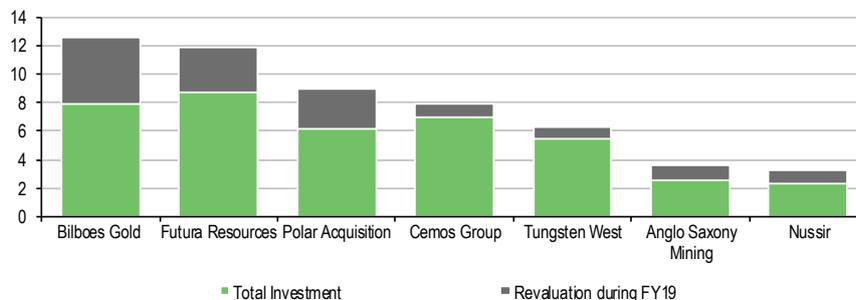


Baker Steel Resources Trust

Several potential NAV triggers ahead

Baker Steel Resources Trust (BSRT) offers a unique approach to investment in the natural resources sector, with early-stage (pre-IPO) engagement and specialist listed opportunities. In FY19, BSRT posted a solid NAV return of c 30%, driven by the revaluations of unlisted holdings and Polymetal's share price increase. It reduced its Polymetal position to finance a share tender offer and a £5m investment in Tungsten West. Management aims to maintain this momentum in FY20 with handful of potential NAV triggers as holdings move along the development curve and hence increase in value.

Revaluation of key unlisted portfolio holdings at end December 2019 (£m)



Source: Baker Steel Resources Trust, Edison Investment Research

The market opportunity

The performance of natural resources in 2019 was mixed, with precious metals reinforcing their position as a safe haven, while the broader commodity markets faced mixed fortunes with sharp falls in lithium and cobalt, and improved palladium and nickel prices. However, in the long term, there are a number of potential positive drivers for speciality and industrial metals, including increased production of electric vehicles (EVs) and batteries, as well as adoption of other green technologies. Meanwhile, the valuations of mining equities remain undemanding in historical terms (current one-year forward P/E of 10.6x vs a 10-year average of 12.1x).

Why consider investing in BSRT?

- Unique access to the outside potential returns offered by early-stage mining companies; investment managers' expertise acts to mitigate associated risks.
- Focus on riding development curve, so less reliant on rising commodity prices.
- Investment via convertible loans limits downside while retaining equity upside.
- Royalty income expected to contribute meaningful returns in the medium term.
- Aligned interests – investment team owns c 25% of BSRT's ordinary shares.
- Strong performance relative to peer group.

Consistent strong share price and NAV performance

BSRT has outperformed both global mining and broad market indices over three years, with a NAV return of c 15.6% pa. However, the shares currently trade at a c 30% discount to NAV. It opted for share buybacks to distribute realised gains.

Investment trusts Metals and mining

2 March 2020

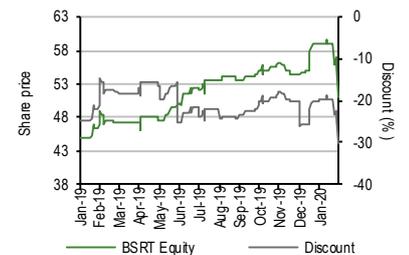
Price 51.0p
Market cap £54m
AUM £79.6m

NAV* 73.3p
 Discount to NAV 30.9%

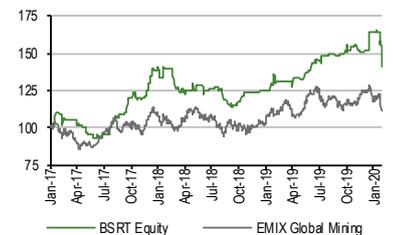
*Including income. As at 31 January 2020.

Yield 0.0%
 Ordinary shares in issue 106.5m
 Code BSRT
 Primary exchange LSE
 AIC sector Commodities & Natural Resources
 Benchmark None

Share price/discount performance



Three-year performance vs index



52-week high/low 59.5p 46.0p
 NAV** high/low 73.9p 56.8p

**Including income.

Gearing

Gross* 0.0%
 Net* 0.0%

*As at 31 January 2020.

Analyst

Milosz Papst +44 (0)20 3077 5700
investmenttrusts@edisongroup.com
[Edison profile page](#)

**Baker Steel Resources Trust is a
 research client of Edison Investment
 Research Limited**

Exhibit 1: Company at a glance

Investment objective and fund background

Baker Steel Resources Trust's (BSRT) investment objective is to seek capital growth over the long term through a focused global portfolio consisting principally of equities, loans or related instruments of natural resources companies. BSRT invests predominantly in unlisted companies, but also in listed securities, with a view to making attractive investment returns through uplift in value resulting from development progression of investee companies' projects, and through exploiting value inherent in market inefficiencies and pricing anomalies.

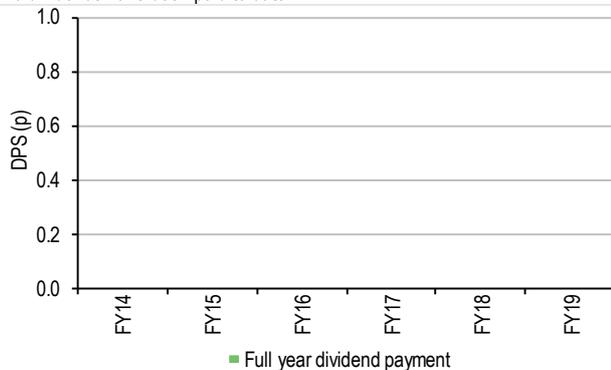
Recent developments

- 15 January 2020: Publication of year-end revaluation results, including 39.4% increase in carrying value of Polar Acquisition and 22% for Bilboes Gold.
- 29 November 2019: £5m investment in convertible loan notes in Tungsten West.
- 9 September 2019: Publication of interim report.
- 30 August 2019: Upward revision of Nussir valuation based on oversubscribed rights issue of NOK5m at a 50% premium to carrying value.
- 12 August 2019: Azarga draws down the remaining \$2m convertible loan.

