Union Securities International

Mining Group note 1 first sent out Friday May 1st 2020

Dear marvellous investor group,

The days seem far too long. Result, too much screen time and the temptation to pontificate over some brilliant insight that just has to be shared. Bring back Chutney Mary, Franco's and the Davy's soon – this corona, crisps and zoom format just isn't the same .

The Nassim Taleb and Universa pieces both have a good mix a clever clogs thinking alongside slightly highbrow claptrap. Take a look after the third coffee of the morning. Both caught my eye after the FT (reprinted below) reminded readers of how spectacular lottery style wins come from strategies that require years of waiting in the shadows to come good. Clients at Ruffer benefitting from the '50c' strategy probably saw an extra point on their scorecards. Baillie Gifford's Scottish Mortgage Trust simply outgazed the market, never flinched, and is back skirting with new all-time highs.

For those wondering if the sharpest minds in Calton Square might be ready to reposition the portfolio away from foot-to-the-floor-consumption, fear not. Here's the most recent top 10 names. It's quite a bet on China but, as we're learning, this rhymes with the idea of it being China's century. We had the 19th, America the 20th. Now it's their turn. An extended analysis of the Baillie Gifford selection strategy would be to add the third largest name since they already have the two largest, Alibaba and Tencent. That'll be ICBC ($HKD 5.27) to save you checking (HK:1398).

Security	Weight
Tesla Inc	10.12%
Amazon.com Inc	8.29%
Alibaba Group Holding Ltd ADR	6.41%
Tencent Holdings Ltd	6.06%
Illumina Inc	5.54%
ASML Holding NV EUR0.09	3.57%
Kering Eur4.00	3.06%
Delivery Hero SE NPV	2.80%
Netflix Inc	2.78%
Ferrari NV EURO.01	2.52%

<u>MINING and COMMODITY stuff.</u>

It seems worth flagging a gentle reminder to certain grand fund manager friends the risk reward potential of the metals market. Inflation to return sometime this century, surely.

Ed Yardeni's chart here is just for the last 15 years. Commodities being 'cheap' against an index of the greatest companies on the planet may not necessarily be the right comparison. It would be better of course if the metals investment case turned on a new found focus on running a business profitably.

If we can get away from relying on the *eventual* return of inflation in 2045 and take advantage of these very low oil prices, the gold producers outlook will still continue positively.

<u>IDEAS ?</u>

For established producers offering a sleep at night guarantee, we'd include **Kirkland Lake (TSX : KL c$57.80 - c$17bn mkt cap)**. The Detour Gold acquisition drew a few questions on the target's high production costs but Kirkland combines great cost discipline and quality assets. That Canadian dollar is also quite cheap although we can't see a reason for that to change near term.

In other musings, we have been getting our heads round electric metals and looking for names that should be able to exercise some power within the supply chain. Palladium and its pgm siblings offer up relatively few investable propositions – I think **Sibanye** (NYSE: SBSW $7.90) still ticks a lot of boxes and the balance sheet has improved meaningfully in 2 years. A more balanced geographic portfolio of assets has coincided with new institutional support in North America. Lithium turns out to have been a testing place for so many juniors but at least expectations are helpfully low. Take a look at **Livent** (NYSE : LTHM) and see if you share my enthusiasm for the embedded science. There's a home grown CEO Paul Graves, he was formerly CFO at FMC which spun it out. A profitable ($750mm mkt cap) battery grade lithium hydroxide producer.

PGM metal opportunities also remain a live issue for **Eurasia Mining**- suspended on AIM (EUA, £200mm+ mkt cap) in February while an asset restructuring is completed. There's an opportunity worth discussing there, be in touch if you've been watching the story over the past year.

We continue to look at options for *privately held* Pallas Minerals Ltd with its historic palladium source in Northern Sweden. We'll keep you posted as various funding options around the development plan are confirmed.

In the prospective *10 bagger* department, we are encouraging vms watchers to stay tuned to **BTU Metals**, a $20mm play (TSXv : BTU) on the fortunes of the Dixie Halo property up in Red Lake. Paul Wood has done a great job to keep the recent development drilling plan on track and news flow will continue thanks to continued core logging, processing and assaying.

Lastly, and on the cusp of mining and energy, there's that old U3O8 yellowcake. It may be time to dust off some of those files after a decade of bleak performance. I'm keeping **Cameco** (TSX : CCO c$13.97) but looking for new ideas. For sheer evangelical tenacity and dedication to the subject, add **Uranium Energy** to the trading list. (NYSE : UEC $1.10), a $200mm mkt cap, looks sensible enough at current prices in spite of the bounce.

