



INVESTMENT MANAGER'S COMMENTARY: Q1 2019

HIGHLIGHTS:

- The Fund outperformed the Index and the gold price during the quarter
- The end of the US interest rate hike cycle is a positive factor for the gold sector
- Recent M&A activity among the gold majors has significant implications for the industry

Q1 TOP PERFORMERS:

- Alacer Gold
- Semafo
- Wheaton Precious Metals

Q1 UNDERPERFORMERS:

- St Barbara
- Centamin Mining
- IAMGOLD

FUND PERFORMANCE

Protea UCITS II - IW Precious Metal Mining Equities Fund rose +10.13% (P2 EUR class) during the quarter compared with the EMIX Global Mining Global Gold Index ("the Index") which rose +9.95% and gold which rose +3.0% (in Euro terms).

The first quarter of 2019 has seen momentum returning to the gold sector, amid growing uncertainty in financial markets, equity market volatility and ongoing geopolitical tension. Macroeconomic conditions appear supportive of higher gold prices, with low real interest rates, high debt levels and signs of slowing economic growth boosting demand for gold as a proven safe haven asset and an effective portfolio diversifier.

Precious Metals Fund maintained its outperformance of the Index, its peers and physical gold during the quarter.

MARKET UPDATE

Global equity markets faced a challenging start to the year, following a significant year-end sell-off, but recovered strongly during the quarter as bullish sentiment among investors

remained in place, despite signs of rising financial sector risk. Notably the flattening of the yield curve, a reliable predictor of economic slowdown, and rising equity market volatility, indicate increased risks ahead for investors, particularly given equity markets' current lofty valuations relative to economic fundamentals. Recent downgrades to economic growth forecasts in the US, China and other major economies, alongside signs of a manufacturing slowdown, particularly in Europe, all point towards a diminished outlook for the global economy. Meanwhile political tension, most notably surrounding ongoing trade tensions between the US and its trading partners, appears unlikely to subside.

Against this uncertain economic backdrop, there are compelling arguments to invest in gold, as a safe haven asset, and gold equities, which are an effective portfolio diversifier. We see a number of catalysts for the gold sector in 2019. A highly significant development for the gold sector, as well as for broader financial markets, was the US Federal Reserve's March FOMC statement, which highlighted a notable shift in policy, signalling an end to the interest rate hike cycle which began in December 2015. Following a period of uncertainty over the direction of US monetary policy, it is now clear that interest rates will likely remain low and may fall further in response to a potential economic slowdown in the US and globally. Low interest rates have historically proven to be a positive driver for the gold price and the Fed's apparent willingness to implement looser monetary, potentially allowing inflationary pressures to return, strengthens the bullish case for higher gold prices.

The imminent end of the US interest rate hike cycle is a positive factor for the gold sector

The strong performance of gold equities relative to physical gold during the quarter demonstrates the diversification benefits for investors of an allocation to gold stocks and highlights the upside potential for the sector during a recovery phase. Expanding margins and sensible M&A among gold producers highlight a positive outlook for gold miners, while the outperformance of Precious Metals Fund during this period highlights the importance of active investment management to achieve superior upside potential in this sector.

M&A activity between large-cap gold producers has significant positive implications for the industry, attracting generalist investors to the gold sector

M&A activity has been a major theme for the gold sector in recent months. Merger discussions between Barrick Gold and



Newmont Mining and the development of a joint venture between the companies' Nevada assets, as well as discussions between Newmont and Goldcorp have significant implications for the industry. The quantum of these deals has the potential to unlock significant value and there are signs that this value unlock will be returned to shareholders in the form of dividends which we see as a major driver of share price performance. A wave of M&A activity in the sector would also likely impact the mid-tier producers and Precious Metals Fund remains well-positioned to benefit from exposure to those companies with high quality assets which present attractive targets. A further positive factor is that such large-scale potential M&A activity is helping to attract generalist investors to look at gold equities and is raising the profile of the sector.

PERFORMANCE ATTRIBUTION

The portfolio remains fairly concentrated, with 33 positions at the end of Q1 2019. Top performers during the quarter have included Alacer Gold, Semafo and Wheaton Precious Metals. Alacer Gold (4.2% NAV) has gained +51.4% (CAD) during Q1 2019, having outperformed following the completion of its plant construction and the commencement of production from the autoclaves at its Çöpler Gold Mine in Turkey in late-2018. With the ramp-up of operations the outlook for the company appears positive. Meanwhile exploration potential exists at Alacer's Arlich project.

Stock selection has been the key to generating outperformance relative to the Index and peer group

Semafo (4.0% NAV) has risen +37.0% (CAD) during the first quarter of 2019. The company is positioned for recovery following a period of underperformance during 2018, amid a broad sell-off of mid-tier companies and security issues in the area around its Burkina Faso-based mines. Semafo's Boungou asset is coming on stream, while the company has encouraging exploration potential, particularly following its Savoy acquisition.

