Victor Smorgon Partners Global Multi-Strategy Fund (GMF) Q3 FY24 Investor Report

Date: 08/04/2024

GMF Q3 FY24 Net Return: 6.6%*
GMF FYTD 2024 Net Return: 19.4%*

Since its inception in 1995, the Victor Smorgon Group has invested with an operator's mindset, investing in companies and opportunities that:

- Have attractive operating margins – demonstrating pricing power.
- Produce free cash flow and return capital to shareholders.
- Are in sectors of the economy that are due to benefit from structural trends.
- Are well led by experienced and aligned management teams.
- Can be bought at a reasonable price.

The Global Multi-Strategy Fund's (the Fund's) commodity investments have performed strongly since inception. Most of this performance has come from company selection, based on an operational approach to investing, identifying the highest quality projects in safer jurisdictions that are run by competent management teams.

March 2024 was the first month where the Fund benefited from rising raw material prices since May 2022. It is our view that gold, copper, and energy prices all possess attractive supply dynamics that can support further price appreciation.

From a portfolio management perspective, the Fund has taken profits in the Automation sub-portfolio which has seen the Fund's allocation to Automation reduce from ~11.5% to ~8.5%. Moving forward, the Fund will run a lower exposure to the Automation sub-portfolio as expectations of higher interest rates are acting as a headwind to technology-related stocks.

The Fund is also looking to reduce exposure to its Alternatives and Capital Markets strategies with a view of rotating into a basket of high-quality companies that have limited debt, currently produce cash flow, possess good economies of scale, and operate in industries where there are high barriers to entry and secular industry tailwinds.

In late April/early May GMF team members will be conducting a research trip to India and Singapore to speak with companies and other market participants to further shape our understanding of these markets and the sectors which are poised for consistent, long-term growth.

This quarterly report will outline:

1. Performance attribution for Q3 and FYTD 2024
2. Portfolio movements and commentary
3. Commodities deep dive and takeaways from recent travel

We thank you for your support and look forward to keeping you updated.

Peter Edwards
Executive Chair & Co-CIO

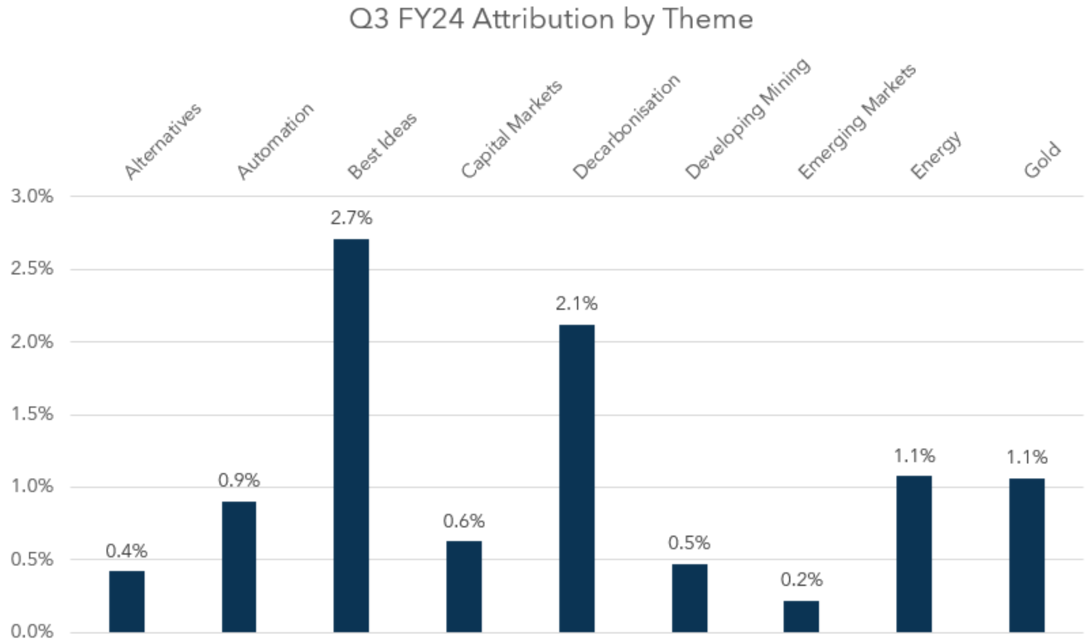
Joseph Sitch
Co-CIO

Fund performance is an estimate based on the inception unit class.

