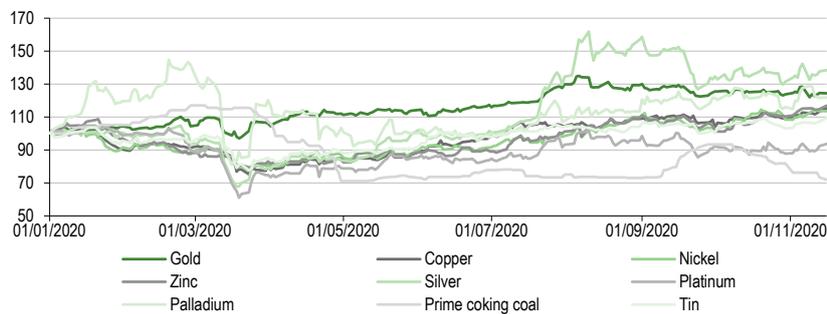


Baker Steel Resources Trust

NAV yet to reflect latest project developments

Baker Steel Resources Trust (BSRT) recorded a solid 10.8% NAV total return in the 12 months ended 30 October 2020, assisted by the progress of several projects and its precious metals exposure. Looking ahead, potential positive NAV triggers for Q420 and Q121 relate in particular to BSRT's three major projects (Bilboes, Tungsten West and Futura), which made up 45% of its NAV at end October 2020. On the other hand, the recently published pre-feasibility study (PFS) on the Prognoz mine assumes lower annual output than the preliminary economic assessment (PEA). However, this should be partially offset by a lower discount rate applied in the valuation due to the move to PFS, as well as the current favourable silver price.

Natural resources performance year to date 2020 (US\$)



Source: Refinitiv at 17 November 2020, Edison Investment Research

The market opportunity

BSRT offers exposure to a wide commodity spectrum, including precious metals projects (c 45% of NAV at end October 2020), as well as speciality metals and industrial resources. While gold assets have so far performed particularly well during the COVID-19 crisis, BSRT's other holdings could benefit from the potential post-pandemic rebound. BSRT's focus on value-added project development and investing in projects that offer a solid safety margin in terms of IRR based on long-term historical commodity prices provides a certain level of downside protection.

Why consider investing in BSRT?

- Unique access to the outsized 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 24% of BSRT's ordinary shares.
- Strong mid-term historical performance relative to peer group.

NAV review schedule shapes discount level

BSRT's reported January to October 2020 3.1% return is based on the valuation of its unlisted holdings at end June (next review planned for 31 December). With solid share price performance, the discount narrowed at end September to just 13.8% and expanded to 18.8% at end October, below the 10-year average of c 25%.

Investment trusts
Metals & mining

17 November 2020

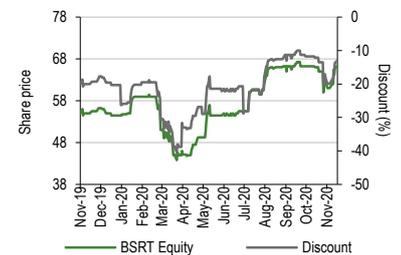
Price **66.3p**
Market cap **£70.5m**
AUM **£81m**

NAV* 76.2p
Discount to NAV 13.1%

*Including income. As at 30 October 2020.

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

Share price/discount performance



Three-year performance vs index



52-week high/low 67.3p 43.8p
NAV** high/low 77.2p 67.3p

**Including income.

Gearing

Gross* 0.0%
Net cash* 1.6%

*As at 30 June 2020 (0.5% at end October 2020)

Analysts

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[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 the value inherent in market inefficiencies and pricing anomalies.

Recent developments

- 16 September 2020: Publication of H120 results.
- 14 August 2020: Annual General Meeting.
- May 2020: Disposal of listed shares in Polymetal International and Ivanhoe Mines.
- 20 April 2020: Publication of annual report for FY19.
- 7 April 2020: Results announcement of additional review of non-listed holdings, undertaken due to coronavirus outbreak.

