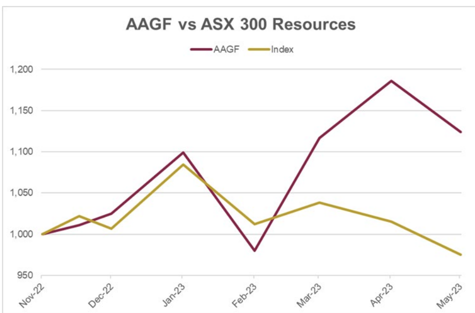
Argonaut Australian Gold Fund

Monthly Performance Report – June 2023

ASSET CLASS | RESOURCES SELECT

Fund Performance

- The Argonaut Australian Gold Fund fell by 4.2% for the month and has delivered a return of 7.6% since inception, 21st November 2022.
- We are pleased to report that the Fund will pay a maiden distribution of 1.44 cents per unit to unitholders registered as of 30 June 2023. A distribution reinvestment plan has been made available for investors and we think this is a wise option to exercise given the fund is in its early stage of what we see as a multi-year gold and precious metals bull market.
- The Fund's unit price as of 30 June was $1.062, which represents the closing price of $1.076 less the distribution amount of $0.0144 cents.



Portfolio Update

- Corporate activity within the Australian gold sector continued at pace through June, with Westgold (WGX) bidding for Musgrave (MGV) in a full script bid valuing MGV at 30 cents per share. This bid ultimately flushed out another suitor in Ramelius (RMS) to bid a mix of script and cash valuing MGV at an implied 34 cents per share. As holders of all of the three companies involved, we applaud the price discipline of WGX management in declining to counter bid and also the vision of RMS management relating to the planned integration and synergies of MGV's Cue Gold Project.
- Notwithstanding the positives from this corporate activity, it did impact month end performance with both WGX and RMS, contributing close to half of the June performance drawdown, fortunately this has largely been recouped at the time of writing as RMS' bid was unanimously recommended by the board of MGV. Gold Road (GOR) announced a production downgrade for 2022-23 from its 50% owned Gruyere Gold operation. Whilst not the operator, the downgrade, driven by a mix of adverse weather and a shortage of operating equipment under operator Gold Fields stewardship is disappointing. Notwithstanding this event we still view GOR as deserving of its valuation premium to sector peers given its best-in-class margins, tier one asset exposure and corporate appeal which extends to its shareholding in emerging developer De Grey (DEG).
- As expectations around further rate hikes from the Federal Reserve and other central banks continues to cause outsized volatility in long duration asset classes like gold, we have maintained a conservative stance with elevated cash levels as at 30 June ready for deployment as value emerges, as at the time of writing we had already deployed a significant portion of cash to oversold preferred producers.

Market Overview

- The US equity market enjoyed a significant move higher through June driven by an ever-increasing narrow number of 'mega caps'. The Dow Jones and S&P 500 Index rose by 4.6% and 6.5% respectively. Gold was down 2.21% in USD$ and down 4.59% in AUD$ driven by a combination of 'risk on' and continued repricing of future US Fed rate hikes. As at March 2023 the pricing of US interest rate forwards was for two and a half 25 basis point rate cuts in the second half of 2023 but as at 30 June that had flipped to one 25 basis point rate hike in the second half. These interest rate gyrations continue to exert upward pressure on US ten-year yields with the benchmark increasing from 3.65% at 1st June up to 4.06% at the time of writing. Real yields of course matter more than nominal for golds trajectory and at the long end we are still yet to see any respite with US ten-year real yields staying elevated at 1.79% as at 6th July 2023.
- Whilst both May and June have been quite challenging for gold equities, we see continued evidence of strong operating conditions and bullish production updates from most Australian producers particularly around moderating labour and operating costs, boding well for margin expansion into 2024.
- Expectations of a US led recession have recently been repriced lower but tail risks remain. Notably the looming US commercial property refinance requirements ($500bn per year commencing 2024 – see fig 1) and outsized regional bank commercial real estate exposure (60% of regional bank assets versus 30% for majors – see fig 2 & 3) continues to drive a tightening in lending standards (see fig 4). The prospect of 'stagflation' and credit contraction is something we see as a distinct possibility into the second half of 2023 and 2024. This type of environment historically favours the asset class of gold and gold equities to which AAGF has exposure to