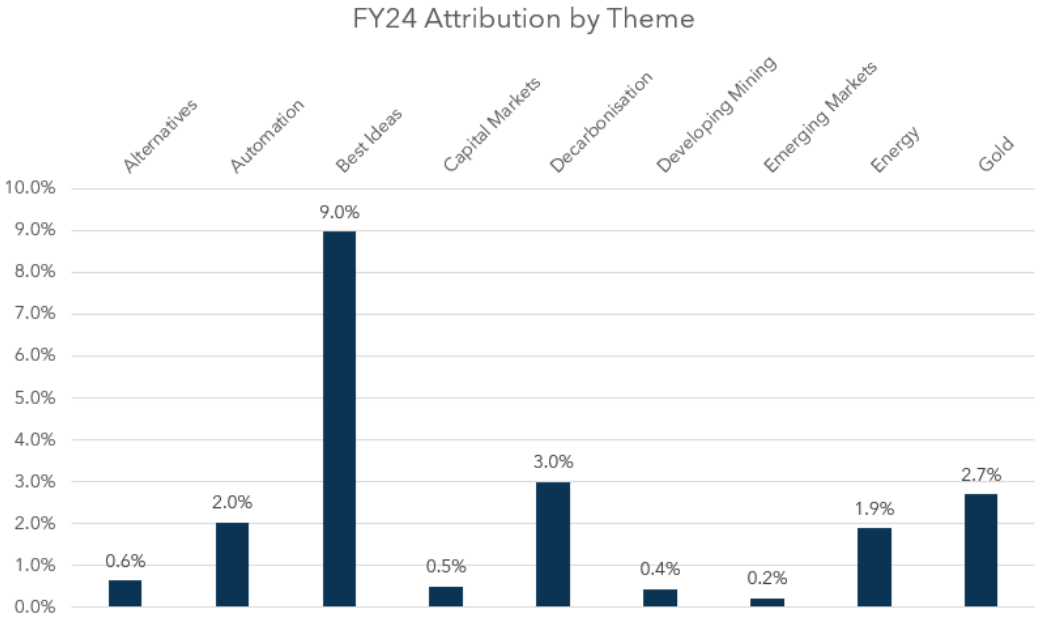
Q3 & FYTD 2024 Performance

The Fund returned an estimated +6.7% net in Q3, taking overall FY24 performance to +19.4% net.

The largest attributors for the quarter were Best Ideas (+2.7%), Decarbonisation (+2.1%), Energy (+1.1%), and Gold (+1.1%).