Forthcoming		Capital structure		Fund details	
AGM	June 2020	Ongoing charges	2.0%	Group	Baker Steel Capital Managers
Interim results	September 2020	Net cash	0.9%	Manager	Team-managed
Year end	31 December	Annual mgmt fee	1.75% of average market cap	Address	Arnold House, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 3NF
Dividend paid	N/A	Performance fee	See page 13	Phone	+44 (0)1481 707000
Launch date	28 April 2010	Company life	Indefinite (subject to vote)	Website	www.bakersteelresourcestrust.com
Continuation vote	Three-yearly (next 2021 AGM)	Loan facilities	None		

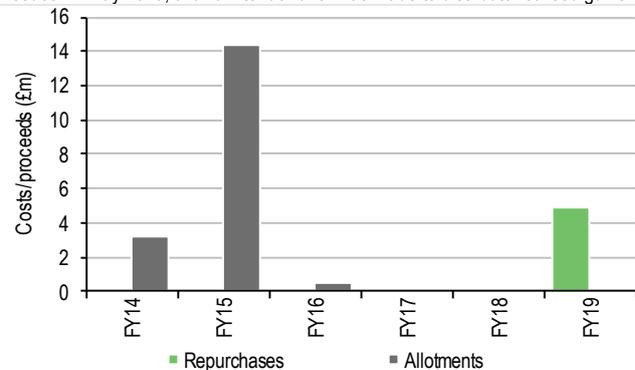
Dividend policy and history (financial years)

Dividends may be paid under BSRT's capital return policy, and the board expects that royalty, interest and dividend income may support a future regular dividend. No dividends have been paid to date.

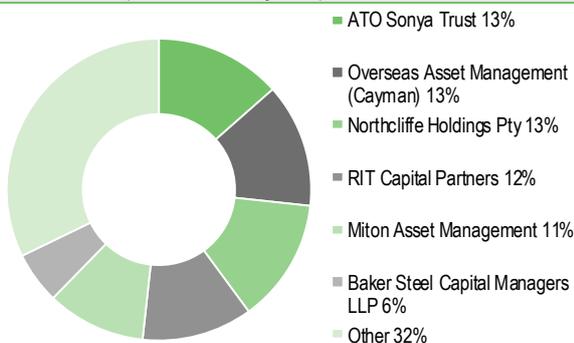


Share buyback policy and history (financial years)

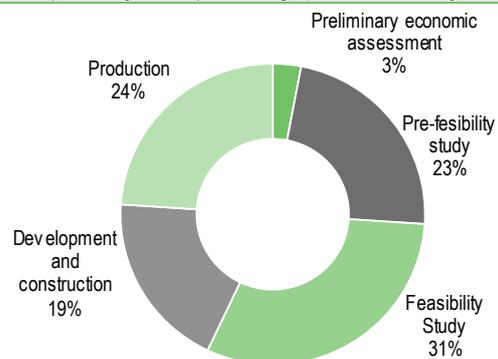
BSRT has authority to buy back up to 14.99% and allot up to 10% of its shares in issue. In FY14, FY15 and FY16, investments were acquired via 'in specie' share issues. In May 2019, a £4.9m tender offer was made to distribute realised gains.



Shareholder base (as at 28 February 2020)



Portfolio exposure by development stage (as at end-January 2020)



Top 10 holdings

Company	Country	Commodity	% of NAV	
			31 January 2020	31 January 2019*
Bilboes Gold	Zimbabwe	Gold	16.1	12.6
Futura Resources	Australia	Coking Coal	15.3	16.4
Polar Acquisition	Russia	Silver	11.5	9.1
Cemos Group	Morocco	Cement, Oil shale	10.0	9.9
Tungsten West	UK	Tungsten	8.1	N/A
Polymetal International	Russia	Gold, Silver	6.6	29.1
Anglo Saxony Mining	Germany	Tin	4.6	N/A
Mines & Metals Trading Peru	Peru	Zinc, Lead	4.4	N/A
Nussir	Norway	Copper	4.1	3.2
Sarmin Minerals Exploration	DR of Congo	Potash	3.7	4.9
Top 10 (% of holdings)			84.4	85.2

Source: Baker Steel Resources Trust, Edison Investment Research. Note: *N/A where not in end-January 2019 top 10.

Fund profile: Pre-IPO natural resources specialist fund

BSRT is a closed-ended investment company registered in Guernsey and listed on the London Stock Exchange since 28 April 2010. It aims to achieve long-term capital growth through investing in equity, loans and related instruments issued by natural resources companies, targeting a global concentrated portfolio of 15–20 investments. BSRT's objective is to realize attractive investment returns through valuation gains resulting from development progression of investee companies' projects and through exploiting market inefficiencies and pricing anomalies.

BSRT focuses primarily on investing in unlisted companies which, despite strong fundamentals and attractive growth prospects, are undervalued in the manager's opinion. For the purposes of the investment policy, natural resources companies are defined as those involved in the exploration and production of base metals, precious metals, bulk commodities, thermal and metallurgical coals, industrial minerals, oil & gas and uranium. These may be single asset as well as diversified natural resources companies. BSRT focuses mainly on investing in companies with producing and/or tangible assets, which typically comprise resources and reserves verified under internationally recognised reporting standards, such as those of the Australasian Joint Ore Reserves Committee (JORC). BSRT may also invest in exploration companies whose activities are speculative by nature.

The company aims to realize unlisted investments through an IPO, trade sale, management repurchase or other methods. While unlisted companies are its priority, it also holds listed securities – typically special situations and less liquid securities.