Forthcoming

AGM	June 2021
Final results	April 2021
Year end	31 December
Dividend paid	N/A
Launch date	28 April 2010
Continuation vote	Three-yearly (next 2021 AGM)

Capital structure

Ongoing charges	1.9%
Net cash	0.5%
Annual mgmt fee	1.75% of average market cap
Performance fee	15% of total NAV increase
Company life	Indefinite (subject to vote)
Loan facilities	None

Fund details

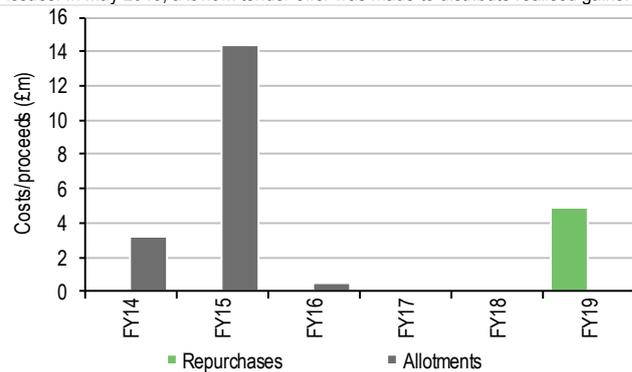
Group	Baker Steel Capital Managers
Manager	Team-managed
Address	Arnold House, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 3NF
Phone	+44 (0)1481 707000
Website	www.bakersteelresourcestrust.com

Dividend policy and history (financial years)

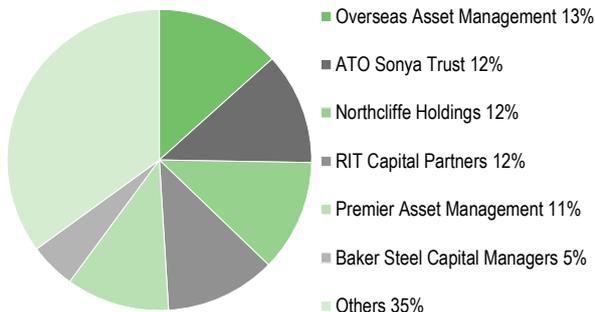
Dividends may be paid under BSRT's capital return policy, and the board expects that royalty, interest and dividend income may support a future regular dividend. No dividends have been paid to date.

Share buyback policy and history (financial years)

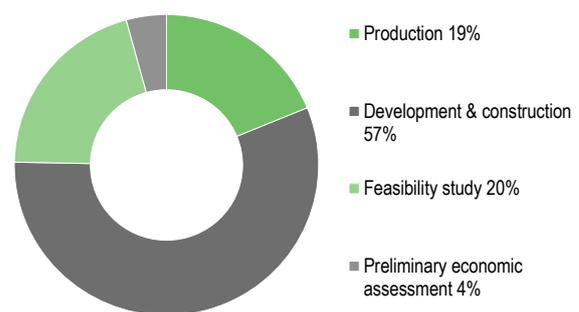
BSRT has authority to buy back up to 14.99% and allot up to 10% of its shares in issue. In FY14, FY15 and FY16, investments were acquired via 'in specie' share issues. In May 2019, a £4.9m tender offer was made to distribute realised gains.



Shareholder base (as at 17 November 2020)



Portfolio exposure by development stage (as at 30 October 2020)



Top 10 holdings (as at 30 October 2020)

Company	Country	Sector	Portfolio weight %	
			30 October 2020	31 October 2019*
Bilboes Gold	Zimbabwe	Gold	20.8	14.3
Futura Resources	Australia	Coking coal	16.6	16.3
Polar Acquisition	Russia	Silver	11.0	8.7
Cemos Group	Morocco	Cement	9.6	10.7
Tungsten West	United Kingdom	Tungsten	8.0	N/A
Anglo Saxony Mining	Germany	Tin	4.3	3.9
Mines & Metals Trading Peru	Peru	Zinc	4.0	4.5
Azarga Metals	Russia	Copper	3.9	2.7
Nussir	Norway	Copper	3.8	4.3
Metals Exploration	Philippines	Gold	3.6	N/A
Top 10 (% of portfolio)			85.6	65.4

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

Fund profile: Developing projects in natural resources

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 the manager deems to have strong fundamentals and attractive growth prospects, offering clear valuation upside. 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

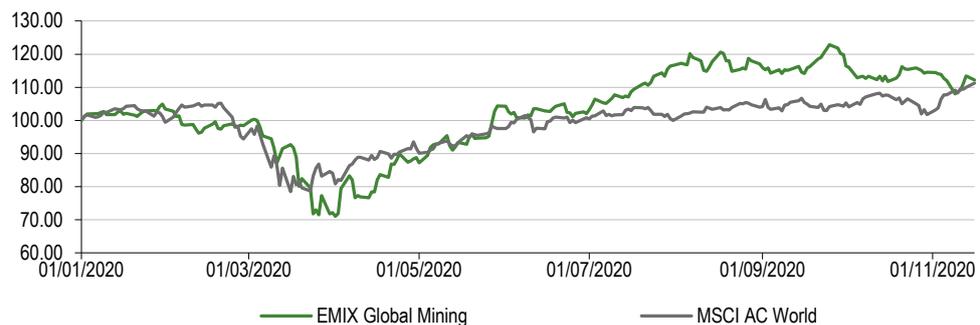
According to the investment manager, BSRT has not recorded any major impact on its portfolio from the first pandemic wave in H120 (the market pullback was between BSRT's normal NAV valuation points), although some project development has been delayed by a quarter. Mines & Metals Trading (MMTP) is the holding that was most affected by COVID-19, as the government of Peru closed down all mines in the country, including the Recuperada mine held through MMTP (the mine has since been reopened). The manager believes the forthcoming months should bring a number of value triggers, including possible fund-raising events in the case of Bilboes, Nussir and Tungsten West. With an improved liquidity position, boosted by investments in listed precious metals equities, BSRT has mitigated working capital shortfall risks in its portfolio related to the pandemic-affected markets and can now focus on timely project development and the delivery schedules of its investments.

