EDISON

Baker Steel Resources Trust

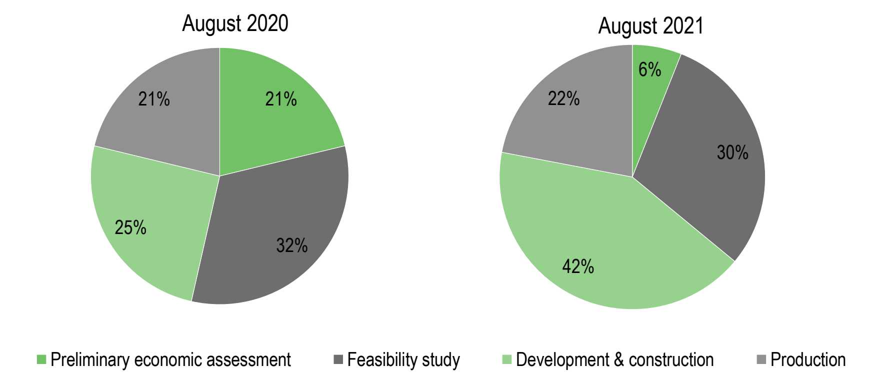
Several IPOs of portfolio projects on the horizon

Investment trusts
Metals & mining

1 October 2021

Baker Steel Resources Trust (BSRT) posted a solid 29.2% NAV total return over the 12 months to end-June 2021, primarily supported by revaluations at end-2020 and new funding rounds at project level (eg Tungsten West and First Tin). BSRT's portfolio is maturing with several projects nearing construction or production stage (eg Bilboes, Futura Resources and Tungsten West, representing c 51% of the NAV), making them ripe for an exit or monetisation. Meanwhile, BSRT has not invested in any new project so far this year as new investments are dependent on portfolio realisations, notably of Bilboes, which has been delayed.

BSRT's portfolio has matured over the last 12 months



Source: Baker Steel Resources Trust data

Price		**84.0p**
Market cap		**£89.4m**
NAV		**£103.5m**
NAV*		96.6p
Discount to NAV		13.0%
*Including income. As at end-August 2021.		
Yield		0.0%
Ordinary shares in issue		106.5m
Code/ISIN		BSRT/GG00B6686L20
Primary exchange		LSE
AIC sector		Commodities and Natural Resources
52-week high/low	100.0p	60.0p
NAV* high/low	99.8p	74.9p
*Including income		
Net cash*		£0.5m
*As at 31 August 2021		

Fund objective

Baker Steel Resources Trust (BSRT) is a closed-ended investment company aiming 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 realise attractive investment returns through valuation gains resulting from development progression of investee companies' projects and through exploiting market inefficiencies and pricing anomalies. It focuses primarily on investing in unlisted companies that the manager deems to have strong fundamentals and attractive growth prospects, offering clear valuation upside.

Bull points

- Exposed to project development gains – not a simple beta play on commodity prices.
- Downside protection resulting from use of convertible debt rather than equity instruments.
- Favourable commodity market outlook.

Bear points

- Some projects are located in frontier countries with significant specific risks.
- High portfolio concentration by project.
- Limited firepower to benefit from potential new market opportunities at present.

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Why consider Baker Steel Resources Trust now?

BSRT offers the opportunity to benefit from the recent favourable environment for commodities through its portfolio of precious metals and industrial commodities projects. At the same time, we note that BSRT is more than a simple beta play on commodity prices, given its focus on value-added project development and investing in projects that offer a solid safety margin in terms of internal rate of return (IRR) based on long-term historical commodity prices. This approach, together with investing through convertibles, provides a certain level of downside protection.

The analyst's view

BSRT has a number of initial public offerings (IPO) in the pipeline. These are potential NAV catalysts, which include Tungsten West's floatation scheduled for mid-October 2021, followed by First Tin (H122) and Bilboes (H122, delayed following the terminated negotiations with a strategic buyer). BSRT is also considering an IPO of Kanga Potash. We note that the listings are primarily aimed at raising capital to finance the construction or refurbishment of mines. Meanwhile, Futura Resources decided to proceed with its production launch as current Australian coking coal prices sit well above the long-term project assumption of US$135/tonne and as the demand/supply situation across regions stabilised in the aftermath of China's unofficial ban on Australian coking coal.

Market outlook: Industrial revival shapes pricing

As at end-August 2021, BSRT's largest exposures by commodity included gold (22% of net asset value (NAV), coking coal (16%) and tungsten (16%). While high diversification provides downside protection, it also makes BSRT's performance dependent on developments in the broad commodity markets.

