Global Multi-Strategy Fund (GMF)

Q1 FY25 Investor Report

9 October 2024

"To be successful you need an idea, a dream, a passion. But first you need people".

- Victor Smorgon AC

Dear Investor,

The Victor Smorgon Partners Global Multi-Strategy Fund (the Fund) has returned 2.5% net in Q1 FY25.

The Fund continues to adhere to its operating framework by investing in companies that are exposed to pricing tailwinds, exhibit attractive operating margins, produce free cash flow, and return capital to shareholders. This results in a portfolio based around investment themes such as gold, decarbonisation, and automation that are positioned for structural, multi-year growth.

Based on internal analysis, the Fund currently trades on a 1-year forward P/E multiple of ~9.5x, and 1-year forward FCF yield of ~8.0% whilst exhibiting a ~16.0% 1-year forward earnings per share growth rate. This reflects the attractive valuation of the Fund's portfolio, providing downside protection, coupled with compelling growth expectations over the next year and beyond.

With the US Federal Reserve having cut their benchmark interest rate in September, global markets are increasingly convinced that we are at the beginning of an interest rate cutting cycle. Expectations of a reduction in interest rates is a positive catalyst for the investment themes the Fund is exposed to.

As we discuss further in this report, the Fund has been able to outperform whilst monetary conditions have been restrictive. As monetary conditions loosen, the Fund expects the USD to weaken, nominal economic growth to increase, and inflationary pressures to re-emerge. As such, the Fund remains positioned in gold, copper miners, energy producers, and industrial automation & electrical equipment manufacturers to take advantage of these catalysts.

In relation to new idea generation, the Fund has been exploring the adoption of technology and automation in the construction, mining, and energy sectors. Increasing complexity in construction projects coupled with the need for greater productivity is leading to increased interest in the use of automation technology in the sector.

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 (Net) %*

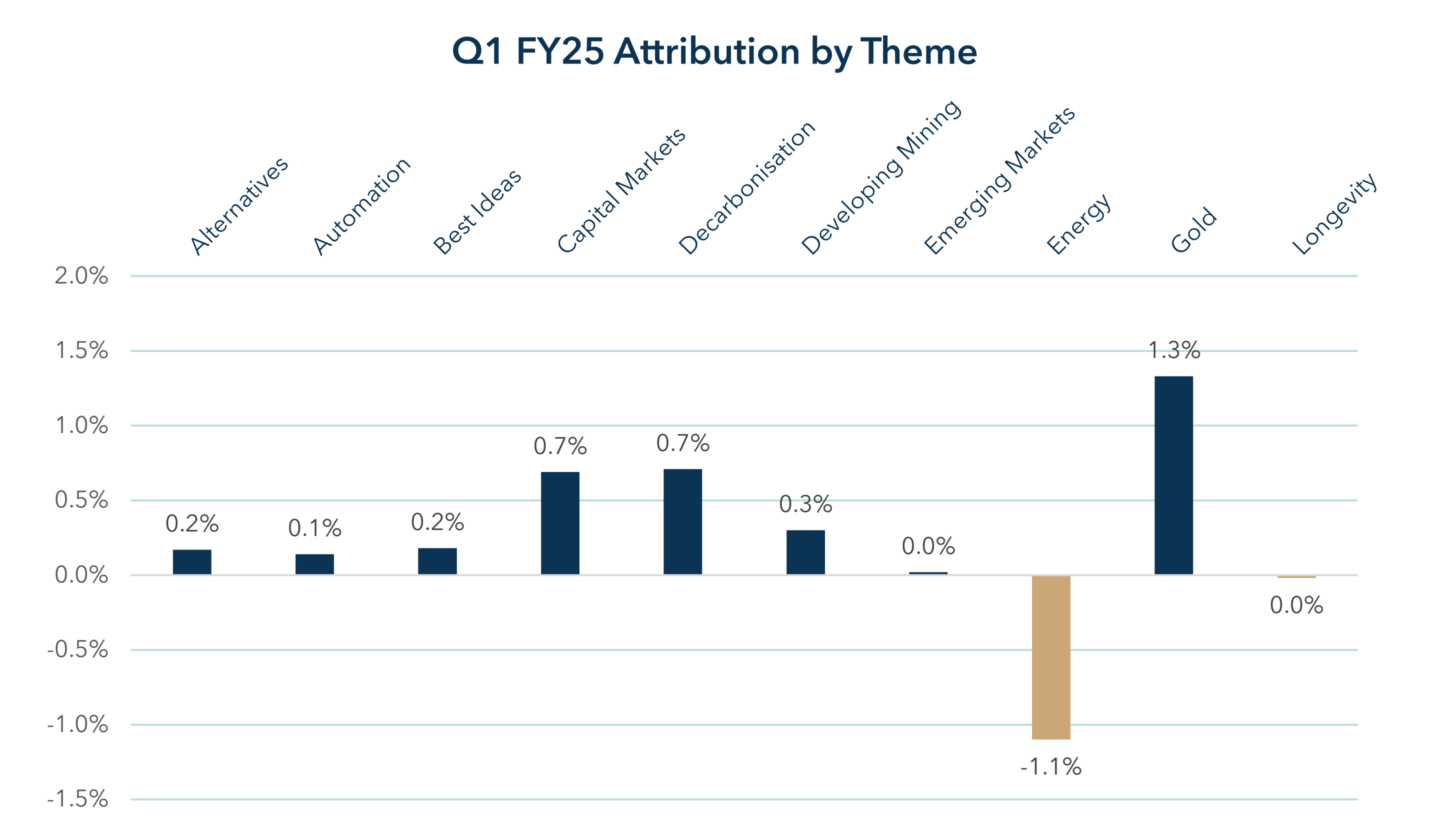
Q1 FY25	FY25 YTD	3 Years (p.a.)	Since inception (p.a.)
2.5%	2.5%	19.0%	37.2%