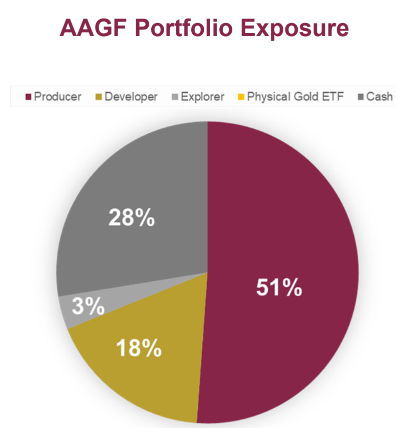


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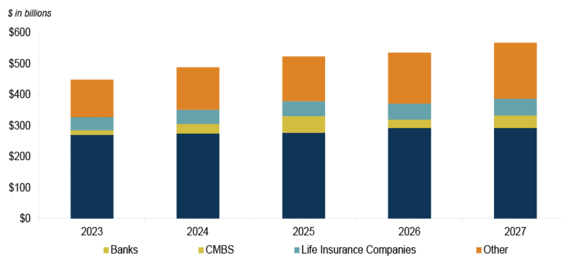
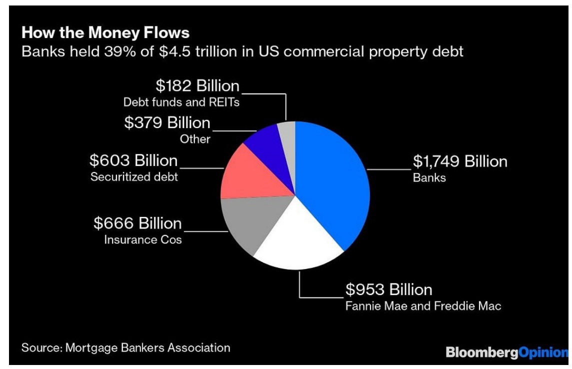
Figure 1: Significant US Commercial Real Estate Debt Maturities Next Five Years (exposure by asset owner)



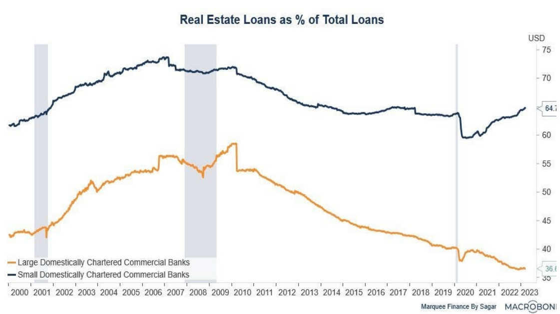
Source: Trepp Dec – 2022

Figure 2: Banks exposure to Commercial Property is significant



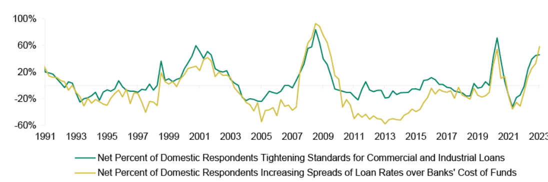
Source: Bloomberg 2023

Figure 3: CRE exposure is even more concentrated for smaller US Banks



Source: Macro Bond 2023

Figure 4: US Bank lending standards – Tightening at the fastest pace since 2007/08



Source: FED, Senior Loan Officer Opinion Survey on Bank Lending Practices, as of April 30, 2023

Important Disclosures

The Argonaut Australian Gold Fund is a Wholesale only Fund.

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