Precious metals prices have remained muted so far in 2021

After a strong rise in 2020, the gold price has lagged the broader commodity space so far this year with year-to-date decline of c 7% versus the c 36% increase of the CRB commodities index. This is despite the inflationary environment resulting in persistent negative real interest rates and significant growth in money supply in major developed economies, which historically has been supportive for precious metals prices. According to a recent publication by the World Gold Council (September 2021), the gold price tends to perform well in the later stage of a reflationary environment (defined as a rebound in economic growth coupled with high inflation and rising interest rates). We note that the current rhetoric of the US Federal Reserve and the European Central Bank is that the recent upwards pressure in the inflation rate is temporary. Meanwhile, the Fed has indicated that it is ready to begin monetary tapering (ie pulling back its stimulus) as economic recovery continues. The market remains wary of potential interest rate hikes by the Fed.

While silver prices are also down, by 16% year to date, we note that the silver price may be supported by the recovery in industrial activity, with the Silver Institute expecting demand for silver in 2021 to increase by c 15% y-o-y to 1bn ounces. Around 50% of current demand for silver comes from industrial applications, such as the electronics, autos (electric vehicles in particular) and solar power sectors, suggesting that it should benefit from the secular green revolution in the coming years.

Specialty metals build position among industrial commodities

According to Baker Steel Capital Managers, demand for 'future-facing' speciality metals (used in renewable energy production and low emission technology development) soared recently, largely as a result of COVID-19 related stimulus spending in developed economies and the focus on so-called 'green recovery'. BSRT's portfolio exposure to specialty metals include tungsten (16% of the portfolio's NAV) and tin (5%). However, some of the more traditional metals, including copper (5% of NAV) should also benefit from the green revolution and the associated increasing use of electronics. Industrial metals have performed relatively strongly in 2021 to date, posting returns ranging from 15% (copper) to 72% (tin), which suggest robust demand in the broad commodities market, assisted by increasing inflationary pressure. It is worth noting that after the initial rally in 2021, iron ore prices (to which BSRT has only minor exposure) fell by 31% ytd. This is largely attributable to limited demand from China, which aims not to exceed the 2020 level of steel output due to environmental concerns (in particular ahead of hosting the 2022 Winter Olympics), coupled with reinstated supplies from Brazil, as it recovers from the difficult pandemic situation and where government restrictions have been lifted.

Australian coking coal price grows despite earlier Chinese ban

16% of BRST's portfolio is exposed to coking coal used for steel production. With the global economy and industrial production rebounding from the pandemic-driven slowdown, and the demand/supply situation across regions stabilised in the aftermath of the unofficial Chinese ban on Australian coal, Australian premium hard coking coal prices soared in Q321. The settlement price on the Singapore Exchange for Australia premium coking coal futures exceeded US$360 per tonne in September 2021 (up from US$100 per tonne in January 2021). For context, previously, the July

2021 forecast of the Australian Department of Industry, Science, Energy and Resources had assumed an average price per tonne of US$143 in 2021 and US$157 in 2023.

A series of anti-dumping investigations and duties imposed by the Australian government on China resulted, in October 2020, in an informal ban by China on imports of Australian coking coal, among other resources. Having said that, we note that the impact of the restrictions on Australian trade volumes was limited, as Australia has filled in the gaps created by China, which broadly dominated imports from producers located in other regions. While China turned to the United States to replace the Australian supplies, India was one of the importers that increased purchases from Australia, up to well over 4m metric tonnes per month in H121 from c 2.7m per month on average in 2020. It is worth noting that the coking coal market could face a shake-up due to the potential bankruptcy of Evergrande, which is the largest Chinese property developer. However, according to Fitch Ratings, its impact on the construction services market should be manageable. We also note the constraints on steel demand for China as discussed above.

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, which has headquarters in London, with a branch office in Sydney, Australia. The firm has an experienced team of fund managers covering the 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: Miners remain undervalued

The broad equity market faired relatively well over the last decade, with the average annual total return (TR) of the MSCI World Index in sterling terms over the 10-year period ended 30 September 2021 sitting at a healthy 13.3%. While equity markets have been reaching all-time highs, commodity prices have generally lagged behind, holding back valuations of mining companies, which largely appear historically undervalued on a fundamental and relative basis.

