# Next Edge Strategic Metals and Commodities Fund

Monthly Commentary as of February 29, 2024

Opportunistically managed portfolio of metals and commodities equity securities

## QUARTERLY FUND COMMENTARY

**(As of December 29, 2023)**

The Next Edge Strategic Metals and Commodities Fund (the "Fund") returned -5.35% (Class F Units) over Q4 2023.

The Fund experienced a variety of challenges in 2023, especially so for those focusing on fundamental analysis of commodity equities. Throughout the year, the macroeconomic environment was consistently buffeted by various headwinds, detracting from true valuations. Despite facing tough market conditions in 2023, it should be noted that we remain steadfast in our investment mandate and are excited and positioned to excel in 2024.

One theme that we observe is that geopolitical risk remains undervalued across a variety of commodities, including energy-transition-focused ones, leading to a disconnect between incentive pricings. The influx of government stimulus has fostered an environment where many equities are overhauled. This situation has created opportunities on the short side, allowing us to assess whether these securities possess genuine asset value.

Due to the depressed valuations, M&A is something that we believe will be a strong catalyst in the sector moving forward into 2024. A great example of this trend would be Solaris Resources, which is currently experiencing a creeping takeover by Zijin Mining. This highlights the discount between intrinsic value and what the market is pricing these assets. Large conglomerates are taking advantage by acquiring high-quality companies at a discount.

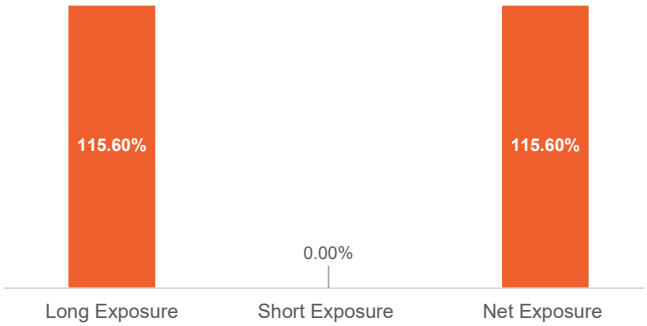
We have shifted our view to become increasingly bullish on copper for several reasons:

1. Global supply is being driven by geopolitical tension and operational challenges, and
2. Cost capital inflation.

## HOLDING ANALYSIS[3*]

| Holdings Analysis | % Held |
|---|---|
| % Top 10 Holdings | 74.20% |
| % Top 20 Holdings | 103.30% |

## GROSS AND NET EXPOSURE




## TOP CONTRIBUTORS[3]

| Top 5 Contributors |
|---|
| Base Metals |
| Precious Metals |
| Base Metals |
| Oil & Gas |
| Energy Metals |

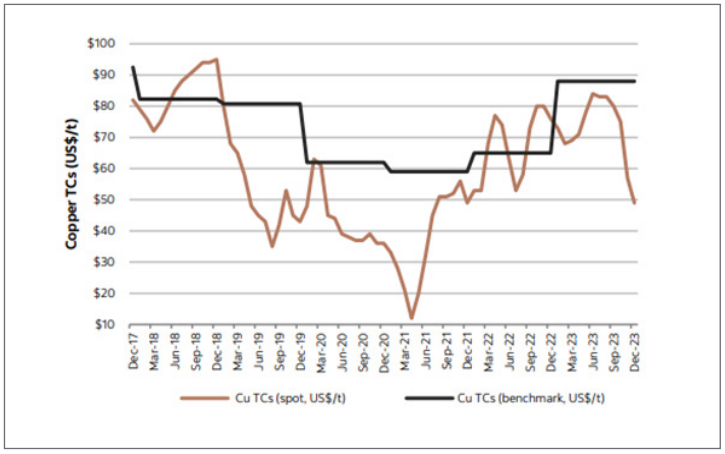
## TOP DETRACTORS[3]

| Top 5 Detractors |
|---|
| Precious Metals |
| Energy Metals |
| Energy Metals |
| Precious Metals |
| Precious Metals |

*The exposure level of a Fund portfolio may exceed 100% due to the inclusion of short positions and the utilization of leverage, where exposure is calculated as the absolute value of the market value for short positions alongside the market value for long positions.

To illustrate the supply challenges in 2023, we saw the second-largest mine disruptions, which equated to 1.2 million tonnes (approximately 5% of the global mine supply). Additionally, global bonded warehouse inventories are at 220,000 tonnes, representing the lowest level since 2005.

As indicated in the chart below, treatment and refining charges (TCRCs) have settled at their lowest levels since December 2021. In December 2023, spot TCRCs settled at $49/t, a decrease from $57/t in November and $75/t in October, compared to a recent peak of $84/t in June. The heightened demand for concentrate has led to numerous refinery shutdowns due to supply shortages. We expect the market to react positively, especially since we are moving into a quiet Chinese Lunar New Year.

