Old West Investment Management, LLC

April 11, 2024

Dear Investor,

The first quarter of 2024 started strong with the stock market passing the baton from a solid performance in 2023. One notable difference between the two years is that the Magnificent 7 became the Mag 4 in the first quarter as Apple, Tesla and Alphabet had various issues. Unlike 2023, the first quarter rally was broader as the equal weighted S&P was up 7.7% and the Russell Small Cap index was up 5%.

As you can see from your enclosed statement, we underperformed our benchmarks in the first quarter. However, after struggling in January and February, we had a strong month of March, and April is off to a great start. You're hearing more and more chatter from the business media about metals and mining, an area that we believe has a very bright future as countries around the world continue to electrify their economies.

With all the euphoria over the strong market last year, few people realize that this market has basically round tripped since 2022. Although the S&P was up 26% in 2023 and up 10% in the first quarter of this year, it's just slightly above the previous high reached in early 2022.

After the great run the market has had, you have to ask if it's expensive. The current market multiple is 21 times future earnings, which is definitely on the high side. Rarely mentioned is the Shiller P.E ratio, which is adjusted for inflation and takes an average over the past ten years. It is currently at 34x's and has rarely been higher, with the median value at 16. My favorite market measure is the Buffett Indicator (Warren's favorite) which compares total market value of all U.S. stocks to US GDP. It sits at 189% today, 55% higher than its long-term average, and much higher than it was during the 2000 tech bubble.

The market strength is definitely helping a lot of U.S. households as 35% of their financial assets are in equities, which is an all-time high. At the peak of the dot com bubble, they had 33% in equities. It concerns me what effect a market selloff would have as the consumer is in less than stellar shape. Credit card debt recently reached a record high of $1.4 Trillion and the average interest rate on that debt is 21.6%.

The U.S economy is showing surprising resilience with GDP growing at 2.5%. It's surprising to me because half the country is living paycheck to paycheck, with maxed out credit cards and record delinquent car loans. The government issued job numbers look great, but when you look under the hood you see the vast majority of new jobs are part time in low paying

industries like leisure and hospitality. Consumer spending has been growing at 1% per year and personal income at 0.3%, a sign that Americans are living beyond their means. The personal savings rate has dropped from 6% to 3.6%, further evidence that consumers lack a safety net.

In last quarter's letter, I discussed the issue of our runaway government spending and growing budget deficit. I expressed concern with the massive government debt issuance and whether buyers would eventually have their fill. There has been evidence of that recently with poorly received auctions and higher yields. The U.S. interest expense on debt is projected to hit $1.6 Trillion by year-end, making it the largest government outlay. This is a huge change from just a few years ago and might partially explain the tremendous run in the price of gold.

When you combine my comments on market valuation and a stretched consumer, you can guess that I'm not bullish on the stock market. But the market has become a handful of names that everyone owns with trillions of dollars comfortably parked in index funds. I can't think of a better time to be a value-oriented stock picker.

The money being invested in the AI revolution is nothing short of staggering. In the past few weeks, the following projects have been announced or updated:

- Taiwan Semiconductor is investing $65 Billion in a chip manufacturing plant in Phoenix. Nvidia is a major customer.
- Samsung is investing $44 Billion to create a semiconductor hub in Texas.
- Microsoft is investing $100 Billion in building an AI data center. This project is 100 times more advanced than current cutting-edge data centers.
- In addition to these projects, you have Amazon Web Services, Oracle and others building new data centers.

The trillions of dollars invested passively in index funds feed into all of the Mega Cap tech companies driving the A.I. machine. But very few investors own companies producing the metals necessary to compute, store and network data. These facilities are loaded with copper, tin, and silver, and possibly receive nuclear generated power. We believe we are in the early stages of a multi-year bull market in these industrial metals, and we have selected companies that should take full advantage of this generational opportunity.

Old West partner and Co-CIO Brian Laks goes into detail on these areas and some of our largest holdings.