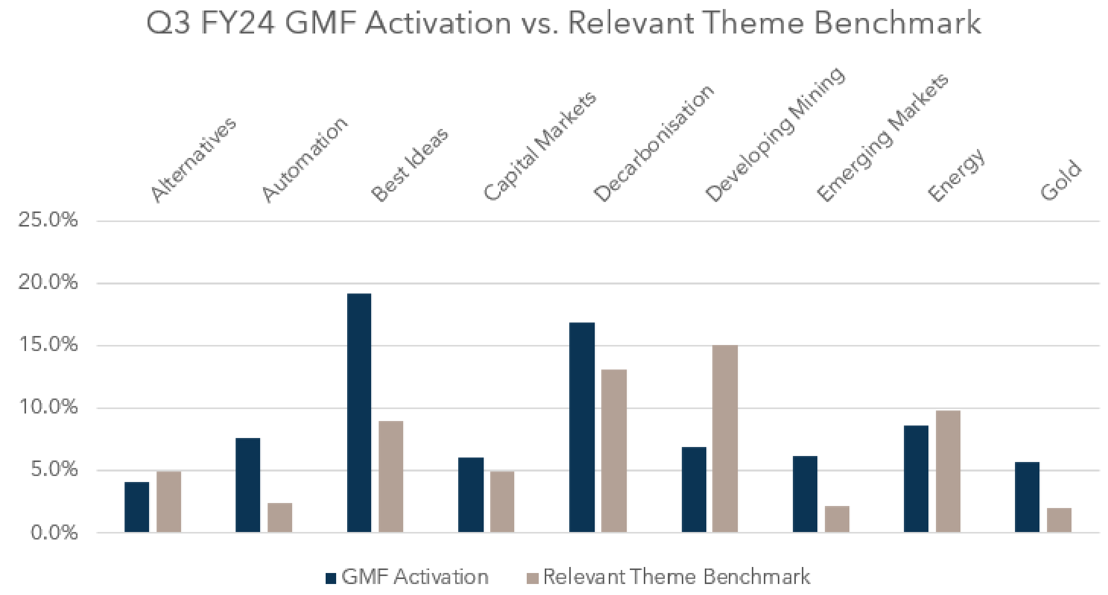


For FY24, the largest attributors have been Best Ideas (+9.0%), Decarbonisation (+3.0%), and Gold (+2.7%)

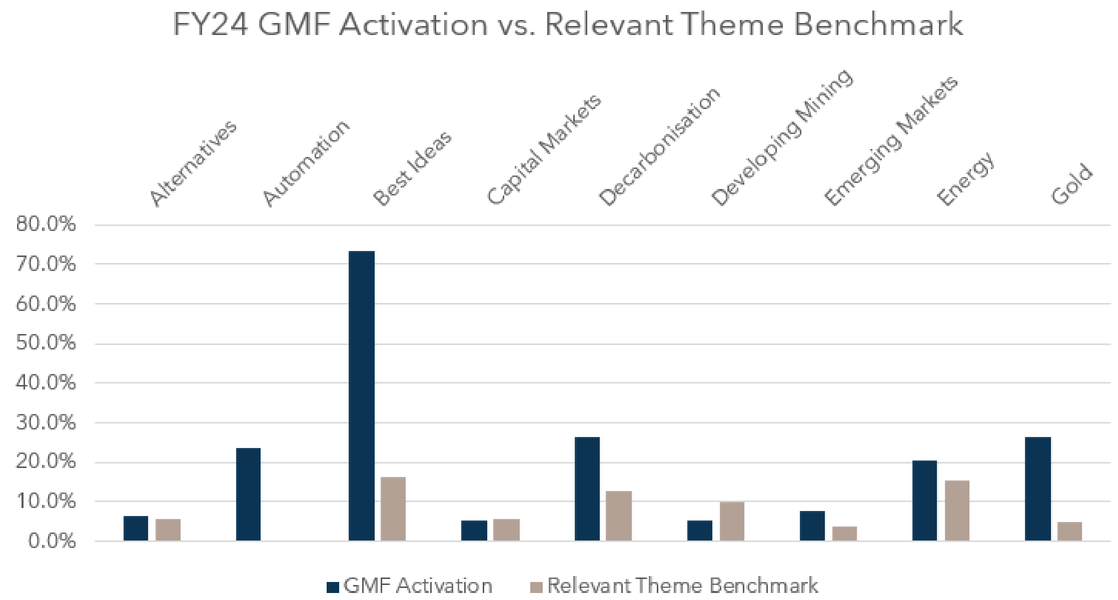


**Fund performance is an estimate based on the inception unit class.*

From a quarterly perspective, most of the GMF's sub-portfolios outperformed their respective benchmarks. Critically, all the theme benchmark returns for the quarter are positive, indicating that the Fund is positioning itself in the right areas of the market whilst highlighting that stock selection is driving outperformance versus benchmarks, which is happening in majority of cases.



Similarly, from a FYTD perspective nearly all of the GMF's sub-portfolios have outperformed their respective benchmarks.



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Key performance catalysts for the quarter

Red 5 Limited (ASX:RED)

On Monday, 5th February, Red 5 Limited (RED) and Silver Lake Resources Limited (SLR) jointly announced their merger via a scheme of arrangement. The 'merger of equals' aims to create the ASX's fifth-largest gold producer with anticipated annual gold production of ~445koz, and reserves and resources of 4.0moz and 12.4moz, respectively, across four operations in WA and Ontario, Canada.

The Victor Smorgon Group has highlighted the following benefits as part of the transaction:

- Creation of ASX's fifth-largest gold producer.
- De-risking of Red 5's balance sheet.
- Dilution of existing hedge book.
- Mitigation of single asset risk.
- Accelerated deployment of capital for growth (mine life extension and resource conversion).
- 'Fiduciary out' clause in the event of a superior bid for Red 5.