The fund manager: Baker Steel Capital Managers

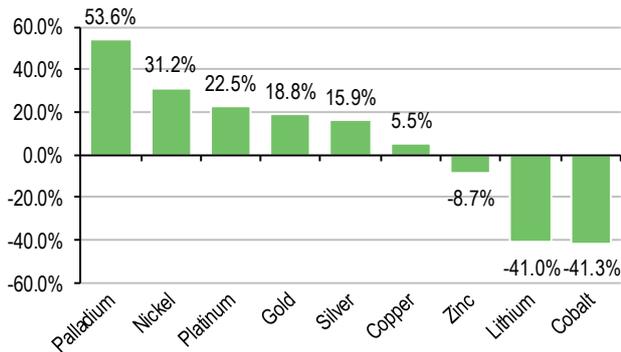
BSRT's investment manager is Baker Steel Capital Managers, a specialist natural resources asset management and advisory firm, headquartered in London, with a branch office in Sydney, Australia. The firm has an experienced team of fund managers covering precious metals, base metals and minerals sectors worldwide, including equity markets and underlying commodity markets. Investment opportunities are mainly sourced from the investment and advisory team's extensive proprietary network of industry contacts. Baker Steel's managing partner Trevor Steel has acted as lead manager since its launch. He is supported by Francis Johnstone, with David Baker and Mark Burridge also sitting on BSRT's investment committee.

The manager's view: Precious metals shine in uncertain times

In the natural resources sector, 2019 was marked by substantial disparities in performance across the mining subsectors, as the precious metals segment shone but the broader commodity markets faced mixed fortunes.

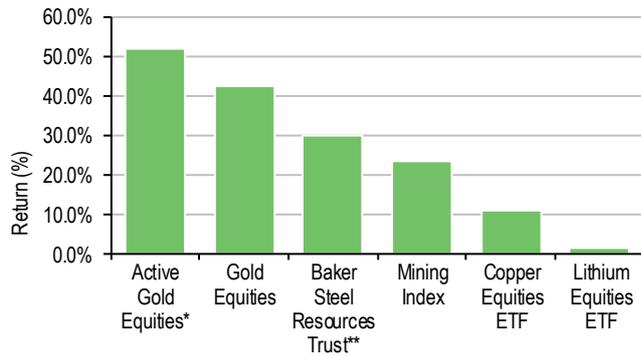
The bull market for **precious metals** remains intact, with gold and silver prices up by c 19% and 16% in 2019, respectively. In this favourable environment, gold equities (represented by the EMIX Global Mining Gold Index) posted an annual return of 42.4% against 22.7% returns on the MSCI World Metals and Mining Index, with an active investment approach improving returns to 51.9% (illustrated by the BAKERSTEEL Precious Metals Fund). The manager believes that in the coming year, precious metals equity prices will be assisted by the improving profitability of producers on the back of higher gold prices amid low real interest rates, expanding debt levels and the currency war. Furthermore, as risk in the financial markets increases, demand for gold and associated portfolio diversification rises accordingly. Potential further geopolitical tensions are likely to affect the currency markets (including the US dollar) in 2020, which reinforces the role of gold as a safe haven for investors and further improves the outlook for BSRT's largest exposures.

Exhibit 2: 2019 Performance by metal



Source: Baker Steel Capital Managers. Note: Data at 31 December 2019. Data in US\$ terms.

Exhibit 3: 2019 Performance by asset class



Source: Baker Steel Capital Managers. Note: Data at 31 December 2019. Data in US\$ terms. *BAKERSTEEL Precious Metals Fund. **NAV Total Return.

Importantly, BSRT sees the most substantial opportunity in the precious metals sector in recovery at the initial stage. In addition to a supportive macroeconomic environment, several companies have driven operational efficiencies proactively, which should prove supportive to their market valuation. These include management reforms and revisions to capital discipline and cost control, as well as constructive M&A activity. Recent high-profile transactions proved beneficial rather than value-destructive for investors, including Northern Star and Saracen acquiring Barrick and Newmont’s Kalgoorlie operations, Kirkland Lake’s proposal to buy Detour Gold and Evolution Mining acquiring the Red Lake gold complex from Newmont Goldcorp. Growing dividends represent an additional value driver.

Performance in the **speciality metals market** varied across subsectors in 2019, as some strategic metals experienced supply tightness, while others faced demand weakness and/or destocking. Although palladium and nickel provided the highest returns in 2019 (53.6% and 31.2% respectively), the market offers limited opportunities to benefit from them. However, the long-term outlook for underperforming speciality metals appears much brighter, with huge potential new demand for speciality metals from the development of new technologies (EVs, batteries and green technologies).

The overall top performing metals during 2019 included palladium (53.6% annual return), which benefited from continued strong fundamentals amid the shift away from diesel cars, and nickel (31.2%), which saw significant price gains in Q3 due to record-low inventories and concerns over restricted supply from Indonesia. As both metals are used in the production of traditional and electric vehicles, the outlook for the next few years remains positive, according to the managers, bearing in mind the potential to substitute platinum for palladium. Platinum appears oversold, but lacks demand drivers.

At the other end of the performance spectrum, vanadium and lithium exhibited weak performance, with the former impaired by niobium substitution and high levels of by-product volumes in China, and weaker than expected demand for the latter amid Chinese EV subsidy cuts. Having said that, expanding EV sales in Europe should drive positive lithium performance in 2020. The development of the EV market remains a core long-term driver for many speciality metals, as its share in annual global light vehicles sales is expected to exceed 10% by 2024, and accelerate to reach 55% by 2039 (source: BloombergNEF data).