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

Q1 Performance

The Fund returned an estimated +2.5% net in Q1.

The largest attributors for the quarter were Gold (+1.3%), Decarbonisation (+0.7%), and Capital Markets (+0.7%):



The Fund's **Gold** sub-portfolio was the largest attributor in Q4, driven by several macroeconomic factors such as expectations of an interest rate cutting cycle by the US Federal Reserve, a weakening USD, a continuation in global central bank gold purchases, and heightened geopolitical tensions. These factors have been driving the gold price to record highs with the USD gold price setting a record high of US$2,627/oz in September.

The Fed's recent 50 basis point reduction in its key interest rate was generally welcomed by gold markets. Historically, gold has performed well during such rate-cutting cycles, with an average cumulative return of ~25% over 500 trading days following the Fed's first cut. Rate cuts tend to weaken the USD, further boosting golds appeal to global investors.

Positive sentiment in gold continued to build with Goldman Sachs recently increasing its gold price forecast from US$2,700/oz to US$2,900/oz for early 2025. The broker reiterated its long gold recommendation highlighting a gradual boost from lower global interest rates, ongoing central bank buying, and gold's hedging benefits against geopolitical, financial, and recessionary risks.

The Fund's **Capital Markets** sub-portfolio also performed strongly in Q1, attributing 0.7% to Fund performance. We are seeing increasing levels of volatility in global equities markets which is leading to an increase in discretionary trading opportunities, and higher levels of mis-priced assets.

Copper experienced increased interest towards the end of the quarter as the People's Bank of China (PBOC) announced a raft of monetary stimulus measures designed to increase economic growth. This announcement helped drive the underlying copper price higher, from ~US$4.00/lb to ~US$4.60/lb). This movement had a positive impact on the Fund's **Decarbonisation** sub-portfolio which comprises a basket of Tier 1 copper producers.

The Fund's **Automation** sub-portfolio continued to perform in-line with expectations. The decision was made during the quarter to increase the Fund's allocation to Automation from <10% to ~12%. This decision was underpinned by the compelling expected returns the companies in the Automation sub-portfolio are exhibiting.

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

Investment Framework

The GMF Investment Framework offers a comprehensive view of how we strategically assess and distil the investment landscape. It provides transparency into our decision-making process, enabling a clearer understanding of the rationale behind our selected Investment Themes. Each section of the framework examines different dimensions of a macro trend, from its underlying fundamentals to potential risks and correlations, serving as a guiding tool to ensure alignment with our strategic objectives. By detailing this approach, the Team aims to share our bottom-up methodology, illustrating how the GMF's Thematic Exposures integrate into our broader investment strategy.