As at 30 September 2021, the EV/EBITDA multiple of the EMIX Global Mining Index was 4.8x, well below the previous year figure of 7.1x and contrasting with broad equity indexes including MSCI World (13.1x) and S&P 500 (16.9x). Having said that, we note that the EMIX Global Mining Index has the highest operating margin among them, amounting to 19.2%, while none of the aforementioned indexes exceeds 10%. BSRT's investment manager believes that the current outlook for commodities is positive, driven by favourable supply/demand dynamics.

BSRT's investment manager believes that the company is equally well positioned to benefit from a bull market in commodities as to withstand a potential consolidation period. Significant exposure to precious metals (providing an inflation hedge) could play a key role in the event of unfavourable pandemic developments potentially leading to a new set of government restrictions followed by new stimulus packages. However, if the rebounding global economy maintains its momentum and the green revolution continues, BSRT's projects with exposure to industrial metals (including its share of specialty metals) could prove to be an important NAV expansion driver.

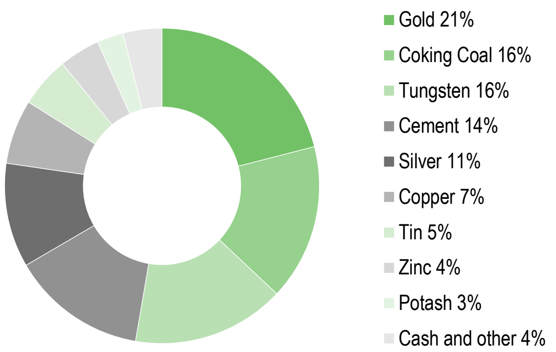
Asset allocation

BSRT's investment policy allows a wide range of investments in addition to unlisted and listed equities and equity-related securities, including downside protection of its investments, in particular through convertible loan notes (with financing often provided in stages as development milestones are met) rather than plain equity investments. In order to manage and hedge the portfolio efficiently, derivatives may also be used, but currency exposures will normally not be hedged. BSRT aims to be broadly diversified by commodities but may also seek exposure to companies within the wider resources and materials sector, including service providers, transport and infrastructure firms, utilities and downstream processing businesses.

Current portfolio positioning

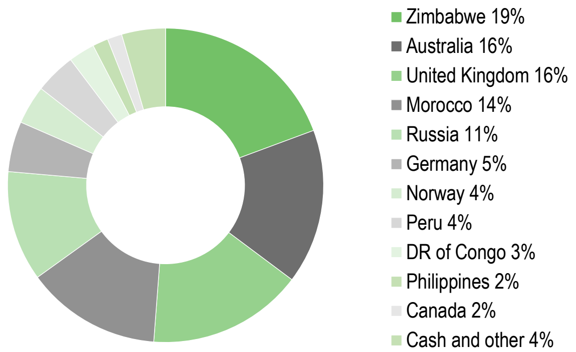
Even though BSRT's preferred investment structure includes mainly debt instruments providing downside protection, the end-August portfolio is dominated by equity instruments, as unlisted and listed shares constitute 51% and 4% of portfolio's NAV, respectively. The share of convertible loans sits at 30%, with a further 14% in royalties, as exposure towards these instruments fell recently from 40% and 17%, respectively, at end-August 2020. We believe that the decline is attributable to the maturing portfolio, leading to debt conversions to equity. The company has not completed any new investment since 2019 and has not exited any significant position since the gradual divestment of its shares in Polymetal International, which also started in 2019. As a result, BSRT's portfolio is dominated by projects in later stages, most notably the development and construction and early-production phases (42% and 22%, respectively).

Exhibit 1: Portfolio breakdown by commodity



Source: Baker Steel Resources Trust, as at 31 August 2021

Exhibit 2: Portfolio breakdown by geographic region



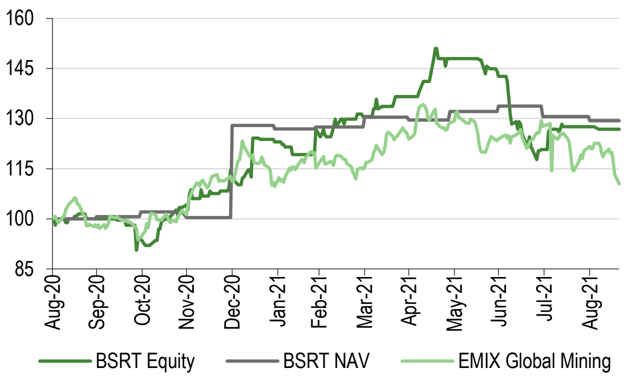
Source: Baker Steel Resources Trust, as at 31 August 2021

As at end-August 2021, BSRT held a highly concentrated portfolio, with almost 74% of its NAV attributable to its top five investments (Bilboes Gold 19.4%, Futura Resources 16%, Tungsten West 15.7%, Cemos Group 13.9% and Polar Acquisition 8.7%). However, it is well diversified both geographically and by commodity, as it covers precious, speciality and industrial metals segments spread across all continents. Exposures to different market segments balanced out over the last year, as the share of investments in the precious metals sector declined from 43% at end-August 2020 to 33% at end-August 2021. Meanwhile, the industrial metals segment's share increased from 27% to 35%, mainly due to the rapid expansion of the Tungsten West project, which recorded an almost threefold increase of its carrying value over the 12 months to 31 August 2021.

Performance: Muted NAV TR of 2.7% in H121

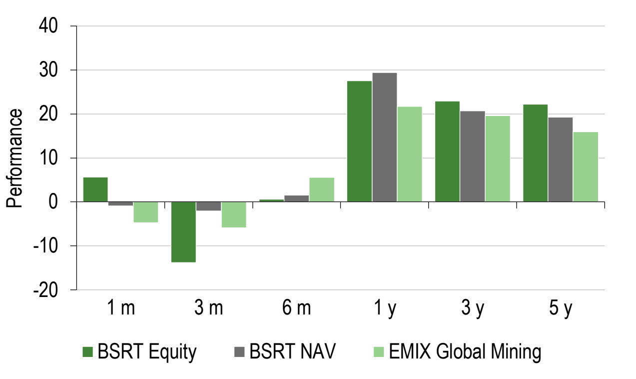
BSRT recorded an NAV TR of c 29.2% over the 12 months to end-June 2021 (based on unaudited data), which is only slightly below the 32.9% recorded by EMIX Global Mining Index in sterling terms over the same period (which is not an official benchmark but provides a useful broad reference point). We note that the robust fund performance was mainly attributable to the comprehensive review and revaluation of the portfolio at end-2020, resulting in a c 27.5% uplift against end-November 2020 figures, according to our calculations. In H121, BSRT reported an NAV TR of 2.7%, compared to the 11.4% recorded by the index. We believe that the relative underperformance could be attributable to the downward revaluation of Polar Acquisition due to the application of a higher discount rate (details below), resulting in a 2.8% decline in BSRT's NAV, which largely offset the impact of favourable developments among other holdings.

Exhibit 3: Price, NAV and index total return performance, one-year rebased



Source: Refinitiv, Edison Investment Research; at 31 August 2021

Exhibit 4: Price, NAV and index total return performance (%)



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

Between end-June and end-August 2021, BSRT's NAV declined by c 3.2% on the back of sterling appreciation and the share price decline of its listed holdings. Over the two-month period, the share price of Azarga Metals (listed on the TSX-V market) went down from C$0.13 to C$0.07, while Metals Exploration (listed on AIM in London) recorded a decline from 2.03p to 1.38p.

Recent portfolio developments

Bilboes Gold: Terminated sale negotiations

Bilboes Gold is BSRT's largest holding (19.4% of NAV at end-August 2021) and is now valued in the portfolio at the cash offer figure of US$114m, after removal of the discount associated with the deal execution risk that had been in the final FY20 valuation carried out in March 2021. This led to a 17% increase in Bilboes' carrying value, translating into a 3.7pp increase in BSRT's NAV. The deal negotiations, however, were terminated in July 2021 due to the post-sale conditions requested by the potential acquiror. We understand that if not for these additional terms, BSRT's investment manager was willing to accept the proposed price of US$114m in cash, given the potential buyer had guaranteed the financing of the mine construction (which was important for other shareholders who may wish to retain their stake in Bilboes for now). The company and BSRT's management will now look for other exit opportunities, including preferably an IPO (potentially as soon as early 2022) or alternatively resume discussions with other potential buyers that had expressed interest in the asset. In the meantime, Bilboes plans to update its definitive feasibility study (DFS), which was completed in Q120. According to the study, the estimated average production rate is 170k ounces per year over a 10-year mine life, with significant exploration upside to extend it further (and also the potential to grow it through acquisition of other local sites). The implied post-tax NAV based on a 10% discount rate and a gold price of US$1,500 per ounce is US$236m, or US$412m assuming US$1,800 per ounce (slightly above the current spot price). BSRT's management highlighted earlier that any new, large investments would be funded by the proceeds from the Bilboes exit.

We estimate that as at end-August 2021, BSRT held a minor c £0.5m in cash, cash equivalents and accruals (c 0.5% of NAV) and a further £2.1m in listed precious metals stocks (c 2.0% of NAV) with a bias towards silver mining stocks.

Tungsten West and First Tin eyeing IPOs in Q421 and Q122, respectively

Tungsten West (15.7% of BSRT's NAV as at end-August 2021) targets a listing on the AIM market in October 2021. We note that the most recent pre-IPO equity fund-raising (completed in May 2021) was upsized from £2m to £4m due to significant investor demand and that it was conducted at a 33% premium to the valuation implied by the previous funding round at the beginning of 2021. In March 2021, Tungsten West completed a bankable feasibility study (BFS) on restarting the Hemerdon tungsten mine in Devon (UK). According to the study, the initial capital requirement of £44.6m (though BSRT assumes a possible additional £10m) would translate into an average EBITDA of £35m pa over 20 years. Based on Roskill's long term tungsten price of c US$330 per MTU (after applying a 5% discount rate), the net present value (NPV) of the project would reach £272m with a 45% IRR.

The refurbishment of the mine will be financed with the proceeds from the pre-IPO financing and the planned floatation (with the IPO proceeds targeted at £25–50m), as well as a senior loan and a 3% royalty. Tungsten West plans to begin works in the mine in H221, with the commercial production launch expected within 18 months. BSRT increased the carrying value of its shares and convertible loans in Tungsten West by c 8.3% in aggregate in FY21 to end-August.

Similarly in April 2021, First Tin (formerly Anglo Saxony Mining, 5.2% of last reported NAV) completed an equity raising of £6m at 15p per share and is currently considering listing its shares in Q122. Meanwhile, BSRT converted its convertible loan to equity, at 8 pence per share, which resulted in an increase of BSRT's stake to 26% and underpinned the positive revaluation of the project by c 33% in FY21 so far.

Futura Resources going ahead with its projects despite the Chinese ban

Progress on the two projects of Futura Resources (16% of NAV) was affected by the above-mentioned unofficial Chinese ban on imports of Australian coking coal. With China dominating purchases from other producers, the Australian coking coal enjoys strong demand from the rest of the world. Consequently, its price has risen from US$100/tonne at the beginning of 2021 to close to US$360/tonne currently. This sits well above BSRT's long-term assumption of US$135/tonne reflected in the project's carrying value, encouraging further development of the projects. According to the investment manager, the acquisition of a mining licence and production launch (originally planned in 2019) at the Fairhill mine should be realised by the end of the year, with Anglo American (a British listed multinational mining company) willing to provide debt financing of around A$50m and also offering an off-take arrangement (for a certain fee). Futura Resources will also execute a minor equity raise of c A$7m. Based on current forward market prices, management expects that Futura should record EBITDA of c A$124m in 2022 and A$200m in 2023. If we were to apply the multiples of listed coking coal companies (including Peabody and BHP Group), which trade at an average EV/EBITDA of c 4.3x on 2022e figures, this would imply an enterprise value of c A$533m. Having said that, we note that as at end-August 2021, Futura's equity (in which BSRT's holds a c 27% stake) is valued at c A$77m.

Silver project's carrying value down due to discount rate adjustment

On 26 August, Polar Acquisition (PAL, 8.7% of NAV) announced the approval of an accelerated development plan for the Prognoz silver project, targeting first production as soon as 2023, which is about three years earlier than previously scheduled. However, due to a modified business model, which now incorporates concentrate production at a nearby site, the annual output is now expected to bet c 6.5m ounces, down from 13.5m ounces estimated in the September 2020 pre-feasibility, but with a longer mine life, extended to c 18 years. We note that based on the preliminary economic assessment of the project, the annual output had been planned to sit even higher at c 20m ounces. This could account for the 19.4% decline in PAL's valuation in March 2021, which translated into a 2.8pp reduction in BSRT's portfolio NAV, mainly as a result of applying a higher discount to the royalty, in line with the 9% rate used by Polymetal across all its mining assets (which compares to a 7% rate used by BSRT previously). While the discount rate may be reduced given that the project has moved up the development curve, BSRT still considers a net negative valuation effect upon the year-end portfolio revaluation as likely.

Cemos: Potential extension of debt or conversion into equity

Cemos's plan to build a second production line was recently put on hold due to soaring clinker prices. The company is currently waiting for prices to stabilise and is considering the construction of its own clinker line. BSRT will have the option to convert its loan into equity after November 2021 (which is BSRT's common approach in the case of well performing projects like Cemos). Alternatively, it may extend the loan at a higher interest rate to support the construction of the second production line and/or the clinker line.

Other portfolio developments: MMTP merged with Oro X

Among smaller holdings, it is worth highlighting the 50:50 merger between **Mines & Metals Trading (Peru)** (MMTP) and TSX-V-listed mineral exploration company Oro X Mining Corp into a new entity called Silver X. On 15 April 2021, Oro X and MMTP announced that they had closed a C$14.2m equity raising, which was one of the key conditions of the merger. It was followed by a conditional acceptance from the TSX-V Exchange on 3 May and completion announcement in June 2021. We note that the merger has not resulted in any significant change to the carrying value of BSRT's holdings despite a c 40% share price decline after trading was resumed, as it brought the share price just slightly below the conversion price of the loan held by BSRT. The decline could be partially attributable to the high level of political uncertainty in Peru, as the new president wants to increase taxes on mining companies to fund social programmes.

Meanwhile, **Azarga Metals**, another listed BSRT holding, recorded a share price increase of over 85% in H121, followed by a significant downturn in subsequent months, which led to a more than 21% decline in the year-to-date. In August 2021, the company released the results of an updated preliminary economic assessment, assuming average annual production of 11.7k tonnes of copper and 2.9m ounces of silver over a 14-year mine life. This translates into a post-tax NPV of US$205m and an IRR of 27%. **Kanga Potash** (previously Sarmin) is seeking partners to finance the construction of the project, **Prism Diversified** is in discussions that could result in bringing a new partner to acquire a majority stake in the project, while **Black Pearl** continues discussions with its Chinese partners regarding the use of its mine as the basis for a new steel plant in Indonesia.

Exhibit 5: Portfolio's NAV triggers

Company	NAV trigger	2021	2022	
		Q421	Q122	Q222
Bilboes	IPO/sale to strategic investor			
Futura Resources	Financing, licensing and production launch			
Tungsten West	IPO			
Cemos	Potential decision to build second production line			
First Tin	IPO			
Mines and Metals Trading	Resource update and expanding production			
Azarga Metals	Seeking strategic investor/potential IPO			
Nussir	Optimisation of FS; finance mine construction; listing			
Kanga Potash	Marketing of project/listing			

Source: Baker Steel Resources Trust

Peer group comparison

For valuation purposes, we continue to compare BSRT with a peer group of investment companies focused on commodities and natural resources, with a market cap above £10m, which differ in terms of natural resources subsector coverage, preferred form of investment and development stage of holding companies. Over the one-year period ended 31 August 2021, BSRT reported a 29.3% NAV TR, which ranks fifth among the peers, with an average return of 57.4%, despite Golden Prospect Precious Metal fund reporting a 32.1% loss over the period. Having said that, we believe that due to the unique business model of BSRT, which is closer to the private equity investment funds, longer-term returns are a better indicator of its performance. In the three- and five-year periods to end-August 2021, the company recorded 76.0% and 141.5% returns respectively, which rank second and first among its peers, confirming its successful long-term investment strategy. BSRT shares currently trade at a 13% discount to NAV, which is slightly wider than the peer group average (11.6%). We note, however, that the peer group average includes Geiger Counter fund, which trades at an 7.1% premium to NAV. Like three of its peers, BSRT is not paying dividends at present, while the average yield of the other three dividend-paying peers sits at 4.1%.

Exhibit 6: Selected peer group as at 1 October 2021*

% unless stated otherwise	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	**89.4**	**29.3**	**76.0**	**141.5**	**(13.0)**	**2.07**	**Yes**	**100**	**N/A**
BlackRock Energy and Resources Income	106.7	48.8	33.6	63.4	(7.2)	1.25	No	105	4.4
BlackRock World Mining Trust	962.5	21.7	46.3	89.1	(5.0)	0.99	No	114	3.9
CQS Natural Resources G&I	93.3	69.0	59.0	58.2	(21.2)	1.86	No	109	4.0
Geiger Counter	51.4	184.1	109.0	122.1	7.1	3.91	Yes	101	N/A
Golden Prospect Precious Metal	34.4	(32.1)	58.0	(16.8)	(14.0)	2.07	No	100	N/A
Riverstone Energy	290.6	53.1	(57.7)	(51.9)	(29.4)	2.76	Yes	99	N/A
Average	**256.5**	**57.4**	**41.4**	**44.0**	**(11.6)**	**2.1**		**104.7**	**4.1**
Company rank in sector	**5**	**5**	**2**	**1**	**4**	**3**		**6**	**4**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 August 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