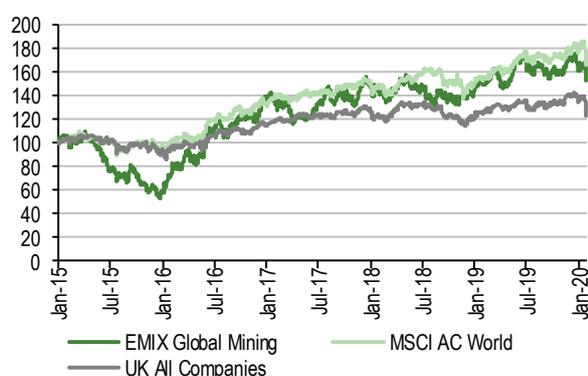
Subdued investor sentiment and concerns over economic growth put pressure on the **industrial commodities** market in 2019, which is struggling to recover from the lows of the past few years. However, the outlook is improving amid low inventories following declines in recent years, indicating tighter supply. Potential brightening of the broader macroeconomic outlook could serve as a near-

term catalyst, while longer term the metals stand to benefit substantially from the electrification of transport and the transition towards clean energy.

Market overview: Still undemanding valuations

As illustrated in Exhibit 4, mining equities suffered from the bear market until the end of 2015, losing almost half their value in the last 12 months. However, this was followed by an equally strong rebound, which allowed the EMIX Global Mining Index to make up lost ground the next year. Since then the index performance has developed broadly in line with the MSCI AC World Index, while outperforming the UK All Companies Index. The annualised five-year performance of the EMIX Global Mining Index stood at 10.1% vs 12.0% and 6.3% for the above comparators, respectively. Recently, broad market indices to some extent caught up with the EMIX Global Mining Index, as they posted double-digit returns against the 9.0% recorded by EMIX in the 12 months ending 31 January 2020.

Exhibit 4: Five-year performance of EMIX Global Mining Index against broad market indices



Source: Refinitiv, Edison Investment Research

Exhibit 5: DS World Mining Index valuation metrics

	Last	High	Low	10-year average	Last as % of average
P/E 12 months forward (x)	10.6	22.6	7.1	12.1	87
Price to book (x)	1.6	2.8	0.8	1.8	88
Dividend yield (%)	5.7	8.7	1.3	3.6	159
Return on equity (%)	15.8	30.0	-8.9	11.9	133

Source: Refinitiv, Edison Investment Research

Despite the recent robust performance, mining equity valuations are still in the recovery phase as the forward P/E multiple at end-February 2020 remained below its 10-year average value. Consequently, dividends payouts in the segment look more attractive, with a dividend yield of 5.7% vs the 10-year average of 3.6%.

Asset allocation

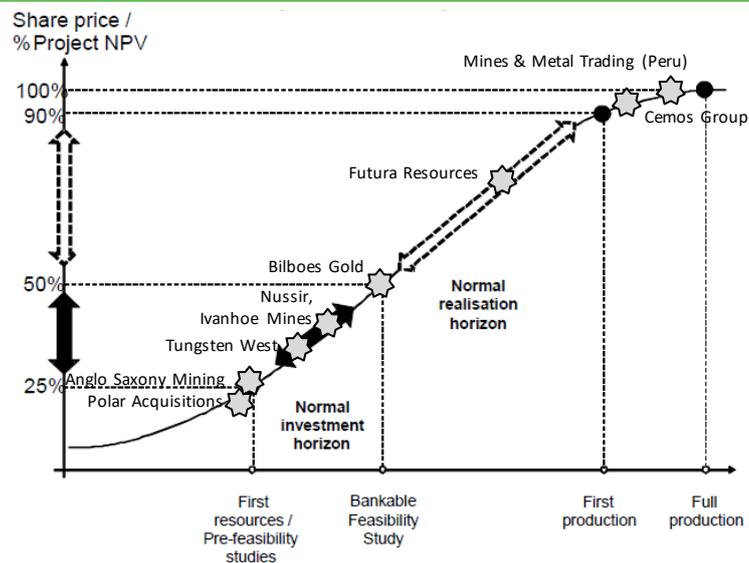
Investment process: Selective, fundamental approach

Rather than gearing exposure to benefit from anticipated commodity price rises, the manager focuses on riding the project development curve to generate valuation gains. The three primary sources of return for BSRT's portfolio investments (see Exhibit 6) are as follows:

- BSRT seeks to invest at the steepest part of the development curve, where the greatest returns are available. Investments are generally made when a project pre-feasibility study is expected to be completed, then held through the bankable feasibility study and construction stages, until a project approaches or moves into production, when most of the development risks have been overcome, and this is reflected in the valuation.
- Where possible, BSRT aims to invest at a discount to the project's fair value, gaining further valuation upside if the discount can be closed as the project is developed. This can be achieved when there are few other prospective investors in a project, and BSRT can often dictate terms when leading a financing for an early-stage company.

- Rises in commodity prices will normally lift the value of the whole development curve, providing additional upside to investments. While BSRT aims to be broadly diversified by commodity, the manager assesses the prospects for relevant commodity prices when studying each investment opportunity, to determine both upside and downside risks.

Exhibit 6: Risk-adjusted mining project valuation development curve



Source: Baker Steel Resources Trust. Note: Positioning of BSRT's projects on the development curve are indicative only.

Following its launch in 2010, BSRT mainly invested in companies with projects that were around the bankable feasibility stage, whereas more recently, the focus shifted towards companies that are relatively close to moving into production (eg Tungsten West, Cemos Group and Futura Resources), due to better value opportunities (according to BSRT).

Prior to investment, the management team identifies c 1,000 potential investments, with c 100 being subject to a detailed review, with the aim of completing three to four investment transactions per year. The investment process can take more than a year from initial discussion to successful conclusion of a trade, with a typical investment horizon of three to five years. Management notes that any investment opportunity will not be pursued if the desired terms cannot be agreed. That said, we note that BSRT usually has strong bargaining power, as it typically invests alongside an investee company's management team, rather than larger institutional shareholders or local governments.