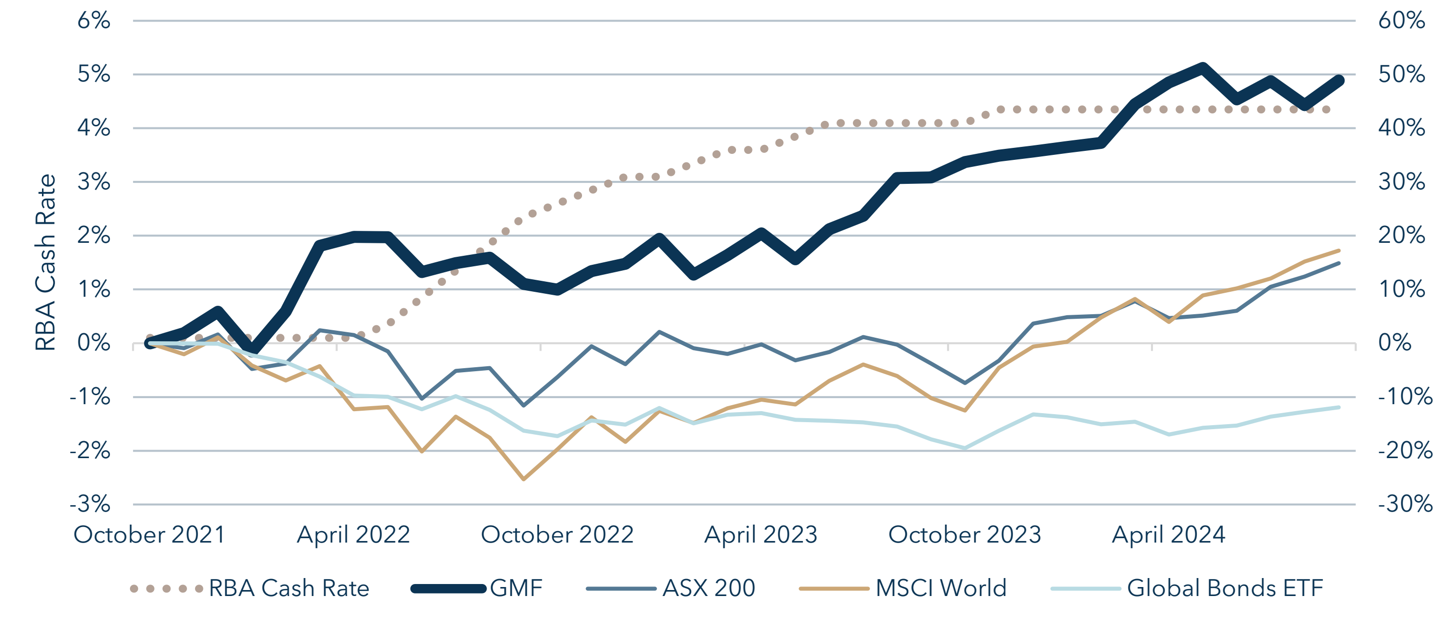
Issue	So?	So what?	GMF Exposure
Geopolitical Russia/Ukraine China/US BRICS + Iran/South America	**Common prosperity and onshoring** Weakened supply chains Reduced trade De-dollarisation Rising wages	**1. Own commodities** Commodities are critical to the energy transition **2. Manufacturers will seek to improve their efficiencies** After relocating production to higher labour cost regions	**1. Decarbonisation and Commodities** Invested in Copper miners with low costs, producing free cash flow **2. Automation** Focus on free cash flow generative, industrial automation companies
Macro Rising interest rates Reduced liquidity	**Operating margins shrink** Higher input costs Earnings downgraded Fewer funds available for debt – at higher interest	**1. Stagflation** Potential for continued inflation against lower growth **2. Increased volatility** Lower operating margins, and pressures on liquidity	**1. Gold** Cash flow, resource, manager **2. Capital Markets** Trading/market-making **3. Income** Focus on quality dividend-paying stocks
Environmental Decarbonisation targets Increased ESG investing Millennial demographic are influencing global elections. Policy changes	**Reduced spending on critical capex** Weakened supply chains Reduction in permitted projects	**1. Lack of production of critical minerals/ energy** **2. Increased friction + competition for metals** Increased strategic offtake agreements and regionalisation of processing	**1. Developing Mining** Invested in permitted sites with quality resources and experienced management **2. Energy**

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

GMF in an interest rate hiking cycle

Analysis shows that since the RBA first outlined interest rate rises in October 2021, the GMF has substantially 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. Over this period, the majority of investor returns were attached to the earnings growth of portfolio companies whilst multiples contracted.



