

# Baker Steel Resources Trust

Initiation of coverage

Pre-IPO focused natural resources specialist

Investment companies  
Metals and mining

21 June 2019

Baker Steel Resources Trust (BSRT) is unique in offering UK investors access to early-stage (pre-IPO) and specialist listed opportunities in the natural resources sector, which can be higher-risk but offer the prospect of outsize potential returns. The highly experienced investment team is very selective and aims to generate gains through specific risks being mitigated as projects progress along the development curve, rather than relying on commodity price rises. Investments are typically made via convertible loan notes, often in stages, to limit downside risk. BSRT proactively works with investee companies to unlock value and investments can take a number of years to mature. Performance has varied since its launch (although ahead of most peers over one and three years), but BSRT's investment team sees a number of near-term catalysts for potentially significant valuation gains.

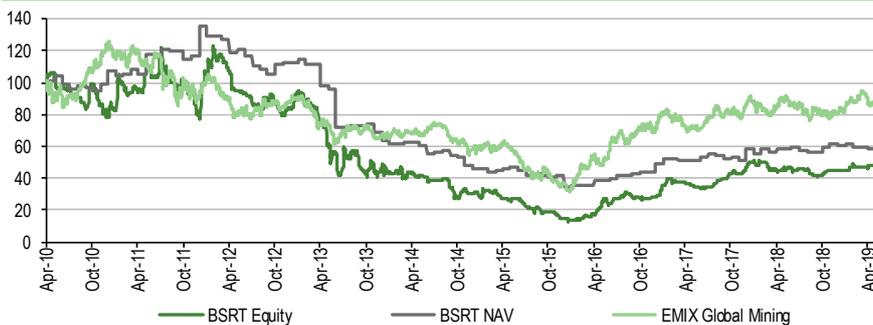
**Price** 49.4p  
**Market cap** £52.6m  
**AUM** £63.6m

NAV\* 59.1p  
Discount to NAV 16.4%

\*Including income. As at 31 May 2019.

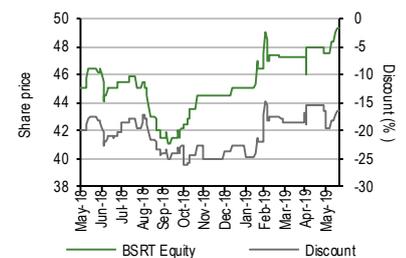
Yield 0.0%  
Ordinary shares in issue 106.5m  
Code BSRT  
Primary exchange LSE  
AIC sector Commodities & Natural Resources  
Benchmark None

## Performance can diverge materially from broader global mining indices



Source: Refinitiv, Edison Investment Research

## Share price/discount performance



## Three-year performance vs index



52-week high/low 49.4p 41.0p  
NAV\* high/low 59.7p 54.7p

\*Including income.

## Gearing

Gross\* 0.0%  
Net cash\* 2.0%

\*As at 31 May 2019.

## Analysts

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

## The market opportunity

Mining equities have recovered from the lows of early 2016, but concerns over China's economic growth and the wider effects of the US-China trade dispute continue to weigh on sentiment. Nevertheless, mining stocks remain at a significant discount to global equities and valuations appear attractive relative to historical levels, suggesting scope for the sector to outperform as sentiment improves.

## Why consider investing in BSRT?

- Unique access to the outsize 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.

## Narrowed discount; tender offer; dividend potential

Recent NAV returns have been positive, and BSRT's 16.4% share price discount to NAV is narrower than its 20.7% one-year average. Under its policy to distribute at least 15% of net realised gains, BSRT conducted a tender offer for 9.7m shares at 51p per share in May 2019, following which it held a 2.0% net cash position. Future distributions could be made via dividends, supported by prospective royalty income.

## 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 the 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

- 29 May 2019: David Staples joined the board as an independent director.
- 29 May 2019: Tender offer for 9.7m shares at 51p per share to distribute c 25% of realised gains from BSRT's investment in the Prognoz silver project.
- 15 April 2019: Completion of agreement for US\$3m investment into TSXV-listed Azarga Metals via 8% convertible loan note due Dec 2022.
- 10 April 2019: Final results to 31 December 2018 – NAV TR +0.2% versus EMIX Global Mining index -5.9%; share price TR -5.3%.
- 1 February 2019: Acquisition of 0.75% gross revenue royalty (plus 0.25% option) on the metallurgical coal assets of Futura Resources.

### Forthcoming

AGM	May 2020
Interim results	August 2019
Year end	31 December
Dividend paid	N/A
Launch date	28 April 2010
Continuation vote	Three-yearly (next 2021 AGM)

### Capital structure

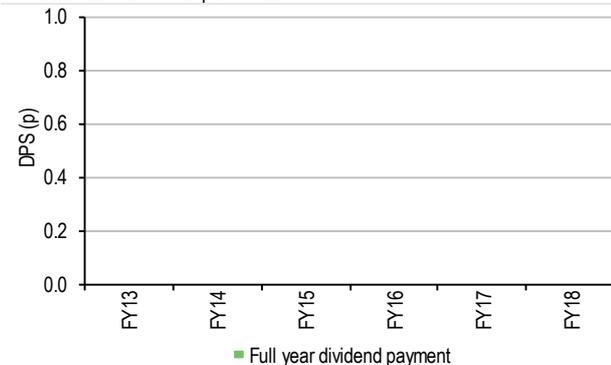
Total expense ratio	2.1%
Net cash	2.0%
Annual mgmt fee	1.75% of average market cap
Performance fee	15% of NAV gain above 8.0% pa
Company life	Indefinite (subject to vote)
Loan facilities	None

### 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	<a href="http://www.bakersteelresourcestrust.com">www.bakersteelresourcestrust.com</a>

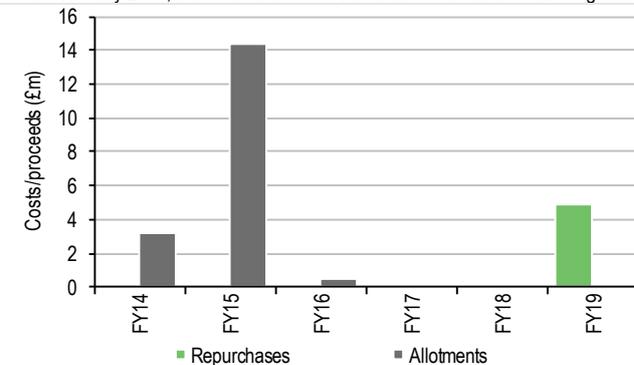
### Dividend policy and history (financial years)

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.

