# Investor Report

31 August 2022

# CQS Natural Resources Growth and Income Fund

## Key Fund Facts[1]

| | |
|---|---|
| Fund Managers | Ian 'Franco' Francis<br>Keith Watson<br>Robert Crayfourd |
| Launch Date | August 2003 |
| Total Gross Assets | £m 169.04 |
| Reference Currency | GBP |
| Ordinary Shares | Net Asset Value: 227.31p<br>Mid-Market Price: 194.00p |
| Dividend Yield (estimated) | 2.9% |
| Net gearing[4] | 9.0% |
| Discount | (14.7%) |
| Ordinary Shares in Issue | 66,888,509 |
| Annual Management Fee | 1.2% on adjusted net assets |
| Bloomberg | CYN LN |
| Reuters | CYN.L |
| Sedol | 0035392 |
| Year End | 30 June |
| Contact Information | contactncim@cqsm.com |
| Company Broker | FinnCap<br>+44 (0) 203 772 4697 |
| AGM | December |
| Dividend Information 2021/22 | 1.26p interim paid 30 Nov 2021<br>1.26p interim paid 25 February 2022<br>1.26p interim paid 27 May 2022<br>1.82p interim paid 26 August 2022 |
| Fiscal Year-End | 30 June |
| Previous Dividend information | 2012/13 Total 5.50p<br>2013/14 Total 5.60p<br>2014/15 Total 5.60p<br>2015/16 Total 5.60p<br>2016/17 Total 5.60p<br>2017/18 Total 5.60p<br>2018/19 Total 5.60p<br>2019/20 Total 5.60p<br>2020/21 Total 5.60p |
| Investor Report | Monthly Factsheet |
| Annual Report & Accounts | Published: October |
| Results Announced | Finals: October<br>Interims: March |

**Please see page 2 for footnotes**

**Portfolio Managers**
**Ian Francis, Keith Watson and Robert Crayfourd**
Growth and Income

## Fund Description

The Fund aims to generate capital growth and income, predominantly from a portfolio of mining and resource equities, and from mining, resource and industrial fixed interest securities.

## Key Advantages for the Investor

- Access to under-researched, mid and smaller companies in the Natural Resources sector
- Quarterly dividend paid to shareholders
- Low correlation to public markets
- Potential inflation hedge

## Ordinary Share and NAV Performance[2]

| | 1 Month (%) | 3 Month (%) | 6 Month (%) | 1 Year (%) | 3 Year (%) | 5 Year (%) | Since Inception (%) |
|---|---|---|---|---|---|---|---|
| NAV | 5.9 | -3.1 | 11.2 | 36.9 | 121.7 | 92.7 | 654.3 |
| Share Price | 12.1 | -7.1 | 13.9 | 47.6 | 164.7 | 116.0 | 608.0 |
| Benchmark | 3.1 | -19.3 | -7.1 | 5.3 | 42.2 | 63.6 | 541.2 |

## Commentary[3]

The Fund NAV rose 5.9% in August, with energy equities outperforming miners and continuing to drive overall performance.

Developer Sigma Lithium was the most notable contributor, as its share price leapt 34% in August, sustaining strong momentum. Uranium investments also made a positive contribution, with sentiment towards clean nuclear power receiving a significant boost when Japan announced plans to restart its reactor fleet.

With elevated energy prices supported by producer discipline, attractively valued coal mining equities and oil & gas producers also contributed to returns. The 27% share price rise of ASX-listed Whitehaven Coal stood out. With its full year results, the company announced a A$0.40 fully franked dividend, taking the prospective dividend yield to c. 11% at the end of August.

Crude shippers gained, in part driven by the increased inefficiencies in global trade routes that followed Western sanctions on Russia. Oil shipper Euronav saw strong gains, with the Fund taking some profits over the month. Offsetting this, gas shipper BW LPG reported disappointing earnings and an outlook indicating a slower-than-expected pick-up in VLGC (Very Large Gas Carriers) day rates. Despite prospects of rising day rates being pushed out, BWL PG appears well placed after having upgraded a significant proportion of its VLGC fleet; the shares trade at an attractive 35% discount to the value of its fleet, near historic lows. Precision Drilling acted as a slight drag to performance; however, the group remains well placed to benefit from rising rig utilisation and increasing day rates – this is due to the US on-shore E&P sector's need to develop wells simply to maintain output.

Commodities outside the energy complex were somewhat weak. Iron ore, to which the Fund has minimal exposure to, fell 10% given the bleak outlook of China's property sector. Steel input nickel declined a similar amount, which weighed on the share price of US explorer Talon, the Fund's primary exposure to the metal. Nevertheless, Talon is expecting to release results from its recent drilling programme on its Tamarak project; the venture has the potential to deliver high grades and expand the resource of this sought-after metal, which is supplied to firms including Tesla.

Copper and related mining equities were little changed. However, cost inflation pressures remain an issue for producers, especially miners. We think that these higher costs are not fully factored into earnings estimates yet, so we therefore believe that, overall, copper miners do not yet look sufficiently cheap at spot prices.