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:

	GMF	60/40 Global Equities/Bonds	55/35/10 Global Equities/Bonds/GMF
Annualised Return	**37.2%**	**7.4%**	**10.4%**
Standard Deviation	19.2%	12.1%	12.0%
Sharpe Ratio	**1.71**	**0.25**	**0.51**
Correlation with GMF	1.00	0.43	0.56
% Positive Months	70.0%	66.7%	68.1%
Average Return for Positive	5.1%	2.6%	2.8%
Average Return for Negative	-3.0%	-3.3%	-3.1%
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.

GMF in an interest rate cutting cycle

Whilst the GMF has been able to perform strongly in a more restrictive monetary policy environment, an interest rate cutting cycle and looser monetary conditions will lead to expectations of increased economic growth, and a weakening USD, both positive catalysts for gold, copper, energy, emerging markets (EM), and technology-related equities.

This will likely lead to margin and multiple expansion across the GMF's gold, copper, and energy-related equities, as well as technology-related equities, as future cashflows will be discounted at a lower rate.

As you can see in the below chart, gold has performed strongly during interest rate cutting cycles beginning in 2007, 2020, and 2024.

An increase in the price of gold will lead to an increase in the earnings and cashflows of gold producers. The GMF is positioned in gold producers with operations in Australia and North America that are poised to benefit from a rising gold price.

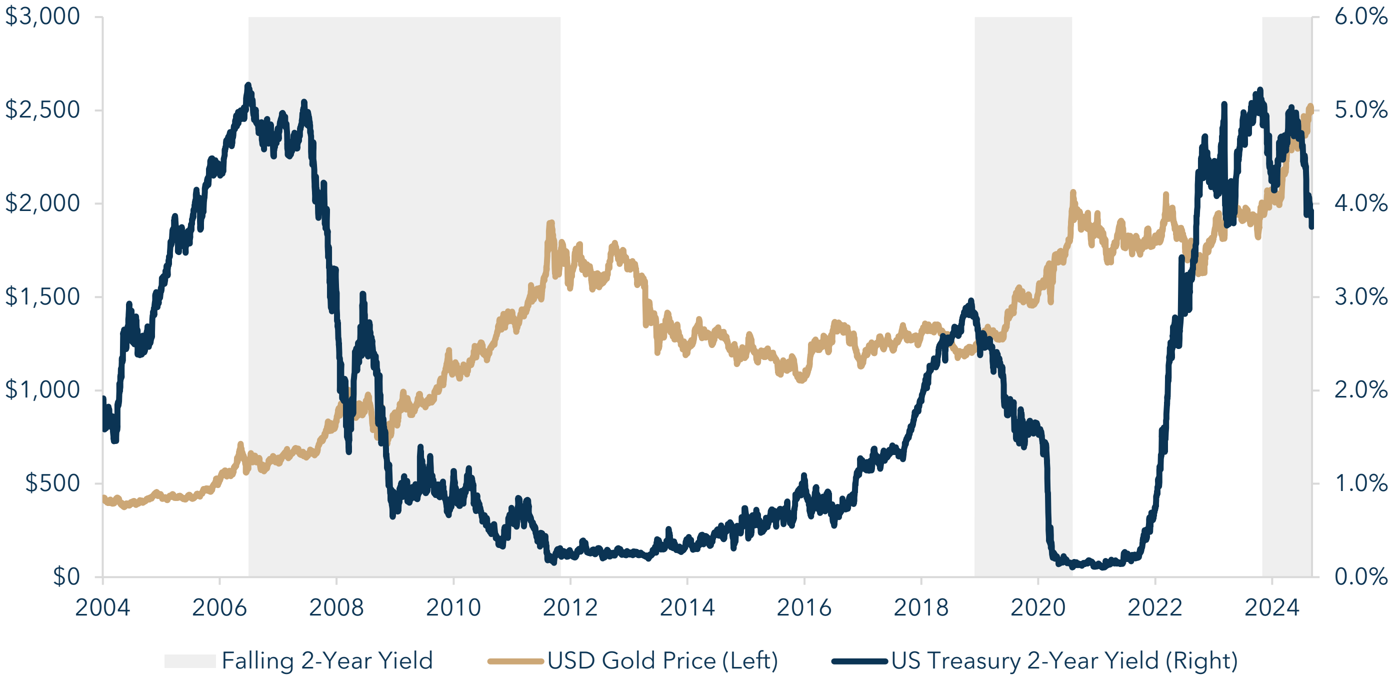
Looser monetary policy will likely lead to a weakening USD, and coupled with increasing populations and per capita income should see EM equities in regions such as India, Indonesia, and Mexico outperform. Increased growth in EM would likely lead to an increase in energy demand, further supporting energy prices.