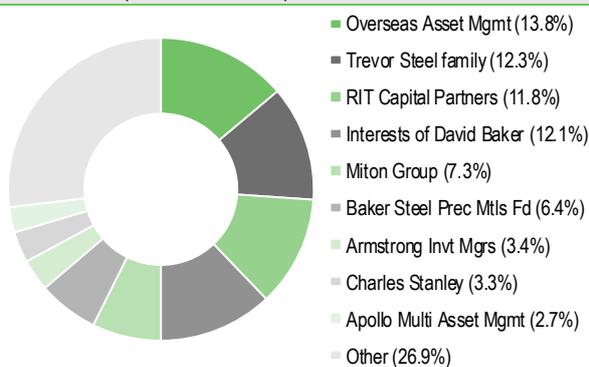


### Share buyback policy and history (financial years)

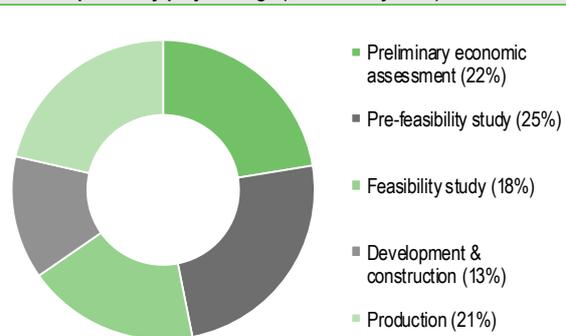
BSRT has authority to buy back up to 14.99% and allot up to 10% of its shares in issue. In FY14, FY15 and FY16, investments were acquired via 'in specie' share issues. In May 2019, a £4.9m tender offer was made to distribute realised gains.



### Shareholder base (as at 20 June 2019)



### Portfolio exposure by project stage (as at 31 May 2019)



### Top 10 holdings (as at 31 May 2019)

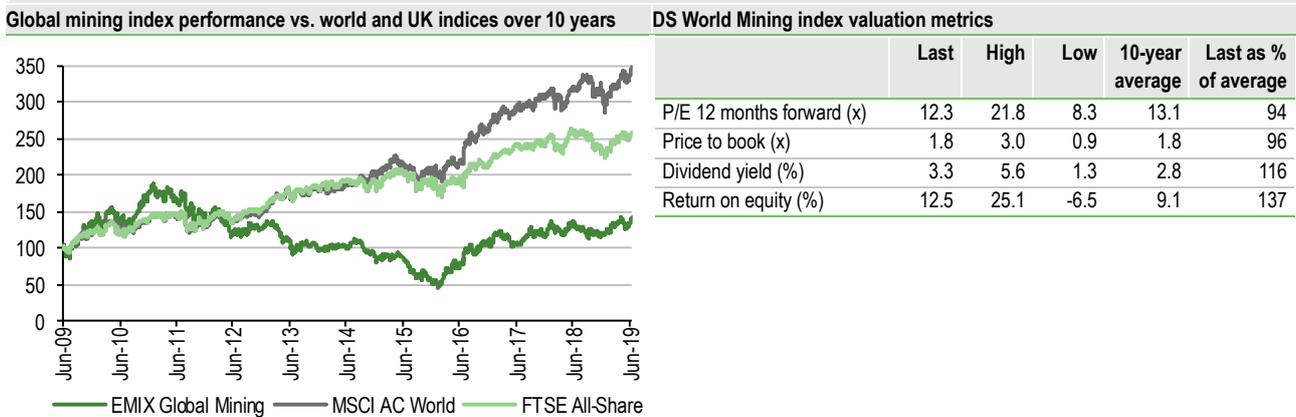
Company	Country	Commodity	% of NAV	
			31 May 2019	31 May 2018*
Polymetal International	Russia, Kazakhstan	Gold, silver	20.5	N/A
Futura Resources	Australia	Coking coal	14.7	9.0
Bilboes Gold	Zimbabwe	Gold	14.4	13.2
Cemos Group	Morocco	Cement, oil shale	11.3	10.0
Polar Acquisition	Russia	Silver	9.9	40.6
Sarmin Minerals Exploration	Republic of Congo	Potash	5.6	4.6
Black Pearl	Indonesia	Iron ore	4.4	4.0
Anglo Saxony Mining	Germany	Tin	3.6	N/A
Nussir	Norway	Copper	3.5	3.2
PRISM Diversified	Canada	Iron ore, vanadium, lithium	3.3	3.8
<b>Top 10 at each date (% of holdings)</b>			<b>91.2</b>	<b>98.4</b>

Source: Baker Steel Resources Trust, Edison Investment Research, Bloomberg, Morningstar, Refinitiv. Note: \*N/A where not in end-May 2018 top 10.

## Market outlook: Undemanding valuations

As illustrated in Exhibit 2 (left-hand chart), global mining equities recovered strongly following the 2008 global financial crisis, but then suffered five years of pronounced weakness, with the EMIX Global Mining index declining by 75% in sterling terms from January 2011 to January 2016. While mining equities have subsequently staged a recovery, they have not made up the ground lost against broader equity markets, with the 2.8% annualised return of the EMIX Global Mining index over 10 years to end-May 2019 being substantially lower than the 12.7% and 9.6% annualised returns of the MSCI AC World and FTSE All-Share indices. This underperformance has left mining equity valuations at a significant discount to global equities, with the MSCI AC World Metals and Mining Index on a 10.4x forward P/E multiple at end-May 2019, compared with the MSCI AC World Index on 14.3x. As shown in Exhibit 2 (right-hand chart), mining equity valuations at 20 June 2019 appear attractive relative to their 10-year average levels, with the forward P/E multiple for the Datastream World Mining index 6% lower than average and the dividend yield 16% above average.

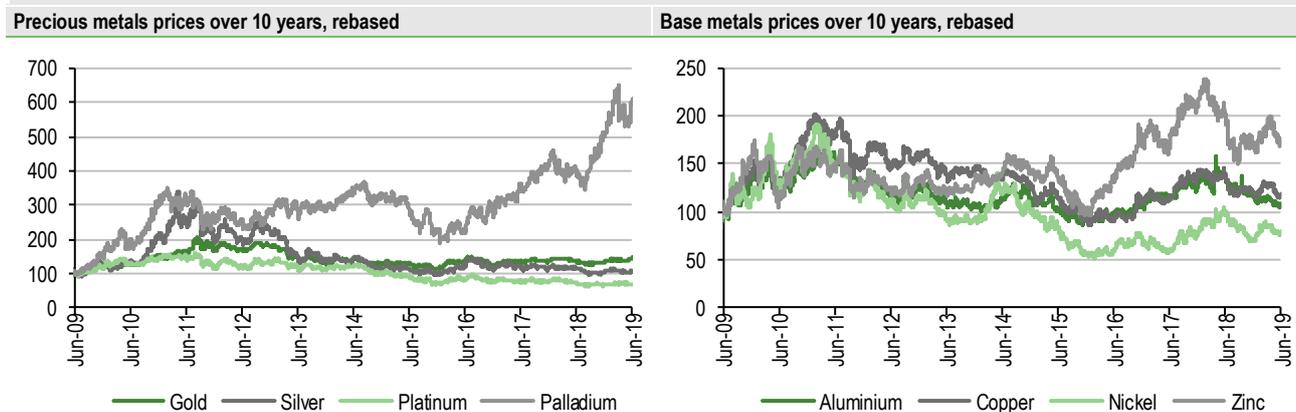
**Exhibit 2: Market performance and valuation**



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 20 June 2019.