The manager considers the pandemic as the key near-term risk and does not expect a significant impact on the company's operations from the UK's potentially disorderly departure from the EU. The majority of its holdings are denominated in currencies other than sterling, therefore any sterling devaluation would have a positive impact on the company's NAV.

Mining equities outperform the broad equity market

Although BSRT prefers investments in non-listed mining equities, in order to better understand the natural resources market situation, we have decided to compare the relative ytd performance of the EMIX Global Mining Index (156 constituents) to the broad global equity market represented by the MSCI AC World index (c 3,000 constituents) across 23 developed and 26 emerging markets. The pandemic-driven market collapse in mid-March 2020 resulted in a c 30% decline in mining stock prices, while the broad equity index decreased by only 21%. We note that the relative underperformance of the EMIX Global Mining Index could be partially due to its characteristic as a leveraged play on the resources market and larger exposure to emerging markets. The same factors fuelled the subsequent rebound in mining equities, with their year-to-date performance slightly ahead of the broader equity markets (12.2% for EMIX Global Mining vs 11.3% recorded by the MSCI AC World Index).

Exhibit 2: Ytd performance of EMIX Global Mining index vs broad equity index (rebased)



Source: Refinitiv at 17 November 2020, Edison Investment Research

Based on the forward P/E multiple, the broad mining sector (represented by the DS General Mining Index) trades slightly below its 10-year average (see Exhibit 3), which may result from the uncertain macro outlook. At the same time, the forward P/E discount to the broad equity market expanded significantly. Compared with c 13% over the long term, the last available figures imply an almost 40% discount. This reflected the high valuation of the broader market, which is significantly above its long-term average. In the mining market segment indices, gold stocks trade at the highest multiples, both currently and over the 10-year average, confirming gold's perceived resilience during an economic crisis.

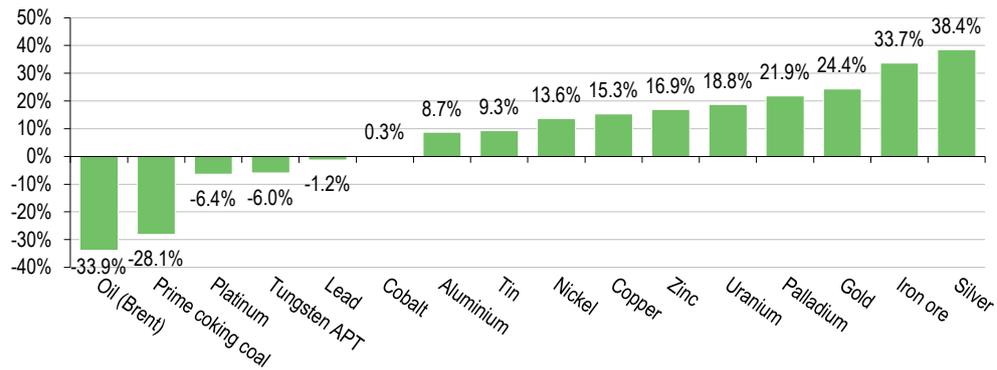
Exhibit 3: Key multiples for mining indices

Sector	Index	Forward P/E		P/BV	
		Last	10-year average	Last	10-year average
Mining	WORLD DS General Mining	11.9	12.3	1.5	1.5
Basic Resources	WORLD DS Basic Resources	11.9	11.8	1.6	1.4
Gold Mining	WORLD DS Gold Mining	13.0	16.7	3.0	1.8
Industrial Metals	WORLD DS Industrial Metal	11.4	11.2	1.4	1.3
World	WORLD DS Market	19.5	14.1	2.3	1.8

Source: Refinitiv, as at 17 November 2020

As described in our [previous note](#), the high level of market uncertainty fuelled a rally in precious metals pricing. Ytd, the silver price increased by over 38% and gold by c 24%. As the second pandemic wave spreads across the world, these metals could stay in demand. On the other hand, cyclical natural resources like oil and coking coal declined by 34% and 28% respectively, likely driven by national lockdowns and restrictions during the first wave, as well as the current reintroduction of COVID-19 containment measures in several countries. Having said that, we note that these resources are well-positioned to benefit from any increase in market confidence in a post-pandemic economy, which could result in a shift of assets away from defensive sectors.

Exhibit 4: Ytd returns on key natural resources (US\$)



Source: Refinitiv as at 17 November, Edison Investment Research

Asset allocation

Investment process: Selective, fundamental approach

Rather than gearing exposure to anticipated commodity price rises, the manager focuses on riding the project development curve to generate valuation gains. BSRT typically invests at the steepest part of the development curve where the greatest returns are available. Following its launch in 2010, BSRT mainly invested in companies with projects that were around the bankable feasibility stage, whereas more recently it has shifted its focus towards companies that are relatively close to moving into production (eg Tungsten West, Cemos Group and Futura Resources), which offer better value opportunities according to BSRT.

BSRT also targets investments at a discount to a project's fair value, gaining further valuation upside if the discount can be closed as the project is developed. In this context, we note that BSRT usually has strong bargaining power, as it typically invests alongside an investee company's management team (in contrast to larger institutional shareholders or local governments). BSRT's management team has a defined investment process whereby it identifies c 1,000 potential investments, with c 100 being subject to a detailed review and the aim of completing three to four investment transactions per year. This 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, which results in the portfolio typically consisting of 15–20 companies. Management has strict investment criteria and will not pursue any opportunity that does not meet its terms.

The company aims to be broadly diversified by commodity, with the manager continuously assessing the prospects for each to determine both upside and downside risk. BSRT's investment policy allows 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. While capital growth driven by equity exposure remains the manager's key objective, he also looks to secure downside protection for BSRT's investments, typically investing via convertible loan notes, often in stages as development milestones are met. In order to manage and hedge the portfolio efficiently, derivatives may also be used, but currency exposures will not normally 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.

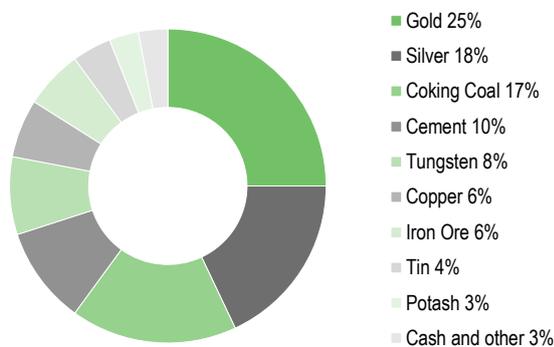
Current portfolio positioning

BSRT has not concluded any new investments ytd other than the purchases of listed shares from the precious metals universe to deploy excess cash temporarily (from selling down its Polymetal stake in May 2020). Consequently, it still holds a highly concentrated portfolio, with a c 85.6% share attributable to the top 10 holdings.

Between end December 2019 and 30 October 2020, the value of its largest investment (Bilboes Gold, in which BSRT holds a 23% stake) expanded (according to our estimates) from c US\$16.7m to US\$22.0m, which translates into an increased share of overall NAV from 15.9% to 20.8%. Following the Q120 definitive feasibility study (DFS) of Bilboes' Isabella-McCays-Bubi gold project in Zimbabwe (details in [previous note](#)), it entered the project phase within BSRT's normal realization horizon. Polar Acquisition, the third-largest holding in BSRT's portfolio (11.0% of overall NAV), is also in the precious metals segment (silver). Together with Metals Exploration (3.6% of NAV at end October 2020), c 5.4% NAV invested in listed liquid precious metals shares and other minor exposures, this constitutes c 45% share of this market segment.

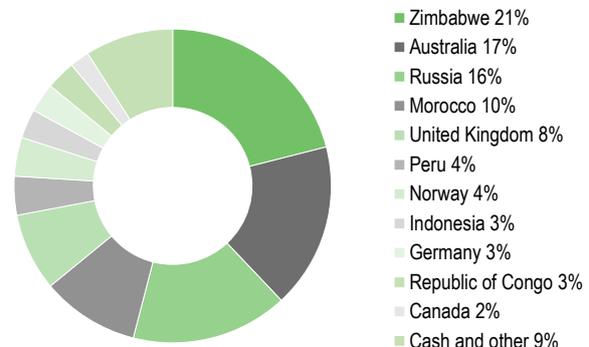
Other holdings with a portfolio share in excess of 5% include the coking coal producer Futura Resources (16.6%), Cemos, a cement producer and oil shale explorer (9.6%) and Tungsten West (8.0%). The valuations of these entities remained stable over Q320 and in 2020 ytd.

Exhibit 5: Portfolio breakdown by commodity



Source: Baker Steel Resource Trust, as at 31 August 2020

Exhibit 6: Portfolio breakdown by geographic region



Source: Baker Steel Resource Trust, as at 31 August 2020

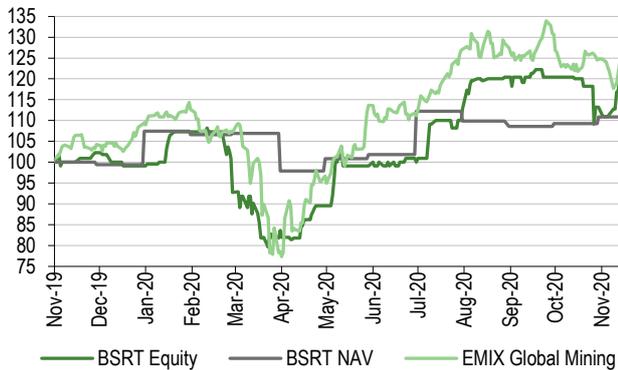
Even though the top holdings constitute a significant share of BSRT's portfolio, it is well diversified both geographically and by commodity, covering the precious, speciality and industrial metals segments. Consequently, it is a play on multiple trends in the commodities space. As the company refrains from any new investment until completion of the next meaningful realisation, it is worth highlighting the significant share of projects in the development & construction and early-production phase (57% and 19% at end October 2020, respectively).

Performance: One-year NAV TR of 10.8%

BSRT performs a comprehensive review and revaluation of its portfolio twice a year (at the half-year and full-year results). Thus far it has not paid any dividends. Its Q320 NAV decline of 2.6% is largely attributable to the appreciation of sterling against the US dollar, partially offset by a net increase in the valuation of its listed equities. On the back of the relisting of Metals Exploration on the LSE AIM market on 26 October 2020 and subsequent increase in its share price, BSRT's NAV rebounded by 1.5% that month, bringing the ytd (to end October) return to 3.1%. In the 12-month period ended 30 October 2020, the company fared even better, posting a 10.8% return, driven by strong pre-pandemic performance. Having said that, we note that the EMIX Global Mining Index (which is not an official benchmark, but provides a useful broad reference for comparison) recorded

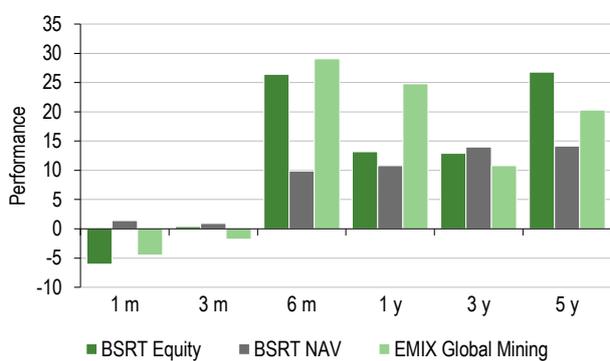
a 15.2% return over the same period. We believe that BSRT's underperformance vs the index could be partially attributable to the periodic revaluation of unlisted equities (last valuations at end June 2020), which do not currently reflect the value-creating events of the last four months.

Exhibit 7: Price, NAV and index total return performance, one-year rebased



Source: Refinitiv, Edison Investment Research

Exhibit 8: Price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-year and five-year performance figures annualised.

Portfolio companies reaching new milestones

As we discussed in our [previous note](#), in June 2020 **Cemos** reported record sales of c 23k tonnes of cement, representing 92% of installed capacity and supporting its decision to start exploring options to launch a second production line, which would double potential annual output. Following completion of construction works in the first plant in Tarfaya in December 2018, current capacity is c 270k tonnes of cement pa.

In August 2020, **Anglo Saxony Mining** was granted a mining licence for its Tellerhäuser tin project in Saxony, valid until 30 June 2070. This follows the PFS completed earlier this year, implying €93m pre-tax cash flow over a 12-year mine life with a €35m NPV (calculated using a 5% discount rate) and 10.8% IRR. According to BSRT, the project is very sensitive to resource prices, with tin potentially one of the main beneficiaries of the electrification process, which would likely give it strategic importance. However, we note that the tin price currently sits below US\$19k per tonne, as it is rebounding from a pandemic-driven decline in March 2020 to c US\$13.4k/tonne, while the PFS was prepared based on a long-term price assumption of US\$20.5k/tonne.

On 17 September 2020, **Polymetal International** (BSRT's listed holding, recently reduced to less than 1% of NAV), released details of the PFS on the Prognoz silver project, where **Polar Acquisition** holds a 1.8% to 0.9% net smelter royalty. According to the study, the all-in-sustaining cost per ounce amounts to c US\$8–9, while the assumed selling price sits at c US\$15. We note that the price per ounce is currently close to US\$25 according to Refinitiv, which at these levels would further improve the project's economics. On the other hand, the annual output estimated in the PEA of c 20Moz of silver per year has been reduced to just 13.5Moz, excluding a further 100Moz in resources more amenable to underground mining. Having said that, we note that the move from PEA to PFS results in a lower discount being applied in the project's valuation models. The results of the PFS reflect only proven and probable reserves. Based on a discussion with management, we understand that all the above has a slight net negative impact on the project's carrying value.

On 28 September 2020, a DFS was issued on **Sarmin's** Kanga Potash project in the Republic of Congo. Contrary to the PFS from September 2018, which assumed a modular approach with phased development configuration from 400ktpa of muriate of potash to 2.4mtpa, the DFS focused on the most financially attractive scenario assuming 600ktpa sold for US\$282/tonne. In this case, capital costs would amount to c US\$457m with an all-in sustaining cost of US\$75.9/tonne. The

post-tax NPV using a 10% discount rate would reach c US\$511m with a post-tax IRR of 22.3%. Sarmin will now seek partners to finance construction of the project.

Finally, on 26 October 2020, **Metals Exploration** resumed trading on the Alternative Investment Market in London, having been suspended in March 2020, with the last closing price at 0.75p per share. The relisting resulted from successful debt restructuring and it is worth noting that the process was concluded without swapping debt for equity, which would have been highly dilutive if enacted at close to the last (March 2020) share price. Q320 has been very successful for Metals Exploration, as it sold more than 16koz of gold from its Runruno gold mine in the Philippines, generating free cash flow of US\$8.66m and significantly outperforming previous periods (driven by both gold recoveries and a higher gold price). As a result, its shares have rallied since the relisting, reaching 2.4p per share at the end of October 2020 close. As BSRT's holding in the company had been held at the discounted price of 0.5p per share, the revaluation at the end of the month resulted in a c 2.9% increase in overall NAV.

Updated NAV triggers schedule following COVID-19 outbreak

Except for Cemos, which was revalued upwards by c 7% in August 2020 (according to our estimates in local currency), all the aforementioned events will be included in the carrying value review of unlisted holdings at end December 2020. Further valuation upside in the case of Cemos comes from the change in valuation method to an EV/EBITDA multiple, which is now planned for mid-2021 (vs previous expectations of end-2020). The updated schedule of potential NAV triggers (Exhibit 9) includes additional factors which may shape BSRT's portfolio valuation in the upcoming months.

Exhibit 9: Portfolio's NAV triggers		2020		2021	
Company	NAV trigger	Q320	Q420	Q121	Q221
Bilboes	Financing/corporate event				
Futura Resources	Wilton mining licence; debt financing to acquire stake in GC wash plant; launching production				
Cemos	Re-rating on move to EV/EBITDA valuation basis				
Tungsten West	Complete financing; DFS				
Azarga Metals	Resource upgrade following drilling				
Nussir	Complete feasibility study; finance mine construction				
Metals Exploration	Relisting				
Sarmin	Complete feasibility study; marketing of projects				
Gold Shares	Re-rating of gold sector				

Source: Baker Steel Resources Trust

As BSRT may look for an opportunity to exit (fully or partially) its investment in Bilboes (20.8% of NAV at end October 2020), a financing/corporate event is planned for Q420 or Q121. Although the project has been positively revalued on multiple occasions, we believe BSRT will only agree to a deal at an uplift to its current carrying value.

The production launch of Futura's (16.6% of NAV) Wilton project is currently targeted for Q121 (after being postponed to Q320 earlier). In the same period, BSRT expects to secure financing to acquire a stake in the Gregory Crinum wash plant, which would be used in the coal preparation process. The feasibility study for Nussir (3.8% of NAV) was completed in March 2020. However, it was decided to update it to incorporate the full electrification of the mine so that it is one of the first carbon neutral mines globally. As a result, financing has been postponed into 2021.

It is also worth noting that Tungsten West (8% of NAV), which was partially written down in March 2020, completed a very positive technical and economic update of Hemerdon Tungsten Mine in June 2020. However, the project's revaluation has not yet been reflected in BSRT's NAV, as the project is pending a fund-raising process. The definitive feasibility study is due in the first half of 2021.

Finally, the reverse takeover of Zincore by Mines & Metals Trading (4% of NAV) has been cancelled due to rather unfavourable market sentiment towards junior non-precious metals projects. Even

though the project site was closed during the first wave of the pandemic, it is now open and providing positive cash flow on a monthly basis. The company will also resume its search for the best way to create value for its shareholders.

Providing additional liquidity for selected projects

According to management, BSRT suffered only a limited impact from the COVID-19 pandemic, as only a minor part of its portfolio represents projects in the production stage that could have been halted during the lockdown period. The main obstacles were travel restrictions, which prevented the investment manager from visiting both existing sites and potential new investments. However, bearing in mind that BSRT is currently fully invested (with cash at 0.5% of NAV at end October 2020), the lack of new investments completed this year to date does not represent any cash drag.

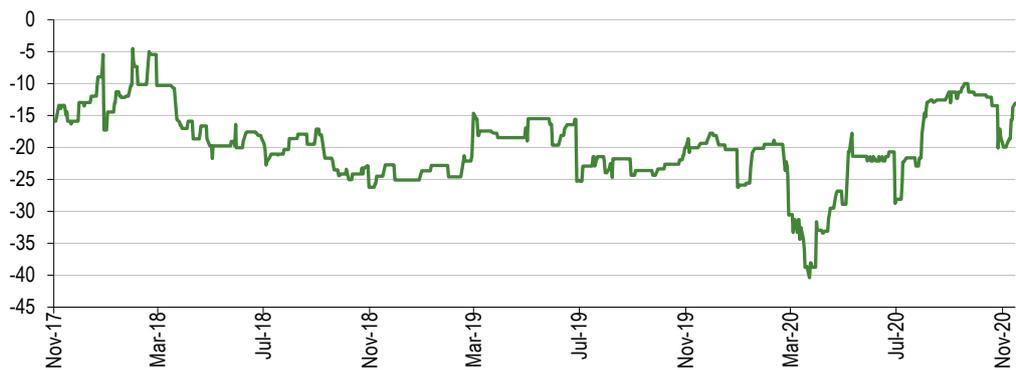
The key objective for the company during the pandemic is to ensure a sufficient level of working capital for all currently held investments. Therefore, back in April and May, BSRT made top-up investments in Nussir, Futura, Mines & Metals Trading, PRISM, Azarga Metals and Anglo Saxony Mining. Moreover, in May 2020, management started to diversify its liquid portion through selling down large holdings in Polymetal International and Ivanhoe Mines, which was reinvested into the highly liquid, listed shares of precious metals mining companies. The strategy, aimed at mitigating the liquidity risks in BSRT's holdings, turned out to be financially rewarding. On the back of a strong rebound in the broad precious metals equity market, the investments in listed shares brought a c 42% return between 31 May and 30 August 2020, which corresponds with a c 2.2% increase in overall NAV. The highest reported share of this asset class (the liquid listed precious metals shares) in BSRT's portfolio was 7.6% at end July 2020, which translated to c £6.1m (based on our estimates), with an additional £1.3m held as net cash, equivalents and accruals.

At end October 2020, the share of listed precious metals equities in the company's NAV was 5.4%, with an additional 0.5% of assets held as cash, which represents a decline in liquid resources to £4.8m (according to our estimates). The reduction was partially attributable to the bridge loan granted to Futura in September 2020. It is worth highlighting that no further bridge funding is required across the portfolio at this stage, according to management.

Discount: Narrowed amid strong share price increase

Over the last 12 months, BSRT's average share price discount to NAV was c 21.0%, slightly ahead of the 10-year average of 25%. However, we note that due to the periodic nature of full portfolio revaluation, the company is exposed to large short-term fluctuations following the publication of its updated NAV figures. Furthermore, the current discount is based on a NAV estimate which does not reflect post-June 2020 events in the company's unlisted portfolio. Due to the high volatility of the share price, the discount over the last 12 months has ranged from 10.0% to 40.4%, with the latter value recorded in mid-March 2020, when broad equity markets collapsed. Currently, the discount of BSRT's share price to NAV is 13.1%.

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

BSRT's capital consist of 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 to make market purchases up to 14.99% and to allot up to 10% of its ordinary shares in issue, renewed annually at the AGM. At 17 November 2020 c 4.9% of BSRT's shares in issue were held by another fund managed by its investment manager, Baker Steel Capital Managers. The company continues to hold sufficient cash and listed investments to enable it to meet its obligations as they arise, and therefore currently has no debt or borrowing facilities in place, although it is permitted to borrow up to 10% of NAV to meet short-term cash flow requirements.

Baker Steel Capital Managers is paid a monthly management fee of 1.75% pa of 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). However, we note that no performance fee has been earned since FY11, as it only becomes payable following sufficient net realised gains. Similar to other ongoing expenses, management fees are charged 100% to the revenue account.

In H120, BSRT paid management fees of £495k (against H119 charge of £464k), while total expenses incurred by the company in the period reached £763k (£724k in H119). As at end June 2020, LTM ongoing charges amounted to £1,525k, which translates into an ongoing charges ratio of c 1.9% of NAV.

Dividend policy and record

Based on the 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 its 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, while the latest tender offer to buy back its own shares was launched in May 2019 (more details in our [March 2020 note](#)). In addition to the capital returns policy, the board hopes that, over time, income received from royalties (Prognoz, Futura, Azarga Metals), interest on convertible loans and future dividends received from investee companies will support regular dividends or share buybacks by BSRT.

Peer group comparison

For valuation purposes, we compare BSRT with a peer group of investment companies focused on commodities and natural resources, with a market cap above £10m. As these entities differ in terms of market cap, natural resources subsector coverage, preferred form of investment and development stage of holding companies, they have reported different levels of pandemic impact, resulting in significant variations in returns earned. BlackRock Energy and Resources Income and Riverstone Energy recorded a NAV loss over the last year as the global economic slowdown weighed on demand for their relevant commodities (including non-renewable resources, such as fossil fuels and nuclear material). On the other hand, the Golden Prospect Precious Metal fund's focus on resources broadly considered as safe havens during the downturn led to an almost 82% NAV total return on the back of improving gold prices.

Exhibit 11: Selected peer group as at 17 November 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Baker Steel Resources Trust	70.5	10.8	48.1	93.6	(13.1)	1.9	Yes	99	0.0
BlackRock Energy and Resources Income	76.8	(2.7)	3.5	47.8	(12.4)	1.5	No	97	5.9
BlackRock World Mining Trust	763.6	19.7	23.0	143.2	(8.2)	1.0	No	112	5.0
CQS Natural Resources G&I	62.6	3.4	(9.7)	41.5	(20.5)	1.9	No	114	6.0
Geiger Counter	15.3	12.6	(14.6)	(4.8)	2.3	4.1	Yes	111	0.0
Golden Prospect Precious Metal	29.9	81.9	72.7	197.3	(24.8)	2.8	No	99	0.0
Riverstone Energy	182.3	(44.0)	(70.8)	(58.6)	(37.2)	2.0	Yes	100	0.0
Average	188.4	11.8	0.7	61.1	(16.8)	2.2	-	106	2.8
Company rank in sector	4	4	2	3	4	4	-	5	4

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 October 2020 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The 10.8% NAV total return reported by BSRT in the 12-month period ending 30 October 2020 ranks it fourth among its peers, behind Golden Prospect Precious Metal fund, BlackRock World Mining Trust and Geiger Counter. In the three-year period, however, BSRT outperformed the latter two, posting an aggregate total return of c 48% against 23% recorded by BlackRock World Mining Trust and almost 15% loss posted by Geiger Counter. Meanwhile, Golden Prospect Precious Metal fund recorded an aggregate return of almost 73%. BSRT's last reported share price discount to NAV of 13.1% sits slightly ahead of the peer group average of 16.8%. Having said that, it is worth highlighting the wide range of results reported by peers from a 2.3% premium (Geiger Counter) to a 37.2% discount (Riverstone Energy). While the ongoing charge ratio (including management fee, directors' fees and other expenses) of 1.9% posted by BSRT is the third lowest in the peer group, it is worth noting that only two peers pay a performance fee. Having said that, we note that due to the hurdle applied to BSRT's performance fee (of 8% pa), it would only kick in once NAV increases from the current level by c 80%.

The board

BSRT is continuing its board succession plan with the appointment of Fiona Perrott-Humphrey as an independent non-executive director with effect from 15 September 2020. She has replaced Clive Newall, who resigned from the board on the same day. Consequently, the number of directors who have served on the board since BSRT's incorporation in March 2010 is down to two.

Ms Perrott-Humphrey was formerly head of mining research for Europe and South Africa at Citigroup. She is now a director of AIM Mining Research, founding director of a strategic mining consulting business and an adviser on the mining sector to Rothschild and Co. She will also be a member of the company's Audit Committee.

The board also includes chairman Howard Myles, who 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 serves on a number of boards, including the Moore Capital group of funds and Electrum, a privately owned gold exploration company.

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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