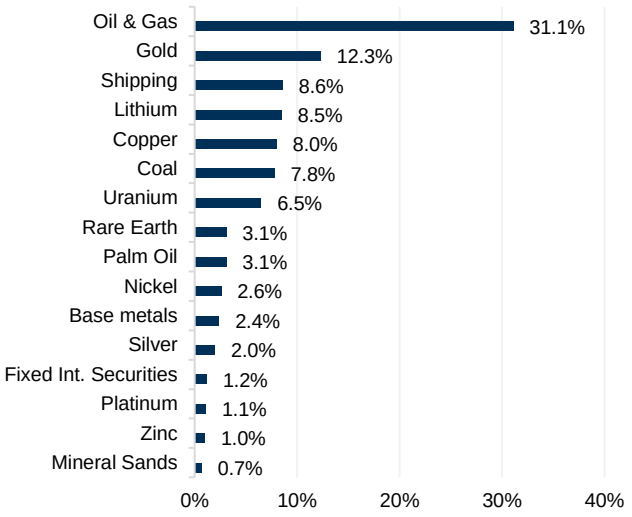
That said, equity values are based on forward expectations and we are more constructive on the medium term outlook for copper; in our view, cost pressures only act to defer new project capital expenditures, therefore making them more attractive later in this decade. We continue to monitor this closely and will add back to these names when we feel the timing and valuations are appropriate.

Pressured by a strong US dollar, gold ended August down c. 3.5%. Precious metals have continued to disappoint. They remain the most sentiment-driven of all commodities as they aren't consumed in the same way as other resources such as energy. We still expect a recession risk premium to return to gold, but for now the strength of the US dollar continues to weigh on the sector, which is valued in US dollars – hence becoming more expensive as the currency rises. However, and outside US dollar gold, performance looks better, posting a gain of 1.4% in sterling terms in August. Having slipped another 4.5% against the dollar in August, sterling's weakness continues to provide a tailwind to returns.

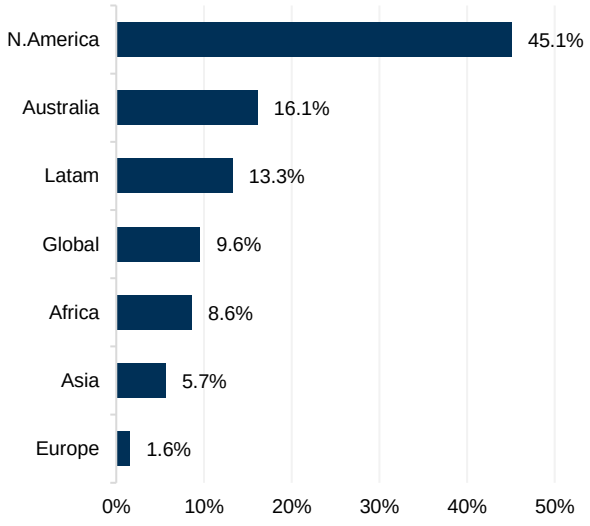
The Fund retains a healthy direct exposure to oil & gas E&P and coal producers, with combined exposure approaching 40% of net assets.

## Portfolio Analysis[4]

**Sector Breakdown**




**Region Breakdown**




## AIFMD Leverage Limit Report (% NAV)

| | Gross Leverage (%)[5] | Commitment Leverage (%)[6] |
|---|---|---|
| CQS Natural Resources Growth and Income | 109 | 109 |

## Top 20 Holdings (%)[1,7]

| Name | (% of MV) |
|---|---|
| Precision Drilling Com NPV | 7.0% |
| Sigma Lithium Corp NPV | 6.0% |
| Vermilion Energy Com NPV | 4.9% |
| Diamondback Energy USD0.01 | 4.6% |
| Nexgen Energy NPV | 4.6% |
| West African Resources NPV | 3.9% |
| Diversified Energy GBP0.01 | 3.9% |
| BW LPG USD0.01 | 3.5% |
| Euronav NPV | 3.5% |
| REA Hldgs 9% Cum Pref GBP1 | 3.2% |
| **Top 10 Holdings Represent** | **45.1%** |

| Name | (% of MV) |
|---|---|
| Lynas Rare Earths NPV | 3.1% |
| EOG Resources USD0.01 | 2.9% |
| Talon Metals Corp NPV | 2.6% |
| Transocean USD0.01 | 2.6% |
| Emerald Resources NPV | 2.2% |
| Whitehaven Coal NPV | 2.2% |
| ERO Copper Corp NPV | 2.0% |
| Foran Mining Corp NPV | 2.0% |
| Thungela Resources NPV | 2.0% |
| Galena Mining NPV | 1.9% |
| **Top 20 Holdings Represent** | **68.6%** |

Sources: [1]CQS as at 31 August 2022. [2]Total return performance net of fees and expenses as at 31 August 2022. The Company's investment benchmark is 80 per cent. Euromoney Global Mining Index (sterling adjusted) and 20 per cent Credit Suisse High Yield Index (sterling adjusted). Performance data is calculated from 1 August 2003 (total return basis). [3]All market data sourced from Bloomberg unless otherwise stated. All returns quoted in local currency unless otherwise stated. The Company may since have exited some or all of the positions detailed in the commentary. [4]CQS as at 31 August 2022. [5]CQS, as at 31 August 2022. For methodology details see Article 4(3) of Directive 2011/61/EU (AIFMD) and Articles 6, 7, 9 and 10 of Delegated Regulation 231/2013. [6]CQS as at 31 August 2022. For methodology details see Article 4(3) of Directive 2011/61/EU (AIFMD) and Articles 6, 8, 9, 10 and 11 of Delegated Regulation 231/2013. [7]All holdings data are rounded to one decimal place. Totals may therefore differ to sum of constituents. These include historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up. Please read the important legal notice at the end of this document. Total return performance net of fees and expenses as at 31 August 2022. The Company's investment benchmark is 80 per cent. Euromoney Global Mining Index (sterling adjusted) and 20 per cent Credit Suisse High Yield Index (sterling adjusted). Performance data is calculated from 1 August 2003 (total return basis).

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