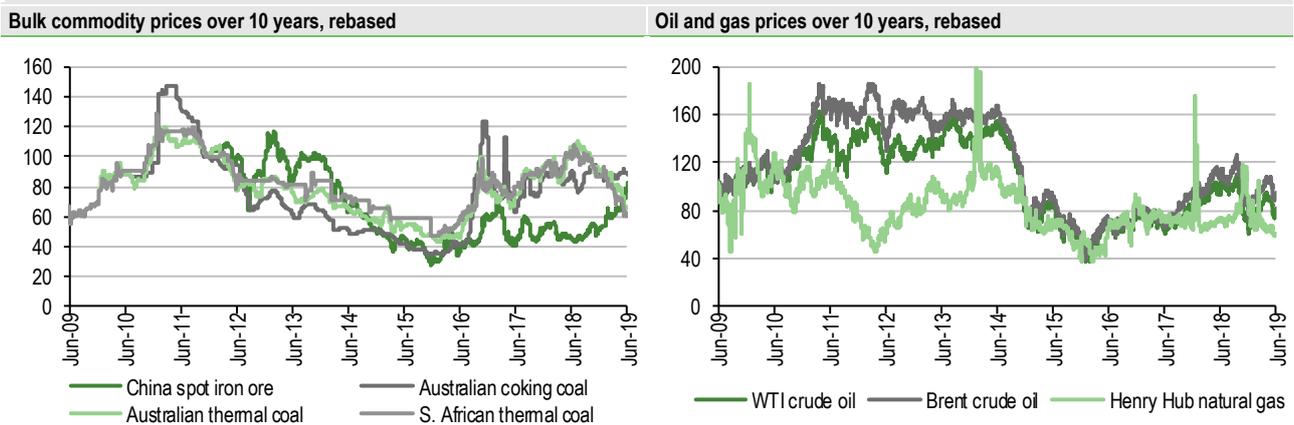
The natural resources sectors are broadly split into four main commodity categories: precious metals (gold, silver, PGMs), base metals (copper, zinc, nickel, etc), bulk commodities (coal, iron ore), and oil and gas. Exhibit 3 and Exhibit 4 show the price trends of the key commodities within each of these categories over the last 10 years. While there have been significant differences in the relative price movements of individual commodities across and within categories, the charts highlight that, with the exception of palladium, most commodity prices are well below their peak levels of the last 10 years.

**Exhibit 3: Precious and base metals price trends over 10 years**



Source: Bloomberg, Edison Investment Research. Note: Data as at 20 June 2019.

**Exhibit 4: Bulk commodity, oil and gas price trends over 10 years**



Source: Bloomberg, Refinitiv, Edison Investment Research. Note: Data as at 20 June 2019.

China's status as the world's largest consumer of many commodities means concerns over its economic growth weigh heavily on investor sentiment towards commodities and mining equities. However, global economic growth along with rising demand for physical goods and infrastructure development should raise demand for natural resources over the medium and long term. The underlying drivers of commodity prices are the supply-demand balance and production cost, which tends to provide a floor for prices, although the strength of investment demand for gold means the market price usually acts as a cap on production. The supply outlook varies widely by commodity, but investment in new projects has been curtailed across the industry, and this should support commodity prices in the medium term. If supply fails to keep pace with demand, this can lead to significant price rises (as reflected in the palladium price over the last three years), with commodity price fluctuations generally being a significant driver of mining equity share prices and valuations.

## Fund profile: Pre-IPO natural resources specialist fund

BSRT is a Guernsey-registered closed-ended investment company that listed on the London Stock Exchange on 28 April 2010. It aims to achieve long-term capital growth from a focused global portfolio, consisting primarily of natural resources company equities, loans and related instruments. BSRT invests primarily in unlisted companies, but also holds listed securities (typically special situations and less liquid securities), aiming to realise attractive returns from valuation gains arising as investee companies' development projects progress, and through exploiting market inefficiencies and pricing anomalies. BSRT's portfolio is concentrated in 15 to 20 investments, currently with 30% exposure to gold and 30% to Russia, while c 23% of the portfolio is held in listed equities.

BSRT's investment manager is Baker Steel Capital Managers, a London-based specialist natural resources asset manager. The firm has an experienced team covering precious metals, base metals and minerals sectors worldwide, and investment opportunities are mainly sourced from the team's extensive proprietary network of industry contacts. Baker Steel managing partner Trevor Steel has acted as lead manager since BSRT's launch; he is supported by Francis Johnstone, with David Baker and Mark Burrige also sitting on BSRT's investment committee.

Trevor Steel and David Baker co-founded Baker Steel Capital Managers in 2001, having both been founder members of the Mercury Asset Management (subsequently Merrill Lynch; now BlackRock) mining team, which was formed in 1992. Mark Burrige joined Baker Steel in 2017; his industry experience includes five years as a gold analyst at Merrill Lynch and technical roles at Barrick Gold. Francis Johnstone was part of the teams that discovered, financed and constructed the Freda Rebecca and Ayanfuri gold mines in Zimbabwe and Ghana, as well as the Blue Ridge platinum mine in South Africa. Between them, the team has over 100 years' mining investment experience.

At its launch on 28 April 2010, BSRT acquired a seed portfolio of assets from Genus Capital Fund and Genus Dynamic Gold Fund (both Baker Steel-managed funds), and raised £30m of new investment. On completing the acquisition of the seed portfolio, BSRT was 60% invested, with the portfolio 80% invested by end-2010 and fully invested by mid-2011.

## **The fund manager: Baker Steel Capital Managers**

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### **The manager's view: Positive near- and medium-term prospects**

Lead manager Trevor Steel is keen to emphasise BSRT's private equity-style approach and the longer-term nature of its investments, which have potential for significant but uneven returns, noting that this differentiates it from mainstream mining funds. Steel outlines BSRT's recent investments in Futura Resources, Anglo Saxony Mining and Azarga Metals to illustrate the investment approach.

In February 2019, BSRT acquired a 0.75% gross revenue royalty on Futura Resources' Wilton and Fairhill metallurgical coal assets for A\$6m, with an option to acquire a further 0.25% royalty for A\$2m. This follows BSRT's initial A\$10m convertible loan note investment in Futura, made in December 2017 and February 2018 to finance preparatory works. Steel notes that good progress has been made so far, and highlights that quarterly royalty payments will start after first production, now scheduled for 2019 and 2020 at the two assets. BSRT's acquisition of the Futura royalties is consistent with its strategy to add attractive portfolio investments that can also generate meaningful income, and it is the second significant royalty acquired after the net smelter royalty on the Prognoz silver project. At consensus long-term average coal prices, the Futura royalties (assuming the option is exercised) are anticipated to generate c A\$3.5m before tax annually for BSRT.