Demand for energy is related to broader expectations of economic growth. Looser monetary conditions will increase expectations of economic growth and increase demand for energy.

Critically, this is at a time when many fossil fuel powered generators are being taken offline and expected to be replaced by renewable energy sources. This will likely lead to an energy supply crunch in the medium-term, and an increase in broader energy prices.

Similarly, copper producers stand to benefit from a rising underlying copper price due to increased investment in renewable energy and electrification projects which become more economical in a lower rate environment.

From an industrial automation perspective, companies operating in this sector will likely experience multiple expansion as lower interest rates lead to an increase in discounted cash flows, leading to an increase in capital flowing to the sector.



Deep dive – BMC Minerals

BMC Minerals (BMC) is developing the Kudz ze Kayah (KZK) project in the Yukon, Canada, a high-grade copper/zinc/silver/gold development project that the Fund expects to proceed to final investment decision (FID) in CY25, followed by construction and production.

The KZK project has one of the highest IRR's across comparable projects globally due to its high grade and simple open pit mining method. BMC is a high conviction position within the GMF's Developing Mining sub-portfolio. BMC is one of the Fund's privately held positions.

The development of new critical mineral deposits is essential to meet future demand from emerging economies and electrification. The mining sector has underinvested in new discoveries and projects for several years, neglecting long term growth and instead focussing on returns to shareholders.

The Fund's Developing Mining strategy focusses on development projects that satisfy a set of criteria seeking to mitigate the elevated investment risk of developing mining projects. The projects sought after are high grade, typically copper & critical mineral focused, located in stable jurisdictions, and overseen by experienced management teams. In addition, the Fund prefers projects which exhibit a high likelihood of achieving project financing, often through strategic partnerships.

BMC has completed a Definitive Feasibility Study (DFS) on the KZK project, based upon a 9-year mine plan. BMC has also conducted extensive environmental and socio-economic impact assessments towards developing KZK and has been awarded a positive decision document by the Canadian regulator, allowing for the application and approval of final development permits. BMC is in the process of applying for the final two permits which are expected to be awarded in CY25.

The known KZK mineral deposit exists within a large tenement area controlled by BMC. The style of deposit which hosts the KZK discovery is called a Volcanogenic Massive Sulphide (VMS) ore deposit, which typically occur in regional clusters.

Historical exploration around KZK is sparing, with little work done to test beyond the immediate KZK orebodies and within the region. The Fund has participated in funding surveys in 2023 to identify targets within the immediate vicinity, and again in 2024 to fund drilling of the targets generated in 2023.

The addition of inventory to the existing life of mine plan will be value accretive to the asset via extension of the life of mine and the Net Present Value (NPV) of the KZK project.

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The base case investment thesis for BMC involves financing the company through construction and into operations, where valuation is underpinned by the future cashflows of the KZK project.

Several scenarios exist whereby exit and/or selldown may occur opportunistically given the strong fundamentals and other desirable qualities of the KZK project. This may include publicly listing the company and/or partnership with an existing mining company upon achievement of permits, or other key milestones along the development pathway for the KZK project.

The KZK project has a base case unlevered IRR of over 40% over the life of mine using consensus commodity pricing as of August 2024. The base case project economics stand out amongst its peer group due to the KZK projects high return on capital, and favourable CAPEX to NPV ratio which is lower relative to peers.

