BAKERSTEEL Electrum Fund

BAKERSTEEL®

Investment Manager's Commentary: Q1 2022

Highlights:

- The metals and mining sector had a strong start to the year.
- The Russia-Ukraine conflict has highlighted the fragility of supply chains for a range of natural resources.
- The Fund offers exposure to the bull market we believe is just beginning for speciality metals.

Q1 Top performers:

- **Norsk Hydro**
- **AMG**
- **First Quantum Minerals**

Q1 Underperformers:

- **Neo Performance Materials**
- **Graftech International**
- **United Co Rusal**

Russia's invasion of Ukraine has cast uncertainty over commodity markets, amid a fundamental shift in the geopolitical environment.

Fund Performance

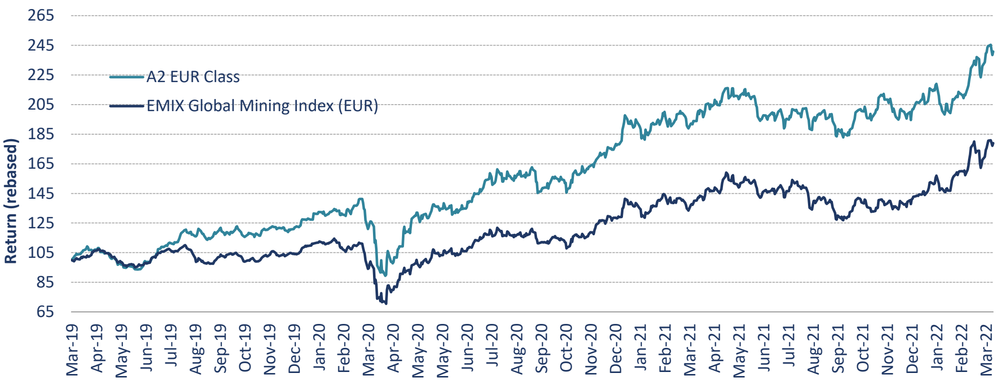
BAKERSTEEL Electrum Fund (the "Fund") gained +16.8% (A2 EUR class) during the quarter compared with the EMIX Global Mining Index ("the Index") which rose +24.9% (in Euro terms). Further Fund details, including performance, can be found here.

The Fund lagged its Index during the quarter, primarily due to the outperformance of bulk commodity miners relative to the speciality metals producers on which the Fund is focused. The current geopolitical situation following Russia's invasion of Ukraine has boosted certain subsectors of the resources industry, notably fossil fuels, which the Fund does not invest in given its focus on the metals and materials required for the green revolution. Despite this temporary divergence, we remain confident that the 'future facing' sub-sectors of the mining industry in which the Fund is invested will outperform the bulks over time, given the exceptional demand forecasts, tight supply and supply chain issues for certain metals.

It has been three years since Baker Steel launched the BAKERSTEEL Electrum Fund, with the goal of creating an actively managed equity fund investing in the producers, processors and recyclers of future facing speciality metals, alongside selected precious and industrial metals. The Fund's disciplined investment strategy has a strong focus on value and risk management, alongside a particular focus on ESG research utilising Baker Steel's proprietary in-house ESG screening and scoring framework.

The Fund has faced turbulent global markets since its launch in March 2019, buffeted by the global pandemic and rising geopolitical tension, which culminated in the Russian invasion of Ukraine in late-February, highlighting the fragility of global commodity supply chains. Yet the core driver for the Fund's investment strategy, the green revolution and surging demand for those metals and materials required for the fight against climate change, has continued to grow in significance and relevance over the past three years. Since launch the Fund has delivered strong relative returns, compared to its peer group and the EMIX Global Mining Index. Fund size has grown to around USD 363m at 31 March 2022.

Performance of A2 EUR Class since Baker Steel's appointment as Investment Manager



Source: Bloomberg. Data as at 31 March 2022. Note: prior to 11 March 2019 the Investment Manager was Kontor Stöwer and the Investment Advisor was Stabilitas GmbH. Returns are reported in Euro terms net of fees. Past performance is not a reliable guide to future performance.

Market Update

News of Russia's invasion of Ukraine in late-February cast uncertainty over certain commodity markets, amid a fundamental shift in the geopolitical environment in a manner not seen for decades. Oil and gas prices rose sharply and the gold price returned briefly to its all-time high amid safe haven buying on the news and, although prices have since pulled back somewhat. Bulk commodities such as iron ore, generated strong performance during the quarter, relative to speciality metals miners. Battery-related metals, most notably lithium, exhibited weakness in early 2022.

Inflation has typically been a key driver of higher commodity prices, yet there is a risk that rising production costs will erode miners' margins.

The themes to which the Fund offers exposure have grown increasingly relevant in the years since its launch. Firstly, the transition to net zero has become an increasingly critical challenge for policymakers and investors, with the costs estimated at USD 3-5 trillion (about 3% of global GDP) a year over the coming decades (Source: Goldman Sachs, 2021 Sustainability Report). Appreciation of the quantities of commodities which will be required in order to meet demand forecasts is only just becoming apparent.