We frequently highlight our exposure to metals in these letters because it currently makes up a major part of our portfolio. This was not the result of a top-down decision, but rather stemmed from our process of looking for high quality businesses trading at attractive valuations. In certain parts of the resource industry, we see an unusual combination of

strong fundamental outlook and low valuation. The supply of many metals is insufficient to meet future demand, and prices are too low to give an incentive for new development. We believe prices must rise to levels that make development projects economical, and the companies that can deliver supply into that environment will benefit.

We saw this play out in uranium over the last several years as the price rose from $20 per pound in 2018 to over $100 earlier this year. Readers of these letters will be familiar with our uranium ideas and the performance of those investments over that time. We would note that a supply shortage does not get solved just because the price environment is supportive of new project development. The lead time to develop new mines can often mean years are required to bring on additional supply, which can lead to scarcity pricing in the interim. A similar situation exists in other metals today, and some of these have yet to see the inflection in their price to levels that would support enough new mines to satisfy expected demand.

Copper is a good example of this, and an area we have invested in for years. The growth in electricity demand as the world shifts to cleaner sources of energy and transportation, and necessary investments in the modernization of global power grids, will require a near doubling of copper production over the coming decade. Challenges in mine supply related to declining production, worsening grades, higher costs, shortage of skilled labor and inadequate spending on exploration and development suggest we may be unable to meet that demand. Inflationary pressures have also driven up the cost of project development, with some industry analysts suggesting it would take prices of $7 per pound to balance the market in the near term.

Despite all of that, the copper price remained rangebound for the last few years as concerns about short-term demand distracted investors from the longer-term supply issues. During this type of price environment, our preferred exposure had been to companies with active value creation opportunities rather than those that serve merely as proxies for the commodity price. We have owned Lundin Group companies for the past 3 years that have added significant value through the drill bit in the emerging Vicuña district of South America.

In our Q3 2022 letter, we highlighted our investment in Filo, which discovered a massive high-grade copper-gold-silver deposit. The company continues to delineate the resource with additional drilling but has yet to discover the boundary of the deposit which is already approaching 6 cubic kilometers of mineralization. Investors have recently shifted their focus to news on the corporate development front, with an eye toward potential joint venture partners and synergies with other nearby Lundin Group assets. BHP is a strong contender for future partner, having already acquired a 6% stake, and there are opportunities to share infrastructure that may spur a combination of the various projects.

The story of last year was NGEx and their Lunahuasi discovery 6 kilometers north of Filo. The grades they found were the highest the group had ever seen in the region, with intervals containing upwards of 40% copper. The discovery is notable for its proximity to both Filo

and the Josemaria project, which Lundin Mining acquired in late 2021. Josemaria is the furthest advanced of all the projects in the region, and there are expectations that it could serve as a central processing hub for multiple mines.

As the largest entity of the group, Lundin Mining appears to be putting the pieces together to control the development of the entire district. Last year they acquired a majority stake in the Caserones mine in Chile, 17 kilometers north of NGEx's Los Helados deposit. The mine sits strategically between that deposit and Lundin Mining's other Chilean assets, namely the Candelaria mine in the central part of the country and a port and desalination facility on the coast. We think it would make sense for Lundin Mining to acquire the Los Helados deposit from NGEx as a source of future feed to extend the life of Caserones and to consolidate all of the assets on the Chilean side of the border. The value would be greater to them since they already have a processing facility, and the development timeline overlaps with the period in which Caserones would start running out of ore. For NGEx, monetizing Los Helados would highlight the standalone value of the Lunahuasi discovery as well as provide funding for continued exploration of the deposit. We expect a steady cadence of news from all three companies over the course of this year.

The copper price has recently begun to show signs of strength as global mine supply issues have started to bite. Copper smelters in China have been scrambling to secure feedstock, slashing the fees they charge to mining companies as they compete for scarce supply. These treatment and refining charges recently hit a record low and even dipped negative at one point, meaning the smelters were actually having to pay producers to be able to process their copper rather than charging a fee. Last month, the smelters finally gave in and announced production cuts. The news was enough to spark a rally in copper prices to 14-month highs, as investors finally began to focus on supply issues. Recently we have been adding more small- and mid-cap copper producers to our portfolios which should see strong earnings growth as copper continues its upward trajectory.