During January 2019, BSRT made a £1m follow-on convertible loan note investment in Anglo Saxony Mining, taking its total investment to £2.2m, having previously subscribed £0.2m in equity at the end of 2017 and £1m in the first tranche of convertible loan notes in the second half 2018. At the time of BSRT's first investment, the principal uncertainty over the project was the mineral processing metallurgy. This explains the phased investment, with the initial £1.2m funding pilot plant and commercial test work. With positive results received from this test work, BSRT proceeded to invest the second £1m convertible loan tranche to fund a pre-feasibility study. On conversion of the convertible loan and interest, BSRT would own c 24% of Anglo Saxony Mining.

In February 2019, BSRT provisionally agreed to invest US\$3m in Toronto Venture Exchange (TSXV) listed Azarga Metals via an 8% secured convertible loan with a four-year term, convertible at C\$0.14 per share. In April 2019, BSRT completed the agreement and the first US\$1m tranche of the loan was drawn. BSRT also received 13.5m two-year warrants with an exercise price of C\$0.17 per share, and an option to acquire a 2% net smelter revenue royalty on Azarga Metals' Unkur Project for US\$5m. BSRT has the right to appoint one director, (two directors if its stake rises above 20%) and Steel has joined the board. If BSRT's interest in the convertible loan was fully converted into equity, it would hold c 29.9% of Azarga Metals (rising to c 36.6% if all warrants were exercised).

Commenting on largest holding Polymetal, Steel points out that this investment in listed company shares arose indirectly from the reorganisation of BSRT's interest in the Prognoz silver project, which represented a highly successful realisation of this investment. He emphasises how this transaction demonstrated the team's ability to generate strong returns against a challenging commodity market backdrop, with BSRT achieving a total return on investment of 3x (or 200%) and an internal rate of return (IRR) of 22%, while the silver price fell by c 50% over the investment period, from February 2011 to April 2018. Although the intention is to sell down the Polymetal shares over time to fund new investments, Steel considers it to be a constructive holding for BSRT, with his positive view reinforced by a visit to the company's new Kyzyl mine in Kazakhstan, which he reports as appearing very well managed.

The manager observes that not all investments perform well, noting the recent disappointing performance of AIM-listed gold producer Metals Exploration, with the shares down c 75% over 12 months. However, Steel expects losses on unsuccessful projects to be far outweighed by the significant returns that can be achieved on successful realisations, which he broadly expects to number around seven in 10 of the investments made by BSRT. He reflects on the sizeable gains expected to be achieved by portfolio investments as development milestones are reached, with the prospect of a c 4x return typical on a project moving from pre-feasibility study into full production. However, he highlights the potential for greater returns to be generated, sometimes over relatively short time frames, citing the more than 5x return that BSRT made on its March 2017 initial US\$0.5m investment in Sarmin when pre-feasibility study funding was raised in June 2017.

Steel is enthusiastic on the near-term outlook for BSRT's portfolio, noting that it is relatively mature, with an average holding period of around six years for the top 10 holdings. This may suggest these investments are approaching the point of realisation, with the prospect of significant associated valuation uplifts that BSRT is looking to achieve. Steel highlights a number of catalysts for realisation or upward revaluation among its top 10 holdings, including:

- Bilboes being close to completing a feasibility study, making a sale transaction or IPO possible.
- Futura being due to move into production in Q319.
- Cemos having just started production, so will move from cost to an earnings multiple valuation.
- Sarmin recently completing a pre-feasibility study and now marketing the project with a view to bringing in a development partner or an outright sale.
- Nussir having completed a feasibility study, suggesting it could move into production in 2019.

Steel emphasises the portfolio's strong medium-term capital growth and income upside potential, explaining that BSRT's top five holdings are currently held in the portfolio at a combined US\$59m, representing c 70% of NAV, but have a targeted potential value of up to US\$200m, expected to be achieved by 2024, which would represent a 3.4x (or c 240%) return and an IRR of c 28% if achieved. He highlights that the value of these five holdings partly stems from their combined targeted potential annual income of US\$10m by 2024 (70% royalties, 15% interest, 15% dividends). Steel notes that this income would support BSRT distributing a substantial regular dividend, with the full payout equating to a c 15% yield based on BSRT's current market cap of c £50m.

## Asset allocation

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### Investment process: Selective, fundamental approach

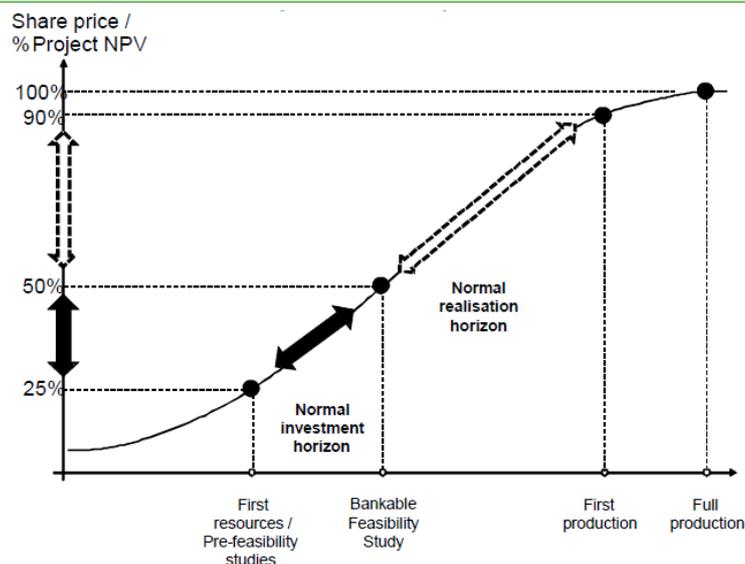
The core of BSRT's strategy is to invest in predominantly unlisted natural resources companies that the manager considers to be undervalued, while possessing strong fundamentals and attractive growth prospects. For the purposes of the investment policy, natural resources companies are defined as those involved in the exploration for and production of base metals, precious metals, bulk commodities, thermal and metallurgical coals, industrial minerals, oil & gas and uranium, and include single-asset as well as diversified natural resources companies. It is intended that unlisted investments will be realised through an IPO, trade sale, management repurchase or other methods.

BSRT focuses primarily 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 manager focuses on riding the development curve to generate valuation gains, rather than gearing exposure to benefit from anticipated commodity price rises. Exhibit 5 shows a typical mining project risk-adjusted development curve, which illustrates three primary sources of return that can drive valuation gains for BSRT's portfolio investments:

- BSRT seeks to invest on 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 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 generally 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 5: Risk-adjusted mining project valuation development curve**



Source: Baker Steel Resources Trust

The manager notes that following its launch in 2010, BSRT mainly invested in companies with projects that were around the bankable feasibility stage, whereas more recently, better value opportunities have been found in companies that are relatively close to moving into production.

Each year, BSRT's investment manager typically reviews up to 100 investment opportunities out of c 1,000 prospects that the team identifies, aiming to complete three to four investment transactions. The manager notes that it can take over a year to complete a deal following initial discussions, and stresses that an opportunity will not be pursued if the desired terms cannot be agreed. BSRT's typical investment horizon is three to five years, although the manager observes that investee company management teams are often more optimistic on timing, anticipating one to three years for a project to reach the targeted development stage.

BSRT is usually in a relatively strong position to dictate the terms of its investment, as it typically invests alongside a company's management team, rather than larger institutional shareholders or local governments. As well as seeking a seat on the board, the manager will generally try to negotiate a favourable structure for its investment. While aiming to achieve capital growth through equity exposure, the manager 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 managements, as well as providing further downside protection.

The fund has flexibility to hold 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. Derivatives may be used for efficient portfolio management and hedging, as well as to provide investment exposure, 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.

There are no fixed limits on the allocation between unlisted and listed equities or equity-related securities and cash, but the manager aims to adhere to the following broad allocation criteria:

- 40% to 100% of gross assets in unlisted equities or equity-related securities.
- Up to 50% of gross assets in listed equities or equity-related securities.
- Up to 10% of gross assets in cash or cash-like holdings.
- 10 to 20 core positions to provide adequate diversification while retaining a focused approach. Core positions will typically be between 5% and 15% of NAV at the date of acquisition.

The following investment limits apply (including investment exposure obtained via derivatives):

- No more than 20% in aggregate of gross assets may be invested in or lent to any company or group of companies, as at the relevant transaction date.
- No more than 10% in aggregate of gross assets may be invested in other listed closed-ended investment funds, except for those which themselves have stated investment strategies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

BSRT may take legal or management control of an investee company, and is permitted to invest in other investment funds or vehicles, including any managed by the investment manager, where such investment would be complementary to its investment objective and policy. The fund is required to avoid cross-financing between businesses within its investment portfolio, and operating common treasury functions with its investee companies. BSRT may borrow up to 10% of NAV to cover short-term timing differences in cash flows, but may not use borrowings to make share repurchases. The manager seeks to mitigate credit risk by lending to companies with projects that have significant value over and above the value of debt, so that there is a significant equity 'buffer'.

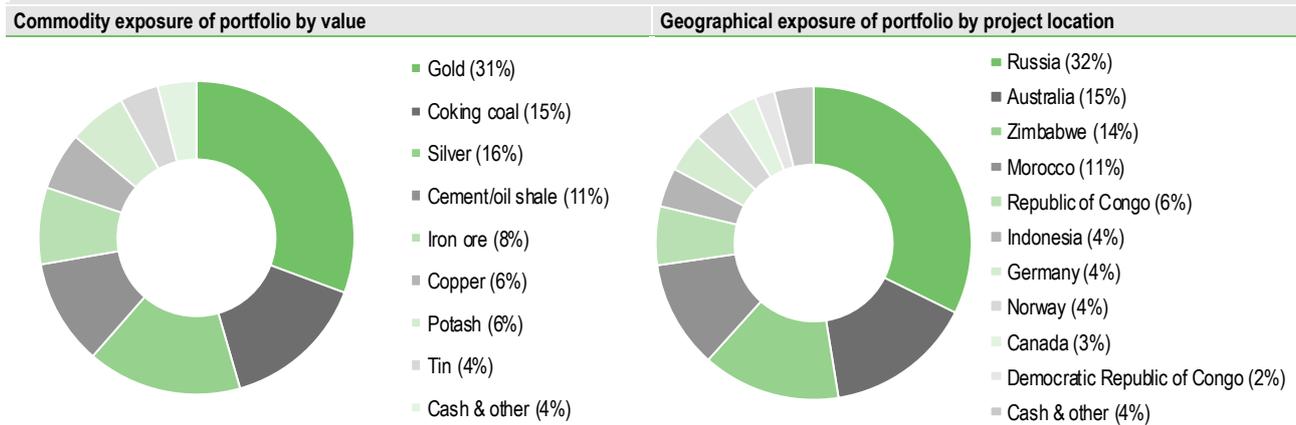
## Current portfolio positioning

BSRT holds a concentrated portfolio, comprising 15 to 20 investments, currently with 31% exposure to gold and 32% to Russia. At end-May 2019, the top 10 holdings represented 91.2% of NAV (see Exhibit 1), while cash accounted for 2.0% of NAV. Although concentrated, the portfolio is diversified by commodity and geography (in terms of project location), as shown in Exhibit 6. Commodity exposure is focused on the large liquid markets with relatively transparent pricing, including gold, silver, coking (metallurgical) coal, potash, iron ore, copper, platinum group metals, and nickel. Geographic exposure covers a range of developed and emerging economies, with projects located in Australia, Canada, Democratic Republic of Congo, Germany, Indonesia, Madagascar, Mongolia, Morocco, Norway, the Philippines, Republic of Congo, Russia, South Africa and Zimbabwe.

The majority of BSRT's investments are in debt instruments (24% of NAV at end-2018; typically convertible loan notes) and unlisted equities and warrants (38% of NAV at end-2018). However, BSRT currently holds three listed investments: Polymetal International, Ivanhoe Mines, and Metals Exploration, accounting for c 23% of NAV.

BSRT's holding in Polymetal shares resulted from the reorganisation of its interest in the Prognoz silver project and its sale to Polymetal in the first half of 2018, while BSRT retained an interest in Prognoz through a 0.9–1.8% net smelter royalty held by Polar Acquisition (see below). Most of the Polymetal shares were initially subject to a lock-up, but this expired in October 2018 and BSRT continues to hold the majority of its shares to retain exposure to the market.

### Exhibit 6: Portfolio diversification by commodity and geography at end-May 2019



Source: Baker Steel Resources Trust, Edison Investment Research. Note: Figures subject to rounding.

At its launch in April 2010, BSRT held a stake in private company Ivanhoe Nickel & Platinum (Ivanplats) in its seed portfolio, and shortly afterwards acquired an additional shareholding, with Ivanplats becoming BSRT's largest holding, representing 22% of NAV at end-2011. In October 2012, Ivanplats listed on the Toronto Stock Exchange, and the company changed its name to Ivanhoe Mines in August 2013. BSRT's holding was subject to a lock-up agreement that expired in 2016, since when its position has been steadily reduced to fund new portfolio investments.

BSRT invested in AIM-quoted Metals Exploration in 2010 as part of a larger strategic interest totalling c 24% that was acquired by Baker Steel-managed funds. The value of this holding declined substantially in 2018 due to gold production falling considerably short of the 100koz target. Although a new CEO was appointed at the beginning of 2019, who has refreshed the operating team at the Runruno mine, the desired production level has not yet been achieved. Additionally, the company is yet to find a solution to restructuring its US\$63.3m senior debt facility, as it has insufficient liquidity to meet the currently scheduled repayments.

## Overview of BSRT's main investments

### Polymetal International (20.5% of NAV)

Polymetal is a leading precious metals mining group operating in Russia and Kazakhstan that is listed on the London and Moscow Stock Exchanges, and is a member of FTSE 250, FTSE Gold Mines and MSCI Russia indices. Polymetal has a portfolio of nine producing gold and silver mines, which in 2018 produced 1.56Moz of gold equivalent, and a pipeline of future growth projects.

### Futura Resources (14.7% of NAV)

Futura owns the Wilton and Fairhill coking coal projects in the Bowen Basin in Queensland, Australia, which hold measured and indicated resources of 843Mt of coal. Production is planned to commence at Wilton in 2019 and at Fairhill in 2020, for a targeted combined sustainable level of 2.5Mtpa of saleable processed coal by 2021/2 for at least 25 years.

### Bilboes Gold (14.4% of NAV)

Bilboes is a private Zimbabwe-based gold mining company that has a JORC-compliant indicated mineral resource of 48Mt grading 2.42 g/t gold, containing 3.7Moz of gold, and an inferred mineral resource of 10.6Mt grading 2.55 g/t gold, containing a further 1.1Moz of gold. A positive pre-feasibility study into a mine producing up to 200koz of gold per annum was completed in 2017, and a definitive feasibility study is due for completion in the second half of 2019.

### **Cemos Group (11.3% of NAV)**

Cemos is a private cement producer and oil shale explorer and developer whose key asset is the Tarfaya project in Morocco, containing JORC-compliant measured resources of 308m barrels of shale oil. As a first step for development, Cemos completed the construction of a cement plant at Tarfaya in December 2018, with a capacity of up to 270ktpa.

### **Polar Acquisition (9.9% of NAV)**

Polar Acquisition is a private company that holds a 0.9% to 1.8% royalty over the Prognoz silver project, 444km north of Yakutsk in Russia, owned by Polymetal International. Prognoz has a 256Moz silver equivalent indicated and inferred mineral resource at a grade of 789g/t silver equivalent. A pre-feasibility study is being undertaken by Polymetal and is expected to be completed in the first half of 2020.

### **Sarmin Minerals Exploration (5.6% of NAV)**

Sarmin is a private company that holds the Kanga potash project in the Republic of Congo, which has an indicated mineral resource of 4,730Mt grading 17.1% potassium chloride (KCl), containing 810Mt KCl, and an inferred mineral resource of 7,160Mt grading 16.7% KCl, containing 1,197Mt KCl. A positive pre-feasibility study, completed in September 2018, outlined a phased project employing solution mining, which will commence with a 400ktpa KCl operation with a peak capital cost of US\$410m, rising to 2.4Mtpa KCl with further capex.

### **Black Pearl (4.4% of NAV)**

Black Pearl is a special purpose vehicle formed to invest in the Black Pearl beach placer iron sands project in West Java, Indonesia. 1,600 hectares of the 15,000 hectares concession area has been drilled, and the JORC-compliant mineral resource stands at 572Mt grading 10% iron. Mining regulations brought into force in January 2014 require the project to incorporate further product beneficiation (processing to increase economic value) within Indonesia. Negotiations are ongoing for the Black Pearl project to form the base production for an integrated steel production facility.

### **Anglo Saxony Mining (3.6% of NAV)**

Anglo Saxony Mining is a private company. Its principal asset is the Tellerhauser tin project in Saxony, Germany, which contains a mineral resource (estimated under JORC 2012 guidelines) of 18.9Mt at a grade of 0.49% tin, for 93kt of contained tin, with a further estimated 3.3Mt at 0.34% tin, for an additional 11kt of tin. The nearby Gottesburg project, with a JORC resource of 114kt of contained tin, was recently acquired. A metallurgical testwork programme has demonstrated that a saleable concentrate can be produced, and work commenced on a pre-feasibility study in 2019.

### **Nussir (3.5% of NAV)**

Nussir is a Norwegian private company. Its key asset is the Nussir and Ulveryggen copper project in Northern Norway. A JORC-compliant report estimated indicated mineral resources at 21.3Mt grading 1.14% copper, containing 243kt of copper. The resource statement also included 574kt of copper in inferred mineral resources, providing combined contained copper of 817kt. A pre-feasibility study into a mine producing up to 20ktpa of copper was completed at the end of 2016, with a definitive feasibility study due in the second half of 2019.

### **PRISM Diversified (3.3% of NAV)**

PRISM is a private Canadian company that owns the Clear Hills Iron Ore/Vanadium Project in Alberta, Canada. Clear Hills currently has indicated resources of 557.7Mt at 33.3% iron and 0.2% vanadium and an inferred resource of 94.7Mt at 34.1% iron.

### Ivanhoe Mines (<3% of NAV)

Ivanhoe is a Toronto Stock Exchange-listed company that holds interests in the Kamoakakula copper project (39.6%) and Kipushi zinc mine (68%) in the Democratic Republic of Congo (DRC), and the Platreef nickel, platinum, palladium, copper and gold project (64%) in South Africa.

### Azarga Metals (<2% of NAV)

Azarga Metals is a TSXV-listed company with rights to the Unkur copper-silver project in eastern Russia, which has an inferred mineral resource of 62Mt at 0.53% copper and 38.6g/t silver, containing 328.6kt of copper and 76.8Moz of silver. A preliminary economic assessment envisages an open-pit operation with an eight-year mine life, producing 13.2ktpa of copper and 3.7Mozpa of silver. Unkur benefits from good existing infrastructure such as grid power, road access and nearby rail, and is located c 20km from Udokan, one of the world's largest copper development projects.