Secondly, global events have continued to highlight the fragility of global supply chains of critical commodities. The COVID-19 pandemic, which started one year after the Fund's launch, caused disruption for the production and supply of many commodities, amid an initial demand slump and subsequent strong recovery. More recently, the deeply troubling Russian invasion of Ukraine has once again highlighted the reliance of many developed economies and major global industries on fragile supply chains, particularly in the case of metals and energy.

The Fund combines bottom-up stock selection with top-down asset allocation weighting strategically between sub-sectors of the industry.

Both of these themes signal that sustained inflationary pressure will be a defining feature of the global economy in the coming years, with consumers and businesses already facing significantly higher prices. Inflation has typically been a key driver of higher commodity prices, yet there is a risk that rising production costs will erode miners' margins. We see evidence that cost inflation is already impacting the mining industry, with many producers facing rising labour and energy costs, and it is here that we see an opportunity for active managers. The Electrum Fund is focused on identifying producers that will disproportionally benefit from a higher cost curve, such as those with independent energy sources (e.g. renewables) which will see margin expansion under a rising energy price environment.

Performance Attribution

The Electrum Fund's investment strategy combines bottom-up stock selection, targeting high quality producers, processors, and recyclers, with top-down asset allocation weighting strategically between sub-sectors of the industry. During the quarter, the Fund's exposure to precious metals was increased, given gold and silver's safe haven status, in the face of confrontational geopolitics. Lithium exposure was reduced, as company valuations began to appear stretched amid falling lithium prices. Meanwhile, the Fund has increased exposure to aluminium and fertilizer, commodities which will benefit particularly from rising energy costs. Further to the theme of rising energy prices, we have continued to increase exposure to those companies which have captive energy supplies, or at least those with limited energy price exposure, and are therefore well-positioned to increase their margins as commodity prices rise.

The Fund's exposure to precious metals has increased, given both gold and silver's safe haven status, in the face of confrontational geopolitics.

Top performing positions during Q1 included Norsk Hydro, AMG and First Quantum Minerals. Norsk Hydro (4.9% NAV) rose +28.6% (NOK) during the quarter. The company is a Norwegian fully integrated aluminium company which covers bauxite production to downstream extruded products and recycling. Importantly, Norsk Hydro produces most of its own power and produces some of the greenest aluminium globally and is a beneficiary of rising energy prices or any carbon tax.

AMG (3.8% NAV) rose +46.2% (EUR) during the quarter. A global leader in the supply of critical materials, including mining, recycling and processing, the Fund increased its position in AMG at the start of the year. The company has generated strong returns as the market digests the company's encouraging earnings, the expansion of its lithium and vanadium divisions and substantial cash generation by other divisions.

The Fund is focused on producers that will disproportionally benefit from a higher cost curve, such as those with independent energy sources (e.g. renewables).

First Quantum Minerals (3.5% NAV) rose +43.2% (CAD) during the quarter. A large-scale copper producer, First Quantum has an encouraging growth pipeline and importantly does not have exposure to Chile. As such the company offers effective exposure to copper, a key metal for electrification, while also paying a dividend.

Underperforming positions during Q1 2022 included Neo Performance Materials, Graftech and United Co Rusal. Neo Performance Materials (3.9% NAV) fell -20.3% (CAD) during the quarter. As a manufacturer of advanced industrial materials, Neo Performance offers exposure to rare earths and critical materials used in green technology. The company's share price was impacted by the onset of the Russia-Ukraine conflict, due to concerns over the supply of concentrate to its Estonia-based processing plant, which our team are conducting a site visit to during May.

Russian exposure had already been materially reduced, for both risk management reasons, and has since been further divested.

Graftech (3.3% NAV) fell -17.5% (USD) during the quarter. The company has been a big beneficiary of the growing markets for low carbon steel, using electric arc furnaces, and battery production for use in electric vehicles. However, rising energy costs have raised concerns that margins may be eroded, before energy costs feed through to electrode prices, which would benefit Graftech as an integrated supplier.

Rusal (1.0% NAV) fell -35.0% (HKD) during the quarter. As a Russian-headquartered company, with a listing in Hong Kong, the position had been sold down prior to Russia's invasion of Ukraine, as risks rose. The company trades on attractive multiples, yet there are heightened risks surrounding its debt in the current geopolitical environment.

Outlook

With global financial markets at an inflection point amid rising economic and geopolitical risk, we believe commodity markets have never been more relevant for investors. The stage is set for the new commodity supercycle, amid rising prices, tight supply chains, and soaring demand projections for critical metals from green industries. Miners remain undervalued and are in strong shape, and we believe this is one of the few equity sectors offering value, dividends and selective growth.

The stage is set for the new commodity supercycle, amid rising prices, tight supply chains, and soaring demand projections for critical metals.

The green revolution will transform the metals and mining industry in the years ahead, and the Fund's strategy remains well-positioned to offer exposure to the bull market we believe is just beginning for speciality metals, through a combination of bottom-up stock selection, targeting high quality producers, processors and recyclers, and top-down asset allocation weighting strategically between sub-sectors of the industry. Our investment approach continues to be value-driven and focused on those companies with the best assets, effective management, attractive shareholder returns and that operate in an ethical and sustainable manner in line with our own ESG principles.

Mark Burridge & James Hayter

Important