The Strategic Case for Hard Assets

The Opportunity: A Secular Supercycle. Hard assets – tangible commodities like copper, uranium, silver, and gold – are in a structural bull market. While technology often drives production efficiency and reduces end commodity costs over time, the physical world is facing supply constraints. A weaker US dollar and a low real-interest rate environment also provide further tailwinds for hard assets. We believe we are in a secular cycle where accelerating global demand is colliding with a decade of chronic underinvestment in resource extraction.

Demand Drivers: The Physical Scarcity Era

- *Resource Nationalism:* As global leadership becomes more fragmented, nations are shifting from "just-in-time" supply chains to "just-in-case" domestic stockpiling.
- *Central Bank Diversification:* Since the freezing of sovereign foreign exchange reserves in 2022, central banks are reducing US dollar exposure in favor of neutral assets, primarily gold.
- *The Sovereignty Mandate:* Critical minerals for defense, communication, and energy industries are now viewed as strategic national security assets with less concern for price.
- *Monetary Debasement:* Countries running persistent fiscal deficits continue to erode fiat purchasing power, driving a rotation into proven stores of value.
- *Hegemonic Uncertainty:* As US hegemony becomes less certain, stability of supply chains comes into question, leading nations, firms, and households to hoard key commodities.

Supply Constraints: Time, Regulations, and Instability

- *Inelastic Supply:* Due to lags, it typically takes certain extractive industries (e.g., gold, silver, copper, etc.) over a decade to move a project from discovery to production.
- *Geological Degradation:* Declining ore grades mean miners must process significantly more rock to produce the same unit of value.
- *Regulatory Hurdles:* Stringent environmental standards and complex permitting have raised the "incentive price" required to greenlight new projects.
- *Jurisdictional Risk:* Future supply is increasingly concentrated in unstable regions, raising the probability of sudden supply shocks.

Our Investment Strategy: Confluence Global Hard Assets

We identify asymmetric risk/reward opportunities across energy, base metals, and precious metals. Our Global Hard Assets strategy typically maintains a balanced exposure across these three pillars, though weightings may shift dynamically (generally between 10% and 50% per commodity type) based on relative market attractiveness. Occasionally, we have allocated small weightings (typically less than 10%) in agricultural and timber industries. Our process starts with a top-down approach to evaluate the near- and intermediate-term prospects for each commodity type. After determining weightings, we choose the optimal sub-category exposure (e.g., energy split between crude oil, natural gas, uranium, and/or coal.) Lastly, to invest in each sub-category, we perform fundamental analyses on public company commodity producers for portfolio inclusion and, to a lesser extent, invest directly in the physical commodity. We typically hold 28-32 securities in the portfolio.

To capture this value, we utilize a tiered approach:

- *Equities:* We prioritize well-run producers in stable jurisdictions and high-growth mid-tiers, de-risking high-grade deposits. We prefer companies with commodity production optionality that have strong balance sheets and established institutional sponsorship/shareholder alignment.
- *Yield & Protection:* We utilize royalty and streaming companies to capture commodity upside while insulating the portfolio from operational risk and heavy capex exposure.
- *Direct Exposure:* We allocate to physical proxies (e.g., physically backed ETFs) to gain pure-play commodity price exposure, which typically average 15% of the portfolio (range: 0 - 30%.)

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