The indicative timeline suggests the first court hearing will take place in mid to late April 2024, with implementation expected by June 2024, subject to necessary approvals.

Metals Acquisition Limited (ASX:MAC)

Metals Acquisition Limited (ASX:MAC) successfully dual-listed on the ASX on Tuesday, 20 February. The company's ASX shares were issued at A$17.00, opened trading at A$18.00 and closed the day at A$19.00, representing an 11.8% premium to the ASX IPO issue price.

Metals Acquisition Limited initially intended to raise A$300m to cover its deferred payments for the acquisition of the CSA Copper Mine, advance access within new underground areas, and improve its overall balance sheet. However, the company later upsized its IPO to A$325m off the back of strong demand, receiving ~$1b of interest at the top end of the A$16-17 per share bidding range.

Due to our support of the company through the acquisition of the CSA asset in the previous year and our ongoing relationship with management, the Victor Smorgon Group (including Victor Smorgon Partners and its associated funds), was able to secure its full allocation of shares despite many other subscribers being significantly scaled back.

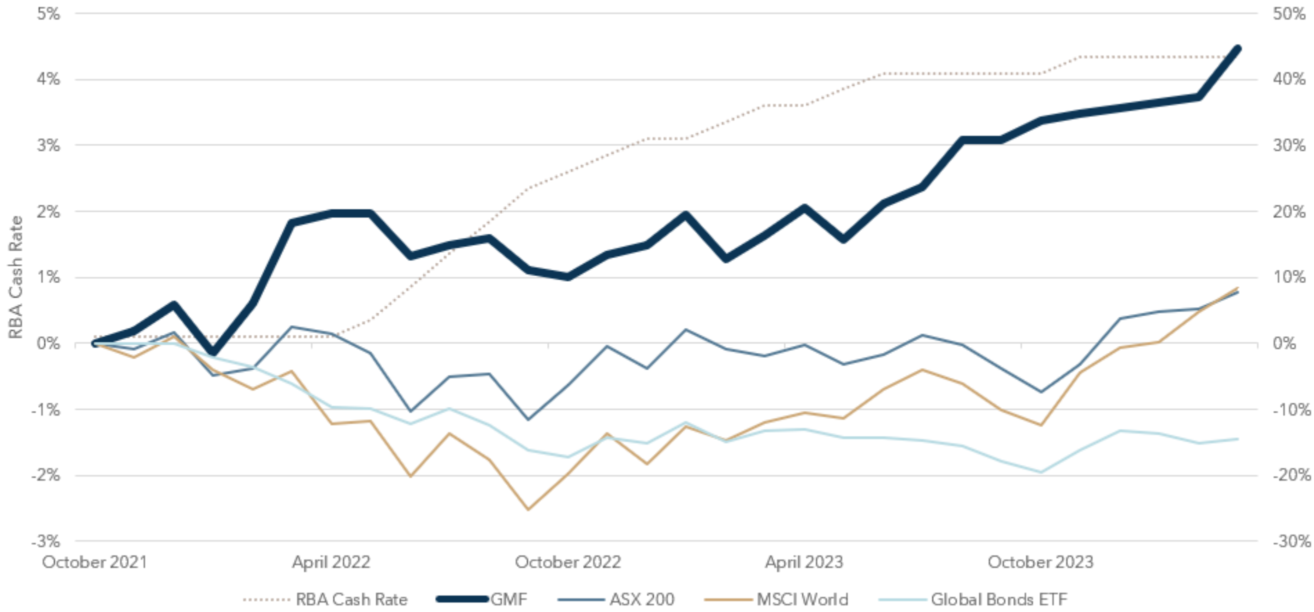
BMC Minerals

In January, BMC Minerals' Kudz ze Kayah project received material updates towards getting final permits when Canadian courts ruled for further consultation to occur between the Canadian government and the Ross River Dena council of the Yukon. In March, the courts re-issued the decision document with amendments to address issues brought up during the consultation period. These updates are believed to be positive and provide a clear pathway for the company to progress the project to Final Investment Decision in early 2025.

