals were done at a 40-50% premium to the last 20 day VWAP (Volume Weighted Average Price), however we have been disappointed as our internal valuations on these stocks were 100-150% higher. When the market is not there to support a company's share price and hence too dilutive to raise capital, they become vulnerable to M&A. Fortunately we hold some of the acquirers in the fund and hope to capitalize on future value. We look forward to Q3 and Q4 2023 as the market gets clarity of the US rate decisions and China considers an economic stimulus to deter deflationary pressures. Both topics should be positive for metal prices.

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 subect 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 T.Bailey or Amati and is available to download from our website.

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