## Performance: Particularly strong over three years

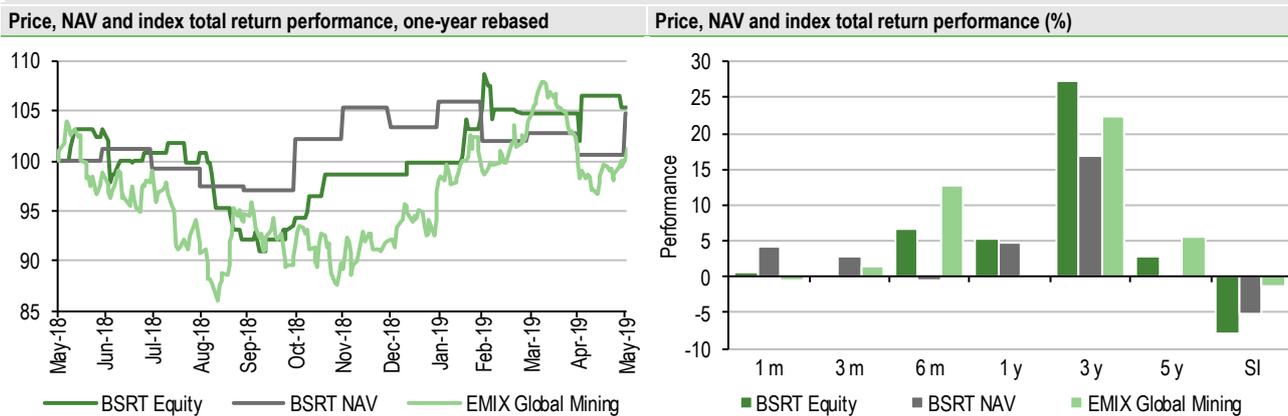
BSRT revalues its unlisted equity holdings every six months, and more often subject to events, based on arm's length transaction values for the asset, with valuations indexed to the performance of a basket of 15–20 listed peer companies. Any development milestones being reached, or other company-specific events, are also taken into account in valuations. The basket of listed peer companies is also used to provide volatility figures for the valuation of warrants. Similar to many private equity funds, this valuation approach means that monthly NAV movements mainly reflect the share price moves of listed company holdings, as well as any investment transactions completed.

<b>Exhibit 7: Five-year discrete performance data</b>					
12 months ending	Share price (%)	NAV (%)	EMIX Global Mining (%)	MSCI AC World (%)	FTSE All-Share (%)
31/05/15	(37.2)	(22.1)	(11.9)	16.1	7.5
31/05/16	(11.5)	(18.7)	(18.1)	(0.3)	(6.3)
31/05/17	52.2	32.4	46.2	33.2	24.5
31/05/18	28.9	15.0	24.7	9.1	6.5
31/05/19	5.3	4.8	0.3	4.8	(3.2)

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

Although BSRT does not have an official performance benchmark, the EMIX Global Mining index provides a useful broad reference for comparison, and we also show returns relative to the MSCI AC World and FTSE All-Share indices to give a wider context. As illustrated in Exhibit 8, BSRT's share price and NAV total return performances have outperformed the EMIX Global Mining index over one year, and both have demonstrated much lower volatility than the index.

Over three and five years, and over the nine years since its inception, BSRT's NAV total return has lagged the EMIX Global Mining index, although it considerably outperformed the index during 2011 and the first half of 2012, as illustrated in Exhibit 10. BSRT's particularly strong share price performance over three years reflects the discount narrowing from 37.8% to 19.6%, compounded with a relatively strong NAV performance as the mining sector continued its recovery after five years of decline, which concluded with a particularly challenging year in 2015.

**Exhibit 8: Investment company performance to 31 May 2019**


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

As shown in Exhibit 9, while lagging the MSCI AC World and FTSE All-Share indices over five years and the nine years since the fund's inception, BSRT's share price and NAV returns are ahead of the FTSE All-Share index over one and three years to end-May 2019, and have matched the stronger performance of the MSCI AC World index over one year. However, we note that BSRT's particularly strong one-month outperformance of these indices contributed a substantial part of its relative strength over one year, similar to its performance relative to the EMIX Global Mining index.

**Exhibit 9: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	Since inception
Price relative to EMIX Global Mining	1.1	(1.3)	(5.2)	5.0	13.0	(12.9)	(46.3)
NAV relative to EMIX Global Mining	4.5	1.5	(11.6)	4.5	(12.7)	(23.4)	(30.9)
Price relative to MSCI AC World	3.3	(4.0)	3.7	0.5	35.6	(34.9)	(80.8)
NAV relative to MSCI AC World	6.9	(1.2)	(3.4)	0.0	4.8	(42.7)	(75.3)
Price relative to FTSE All-Share	3.8	(2.2)	1.8	8.8	60.8	(11.2)	(74.8)
NAV relative to FTSE All-Share	7.3	0.6	(5.1)	8.2	24.2	(21.9)	(67.6)

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

Exhibit 10 illustrates the differentiation of BSRT's NAV total returns relative to the EMIX Global Mining index, as would be expected given the differing nature of BSRT's largely unlisted investments and their private equity-style return profile. Since its launch in April 2010, BSRT has seen extended periods of both outperformance and underperformance, while for the last three years, BSRT's performance has been relatively consistent with the index. In the manager's view, the current maturity of BSRT's portfolio and the significant upside prospects of its largest investments provide potential for a period of outperformance over the near and medium term.

**Exhibit 10: BSRT's NAV total return relative to EMIX Global Mining index since launch**


Source: Refinitiv, Edison Investment Research

## Discount: At the narrow end of its one-year range

As illustrated in Exhibit 11, BSRT's shares traded at a premium to NAV on its launch in April 2010 and traded between an 8.3% premium and a 24.1% discount over the next 18 months. After briefly returning to a premium several times, the share price moved conclusively to a discount to NAV in August 2011. The discount then followed a broadly widening trend, which steepened noticeably during 2015 – a year in which mining shares and commodity prices fell considerably amid fears of a sharp economic slowdown in China. However, the discount has narrowed appreciably from its widest point of 64.3% in December 2015.

The current 16.4% discount is towards the narrow end of its 26.2% to 14.6% one-year range, and narrower than its average levels of 20.7%, 23.3% and 30.7% over one, three and five years, respectively, as well as its 24.3% average since inception.

**Exhibit 11: Share price premium/discount to NAV since launch (%)**



Source: Refinitiv, Edison Investment Research

In August 2015, the board introduced a share buyback programme with the objective of managing BSRT's share price discount to NAV, and 700,000 shares were subsequently repurchased into treasury at an average price of 20p per share. The buyback programme was suspended in December 2015 pending BSRT's potential acquisition of a controlling interest in Polar Silver, and no further share repurchases have been made.

## Capital structure and fees

BSRT has two classes of shares in issue, with 106.5m ordinary shares and 9,167 management ordinary shares currently outstanding, and a further 0.7m ordinary shares 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, but no market share purchases have been made since 2015 and no allotments have been made since 2016 (see Exhibit 1). Under BSRT's capital return policy, 9.7m shares were repurchased via tender offer in May 2019 for cancellation (see Distribution policy and record section below for more details). The 51p per share purchase price represented a 10.9% premium to the prior closing share price and a 10.2% discount to the end-April 2019 NAV, resulting in the repurchase being 0.7% accretive to NAV per share after expenses.

BSRT's ordinary shares are listed on the Main Market of the London Stock Exchange and holders have the right to vote at the company's general meetings. Holders of management ordinary shares also have the right to vote at general meetings, except on resolutions relating to certain specific matters, including a material change to the company's investment objective, investment policy or borrowing policy. Holders of each share class are entitled to dividends and other distributions.

The 9,167 management ordinary shares are held by BSRT's investment manager Baker Steel Capital Managers. Baker Steel Global Funds SICAV – Precious Metals Fund (also managed by Baker Steel Capital Managers) had an interest in 7.5m ordinary shares (6.4% of BSRT's shares in issue) as at 31 December 2018, unchanged from end-December 2017.