GMF in the current environment

Analysis shows that since the RBA first outlined interest rate rises in October 2021, the GMF has significantly outperformed both equities and bonds. This is because the GMF is focused on free cashflow fundamentals which are particularly important when the equity/bond relationship breaks down, as it has in recent times.

The below chart demonstrates the performance of the GMF versus global equity and bond benchmarks since October 2021:



Additionally, since inception of the strategy in January 2019, adding a 10% allocation to the GMF in a traditional 60/40 equity/bond portfolio (55/35/10 equities/bonds/GMF) has shown to both reduce broader correlations with the market and improve returns without adding incremental risk, as evidenced by the below table:

	GMF	60/40 Global Equities/Bonds	55/35/10 Global Equities/Bonds/GMF
Annualised Returns	**40.7%**	**6.9%**	**10.2%**
Standard Deviation	19.8%	12.4%	12.4%
Sharpe Ratio	**1.84**	**0.21**	**0.47**
Correlation with GMF	1.00	0.46	0.58
% Positive Months	70.3%	65.1%	66.7%
Average Return for Positive	5.3%	2.7%	2.9%
Average Return for Negative	-3.0%	-3.3%	-3.2%
Worst Month	-9.0%	-8.8%	-8.9%
Best Month	22.2%	8.3%	8.1%

**Fund performance is an estimate based on the inception unit class.*

Portfolio movements and commentary

Automation sub-portfolio

Significant portfolio moves over Q3 included taking profits in the Fund's Automation exposures, moving the GMF's allocation to the sub-portfolio from ~11.5% to ~8.5%. This included selling positions in ABB Ltd (ABBN) and Siemens AG (SIE). The primary reason for selling these two positions was due to their valuations, with both companies' share prices trading at all-time highs, and P/E multiples trading above historical averages.

Critically, both companies continue to possess quality product portfolios that are positioned across industrial automation (both hardware and software) and electrical products that are benefiting from secular tailwinds including the digitisation and electrification of the global economy. Both companies remain on the watchlist and if valuations become more attractive, will be included back into the Automation sub-portfolio.

The momentum that has been driving outperformance in technology and technology-related sectors over recent months has begun to abate. Expectations of higher interest rates throughout the rest of CY2024 due to limited Fed rate cuts have started to diminish technology sector returns. The Fund will likely maintain a reduced allocation to the Automation sub-portfolio until a time when the path for global interest rates becomes clearer and geopolitical volatility subsides.

Companies that remain within the Automation sub-portfolio continue to reflect one-year double-digit percentage expected returns. Importantly, these companies all continue to exhibit one-year double-digit percentage base case expected returns. The primary factor driving these companies' double-digit expected returns is their current production of free cash flow.

One of the core investment principles of, not only the Automation sub-portfolio, but of the GMF is to prioritise investing in companies that are currently producing free cash flow. These companies are often higher quality and have lower downside risk.

Looking forward, we are focusing our Automation sub-portfolio research on companies that enable wireless communication and connection such as Qualcomm (QCOM), Broadcom (AVGO), and Taiwan based MediaTek (2454). Taiwan Semiconductor Manufacturing Company (2330) is also a compelling prospect given the company's dominant position in the semiconductor foundry market.

Decarbonisation sub-portfolio

The GMF has increased its exposure to the Decarbonisation sub-portfolio from ~11.0% at the end of December 2023 to ~12.5% currently. Underlying copper price appreciation coupled with stock selection drove strong performance within the Decarbonisation sub-portfolio throughout the quarter.

Exposure within the Decarbonisation sub-portfolio was primarily increased by up-weighting positions in Capstone Copper (CS) and Metal Acquisition Limited (MAC). Both companies are run by competent management teams that are operating mining assets in tier 1 jurisdictions across Canada and Australia.

The supply/demand dynamics within the copper market remain compelling and are supportive of further copper price appreciation. Constrained supply due to declining grades, low capex, and labour disruptions coupled with strong demand driven by the electrification of the global economy has resulted in the GMF increasing its exposure to the Decarbonisation sub-portfolio.