While capital growth driven by equity exposure remains the manager's key objective, he also looks to secure downside protection for BSRT's investment, typically investing via convertible loan notes, and often in stages as development milestones are met. The manager is also often able to structure BSRT's investment such that the financial terms are improved if project development objectives are not met within a specified timeframe, which acts as an incentive to investee company management, as well as providing further downside protection.

BSRT's investment policy allows holding a wide range of investments in addition to unlisted and listed equities and equity-related securities, including but not limited to commodities, convertible bonds, debt securities, royalties, options, warrants and futures. In order to manage and hedge the portfolio efficiently, derivatives may also be used, but normally currency exposures will not be hedged. BSRT may also seek exposure to other companies within the wider resources and materials sector, including services companies, transport and infrastructure companies, utilities and downstream processing companies. There are no fixed limits on allocation between unlisted and listed equities or equity-related securities and cash, but the manager aims to adhere to the broad allocation criteria described in our [initiation report](#).

Current portfolio positioning

BSRT typically holds a concentrated portfolio of 15–20 investments, with the top 10 holdings representing c 84% of NAV and a minor net cash position of c 1% of NAV at 31 January 2020. Although concentrated, the portfolio is diversified by commodity and geography (in terms of project location), with the largest exposure to the precious metals sector mainly through Bilboes Gold, Polar Acquisition and Polymetal (c 34% of NAV, see Exhibit 7). Coking coal, represented by Futura Resources, and cement & oil shale produced by Cemos Group complete the top three with 15% and 10% share, respectively. Geographic exposure covers a range of developed and emerging economies with the largest projects located in Russia (18% of NAV), Zimbabwe (16%), Australia (15%), and Morocco (10%).

Exhibit 7: Portfolio breakdown by commodity

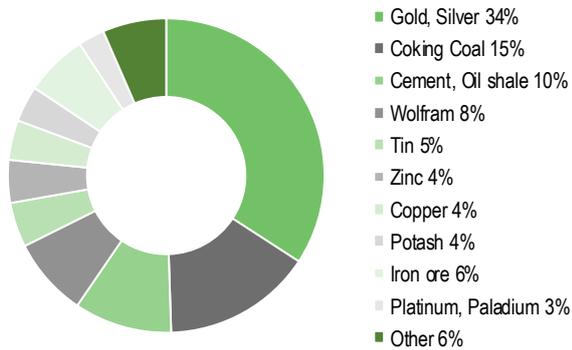
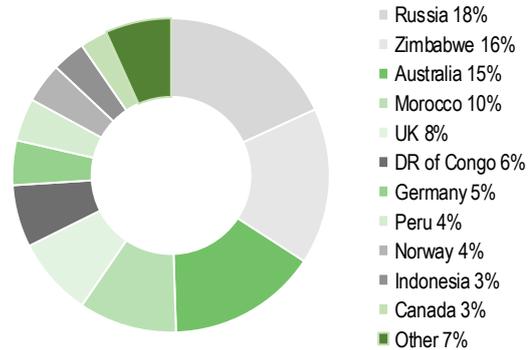


Exhibit 8: Portfolio breakdown by geography



Source: Baker Steel Resources Trust, Edison Investment Research. Note: Data as at end-January 2020.

Recently, the manager has mostly invested through convertible debt instruments or royalties, which we understand (based on our conversation with the company) represented c 37% and c 18% of BSRT's portfolio at end-December 2019 respectively, with 32% held as unlisted equity and c 12% as listed equity. BSRT currently holds four listed investments: LSE-listed Polymetal International and Metals Explorations, as well as Ivanhoe Mines and Azarga Metals listed on the Toronto Stock Exchange, with the value of these holdings updated in the monthly statements in line with the latest market price. In the last 12 months, BSRT has significantly reduced its position in Polymetal International, as it fits the strategy of early-stage investments having been received as consideration for the sale of Polar Silver, and reinvested the proceeds into developing enterprises.

As we described BSRT's key holdings in detail in our [initiation report](#), we now focus on the more recent investments concluded in FY19, which include Mines & Metals Trading (MMTP, Peru) and Tungsten West. The former is a private company incorporated in the Isle of Man, which owns the Recuperada project in Peru, comprising c 11k ha of mining concessions for silver, lead and zinc, centred around a 600 tonnes per day processing plant. In H119, MMTP began processing ore from its own concessions, rather than from third-party miners. BSRT opted for investment in the form of a US\$4m subscription in a convertible debenture, with an interest rate of 10% pa, repayable within three years and convertible at the company's option into 20% of MMTP shares. In January 2019, MMTP signed a letter of intent for a reverse takeover of Zincore Metals, whereby Zincore will acquire all of MMTP's issued and outstanding securities, and MMTP shareholders will hold 95% of the enlarged group. The definitive business combination agreement was announced on 24 December 2019. Once the transaction is concluded (expected in March 2020), a new entity, Latitude Base Metals, will be formed and listed on the TSX Venture Exchange.