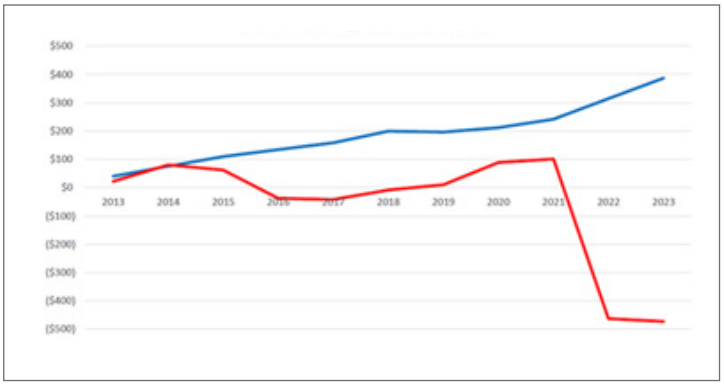



Source: Bloomberg; Wood Mackenzie; Scotiabank GMB.

These bullish views are reflected in the Fund's positioning. Teck Resources and First Quantum amongst the names. Teck has recently completed a new copper mine in Chile and is overhauling operations over the next quarter. Teck's plans to divest from their coal asset should be a positive catalyst for the stock. On the other hand, First Quantum experienced a ~70% decline in Q4. We believe the current valuation is at a significant discount and the market is overlooking the potential positive catalysts.

Our view on gold equities has stayed consistent and continues to be bullish as we see significant detractions from intrinsic values. We believe that the gap between equity performance and physical gold prices will decrease as operating fundamentals stabilize, new mine construction decreases, and macroeconomic headwinds decrease. Along with this, emerging market participants have increased the selling of US dollars in exchange for purchasing bullion.

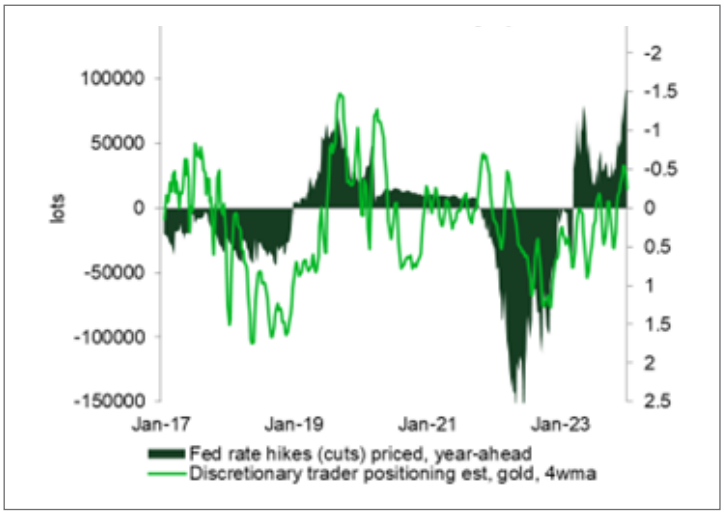
**CENTRAL BANK PURCHASES OF GOLD (BLUE, $B) V. FOREIGN OFFICIAL PURCHASES OF USTS (RED, $B)**
Cumulative since PBOC said "No longer in China's interest to grow FX reserves" in 2013




Source: US Treasury, World Gold Council, FFTT

Gold equities have been trading at a 20% discount to the spot gold price. As we move closer to potential rate cuts, this underexposure poses a positive catalyst for gold equities. The Fund remains focused on finding operational efficiencies within producers that are undervalued. According to our valuations, Victoria Gold and Asante Gold are two companies within the Fund's portfolio that show great potential for significant upside.