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Commodity deep-dive & takeaways from recent travel

In February, members of the GMF Investment Team travelled to the BMO Metals, Mining and Critical Minerals conference in Miami, Florida to conduct meetings with existing and prospective portfolio companies. Approximately 300 companies presented at the conference with over 2000 attendees.

Critically, the BMO conference is viewed as the premier event globally within the metals and mining sector as it is limited to companies with market capitalisations over US$500 million and is attended by the CEOs of many of the world's largest mining companies including BHP, Rio Tinto, and Glencore.

This is the second time that GMF Investment Team members have attended this conference, however, on this occasion there appeared to be a noticeably subdued mood. This is due to the fact that the past 12 months have been difficult across many commodities, including lithium and nickel as well as the wider battery metal space. The consensus view at the conference was that the copper market appears to present the most compelling fundamentals in the sector, and the largest potential for upside.

Following valuable conversations with many of our existing portfolio companies, the conference was able to reinforce our conviction in these companies, resulting in the upweighting of two of our positions. We were also able to identify several compelling opportunities which we continue to closely monitor and maintain ongoing dialogue with management.

Why copper?

Many presentations at the BMO conference explained that demand for most metals is expected to be strong as the world moves away from fossil fuels towards renewable energy, which consumes far more raw materials. Electric vehicles (EVs) require large amounts of copper as well as other battery metals, including lithium and nickel. EV adoption is still in its infancy.

Transmission lines are another major area that is expected to see strong demand for copper, as well as in the installation of renewable power generation, especially in wind and solar. Most companies within the Automation sub-portfolio manufacture electrical products such as transformers that assist in connecting renewable energy assets to the power grid. These electrical products all require copper.

The supply side of the copper market is unique relative to other metals that are exposed to the decarbonisation thematic. Copper mines typically achieve profitability through scale, they are the largest mines across the commodity complex. High grade (+3.0% copper) mines are rare, therefore most of the production comes from large, diversified miners.

Copper has been mined globally for many thousands of years, and the 'easy' copper deposits have long since been exhausted. The current uncertain macroeconomic situation we are in has reduced capital spending in the copper mining sector due to inflationary cost pressures and increased financing costs. This is at a time when demand for copper continues to remain elevated. The GMF believes that there will be a shortage of copper due to the difficulty of bringing new supply online. Constrained supply coupled with increasing levels of demand creates a scenario that should lead to an appreciation of the copper price.

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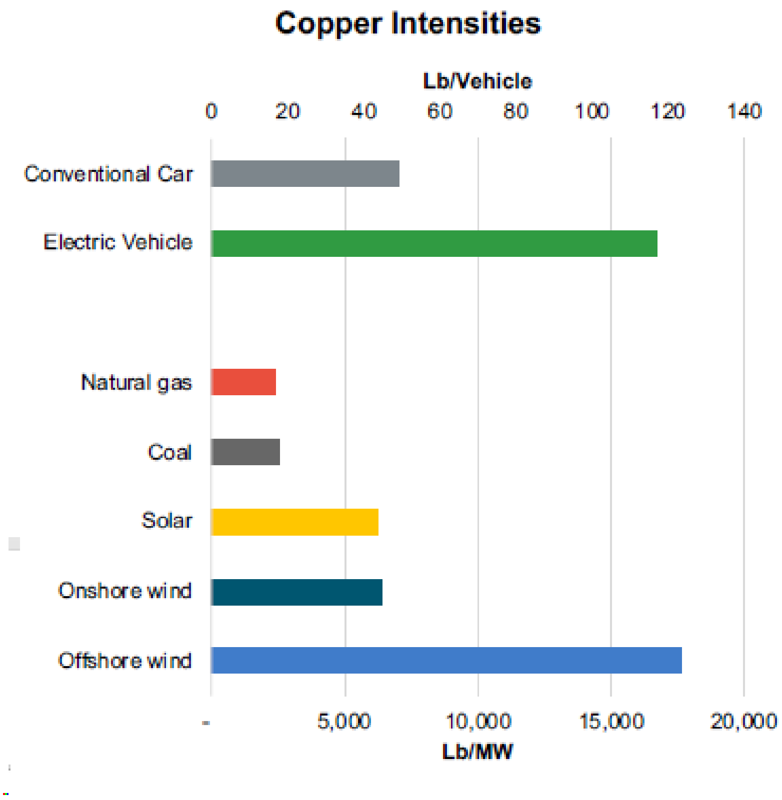
The graph below outlines the increased copper usage from EVs and renewable energy sources such as wind and solar. As the global economy pushes towards decarbonisation the demand for copper will increase, however, given the previously mentioned copper supply constraint this will create an environment that should see the price of copper appreciate.

