

Quarterly Investment Commentary

Q2 2026

Baker Steel Capital Managers LLP is the Investment Manager of the **BAKERSTEEL Precious Metals Fund** and the **BAKERSTEEL Electrum Fund** (“Precious Metals Fund”, “Electrum Fund” or together, “the Funds”).

Q2 Highlights:

- The Precious Metals Fund outperformed its index during Q2, while the Electrum Fund lagged.
- Gold and silver miners faced a sell-off during the quarter, following a strong Q1 return.
- Despite uncertainty, industrial and speciality metals miners face rising strategic interests around supply chain and energy security.

Gold and silver faced weakness and volatility during the quarter as uncertainty over monetary policy along with profit-taking weighed on the sector

Despite reducing higher beta exposure, the portfolio’s upside potential has been maintained, including with an overweight silver position.

A correction for precious metals belies miners’ financial strength

The metals and mining sector delivered a mixed performance in the second quarter of 2026, amid chaotic geopolitics and risks to the economic outlook caused by the Iran-US war. Several sub-sectors, most notably precious metals, surrendered part of their exceptional first-quarter gains as shifting interest rate expectations and profit-taking outweighed supportive long-term fundamentals. We view this pullback as a healthy and constructive correction. The structural drivers underpinning precious metals remain firmly in place, while the retracement has helped to unwind speculative positioning, reset investor sentiment and, importantly, create attractive opportunities for long-term investors.

Elsewhere, industrial metals were weighed down by an increasingly uncertain global growth outlook, compounding slowing Chinese growth and geopolitical tensions in the Middle East. In contrast, speciality and critical metals continued to benefit from selective areas of demand linked to energy security and the broader realignment and disruption of global supply chains.

The **BAKERSTEEL Precious Metals Fund** outperformed the MSCI ACWI Select Gold Miners Index during a negative quarter for the precious metals sector (D EUR class, in euro terms). Gold and silver faced weakness and volatility during the quarter as uncertainty over monetary policy along with profit-taking weighed on the sector. The start of Kevin Warsh’s term as Fed Chair and a rising oil price have sparked speculation over higher interest rates, putting pressure on the sector, yet over the past year precious metals miners remain one of the best-performing asset classes globally.

Having contributed strongly to performance in Q1, mid-cap gold and silver miners dragged on performance as the sector sold off during Q2. Yet recent weak performance belies the strong financial position of precious metals miners. As the gold price rises, gold miners are benefiting from meaningful margin expansion, with many miners generating strong free cash flow. On the cost side, technological innovation, continuous improvement, and lower energy costs have benefitted miners’ margins. At the same time, capital discipline has largely been preserved. We continue to focus on companies able to grow and sustain margins, while controlling costs and maintaining capital discipline.

During Q1 the investment team had already positioned the Precious Metals Fund for a potential sell-off. We have subsequently used the period of consolidation to rebalance the portfolio while maintaining its exposure to the sector’s longer-term upside. Despite having already reduced exposure to certain higher beta companies, we have maintained the upside potential, in preparation for what we believe lies ahead for this still undervalued and under-owned sector. This includes retaining an overweight allocation to silver miners, reflecting our conviction that silver’s persistent multi-year structural supply deficit continues to provide a supportive backdrop.

Looking ahead, nothing has changed regarding our constructive outlook for the precious metals sector. Volatile macroeconomic and geopolitical conditions continue to favour gold as a reserve asset for central banks. Persistent inflation and an unsustainable US federal debt burden point towards fiscal dominance and financial repression ahead, driving

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The Electrum Fund remains overweight precious metals, with price weakness creating value opportunities across large and mid-cap miners.

Exposure to industrial metals has been adjusted tactically during the Middle East conflict, with an overweight position in aluminium producers maintained.

Critical metals producers, notably rare earths, contributed to performance, supported by tight supply-demand dynamics and strategic investment.

Mining equities remain undervalued and under-owned, despite strong balance sheets and improving operational performance.

investment demand for precious metals as a means of wealth protection. Against this strong demand backdrop, tight physical supply also supports higher prices.

The **BAKERSTEEL Electrum Fund** lagged the MSCI ACWI Metals and Mining Index during a negative quarter for the metals and mining sector (D EUR class, in euro terms). The ongoing war in the Middle East alongside speculation over higher US interest rates have weighed on miners. Recent months have seen the team navigate the Iran conflict, with portfolio actions including a rotation toward miners less impacted by the cost and supply chain risks. However, the volatility that accompanies conflict has not abated and at the time of writing a route to lasting peace appears elusive.

Precious metals miners dragged on performance during the quarter. Having reduced exposure to some of the higher beta gold and silver miners during Q1, as precious metals prices spiked, we have taken advantage of the sector's pullback to rotate into undervalued mid-cap producers. With the supportive backdrop for precious metals unchanged, the Electrum Fund remains overweight precious metals. Price weakness has created value opportunities across large and mid-cap miners, as cost discipline ensures that profit margins remain robust. Central banks have also taken advantage of this weakness; beginning now to provide support to the market through purchasing.

Industrial metals producers continued to contend with an uncertain macroeconomic and geopolitical backdrop during the quarter, with market sentiment further affected by the fragile ceasefire in the Middle East. Performance across the sector was mixed, with copper miners and aluminium producers under pressure, while steel producers proved comparatively resilient. The portfolio remains overweight aluminium, where we continue to see an attractive long-term investment case despite the recent pullback. Demand fundamentals remain robust, supported by accelerating Battery Energy Storage System (BESS) deployment, while supply continues to be constrained by production curtailments in the Middle East and elsewhere, alongside ongoing Chinese supply-side discipline.

Speciality and critical metals producers experienced mixed fortunes during the quarter. Rare earth elements (REE) miners contributed to performance, supported by tight supply-demand dynamics and increasing strategic investment by governments seeking to establish secure and resilient critical mineral supply chains. Lithium miners also generated positive returns for the Fund during the year, benefiting from a combination of inventory restocking and emerging sources of demand, both of which have underpinned the recent recovery in lithium prices. Across the broader speciality metals universe, supply chain disruption continues to create selective opportunities. Reflecting this, the Electrum Fund has established a selective position in tungsten, a strategically important metal whose market has tightened following China's export restrictions.

Commodity markets continue to be shaped by an evolving combination of heightened geopolitical tensions, trade frictions and shifting monetary policy expectations. Underpinning these trends is an increasing emphasis on supply chain resilience, strategic stockpiling and the reshoring of critical industries, with governments playing an increasingly active role in supporting domestic resource security.

Against this backdrop, mining equities remain both undervalued and under-owned, trading on relatively modest valuation multiples despite strong balance sheets and improving operational performance. We believe this disconnect presents an attractive opportunity for long-term investors. At the same time, significant disparities in asset quality, production growth, valuation and capital allocation across the sector continue to create a compelling environment for active management, reinforcing the value of Baker Steel's disciplined, bottom-up investment approach.

Important

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