The current Net Present Value of BMC is significantly higher than its holding cost within the Fund, and currently represents a 4% holding.

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

Opportunities in Automation – Construction & Mining Machinery

The Fund has been exploring the adoption of technology and automation in the construction, mining, and energy sectors. The Fund's Automation sub-portfolio currently holds a position in agricultural machinery manufacturer Deere & Co (DE.NYSE) which over recent years has been building out a suite of technology-enabled products across autonomous driving & precision guidance systems, planting & seeding technology, and spraying technology. This has resulted in margin expansion and greater returns on equity for Deere & Co. Now the Fund is exploring similar opportunities focused on construction & mining machinery.

Increasing complexity in construction projects coupled with the need for greater productivity is leading to increased interest in the use of automation technology in the construction industry.

According to a 2021 report published by the Institute of Electrical and Electronics Engineers, the perception that the construction industry is primarily for low-skilled workers has led to a shortage of construction professionals such as engineers and project managers, leading to low levels of productivity per employee.

The report highlights that poor productivity and skill shortages have led to high construction costs, delays in construction projects, and poor sustainability practices in the sector.

Taylor Cupp, Senior Managing Director of Building Solutions at industrial technology firm Hexagon AB explains that the building construction industry has faced significant turbulence in recent years, prompting a shift towards data-driven solutions.

Cupp notes that forward-thinking business leaders in the construction industry are adopting autonomous solutions to transform operations, and improve productivity, sustainability, and supply chains.

Hexagon's 2023 Autonomous Construction Tech Outlook survey found that 84% of firms are using autonomy in some part of their operations. These firms reported seeing benefits from within their operations across many of their near and short-term challenges and priorities, including improved sustainability, less waste, better supply chain mapping, better safety compliance, and faster decision making.

Increased data generation and connectivity will drive productivity as businesses can optimize production processes based off historical and real-time datasets.

The use of data analytics and artificial intelligence (AI) can help improve risk detection and assessment on construction sites, providing new capabilities for project managers in terms of predicting incidents and issuing early warnings in relation to machinery services and parts replacements. Scheduling and optimizing algorithms could then be deployed to derive new strategies to address possible issues arising during a construction project.

By utilising, analysing, and storing real-time construction data, construction project managers will be able to more effectively estimate project costs in the initial design phase. Ultimately, decreasing the total cost of construction, improving productivity, and minimising waste.

A 2020 report published by the International Journal of Mining Science explains that autonomous technologies are actively used in the haulage process, especially surface mines, where constant and long-lasting haulage roads and simple implementation of communication infrastructures allow for the adoption of autonomous technologies.

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However, the report goes on to note that the loading of ore and waste by mobile equipment is still not being automated to the same extent as haulage vehicles.

The mining sector is subject to declining ore grades, ore bodies that are in harder to access locations, increasing labour costs and strikes, and an increasingly difficult regulatory environment, inhibiting new project development.

Decreasing ore grades and the deepening of mineral deposits mean that a larger amount of material in more complex situations must be removed to obtain the same output, negatively impacting labour productivity and the unit cost of production for a mine.

Technologies that can help decrease mine unit costs in a declining grade environment will be critical for the mining sector.

By analysing a dataset of 131 of the largest public construction, infrastructure, mining, and energy companies the combined capex outlay of this group is expected to be ~US$600 billion for CY2024. This can be viewed as a proxy for the addressable market for construction & mining machinery manufacturers, highlighting the propensity for significant growth opportunities.

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Current Themes

Gold
A strategic asset which performs well during periods of inflation and high debt, where gold producers possess strong fundamentals.

Capital Markets
A collection of strategies unrelated to broad market performance.

Developing Mining
Investing in companies developing copper, zinc, cobalt, and lithium assets in tier-one mining jurisdictions.

Emerging Markets
Investing in economies forecasted to experience significant population and economic growth.

Alternatives
A collection of exceptional managers, who have demonstrated their ability to generate solid returns over the long term.

Energy
Exposure to companies which are ensuring global energy security.

Decarbonisation
Investing in resources, and related opportunities that will power the future energy transition and decarbonisation of the world.

Best Ideas
Leveraging the group's networks, insights, and experiences to uncover extraordinary opportunities.

Automation
Investing in companies developing automation products and processes.