Figure 1:The role of critical minerals in clean energy transitions, IEA, May 2021



<u>How the GMF is taking advantage of a forecasted appreciation in the price of copper</u>

The GMF's view is that the price of copper will continue to appreciate. To take advantage of this, the GMF is allocating capital to the Decarbonisation sub-portfolio which invests in large, low-cost copper producers with mining operations located in tier 1 jurisdictions such as North America and Australia, which are run by competent management teams and are well financed.

An example of this is the GMF's investment in Metals Acquisition Limited (MAC). The GMF has been invested in MAC as part of the Decarbonisation sub-portfolio since the company acquired the CSA copper mine in Cobar, NSW from Glencore in July 2023. GMF team members have been in conversations with the company and conducting due diligence since 2022.

Beyond the view that constrained copper supply and persistent copper demand will lead to an appreciation in the price of copper, there are several stock-specific catalysts that we believe will drive an appreciation in the MAC share price, including:

- The CSA mine is a turnaround story – over two site visits in 2023, the GMF team became confident that new management were rapidly improving operating outcomes at CSA, producing more copper in concentrate, reducing costs, and extending mine life.
- MAC has a unique strategy in the sector. The company intends to grow via the acquisition of assets that can be operated more efficiently than the previous owners.

Anecdotally, MAC was fully booked for meetings during the BMO conference, from both investors and industry participants. This indicates the increased level of interest in MAC and a vote of confidence in the CSA operation.

The GMF also uses the Developing Mining sub-portfolio to take advantage of the forecasted appreciation in the price of copper. Unlike the Decarbonisation sub-portfolio, the Developing Mining sub-portfolio invests in early-stage mining projects, however, like the Decarbonisation sub-portfolio these early-stage mining investments are targeting high-grade copper deposits located in tier 1 mining jurisdictions being run by competent management teams with a clear path for financing and producing free cash flow.

An example of this is the Developing Mining sub-portfolio's investment in BMC Minerals (BMC). BMC is developing the Kudz Ze Kayah project which is a high-grade copper/zinc/precious metals deposit in the Yukon, Canada. BMC is one of the Developing Mining sub-portfolios unlisted investment opportunities.

The company has been working to achieve final permitting, which involves receiving a positive decision to proceed with developing the project from the Canadian government. BMC was recently given the green light from the Canadian government for the Kudz Ze Kayah project to proceed. The company now has a clear pathway to final investment decision, which is expected in early 2025.

The remainder of 2024 will be spent working towards water and mining licenses, pre-project development, exploration activities, and project financing. The GMF expects that the company will progress the project further in 2024, which bodes well for the GMF's initial investment.

Altamin (ASX:AZI) site visit

Altamin is a position held within the Developing Mining sub-portfolio. The company is developing the Gorno zinc project in Northern Italy. GMF team members travelled to Gorno during the quarter to meet with the Altamin Board and management team on site.

The trip re-iterated our positive view on the asset. The existing underground infrastructure provides for excellent exploration potential and reduced cost on re-start of the mining operation. The orebody is extensive and appears likely to extend in several directions, the existing resource underscores the potential for a long life of mine.

The next steps include focussing on progressing permitting, and completion of the necessary engineering work required to submit the mining permit application. This includes baseline environmental monitoring and impact assessment, and mitigation of environmental impacts.

Over the course of the visit there were also discussions surrounding the Lazio geothermal brine project, which Altamin owns. The project benefits from historical drilling and is currently being assessed for contained lithium, potassium, and other minerals. The Lazio project has potential to be a significant producer of lithium, potassium, and renewable geothermal energy which are all highly strategic to the European Union.

Altamin recently signed a non-binding MoU with IREN, one of Italy's largest utility companies to help progress the Lazio geothermal brine project. IREN will assist by making available its operations, regulatory, and public affairs skills as well as help to identify offtake partners and financing solutions.

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