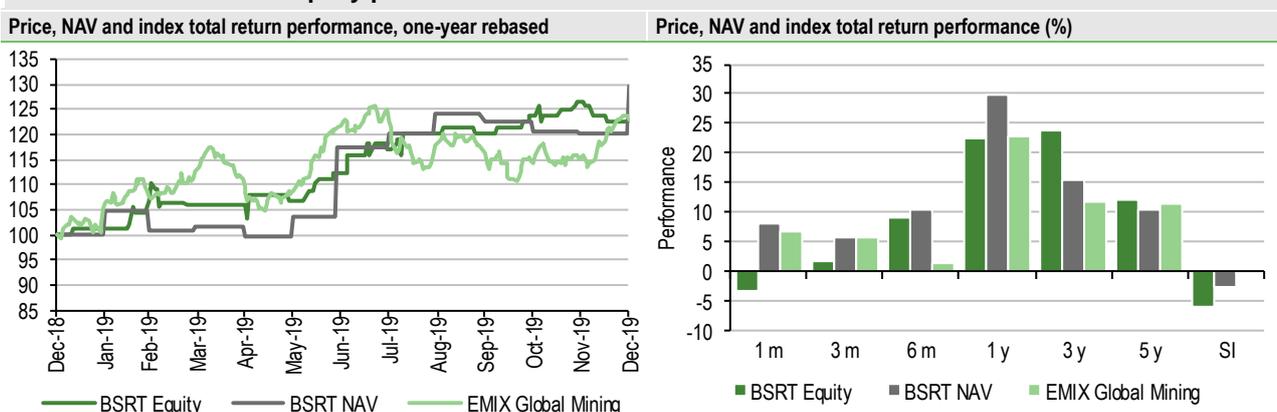
On 29 November 2019, BSRT used funds from the partial sale of its stake in Polymetal International to invest £5m in secured convertible loan notes in Tungsten West, which operates the Hemerdon Tungsten Mine, acquired from the official receiver for Wolf Minerals. Wolf had operated Hemerdon since 2015, but never achieved the targeted tungsten recovery level, facing issues with

recovery. Following extensive mineralogical and metallurgical test work, Tungsten West decided to acquire the mine and operate it with a different approach, focused on sorting ore before processing and using magnetic separation methods. Tungsten West believes this will allow it to resolve the problems faced by the previous owner.

Performance: Outperforming the broad market

As BSRT is not using an official performance benchmark, we use EMIX Global Mining index to provide a useful broad reference for comparison. The annual NAV return of c 30%, recorded in FY19, was ahead of the EMIX Global Mining index posting a 23% return, which follows the significant outperformance in the preceding period. Consequently, the annualised BSRT NAV total return for the three-year period stood at 15.6% against 11.8% recorded by the index. The fund also successfully outperformed broad market indices such as MSCI AC World and UK All Companies Index, for which annualised returns for the same period remain in single-digit range. In January 2020 (latest available data), BSRT posted a minor monthly negative return of 0.8%.

Exhibit 9: Investment company performance to 31 December 2019



Source: Refinitiv, Edison Investment Research. Note: Three-year, five-year and SI (since inception) performance figures annualised. Inception date is 28 April 2010

In Exhibit 10, we also present returns relative to the UK All Companies Index and MSCI AC World indices for wider context.

Exhibit 10: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	EMIX Global Mining (%)	MSCI AC World (%)	UK All Companies Index (%)
31/12/15	(53.0)	(25.4)	(36.9)	3.8	1.0
31/12/16	98.3	43.1	94.0	29.4	16.8
31/12/17	63.5	18.6	20.8	13.8	13.1
31/12/18	(5.3)	2.7	(5.8)	(3.3)	(9.5)
31/12/19	22.5	29.9	22.8	22.4	19.2

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Comparing BSRT's share price and NAV performance against key indices over time horizons ranging from one month to almost 10 years (inception date 28 April 2010) reveals the lack of significant relation between them. Since its launch in April 2010, BSRT has seen extended periods of both underperformance and outperformance, which might have been expected given the varying nature of BSRT's largely unlisted investments and their private equity-style return profile. The fund is not managed against any benchmark, but rather as a threshold for paying a performance fee. However, comparing performance against relevant indices provides some context.

Exhibit 11: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to EMIX Global Mining	(9.3)	(3.6)	7.8	(0.2)	35.6	3.1	(45.4)
NAV relative to EMIX Global Mining	1.2	0.2	9.2	5.9	10.4	(3.8)	(23.4)
Price relative to MSCI AC World	(4.2)	0.4	4.1	0.1	40.7	(2.5)	(80.1)
NAV relative to MSCI AC World	6.9	4.3	5.4	6.2	14.5	(9.1)	(72.1)
Price relative to UK All Companies Index	(6.2)	(2.2)	3.5	2.8	55.4	22.7	(73.6)
NAV relative to UK All Companies Index	4.6	1.6	4.8	9.1	26.5	14.5	(63.0)

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2019, SI = Since Inception, Inception date is 28 April 2010. Geometric calculation.

BSRT performs a comprehensive review and revaluation of its portfolio twice a year (at the half year and full year results) based on the following methodology:

- In the case of convertible loans, the debt component is valued separately from the conversion option, using credit risk and Black Scholes models, respectively.
- Unlisted equity is primarily valued based on transactions completed within the last six months, either through a capital raising or secondary market trade. Otherwise, the valuation is based on an internally designed index including comparable listed entities characterised by a similar business segment, size and development stage. In the case of early-stage projects, the valuation is based on the outcome of exploration and study results.
- Warrants are valued using a simplified Black Scholes model.
- Listed and actively traded equity is valued based on the last available market price.
- Royalties are valued on projected cash flows taking into account the expected time to production and development risk, adjusted for movement in commodity prices.

Apart from interim and end-year revaluations, BSRT also updates its portfolio value on a monthly basis for the price movements of listed equity investments, and the valuations of unlisted equities in the case of relevant new transactions. It is also worth noting that BSRT does not hedge its currency exposure, therefore monthly valuations fluctuate in line with FX changes.

In Exhibit 12, we present BSRT's selected key NAV triggers over the last 12 months. These include in particular Bilboes Gold and Polar Acquisition projects, as well as holdings in Polymetal International. As BSRT was in the process of selling its stake in Polymetal during the period (it initially represented 29% of NAV at end-December 2018), the figure presented in the table below merely represents the overall total return on the company's shares and does not correspond to the return generated by BSRT during the period.