At BSRT's admission to the LSE on 28 April 2010, 30.5m ordinary shares and 6.1m subscription shares were issued pursuant to a placing and offer for subscription, while 35.6m ordinary shares and 7.1m subscription shares were issued pursuant to a scheme of reorganisation of the Genus Capital Fund – a Baker Steel-managed fund that provided the seed portfolio of assets for BSRT. Subsequently, 0.1m ordinary shares were issued on exercise of subscription shares (between September 2010 and September 2012), and all residual subscription shares were cancelled. A total of 47.4m ordinary shares were issued for in specie transactions in 2014 (5.6m), 2015 (40.2m) and 2016 (1.6m), in which additional stakes in a number of existing portfolio holdings were acquired, and BSRT issued 3.4m ordinary shares for cash subscriptions under an open offer in 2015.

Every three years, starting from the 2018 AGM, the board proposes a special resolution to discontinue the company, which if passed will require the directors to submit proposals within six months that provide shareholders with an opportunity to realise the value of their ordinary shares.

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 holds sufficient cash and listed investments to meet its obligations as they arise. At end-May 2019, BSRT's net cash amounted to 2.0% of NAV, while its holding in Polymetal International accounted for a further 20.5% of NAV. This compared with BSRT's 0.0% net cash position at end-May 2018, along with holdings in listed investments Metals Exploration and Ivanhoe Mines, which totalled 10.0% of NAV.

Baker Steel Capital Managers is paid a monthly management fee at a rate of 1.75% per annum 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 hurdle, relative to the highest previously recorded NAV for which a performance fee has been paid. The performance fee only becomes payable once there have been sufficient net realised gains. No performance fees have been earned since FY11, and the reference NAV for the performance fee high-water mark is 131.3p per share at end-December 2011 (versus 56.8p currently).

BSRT paid management fees of £0.9m and incurred total expenses of £1.4m for FY18, which we calculate represented 2.1% of average net assets, consistent with the 2.1% FY17 total expense ratio. Management fees and expenses are charged 100% to the revenue account.

## **Distribution policy and record**

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In 2015, the board introduced a capital returns policy under which it will distribute no less than 15% of aggregate net realised cash gains (after deducting losses) in each financial year, calculated following publication of BSRT's audited financial statements. These distributions may be made via share buybacks, tender offers or dividend payments, at the discretion of the board. To date, no dividend distributions have been made.

Due to the reorganisation of its largest holding Polar Acquisition (37.4% of NAV at end-December 2017) during FY18, BSRT received cash and shares in LSE-listed Polymetal International totalling £20.4m. The board considered Polymetal shares to be sufficiently liquid to be included in the calculation of net realised cash gains, in the spirit of the capital returns policy, and therefore recommended a £4.9m distribution to shareholders (being c 25% of the net realised gain), equating to 7.5% of NAV. Following shareholder approval at the AGM on 28 May 2019, this distribution was conducted via a tender offer for 9.7m shares at 51p per share.

In addition to the capital returns policy, the board hopes that over time, the income to be 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

In Exhibit 12, we show a comparison of BSRT with a peer group of investment companies that focus on commodities and natural resources and have a market cap of more than £10m. We note that there is a wide range of investment strategies within the peer group and an equally wide range of performance outcomes over the periods shown, exemplified by three-year NAV total returns ranging from -27.1% to +74.1%.

<b>Exhibit 12: Selected commodities and natural resources fund peer group as at 20 June 2019*</b>											
<b>% unless stated</b>	<b>Market cap £m</b>	<b>NAV TR 1 year</b>	<b>NAV TR 3 year</b>	<b>NAV TR 5 year</b>	<b>NAV TR SI**</b>	<b>Discount (cum-fair)</b>	<b>Ongoing charge</b>	<b>Perf. fee</b>	<b>Net gearing</b>	<b>Dividend yield</b>	
Baker Steel Resources Trust	52.6	4.8	59.7	1.0	(0.5)	(16.4)	2.15	Yes	100	0.0	
BlackRock Energy & Resources Income	85.1	(8.9)	47.0	(4.7)	3.7	(10.0)	1.39	No	106	5.4	
BlackRock World Mining Trust	646.3	(10.3)	74.1	7.6	6.2	(15.2)	0.93	No	111	4.9	
CQS Natural Resources Growth & Income	57.2	(21.7)	10.0	(7.8)	0.6	(24.0)	1.73	No	112	6.5	
El Oro	40.8	(9.7)	15.7	(11.1)	(5.6)	(12.3)	3.33	Yes	100	3.9	
Geiger Counter	15.7	(4.6)	(5.0)	(37.1)	(16.4)	0.5	3.60	Yes	125	0.0	
Golden Prospect Precious Metals	13.6	(28.4)	(27.1)	(32.1)	13.5	(17.4)	2.65	Yes	108	0.0	
Polo Resources	11.7	10.7	23.7	(45.4)	(3.6)	(75.9)	7.56	No	100	0.0	
Riverstone Energy	683.1	(18.7)	6.3	23.9	(27.4)	(27.0)	2.77	Yes	100	0.0	
<b>Average (9 funds)</b>	<b>178.5</b>	<b>(9.7)</b>	<b>22.7</b>	<b>(11.7)</b>	<b>(3.3)</b>	<b>(22.0)</b>	<b>2.90</b>		<b>107</b>	<b>5.2</b>	
<b>BSRT rank in peer group</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>6</b>		<b>6=</b>	<b>5=</b>	

Source: Morningstar, Edison Investment Research. Note: \*Performance to end-May 2019. \*\*SI is since BSRT's inception in April 2010. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

BSRT's NAV total return is ahead of the peer group average over one, three and five years, and over the nine years since the fund's inception in April 2010. BSRT's share price discount to NAV is narrower than the peer group average discount, and ranks at the median in a wide range, from a 0.5% premium for Geiger Counter to a 75.9% discount for Polo Resources. BSRT's ongoing charge is below average, although, similar to the majority of the peer group (notably those funds with higher ongoing charges), it also charges a performance fee. BSRT is one of four 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 directors, all of whom are independent of the manager. Three directors have served on the board since BSRT's incorporation in March 2010, while David Staples joined the board on 29 May 2019, replacing Chris Sherwell, who retired at the May 2019 AGM, having served as a director for over nine years. There is no limit on a director's length of service, but the board has initiated a succession plan to refresh its membership while maintaining a degree of continuity, following corporate governance best practice. All directors stand for re-election annually at the AGM, and shareholders also vote on maximum aggregate board remuneration. The current cap is £200,000 per annum, and total board remuneration was £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, senior independent director at BBGI SICAV, 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 is a chartered accountant who spent 25 years at PwC, including 13 years as partner. He has a number of years' experience serving on the boards of listed and private companies, and he is currently a director of Ruffer Investment Company and NB Global Floating Rate Income Fund.

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