Wheaton Precious Metals (4.5% NAV) rose +25.2% (USD) during the quarter, having announced record gold production and sales for 2018. Wheaton is one of the largest precious metals streaming companies globally, with a diverse portfolio of high quality assets. The company exceeded production guidance during Q4 2018, has a strong cash position and pays a dividend linked to operating cash flow.

The Fund's portfolio is focused on those producers with high quality assets, sustainable margins, and effective management teams which offer returns to shareholders

Underperforming positions have included Centamin Mining, St Barbara Mines and Iamgold. Centamin Mining (2.2% NAV) has fallen -16.2% (GBP) year-to-date. The company encountered operational issues during 2018 and results during February highlighted lower than expected grade. However, the underground mine at Centamin's Sukari gold project in Egypt has the potential to drive a recovery for the company, so long as management can continue to demonstrate that the operational headwinds are behind them. A site visit to Centamin's Sukari gold mine was conducted by the Investment Manager during February.

St Barbara Mines (2.3% NAV) has fallen -26.8% (AUD) year-to-date, following a strong Q4 2018 performance, due to a disappointing expansion plan. The outlook for the company remains positive, supported by St Barbara's healthy cash position and debt free position. St Barbara is well-positioned for future growth, with good results from its Simberi project and operational improvements pushing the company towards its next stage of potential next year. Iamgold fell -3.9% (USD) year-to-date. The company has underperformed amid disappointing results at its Westwood project and questions over capital allocation. Despite balance sheet strength the company has not opted to pay a dividend. At the time of writing the Fund's position in Iamgold has been sold.

The Fund operates a fairly concentrated portfolio and positions must compete for capital

During the quarter the investment team attended the BMO Metals & Mining Conference, during which meetings were conducted with the management teams of most of Precious Metal Fund's portfolio holdings. The team came away with a positive view of the gold sector and with the feeling that the sector has turned towards recovery. There are a selection of high quality, wealth generating gold mines out there with management teams which are demonstrating a commitment to returns to shareholders. Following the conference, a couple of new names were added to the portfolio, while the positions in Iamgold and Kinross were sold and the capital reallocated to companies with a higher probability of returning cash to shareholders.

OUTLOOK

The outlook for the gold sector is improving, following several months of mixed performance and negative investor sentiment. The macroeconomic environment for gold appears increasingly supportive, with low real interest rates, high public and private debt levels globally and concerns over slowing economic growth, presenting positive factors for the gold price. Further-



more, signs that recent US dollar strength may begin to subside and the potential for a resurgence of equity market volatility, offer catalysts for rising demand for gold as a portfolio diversifier and a safe haven asset.

The macroeconomic environment for the gold sector appears increasingly supportive, while gold producers have implemented significant reforms in recent years

Gold producers have undergone significant reforms in recent years. A selection of companies have successfully implemented cost controls and capital discipline, and now offer attractive margins and growth and are targets for sensible M&A. Following a period of negative sentiment in the sector, many companies' valuations appear compelling. Over the coming months it is the Investment Manager's view that stock selection will be the key to generating outperformance as this oversold sector moves towards recovery.

iW Partners SA manages the PROTEA UCITS II - iW Precious Metal Mining Equities Fund, an actively managed gold equities fund with outperformance relative to its peers and relative to a passive holding in gold or gold equities.

Sources: Bloomberg, IMF, World Gold Council, Baker Steel Capital Managers LLP.

Important

Note: This document is issued by iW Partners SA (a public limited liability company incorporated in Luxembourg under number B-208703 and regulated by the Commission de Surveillance du Secteur financier).

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Additional information is available upon request.

The information, tools and material presented in this document are provided for information purposes only and are not to be used or considered as an offer or solicitation to buy, sell or subscribe any securities or other financial instruments. Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by iW Partners SA regarding future performance.

Information found in this document has been prepared based on information provided by various financial sources. Information usually attributable to a unique specific source is quoted whenever such information is available. () In this particular case and related to the mentioned article named „Gold and gold equities in 2019: Recovery amid rising financial market risk “, the specific source is Baker Steel Capital Managers LLP (“BSCM LLP”), an independent research advisor for iW Partners SA. Otherwise, the information may have been gathered from public news dissemination- on services such as Bloomberg, Reuters, IMF or any other news services.*

Information and opinions presented by iW Partners SA have been obtained from sources we believe to be reliable, and, although all reasonable care has been taken, iW Partners SA is not able to make any representation as to its accuracy or completeness. Accordingly, iW Partners SA accepts no liability for loss arising from the use of this document presented for information purposes only. iW Partners SA has no obligation to update, modify or amend this document or otherwise notify a reader thereof in the event that any matter stated herein becomes inaccurate.