**DISCRETIONARY TRADERS REMAIN UNDERPOSITIONED RELATIVE TO PRIOR FED CUTTING CYCLES**

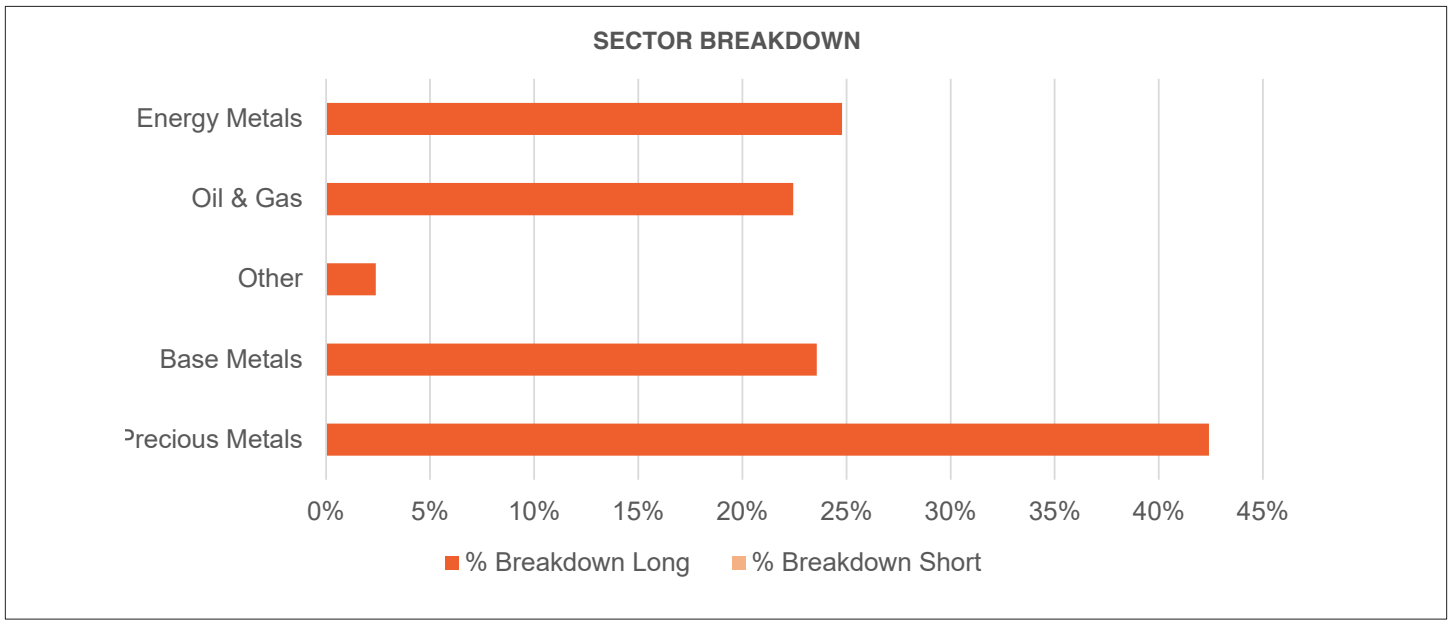



Source: TD Securities, Bloomberg

Despite underlying fundamentals, iron ore prices continued to rise in Q4, mainly due to speculation regarding increased Chinese policy stimulus and widespread adherence to the narrative suggesting strength leading into the wet season and Chinese Lunar New Year. Initial data seems to contradict this; iron ore shipments had minimal impact from the wet season. Steelmaking margins continue to be significantly negative, and iron ore port stocks continue to accumulate. While some commentators

attribute the strength in Chinese steel exports and related regional price arbitrage to driving surplus onshore production, export volumes remain relatively modest compared to annual Chinese steel production. Anecdotal evidence suggests minimal changes to US import orders, which currently represent the most profitable export market based on price differentials. We view the fundamentals as directionally bearish and aim to reflect this outlook in our equity positions, while remaining mindful of potential surplus capital returns in the near term due to pricing and production strength observed in Q4.

## PORTFOLIO SECTOR ALLOCATION[3]




| Market Cap Long Positions | % Breakdown | # of Holdings |
|---|---|---|
| **Large Cap ( >5 Billion)** | 9.14% | 2 |
| **Mid Cap (>= 1 Billion & <= 5 Billion)** | 4.48% | 1 |
| **Small Cap (<= 1 Billion)** | 86.39% | 32 |
| **Totals** | 100.00% | 35 |

# FUND PERFORMANCE

## HISTORICAL PERFORMANCE[1] Class A

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2024** | -9.43% | -2.67% | - | - | - | - | - | - | - | - | - | - | -11.84%[2] |
| **2023** | 5.88% | -1.17% | -0.46% | 3.58% | -9.56% | -3.96% | 4.30% | -2.29% | -10.82% | -8.87% | 5.47% | -1.78% | -19.60% |
| **2022** | -0.01% | 3.61% | 4.94% | -5.05% | -1.87% | -10.89% | 4.42% | -2.69% | -12.72% | 2.79% | 4.26% | 2.65% | -11.94% |
| **2021** | - | - | - | - | - | - | - | - | - | - | 1.88% | 0.82% | 2.71%[2] |

## HISTORICAL PERFORMANCE[1] Class F

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2024** | -9.34% | -2.59% | - | - | - | - | - | - | - | - | - | - | -11.69%[2] |
| **2023** | 5.98% | -1.09% | -0.37% | 3.67% | -9.47% | -3.87% | 4.39% | -2.20% | -10.74% | -8.79% | 5.56% | -1.70% | -18.73% |
| **2022** | 0.15% | 3.69% | 5.04% | -4.97% | -1.77% | -10.81% | 4.51% | -2.59% | -12.64% | 2.89% | 4.35% | 2.74% | -10.90% |
| **2021** | - | - | - | - | - | - | - | - | - | - | 1.86% | 0.91% | 2.79%[2] |

## IMPORTANT NOTES

1. Next Edge Strategic Metals and Commodities Fund returns are net of all fees and expenses associated with Class A Units and Class F Units charged from November 1, 2021. Returns for 2023 are unaudited. Therefore, performance statistics containing 2023 figures shown in this material are subject to final confirmation. he historical annualized rates of return for the Next Edge Strategic Metals and Commodities Fund Class A Units as of February 29, 2024 are 1 yr -32.27%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR -17.27%; for Class F Units are 1 yr -31.54%, 3 yr N/A, 5 yr N/A, 10 yr N/A, and CARR -15.81%.

2. Part Year.

3. Source: Next Edge Capital Corp. & Refinitiv. All portfolio and index returns and statistics are as of the last business day of the previous month.

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