

NESTOR Gold Quarterly Report 2/2022



Herisau, July 2022

Review

As of June 30th, 2022, gold bullion closed at US\$ 1,807.27/oz., a decrease of 6.7% QoQ. The Philadelphia Stock Exchange Gold and Silver Index decreased by 29.86% (USD) / 25.85% (EUR) during Q2, 2022, while the Nestor Gold Fund (-B- share class) lost 26.61% (USD) / 22.42% (EUR). The fund therefore outperformed the benchmark in Q2, 2022.

The gold market consolidated due to sharply rising real rates (based on TIPS), rising US long-term yields and significant USD strength. This led to outflows from gold ETFs, while the physical gold demand was negatively impacted by the Chinese lockdowns.

Gold miners reported their Q1, 2022 results, which were slightly below expectations. Slightly lower production and somewhat higher costs (oil, reagents and other consumables) were the common theme. The production and costs were also negatively impacted due to the very high level of omicron-related absentees. While companies might have to up their 2022 cost guidance later this year (expected by consensus), there are also some offsetting factors like higher by-product credits, the strong USD and likely better productivity as Q1 is generally the weakest quarter (seasonality) and the likelihood of much fewer Covid-related absentees. All these should keep the cost pressure under control, especially since, as companies continue to be very disciplined, there is a different behaviour from the previous cycle. M&A activity in the sector starts to rise after a very quiet period during the pandemic when it was very difficult to perform physical due diligence at the mine sites. As a result, four positions in the fund received a takeover offer in 2022, double the run rate of the previous two years.

Economic outlook

We continue to be in a stagflation-like scenario, where gold miners have historically been the best asset class. However, the market isn't discounting this scenario to stay for longer, nor that, if inflation pressure eases during the next few months, the FED would have to stop and potentially even revert its restrictive monetary policy.

While our negative economic outlook held since late 2021 is finally getting more attention, it seems still not priced into most asset classes. Long-term yields have started to roll-over, a

NESTOR Gold Quarterly Report 2/2022



constructive sign for gold and confirming our view that it is highly unlikely that the FED will be able to avoid a recession later this year.

Declining equity markets, the weakening housing market and more and more turbulence in the bond market due to rising spreads (emergency ECB meeting) will challenge the financial stability, a key policy factor of the FED and Western central banks. The wealth effect is already being felt and has started to negatively impact economic growth.

As the economic slowdown gathers speed very quickly, we wouldn't be surprised to see a sudden U-turn in the FED policy. Such U-turns have resulted in significant gains in gold miners during H1, 2016 and in the period late 2018 to autumn 2020.

To summarize: Our most favoured scenarios, i.e. either that stagflation is to be here for much longer than currently expected by consensus or that there is a sudden U-turn on the FED policy, have become even more likely during the last three months. While the market continues to focus on the currently communicated FED policy (as the market did in late 2015 and mid 2018), a change seems more and more imminent, with major positive implications for gold and even more so gold miners.

Gold miners' outlook

The performance of gold miners was very disappointing in Q2. The gold price correction, equity market weakness, fear of cost inflation and slightly disappointing Q1 results led to significant losses. After this sharp correction, gold miners are valued back close to the all-time low, not only relative to their own history, but also relative to the equity markets and physical gold, with many gold companies held in the fund discounting gold prices well below USD 1'500.

Given our view on higher gold prices, combined with declining earnings revisions in the broad equity market, we could see gold miners moving from the 3rd/4th quartile of most quant models (due to the bottom half of ROE and ROI momentum, earnings revisions and price momentum) to the 1st quartile in H2, 2022. Gold miners will in such a scenario soon be the asset class with top quartile characteristics in FCF Yield, ROE and ROI momentum, valuation and growth perspectives. Price momentum will as a result likely change too, and gold miners could become the most favoured equities by the powerful quant investors, generalists and finally retail investors, which today play a prominent role in North America.

NESTOR Gold Quarterly Report 2/2022



Conclusion

While Q2 was very disappointing for gold mining investors, we are convinced that this will soon change. The most likely scenarios, i.e. either that the current stagflation-like environment will continue for much longer than expected or that there will be a sudden U-turn on the FED policy, have become even more likely during the last three months. This speaks for a comeback of investment demand for gold and a resumption of the structural bull market, which started in late 2015.

In the expected environment of a rising gold price, gold miners will likely soon be the asset class with top quartile characteristics in FCF Yield, ROE and ROI momentum, valuation and growth perspectives. Price momentum will, as a result, likely change too. This should bode well and buying from quant investors, generalists and retail investors will likely lead to a massive revaluation of the deeply undervalued and underinvested theme.

We have seen a small increase in M&A activity during the last few months with four takeover offers in 2022. As management teams get comfortable that today's gold price environment is sustainable and due diligence is possible again (post Covid restrictions), we expect many more small bolt-on acquisitions. Stellar strong balance sheets and healthy FCF, as well as rather empty project pipelines, speak for such action. The Nestor Gold Fund is perfectly positioned for such an outcome. The well-above-average exposure to exploration and development companies is a key differentiating factor of the Nestor Gold Fund relative to active and passive peer products.

Walter Wehrli and Erich Meier, Konwave AG

Contact

Dr. Kohlhasse Vermögensverwaltungsgesellschaft mbH · Löwengrube 18 · D-80333 Munich
www.nestor-fonds.com · Phone +49 (0)89 / 54 59 03-0 · epost@kohlhasse.de

NESTOR Gold Quarterly Report 2/2022



Disclaimer

This document was produced by Dr. Kohlhase Vermögensverwaltungsges. mbH (DKO). It is aimed exclusively at those recipients to which DKO has specifically made the document available. If this document is made available to a client, only that client shall be the recipient even if the document was handed to a member of staff or representative of the client. The recipient may not publish this document nor make it available to a third party nor allow a third party access to it.

This document does not constitute and shall not be construed as an offer or an invitation to make an offer. It may be used only as guidance and to illustrate potential business activities. No claim is made as to the exhaustiveness of the information contained in this document, and it is therefore non-binding. Any statements made in this document about prices or interest rates or any other indications that are given relate exclusively to the time that the document was produced and do not contain any statements about future trends or in particular about future profits or losses. While the content of this information was accurate at the time it was produced, it may have since become out of date as a result of subsequent events without the document having been modified.

In addition, this document does not constitute and shall not be construed as advice or a recommendation. Before concluding any transactions presented in this document, you should always obtain client and product-specific advice from your advisor.

Detailed product information can be found in the current full version of the prospectus, the key investor information document and the annual and interim reports. These documents set out the sole binding conditions for purchasing investment units. They can be obtained free of charge from the registered office of the investment company (LRI Invest S.A., 9a, Rue Gabriel Lippmann, L-5365 Munsbach), or the paying and information agents (European Depositary Bank SA, 3, Rue Gabriel Lippmann in L-5365 Munsbach, M.M.Warburg & CO KGaA, Ferdinandstr.75, D-20095 Hamburg, Erste Bank der österreichischen Sparkasse AG, Graben 21 in A-1010 Vienna or Dr. Kohlhase Vermögensverwaltungsges. mbH, Löwengrube 18, D-80333 Munich).