



## *The stocks fuelling Victor Smorgon's 40pc returns; Fundie Q&A*

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### **Body**

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Peter Edwards is chairman of Victor Smorgon Group and co-chief investment officer of the Global Multi-Strategy Fund, which has returned 40.6 per cent annually since its 2019 inception. The Melbourne-based firm oversees more than \$1 billion in assets.

The global fund has returned 22.6 per cent so far this financial year. What has driven that performance? | The fund invests in several themes including gold, automation, decarbonisation, and emerging markets. Over the past three months, performance has been led by investments in gold and decarbonisation.

The largest contributor has been Australian gold miner Red 5, which has moved from developing an asset into commercial production. We've been a substantial shareholder since March 2021, and we have supported it through the development financing phase to its profitable production today.

Japanese company Hitachi has also added significant returns over the past two years. It's divested its legacy construction machinery, chemicals, and metals businesses to focus on producing higher margin products with greater returns on capital, and with a higher propensity for cash flow generation. It has also sharpened its focus on returning cash to shareholders and growing dividends per share at a compound annual growth rate of 13.6 per cent over the past five years.

How much further do you expect the copper price to run and which stocks do you own? | We expect that copper demand will remain strong, with price upside driven by structural supply constraints.

We like miners with strong leadership and proven records in creating shareholder returns and value low jurisdictional risk and higher-grade orebodies with expansion potential.

For producing companies, we like Canadian miners Lundin Group and Capstone Copper.

Another company we support is US-based mineral exploration company Ivanhoe Electric, which is developing the Santa Cruz project and exploring for new major copper deposits in North America.

## The stocks fuelling Victor Smorgon's 40pc returns Fundie Q&amp;A

We are also involved in BMC Minerals, which is developing one of the most exciting volcanogenic massive sulphide (sources of copper, zinc, gold, silver) districts globally.

Do you expect the disconnect between gold prices and mining stocks to abate? Which stocks are best positioned? | We have noticed that a large majority of recent gold demand has come from BRICS nations, which are increasingly transacting with each other in their local currencies and settling the surplus with physical gold. This demand from non-Western buyers will continue to support the gold price.

Western gold investors are preferring to invest in gold mining equities, and are less enthused by the gold bull market, which has created this disconnect. If this trend continues, we believe it's more likely that gold equities will reflect the gold price.

Historically, the bottom of the cycle typically sees gold mining equities trade at a discount to the spot gold price and historic average multiples. As the cycle peaks, analysts start to imply a forward price greater than spot, and a market multiple above average.

Assuming the future rhymes with history, the greatest gains will be with smaller, higher-cost gold producers and explorers. For this reason, we like **Ramelius Resources** and Canada's Agnico Eagle.

What's a stock you're bullish on that investors might not have heard of? | Copper miner Metals Acquisition listed on the ASX this year after acquiring the NSW CSA copper mine in 2023. It's run by Mick McMullen, who has a track record of turning around major mining companies globally.

We believe the company's inception as a US-listed special purpose acquisition company and the capital structure tied to its initial acquisition has turned many potential investors away. Additionally, CSA was previously owned by Glencore, whose exit likely led people to perceive that the asset is of low quality.

However, we view Glencore's retained equity in Metals Acquisition as an endorsement of the asset and acknowledgement that the business will improve under a focused management team. The company has recently taken several steps to simplify and improve its balance sheet which we also see as accretive.

What's a stock you'd like to own but can't (for whatever reason)? | Semiconductors are a critical **resource** of the modern world. With this view, ASML is a company that if it traded back to our target buy level, it would be added to the portfolio.

The company has a dominant position in the semiconductor lithography market, benefiting from pricing power and strong customer relationships, and is poised to continue benefiting from the increased demand for computing power.

What is your favourite local restaurant and your go-to order? | A local favourite restaurant is Terrace cafe, inside the Botanic Gardens. Great place to be on a beautiful day, and the chicken avocado salad is delicious.

Are there any podcasts that you'd recommend? | I spend a bit of time in the car, so love a good podcast. Currently, I'm listening to Pivot by Kara Swisher and Scott Galloway, The Grant Williams Podcast, and the Australian Strategic Policy Institute have recently launched a weekly show called Stop the World.

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