Tin is another metal with an intriguing supply/demand dynamic that we highlighted in our Q4 2021 letter. Strong demand from future-facing industries like AI, data centers and renewable energy are confronting a fragile supply situation that is growing more precarious by the day. In early 2022, the tin price reached $50k per ton on expectations of large supply deficits but then fell dramatically as the Fed began hiking rates and China shut down their economy as part of their Covid Zero policy. Demand concerns dominated the discussion for much of that year, but more recent developments have shifted investor attention to the supply side.

Last year Myanmar shut down their largest tin mine. The country had been a bit of a wildcard in the industry over the last decade, coming from relative obscurity in the 2010's to grow into the 3rd largest producer by 2017. Since then, their production has been cut in half, as the easily accessible ore was mined out and maintaining production would require going deeper into the mine at a higher cost. The mine is located in the autonomous Wa State region which borders China's tin smelting hub of Yunnan province. China, the world's

largest producer of tin, is highly reliant on Myanmar concentrate to feed their smelters and the lack of supply has forced them to look elsewhere to source tin. China's supply problems have been exacerbated by severe drought conditions in Yunnan province where hydropower is the main source of electricity, and a lack of rainfall has crimped power supply.

This year the news has centered around the second largest producer, Indonesia, where exports dropped to nearly zero amid a delay in work approvals by the trade ministry. Illegal tin mining is rampant in parts of the country, and the large state-owned tin miner PT Timah is currently embroiled in a massive corruption scandal. The country also had an election this year, with the outbound president handing power over to his former defense minister. Both individuals have supported a policy known as downstreaming in which the export of raw materials is banned with the goal of forcing foreign investment in local processing. This policy had a major effect on the nickel industry, where billions of dollars of Chinese investment led to a 10-fold increase in the value of nickel exports over a short period of time. The country has explicitly shown interest in seeing this effect repeated in other commodities such as tin, and any progress on this front could tighten the supply situation even further.

With this backdrop, we expect strong upward pressure on the tin price in the coming years. Demand continues to grow, feeding into many secular growth areas. Meanwhile, current supply is struggling and the project slate that is supposed to fill that demand gap is sparse and low quality, requiring higher prices to provide a sufficient return. We took advantage of the weakness in prices in 2022 and 2023 to steadily build positions in the industry. Recently the price has risen back above $30k per ton and we believe it has to rise much higher to balance the market.

In this environment, we continue to like Alphamin Resources. They have the highest-grade tin mine in the world and are about to open what will be the second highest grade mine. These extremely high grades translate into very low production costs, which have allowed them to remain profitable even in the face of wild swings in the tin price. Their cost is less than $15k per ton and with both mines at full capacity they expect to produce 20k tons per year, nearly 7% of global production. We have discussed this company at length in various interviews over the years which interested readers can find on our website.

In our commodity-focused partnership we also own Metals X, an Australian listed producer with a 50% share in a tin mine in Tasmania. Their share of production is 5k tons per year with costs of around $20k per ton. The company for years has traded extremely cheaply, in part due to a legacy shareholder disposing shares in the open market which has weighed on the stock. The company holds a large amount of cash relative to its market cap and there have been concerns about if and when investors would see capital return. These concerns were partially addressed several weeks ago when the company announced a buyback, and the stock has responded very positively.

Outside of copper and tin, we have been long time holders of precious metals and are particularly interested in silver which has a large industrial component to its demand. We wrote about Adriatic Metals in our Q3 2023 letter, as an underfollowed European project with a very high-quality polymetallic deposit trading at a low valuation. The company finally started up its mine in Q1 and is currently ramping up to full run rate by the end of this year. Silver is expected to generate a third of its revenue, with gold contributing another 25%.

We have been seeing increasing interest from existing clients, new clients, and advisors who view our differentiated strategies as an excellent complement to their traditional market exposure and are always available to discuss our portfolio holdings and investment strategies. Please reach out to set up a call if you would like to learn more.

We are very excited to see our ideas produce strong results the balance of this year and beyond. Thank you for your continued loyalty and support.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer

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