Exhibit 12: Portfolio's NAV triggers in FY19

Project	% of NAV at end December 2019	Change in value (lcy)	Portfolio NAV impact (lcy)	Main drivers
Bilboes Gold	15.9%	65.7%	7.8%	Carrying value increasing based on the reference index return (assisted by higher gold prices), broadly in line with the 36.8% annual return of gold shares represented by EMIX Global Gold Mining Index.
Polar Acquisition	11.3%	50.7%	4.7%	Revised estimates of mine life and production levels for the Prognoz project and increase in silver prices.
Futura Resources	15.0%	22.1%	2.3%	Carrying value of the royalty was up 98%
Cemos Group	10.0%	20.9%	2.2%	Carrying value increasing based on the reference index return and accrued interests
Nussir	4.1%	52.6%	1.8%	Oversubscribed rights issue of NOK5.0m at a 50% premium to its previous carrying value, completed in August 2019.
Anglo Saxony Mining	4.6%	44.0%	1.7%	New share issue.
Tungsten West	8.0%	15.2%	1.3%	Investment of £5m in convertible bonds in November triggering the revaluation of its initial investment of £0.5m.
Polymetal International	6.1%	51.8%*	N/A*	-

Source: Edison Investment Research estimates; Note: *Value change in the case of Polymetal is the total return of its share price in FY19.

Multiple potential NAV triggers going forward

BSRT entered FY20 with a positive view on the near-term outlook for its portfolio, as it sees multiple further NAV catalysts (see below).

- The definitive feasibility study for **Bilboes** has now been released, but the results have not yet been reflected in BSRT's NAV. This constitutes a positive valuation trigger for the interim portfolio review in June 2020. Moreover, the investment manager believes this portfolio holding is ripe for a trade sale, which should result in a significant valuation uplift, as the project's NPV is several times higher than its current value in BSRT's portfolio.
- Both Australian coking coal mines (Wilton and Fairhill) held by **Futura Resources** should obtain their mining licences in H120 and start production this year, with Wilton likely to be launched in H120 and Fairhill a few months later. The progress of both projects resulted in their reassessment, with the carrying value of the royalty increased by 98%. In addition, the JV with Sojitz aimed at commencing production at the Gregory Crinum project is nearing conclusion. We note that BSRT holds an option to acquire an additional 0.25% gross revenue royalty (GRR) for A\$2m.
- The pre-feasibility study for the **Prognoz** silver mine owned by Polymetal should be completed in H220. While Polymetal's revised production volume and mine life estimates were already reflected in Polar Acquisition's valuation in December 2019, the release of the PFS should reduce the risk profile of the investment and translate into a lower discount being applied to its valuation.
- At present, **Cemos** is still being valued at cost, with BSRT's investment manager expecting to change it to the earnings multiples method sometime this year (once BSRT has more details on its earnings potential). In Q120, some de-bottlenecking investments related to additional silo capacity will be conducted to facilitate higher capacity utilisation of the first production line. A decision on the construction of the second production line should follow. We note that the site infrastructure was designed to accommodate a second line, which means the construction cost should be lower in comparison to the first line.
- In the case of **Tungsten West**, the feasibility study should be completed this year, with production relaunch before end 2021.
- Successful completion of Zincore's reverse takeover by **MMTP** and listing on the TSX Venture Exchange could prove another important NAV driver later this year.
- **Anglo Saxony Mining** is close to completing its pre-feasibility study.
- **Nussir** is nearing completion of its definitive feasibility study.

Discount: At the lower bound of its 12-month range

After rebounding from the local trough in 2015/16, BSRT's discount to NAV currently sits at 30.9%, which is however below the three-year average of c 21.1%. Over the last 12 months, the discount to NAV remained within a range of c 15–25% for most of the time, but has recently widened amid the broader market sell-off.

Exhibit 13: Share price discount to NAV (including income) over three years (%)


Source: Refinitiv, Edison Investment Research

Capital structure and fees

Following a tender offer for c 9.7m own shares in May 2019 and their subsequent cancellation, BSRT now has 106.5m ordinary shares and c 9k ordinary shares in issue held by management, of which 700k (ordinary shares only) are held in treasury. BSRT has the authority, renewed annually at the AGM, to make market purchases up to 14.99% and to allot up to 10% of its ordinary shares in issue. The ordinary shares held by management are held by BSRT's investment manager, Baker Steel Capital Managers (5.5% of BSRT's shares in issue as at 10 February 2020).

BSRT is permitted to borrow up to 10% of NAV to meet short-term cash flow requirements, but does not currently have any debt or borrowing facilities in place, and continues to hold sufficient cash and listed investments to enable it to meet its obligations as they arise. At end January 2020, BSRT's net cash and equivalents amounted to 0.9% of NAV, while its holding in Polymetal International accounted for a further 6.6% of NAV, against 1.5% and 29.1% respectively as at end-January 2019.

Baker Steel Capital Managers is paid a monthly management fee of 1.75% pa on BSRT's average market cap. The manager is also entitled to a performance fee of 15% of the total increase in NAV in each financial year above an 8.0% pa compound hurdle since inception, relative to the highest previously recorded NAV for which a performance fee has been paid (ie subject to the high water mark). The performance fee only becomes payable following sufficient net realised gains. However, no performance fee has been earned since FY11. BSRT paid management fees of £464k in H119 (£483k in H118) and incurred total expenses of £724k in the period (£716k in H118). As at end June 2019, LTM ongoing charges amounted to £1,415k, which translates into an ongoing charges ratio of c 2.0% of NAV. Management fees and expenses are charged 100% to the revenue account.

Dividend policy and record

Based on its capital returns policy introduced in 2015, BSRT will distribute no less than 15% of aggregate net realised cash gains (net of losses) in each financial year, calculated following the publication of audited financial statements. These distributions may be made in the form of share buybacks, tender offers or dividend payments, at the board's discretion. To date, no dividend payment has been made, but the company executed share buybacks, with the latest concluded in FY19. In May 2019, following AGM approval, BSRT launched a tender offer to buy back around 8% of its share capital (9.7m shares) at a fixed price of 51p per share. The price represented a c 11% premium to market price and c 10% discount to the unaudited NAV as at end April 2019.