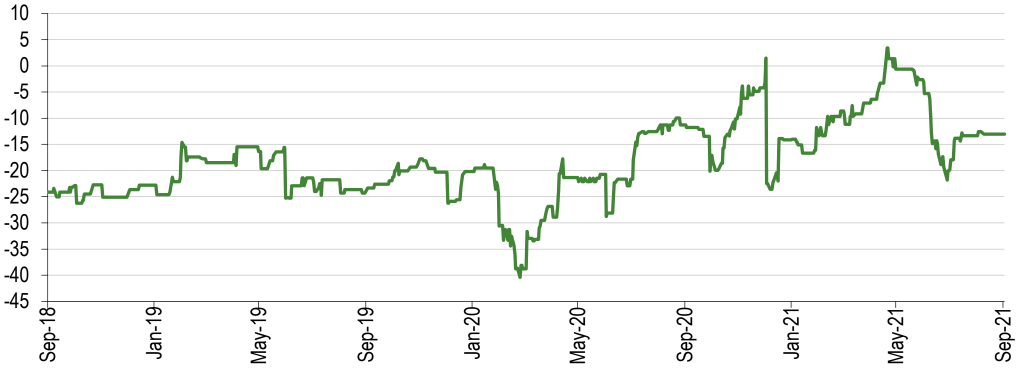
Dividends

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. 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.

Discount

Over the 12-month period ended 30 September 2021, BSRT's shares traded at an average discount to NAV of c 10.9%, which is significantly narrower than the long-term averages of 20.1% over five years and 25.4% over 10 years. We note that towards the end of H121 the discount turned into a slight premium, which could have resulted from market expectation of another successful periodic revaluation at end-June. As it did not materialise and BSRT terminated the negotiations on the sale of Bilboes (see above), the share price discount to NAV opened up again and currently sits at 13%.

Exhibit 7: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Fund profile: Early-stage investor in mining projects

Since 2010, when BSRT was incorporated and listed on the London Stock Exchange, its main objective has been to achieve long-term capital growth through investing in equity, loans and related instruments issued by natural resources companies. BSRT's aims to realise attractive investment returns through valuation gains resulting from development progression of investee companies' projects and through exploiting market inefficiencies and pricing anomalies. The company focuses primarily on investing in unlisted companies that the manager deems to have strong fundamentals and attractive growth prospects, offering clear valuation upside. BSRT aims to realise its unlisted investments through an IPO, trade sale, management repurchase or other methods. Although unlisted companies are its priority, BSRT also holds listed securities, typically special situations and less liquid securities.

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 and diversified natural resources companies. BSRT focuses 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. BSRT may also invest in exploration companies whose activities are speculative by nature.

Investment process: Riding the development curve

BSRT's capital growth strategy is focused on movements along the project development curve, rather than gearing exposure to anticipated commodity price rises. Traditionally, the company invested in projects that were around the bankable feasibility study release stage, as it considered them offering the greatest returns on the steepest part of the development curve. We note, however, that recently it has shifted its focus towards companies that are relatively close to moving into production as they offer better value opportunities in the current market conditions. 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), which enables investments to be made at a discount to a project's fair value and offer further valuation upside if the discount can be closed as the project is developed.

BSRT's investment manager has strict investment criteria and a defined investment process where 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 resulting in a typical portfolio of 15–20 companies at any given time. Having said that, we note the company has not made any new investment in over a year, as any potential new deals depend on the proceeds of planned exits from current investments.

BSRT's approach to ESG

The investment manager believes ESG considerations are key for creating and maintaining shareholders' value through enhanced risk management and instilling a progressive standard of best practices. At the same time, it acknowledges that ESG issues in mining companies can pose reputational costs and create negative perception of the sector among its stakeholders. To address the potential sustainability challenges and opportunities, the manager has implemented an ESG policy that includes a comprehensive ESG assessment framework, which it uses in the investment process. The process comprises:

- Pre-screening of potential investment targets (ie companies must meet some non-negotiable sustainability metrics, for example, have policies in place on ethics, anti-bribery, corruption, human rights and anti-child labour).
- Calculation of ESG scores that are developed internally by weighting 20 sustainability metrics that are most relevant for the manager's strategy and cross-checking with third-party ratings.
- Incorporation of ESG scores into investment decision making.
- The ongoing monitoring of portfolio companies' ESG progress (primarily through meetings and site visits).

Its commitment to supporting an industrywide ESG progress is reflected in BSRT becoming the signatory of the United Nations Principles for Responsible Investing in January 2020. The manager also highlights the mining sector's contribution to the technological revolution in the field of electric vehicle production, battery development and renewable energy as they all require the use of specialty metals (see more detail above).

Gearing: Remaining unleveraged

BSRT has no debt outstanding as it continues to hold sufficient cash and liquid assets to cover its obligations as they arise. At end-August 2021, its net cash position was 0.5% of the portfolio, with a further 2.0% in liquid listed shares of companies from the precious metals segment. Having said that, we note it is permitted to borrow up to 10% of NAV to meet short-term cash flow requirements.

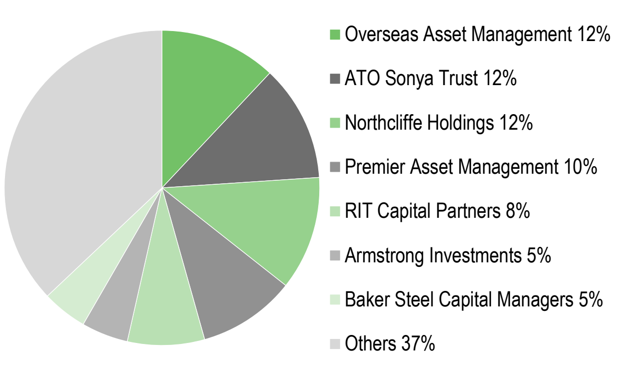
Fees and charges

The company pays Baker Steel Capital Managers a monthly management fee, which equals one twelfth of 1.75% of BSRT's average market cap during the month. 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% per year 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 and the company's NAV has not exceeded the hurdle, which sits at 146p per share as at 30 June 2021. Similar to other ongoing expenses, 100% of management fees are charged to the revenue account.

Capital structure

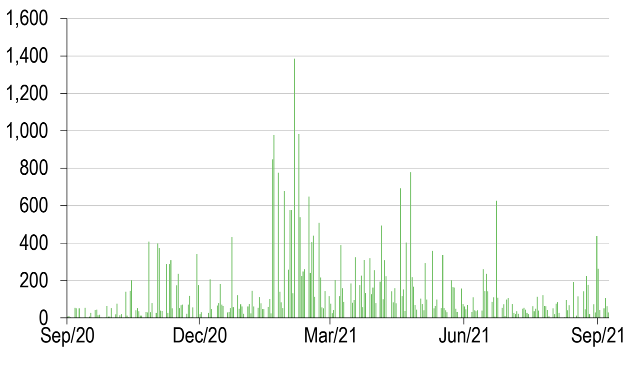
BSRT's capital consists of 107.2m ordinary shares (of which c 9k management ordinary shares in issue held by BSRT's investment manager) including 700k (ordinary shares only) held in treasury. BSRT has the authority to make market purchases up to 14.99% and to allot up to 10% of its ordinary shares in issue, renewed annually at the AGM. At 30 June 2021, the management held c 24% stake in the company (through Sonya Trust and Northcliffe Holdings) with a further 4.9m (4.6%) of BSRT's shares in issue held by another fund managed by its investment manager, Baker Steel Capital Managers.

Exhibit 8: Major shareholders



Source: Refinitiv, at 30 September 2021

Exhibit 9: Daily trading volume (in 000s of shares)



Source: Refinitiv. Note 12 months to 30 September 2021

The board

BSRT's management board consist of four non-executive directors, two of whom have served on the board since the company's incorporation in March 2010. The board is chaired by **Howard Myles**, who was a partner at Ernst & Young from 2001 to 2007 and is responsible for the investment funds corporate advisory team, having previously spent 14 years at UBS Warburg. He has served on the boards of a number of investment trusts and is chairman of JPMorgan Brazil Investment Trust and a director of Chelverton UK Dividend Trust and The Forest Company. **Charles Hansard** has over 31 years of experience in the investment industry, formerly serving as a director of Apex Silver Mines and 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 a partner. He has several years of experience serving on the boards of listed and private companies as a non-executive director, including as chairman of listed investment companies. **Ms Fiona Perrott-Humphrey**, who is also a member of the company's Audit Committee, 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.

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