Do call in with any other top secret ideas – anything to distort a sociologists' paradise ……… where *each day repeats.*

Best wishes all, stay well and let's reconnect soon.

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‘Black swan’ funds enjoy rare chance to spread their wings


Hedge funds ✓ Added

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But outlook remains tough for hedge funds that cashed in on March chaos

Laurence Fletcher in London and Robin Wigglesworth in Oslo 7 HOURS AGO

But the outlook remains tough for hedge funds that cashed in on March chaos.

Crisis-hunting hedge funds enjoyed blowout returns in March, but investors say the strategy of waiting years for markets to crumple is still unlikely to draw new fans.

Funds that seek to profit from collapses have gained 57.2 per cent so far in 2020 — their best year on record — reflecting the damage inflicted by the coronavirus pandemic. Standouts include New York-based Capstone’s “tail risk” strategy, up 350 per cent over the first three months; and 36 South Capital Advisors of London, whose $2bn flagship fund is up more than 130 per cent. Theirs are among the best-performing strategies in the world this year, even as most hedge funds and other investors are nursing losses.

Another big winner is Mark Spitznagel’s Universa Investments, which boasts that its tail risk strategy — designed to profit from highly unusual swings in asset prices — has made a return for investors of over 4,000 per cent this year. But Mr Spitznagel, who, in addition to his fund, runs a cheese farm in Michigan, is still not expecting a large inflow of new investments. Universa’s strategy should be a part of many investors’ portfolios, he said, as a way of protecting against violent moves. “But we never will be, because most people only want it when there's a crash.”

Tail risk funds captured investors’ imagination during the 2008 crisis, generating large profits as markets tumbled. Their popularity was helped by the best-selling 2007 book The Black Swan, by former hedge fund manager Nassim Nicholas Taleb, who now advises Universa. One of Mr Taleb’s key arguments was that unexpected events that can shake our view of the world are more common than we think. Such an event happened in March, when efforts by governments around the world to control the coronavirus outbreak sparked a record-breaking rush out of risky investments. It is really difficult to time the entry and sometimes you don’t have the time to get out Cedric Vuignier, head of alternative investments at SYZ Asset Management “The virus is popping the bubble,” said Mr Spitznagel. “Markets were priced for perfection, but all of a sudden the world lost its veil of perfection.”

Even with the huge gains so far this year, many funds in the sector remain deeply in the red after a long bull market punctuated by occasional dips. “This strategy costs you most of the time,” said Cedric Vuignier, head of alternative investments at SYZ Asset Management, who said he has not invested in such funds for several years. “Moreover, it is really difficult to time the entry and sometimes you don’t have the time to get out,” he added, citing the Brexit referendum in 2016 and the market sell-off in February 2018, when big gains were rapidly unwound. Such funds on average lost money every year from 2012 to 2019 inclusive, according to CBOE Eurekahedge’s index of tail risk hedge funds.

Despite having three crises to profit from since the start of 2008 — the global financial crisis, the eurozone debt crisis and the coronavirus crisis — they are still down by an average of 24 per cent over that period. Protection strategies should be assessed “over the full market cycle from boom to bust, including long stretches of low volatility and stock market gains”, said Ari Bergmann, chief investment officer of Penso Advisors, a specialist in derivatives protection that is 25 per cent owned by hedge fund firm Brevan Howard.

The 131 per cent gain made by 36 South in its flagship Kohinoor fund puts it on track for easily its biggest annual gain since launch in 2011, according to an investor letter seen by the Financial Times. The fund profited mainly from bets on equity options, as well as currency and commodity options. Chief executive Jerry Haworth wrote in March that “we are all on the bus and that bus is now on the highway to stagflation hell”. However, Kohinoor lost money for five straight calendar years before 2020. A sum of €1,000 invested at the fund’s launch would now be worth €685, even taking into account this year's gains. 36 South declined to comment. Recommended Hedge funds Trio of hedge funds makes big gains from oil rout Man Group’s TailProtect fund also lost money for five consecutive years to 2020. But, just as it was starting to make money from the coronavirus crisis, it was shut down as investors pulled out their cash. A small number of hedge funds in other sectors have had some success exploiting volatility, but without suffering quite so many losses in between. Dominice & Co’s volatility-trading Cassiopeia fund, for example, gained nearly 21 per cent in March, yet has also made money in 14 of the last 16 years.

One River Asset Management’s Dynamic Convexity fund, another volatility specialist, is up 53 per cent this year and also up since launch in 2015. But for outright “black swan” funds, the uncertainty as to when the next big payout will come means they are unlikely to regain the popularity they enjoyed in the aftermath of the 2008 crisis.

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