In addition to the capital returns policy, the board hopes that over time, income received from royalties, interest on convertible loans and future dividends received from investee companies will

support a regular dividend or liquidity event by BSRT. The manager notes that BSRT holds royalty agreements with Polymetal and Futura Resources on assets that are not yet producing, and has an option to acquire a royalty on Azarga Metals' Unkur project, so income is expected to become a meaningful contributor to returns over the medium term.

Peer group comparison

BSRT's peer group consists of investment companies focused on commodities and natural resources, with a market cap above £10m. Their strategies include investment in both early-stage enterprises and mature businesses. They differ in terms of natural resources market subsectors, as well as the preferred form of investment instruments.

Exhibit 14: Peer group investment strategy summary

Investment Trust	Latest NAV (£)	Investments	Largest exposures	Development stage
Blackrock Energy & Resources Trust	88m	Listed equities, large caps	Oil and Gas,	Mature businesses
Blackrock World Mining Trust	758m	Listed equities, royalties	Gold, copper, silver & diamonds	Mature businesses
CQS Natural Resources G&I	71m	Preference shares, loan stocks and corporate bonds, mid-and small cap companies	Gold, copper, base metals, agriculture, uranium, oil and gas	Mature businesses
Geiger Counter	12m	Shares, convertibles, fixed income securities and warrants	Uranium industry at least 70%	Mature businesses
Golden Prospect Precious Metal	23m	Equity investments	Gold, silver, diamonds	Mature businesses
Polo Resources	41m	Listed and unlisted equities, debt instruments, commodities	Gold, oil and gas, coal, iron ore, phosphate and copper	Early-stage companies
Riverstone Energy	637m	Unlisted equities, partnerships	Global energy industry across all sectors	Early-stage companies

Source: Edison Investment Research

Exhibit 15 compares BSRT with a peer group of trusts with similar characteristics. As the investment strategies of the selected funds vary widely, the performance outcome in each analysed period falls within an equally broad range, exemplified by three-year NAV total returns of -51.1% to +54.3%.

Exhibit 15: Selected peer group as at 28 February 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount	Ongoing charge	Performance fee	Net gearing	Dividend yield
Baker Steel Resources Trust	54.3	29.9	54.3	64.7	(30.9)	2.0	Yes	99	0.0
BlackRock Energy & Resources Trust	63.5	12.9	6.5	21.3	(27.8)	1.5	No	104	7.1
BlackRock World Mining Trust	555.3	17.2	28.9	63.9	(26.7)	0.9	No	111	6.9
CQS Natural Resources G&I	48.1	18.6	(11.3)	19.3	(32.3)	1.9	No	120	7.8
Geiger Counter	10.9	(23.6)	(36.4)	(41.3)	(9.2)	4.1	Yes	127	0.0
Golden Prospect Precious Metal	16.5	65.3	(8.2)	30.9	(28.3)	2.6	No	100	0.0
Polo Resources	10.0	(5.7)	(10.7)	(51.9)	(75.6)	3.8	No	114	0.0
Riverstone Energy	249.3	(43.3)	(51.1)	(23.8)	(60.9)	1.9	Yes	100	0.0
Average	126.0	8.9	(3.5)	10.4	(37.3)	2.4		109	2.7
Rank in peer group	4	2	1	1	5	4		8	4

Source: Morningstar, Edison Investment Research. Note: *Performance to end-December 2019 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

In each of the analysed time horizons, BSRT's NAV total return ranks among the top performers, with the second highest value over one year, and the highest in the three- and five-year investment periods. Although BSRT's latest share price discount to NAV ranks in the middle of the group, it is slightly narrower than the peer average (30.9% vs 37.3%). Its ongoing charge ratio is in line with the peer average, but it is worth noting that BSRT also charges a performance fee. BSRT is one of three peer group funds that do not employ gearing, and one of five funds that do not currently pay dividends.

The board

BSRT's board comprises four non-executive and independent directors, three of whom have served on the board since BSRT's incorporation in March 2010. No limit is imposed on the length of service of any director, but the board has put a succession plan in place to refresh its membership while maintaining a degree of continuity, following corporate governance best practice. As part of this process, Chris Sherwell retired at the May 2019 AGM, having served as a director for over nine years, and was replaced by David Staples (appointed 29 May 2019). All directors stand for re-election annually at the AGM, and there is also a shareholder vote on maximum aggregate board remuneration. The current cap is £200,000 per annum, and total board remuneration was £57,000 for H119 and £115,000 for FY18.

Chairman Howard Myles was a partner at Ernst & Young from 2001 to 2007, responsible for the investment funds corporate advisory team, and previously spent 14 years at UBS Warburg. Myles has served on the boards of a number of investment trusts and is currently chairman of JPMorgan Brazil Investment Trust, and a director of Chelverton UK Dividend Trust and The Forest Company.

Charles Hansard has over 31 years' experience in the investment industry, formerly serving as a director of Apex Silver Mines and as chairman of African Platinum. He currently serves on a number of boards, including the Moore Capital group of funds and Electrum, a privately owned gold exploration company.

Clive Newall has worked in mining and exploration throughout his career, having held senior management positions with Amax Exploration and the Robertson Group, and has been a director of a number of public companies in the UK and Canada. He is the founder of First Quantum Minerals, and has been its president and a director since its incorporation.

David Staples worked for PwC for 25 years, including 13 years as partner. He has many years' experience serving on the boards of listed and private companies as a non-executive director, including as chairman of listed investment companies. Mr Staples has a BSc in Economics and Accounting, is a chartered accountant, a chartered tax adviser and a member of the Institute of Directors.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia