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September 2023

CQS Natural Resources Growth and Income PLC

Robert Crayfourd, Keith Watson, Portfolio Managers

Signatory of:

PRI Principles for Responsible Investment

SBai SIGNATORY Jan '22

CQS Natural Resources Growth & Income
Introduction

Fundamentals in the commodities sector are beginning to catch up, providing protection against inflation.

After **years of underinvestment, supply is now lagging demand** in most commodities, leading to **higher prices and potentially higher profits** for natural resources companies.

Strong returns can be achieved by investing at this point in the cycle, particularly in **smaller companies**, where the Trust is focused.

The investment proposition

Diversified natural resources exposure through smaller companies

The Fund

LSE Main Market
Investment Trust
Est. Aug 2003
c.£160m gross assets

Ian Francis,
Keith Watson &
Robert Crayfourd
Portfolio Managers
Since Oct 2015

3.1% yield
11% gearing (max 25%)
Annual continuation vote

The Strategy

Listed **natural resources** companies

Equities mainly, but fixed interest also

Smaller companies focus

Unconstrained & **Diversified** by
Sector / resource & Geography (global)

The Opportunity

Favourable fundamentals:
DEMAND: Energy transition is commodity intensive
SUPPLY: Historic underinvestment + ESG pressures on new supply
INFLATION

Smaller companies undervalued relative to larger caps

Current Portfolio

117
Holdings

44%
Top 10

5.9%
Largest holding

35% Oil & Gas
17% Precious
11% Base Metals

8% Lithium
7% Uranium
5% Coal

Performance[1]

NAV total returns %

6 Month	1yr	3yr	5yr
-4%	-5%	+108%	+100%

Source: CQS, as at 31 August 2023. [1]Returns are net of fees and expenses, and with all dividends and income reinvested. This page includes 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.

About the Fund Manager

Portfolio Managers

Ian Francis

Ian ‘Franco’ Francis is CIO New City, and a Senior Portfolio Manager for CQS’ New City High Yield and Convertibles business and joint Portfolio Manager for City Natural Resources High Yield Trust plc.

Keith Watson

Keith is joint Portfolio Manager for City Natural Resources High Yield Trust plc, Geiger Counter Limited and Golden Prospect Precious Metals Limited.

Robert Crayfourd

Robert is joint Portfolio Manager for City Natural Resources High Yield Trust plc, Geiger Counter Limited and Golden Prospect Precious Metals Limited.

Other Funds Managed

£500m+

Managed by the team across CYN and three other LSE-listed funds:

Geiger Counter (GCL.L)
Uranium equities

Golden Prospect Precious Metals (GPM.L)
Precious metals equities

CQS New City High Yield (NCYF.L)
High yield bonds

About CQS

20+ years delivering fundamental, research-driven investments across the capital structure, from our offices in London, New York & Hong Kong.

Long-only and alternative strategies in public and private markets, focused on long-term repeatable responsible returns.

Source: CQS, as at 31 August 2023. This page includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.
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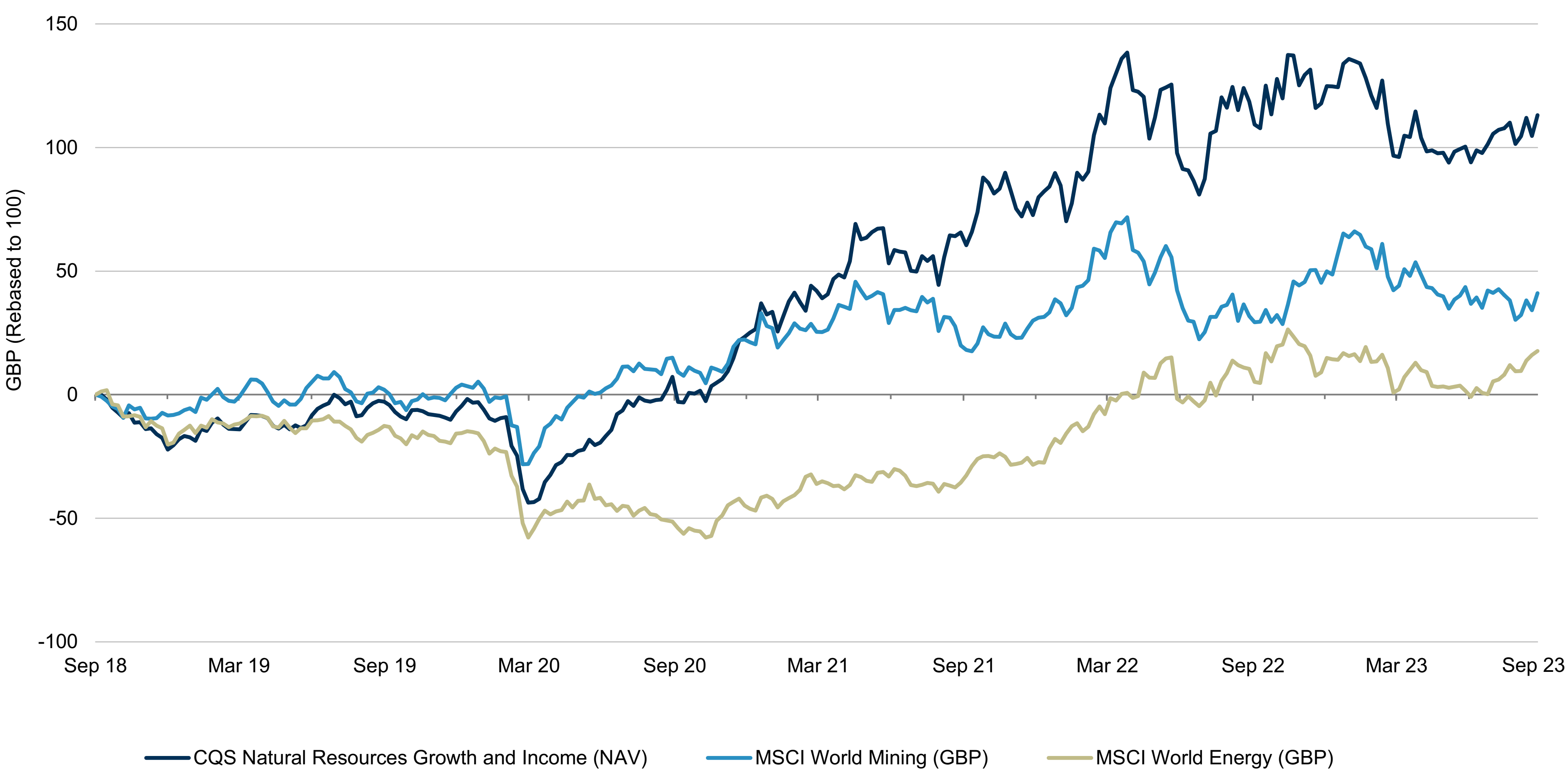
CQS Natural Resources versus Peers and Indices



Source: Bloomberg as at 15 September 2023.

Key themes

Maximise returns from market disconnects driven by government and investor policy

Inflation

Commodities are generally the best performing sector during periods of inflation

Underinvestment

Capex by producers has been weak since 2015 limiting new supply growth

ESG constraining supply

ESG constraints have blocked the capitalist response function by producers to high prices

Energy transition

Near term need in any form.

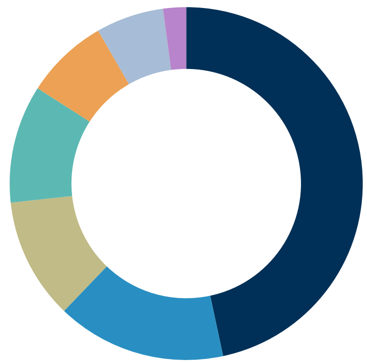
Longer term - net zero targets will increase demand for commodities to build renewables and EV's

This all extends the cycle of strong margins for commodity producers

Current Portfolio

Breakdown by Asset Class

Breakdown by Holdings



Top 10 Holdings[1]

		Gross Assets (%)
1	Precision Drilling Com NPV	5.9
2	Transocean USD0.01	5.5
3	Nexgen Energy NPV	5.1
4	Leo Lithium NPV	5.1
5	BW LPG USD0.01	5.0
6	Diamondback Energy USD0.01	4.0
7	Emerald Resources NPV	3.6
8	Diversified Energy GBP0.01	3.6
9	Vermilion Energy Com NPV	3.3
10	EOG Resources USD0.01	3.0
Top 10 holdings represent		**44.1**

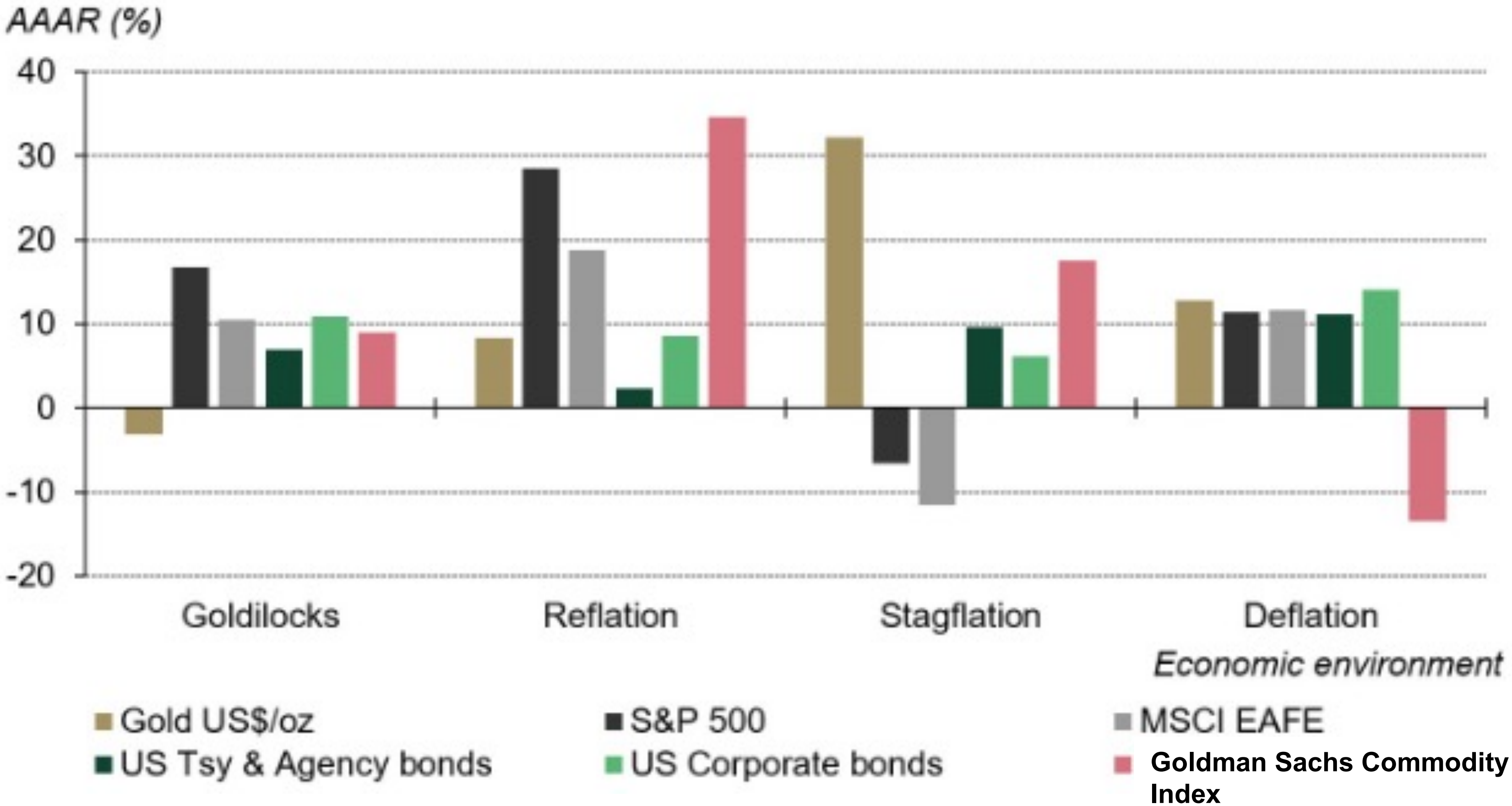
Source: CQS as at 31 August 2023. [1]All holdings data are rounded to one decimal place. These include historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up. Please read the important legal notice at the end of this document. Note: Includes Euronav NPV and Euronav Luxembourg 6.25% 14/09/26 USD and EURONAV NPV USD. Includes Rea Finance 8.75% 31/08/2025 and R.E.A. Holdings Plc Ordinary 25p and Rea Holdings Preferred. Includes First Quantum Minerals equity First Quantum Minerals 7.5% 01/04/2025

Top 10

	Weight	Sector	Country	Notes
Precision Drilling Com NPV	**5.9%**	Oil & Gas	North America	A leading shale driller with operating and financial leverage
Transocean USD0.01	**5.5%**	Oil and Gas	Global	Leading offshore rig company with high spec rigs
Nexgen Energy NPV	**5.1%**	Uranium	Canada	Highest grade undeveloped mine globally
Leo Lithium NPV	**5.1%**	Lithium	Mali	Large high grade development mine in JV with Chinese
BW LPG USD0.01	**5.0%**	Shipping	Global	Propane shipper, benefiting from US exports to Asia
Diamondback Energy USD0.01	**4.0%**	Oil & Gas	US	High quality US shale producer
Emerald Resources NPV	**3.6%**	Gold	Cambodia/ Australia	Producing gold miner with self-funded growth profile & top tier management
Diversified Energy GBP0.01	**3.6%**	Oil & Gas	US	Onshore US gas producer and distributor
Vermilion Energy Com NPV	**3.3%**	Oil & Gas	Canada/Europe	Canadian onshore and a variety of European producing gas assets
EOG Resources USD0.01	**3.0%**	Oil & Gas	US	Top tier US shale oil producer

Source: CQS, as at 31 August 2023.

Commodities perform during inflation, Gold especially during Stagflation



Source: Goldhub, as at 11 March 2022.

Key Theme - Energy Crisis of our own making – renewables still only 7%

Energy: 47% of the fund (including uranium)

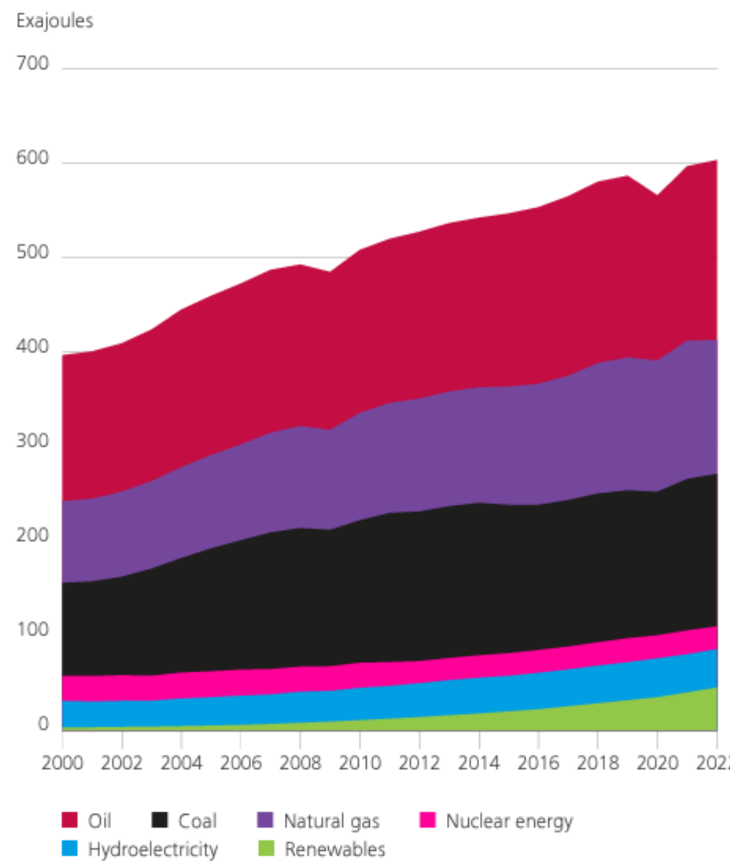
- Renewables growing but from a low base – will need grid storage
- 100's of years of energy policy cannot be reversed overnight
- Policy makers limiting supply faster than demand
- Europe and Asia more exposed due to high energy imports
- Russia/Ukraine exacerbates European pricing
- Energy to see a positive political and investor shift

Exposure examples

35% Oil & Gas
7% Uranium
5% Coal

- Precision Drilling – US/Canadian shale driller
- Diamondback Energy – US shale producer
- Nexgen Energy – Canadian Uranium developer
- Vermillion – Canadian oil and European Gas producer

World Consumption (Exajoules)[1]



Source: [1]Energy Institute 'Statistical Review of World Energy' 2023 72nd Edition.

Oil and Gas: 35% of fund

Demand

- Oil demand is set to hit a record 103M bopd
  Global oil inventories already declining at ~3M bopd
- EV penetration small but growing
- Renewables to push out coal not oil
- Emerging market growth pushes out Peak oil demand thesis

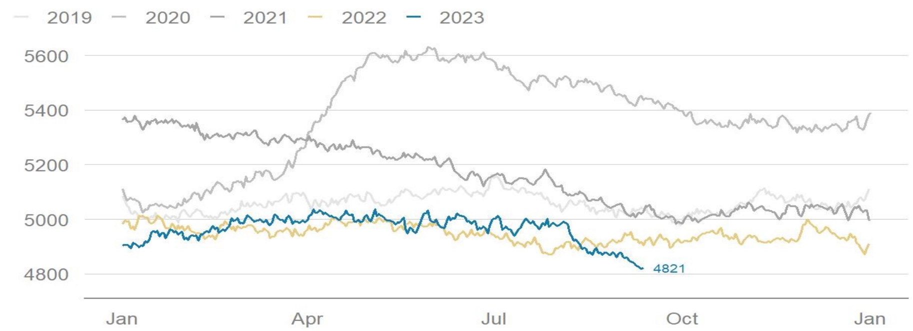
Supply

- Producers remain disciplined – focused on capital returns
- US rig count rolled over
- OPEC cuts to defend price
- Rigs, ships, refining not being built

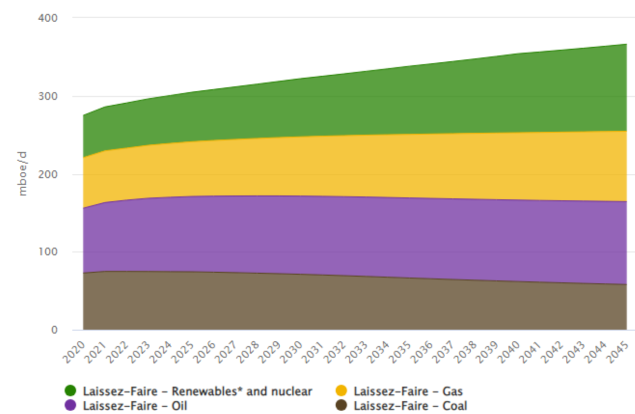
Valuations

- Energy producers remain unloved with attractive valuations
- ESG factors have restricted institutional ownership
- Offshore Rig owner - Transocean 5.5% of the fund

Observable crude oil inventories
On land, at sea and in-transit (min Mbbls)[1]



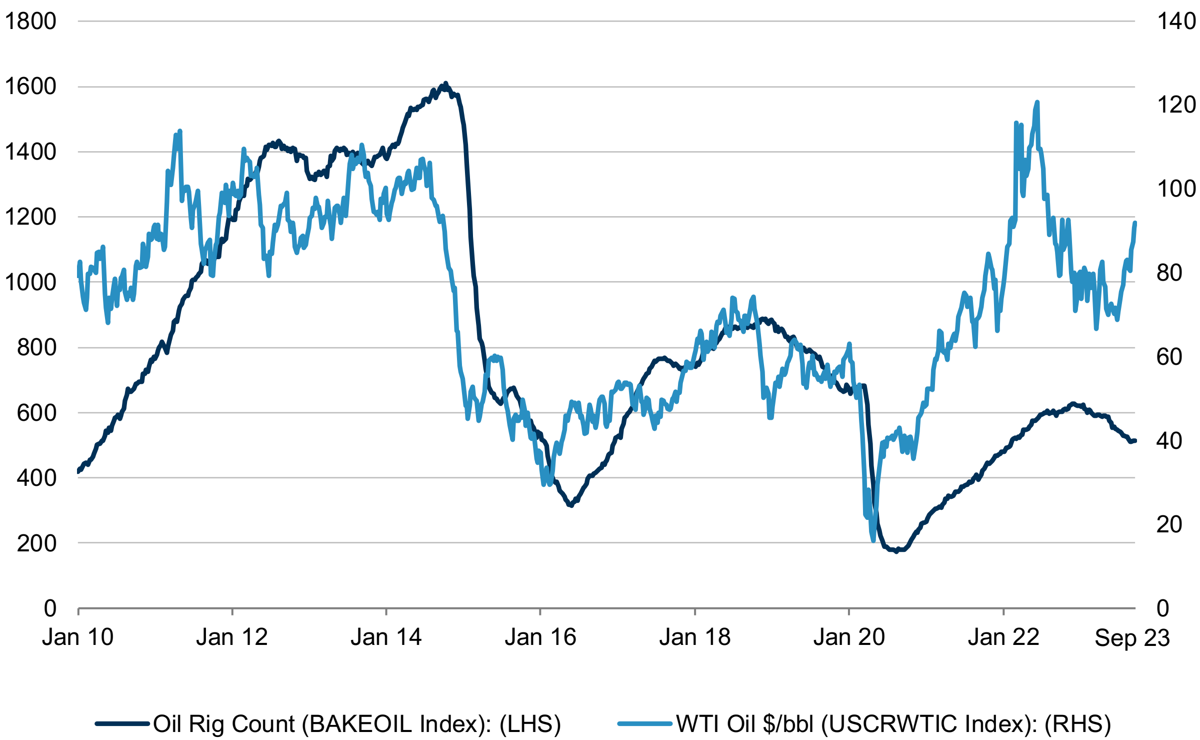
Global primary energy demand in the Reference Case and in alternative scenarios, 2020-2045[2]



Source: [1]Morgan Stanley: The Oil Manual 'Tighter for longer, but OPEC holds the key' and IEA, EIA/DOE, PJK, IE, Genscape, PAJ, Platts, Kpler, Morgan Stanley Research analysis. Note: Also includes condensate. NGL and other refinery feedstock as at 20 September 2023. [2]OPEC.org 'Chapter 8: Energy scenarios' Figure 8.1b – Laissez-Faire. Note: Renewables include hydro, biomass and other renewables (e.g. wind, solar, geothermal).

Energy is still seeing a muted supply response

Slow producer response to higher prices

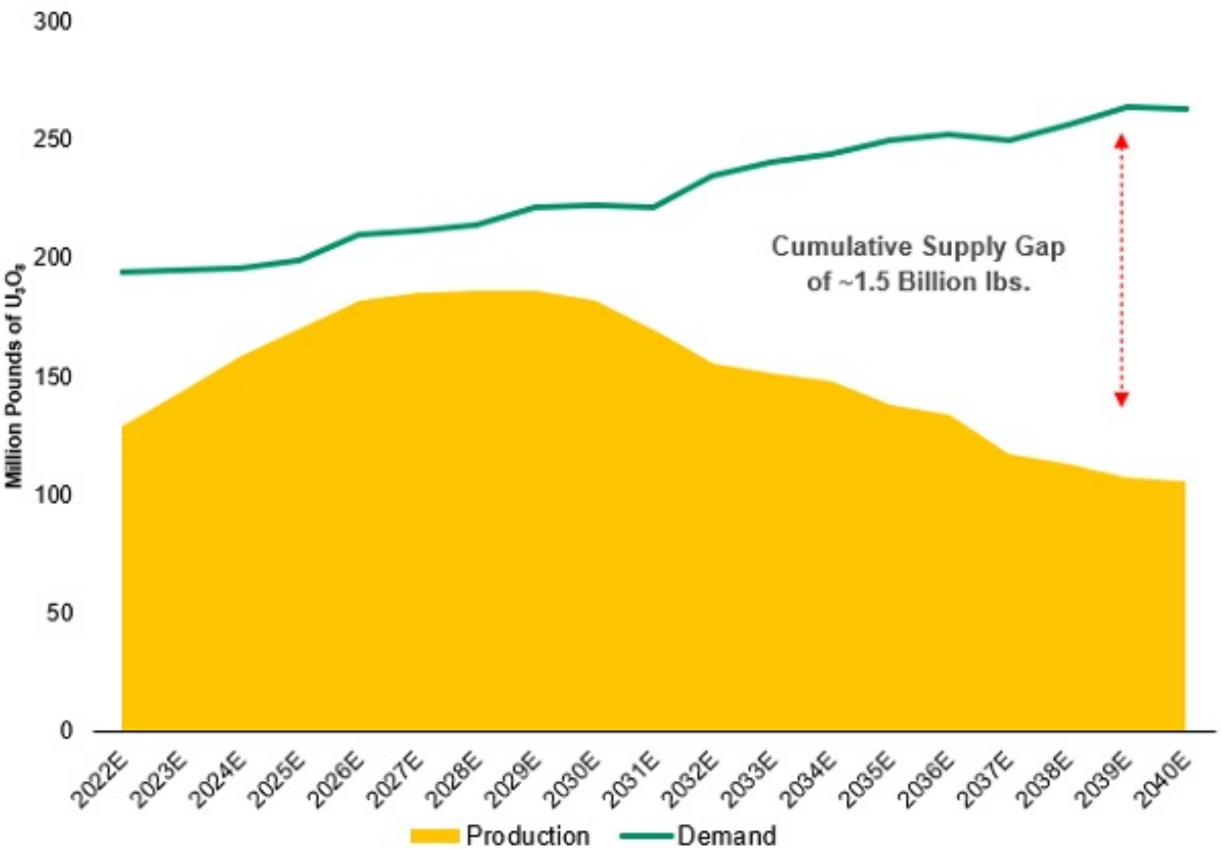


Summary

- Demand recovering to pre-Covid levels
- OPEC remaining disciplined
- Shareholder pressure limiting any supply response (ESG/ Dividends & buybacks)
- ESG pressures mean sector is under held levels
- Valuations and dividends are compelling
- Exposure through gas and oil producers, drillers, shippers

Source: Bloomberg, as at 18 September 2023. US production: DOETCRUD Index. OPEC production: OPCRTOTL Index.

Uranium – 7% of fund – Zero Carbon Base Load Power



- Nuclear renaissance due to zero carbon base load
- Government support to meet emission targets
- Structural supply shortfall for the next decade
- Reactor life extensions in West
- Reactor build out in Asia
- Russia/ Ukraine adding supply chain uncertainty
- Years of lower prices limit supply pipeline

Source: Sprott Uranium Report 'Strong Fundamentals Anchor Uranium's Rise' and UxC LLC. Data estimates as of Q2 2023. World Nuclear Association as of 8/1/2023. Included for illustrative purposes only as at 14 September 2023.

Key Theme - Energy Transition is happening but needs a lot more of certain commodities – 17% of fund

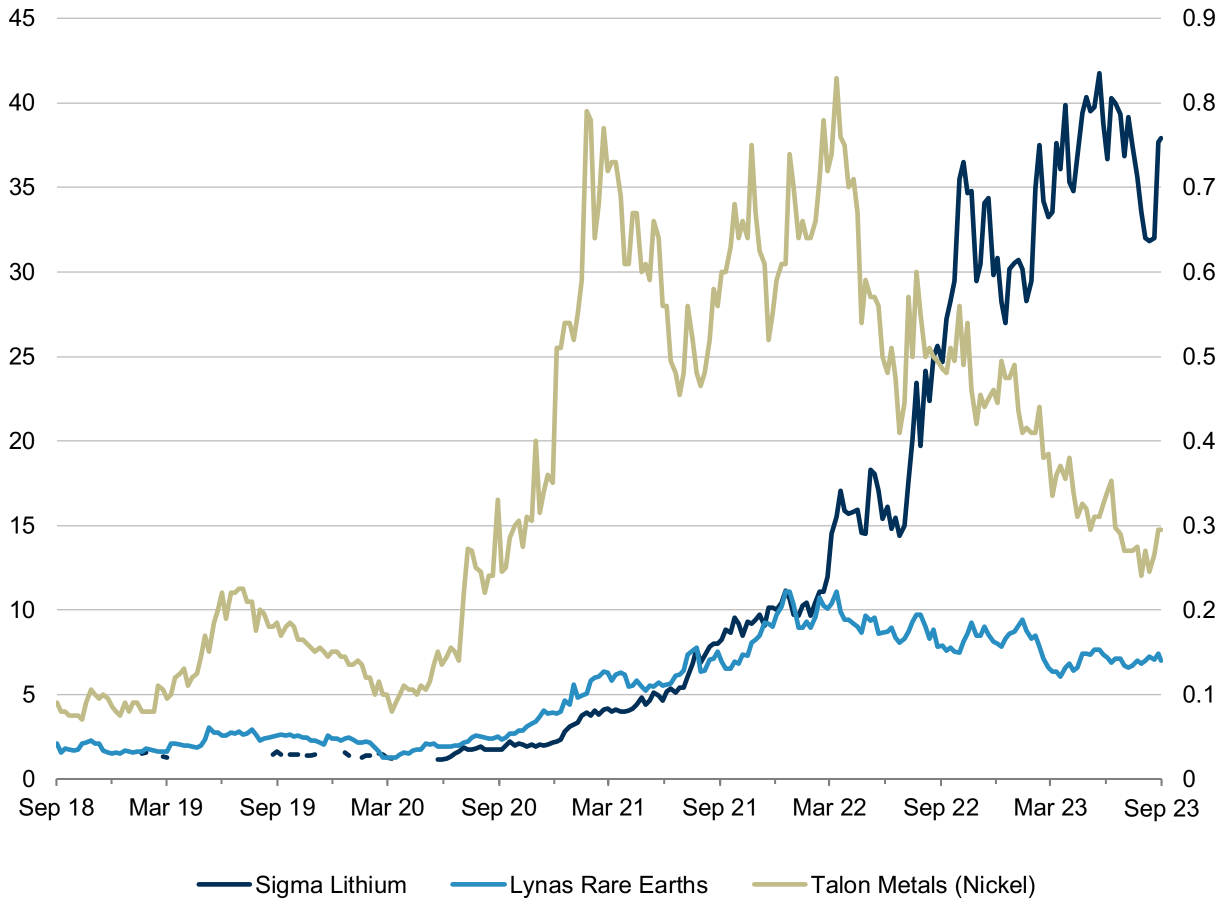
- Lithium, Rare Earth, Nickel
- Batteries are key to stabilise grids
- Lithium is not rare and Lithium stocks aren't cheap – bottom up analysis is key
- Input prices will remain volatile
- Governments to shift back to old economy only to find severe underinvestment in the required supply – the time frames are too short to resolve this issue in next 12 months

Exposure

- Strong returns on high pricing
- Gas/ Oil/ Coal required in mean time

Examples

- Leo Lithium – Lithium development project in Mali
- Sigma Lithium – Brazilian Lithium mine

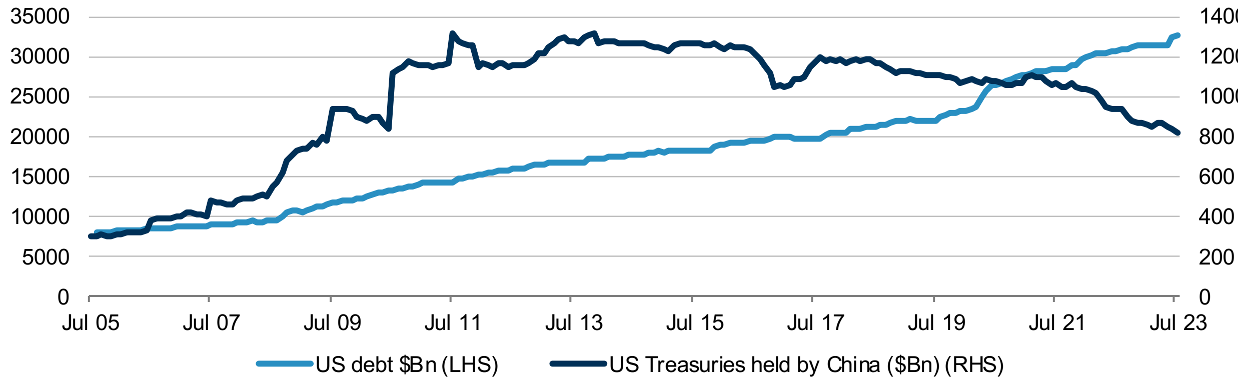


Source: Bloomberg as at 20 September 2023.

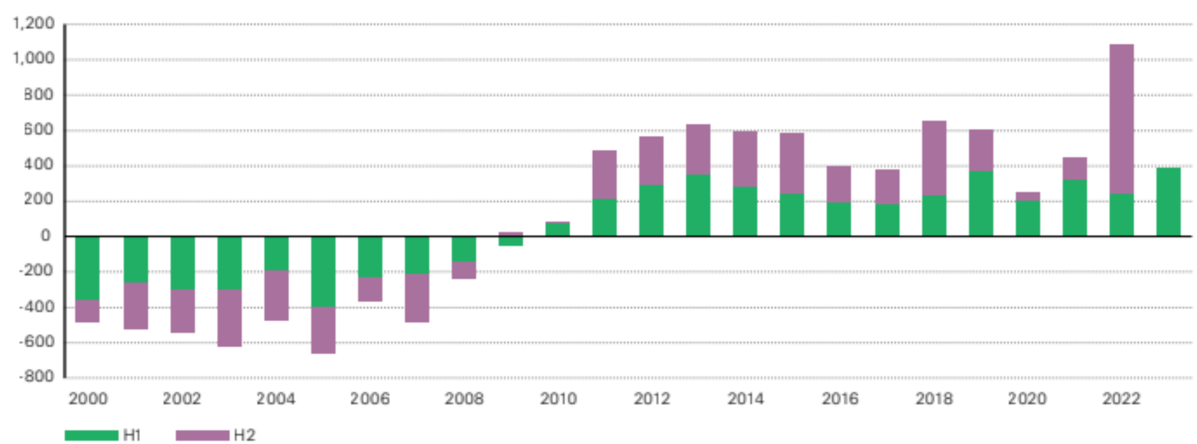
Key Theme - Precious Metals – 17%
Increasing reasons to own gold

Summary

- Global debt going parabolic
- China dumping US treasuries
- Central Bank demand strong
- Gold elevated despite physical ETF selling
- Inflation/ Stagflation protection
- Protection against policy risk



H1'23 central bank demand is the highest first half total on record*



Data as of 30 June 2023. Quarterly data available from Q1 2000.
Source: Metals Focus, Refinitiv GFMS, World Gold Council

Source: [1]BMO Capital Markets, Bloomberg, FactSet 'Materials – Precious Metals & Minerals' as at 22 September 2022.

Key Theme - Precious Metals – 17%
Miners at record low multiples

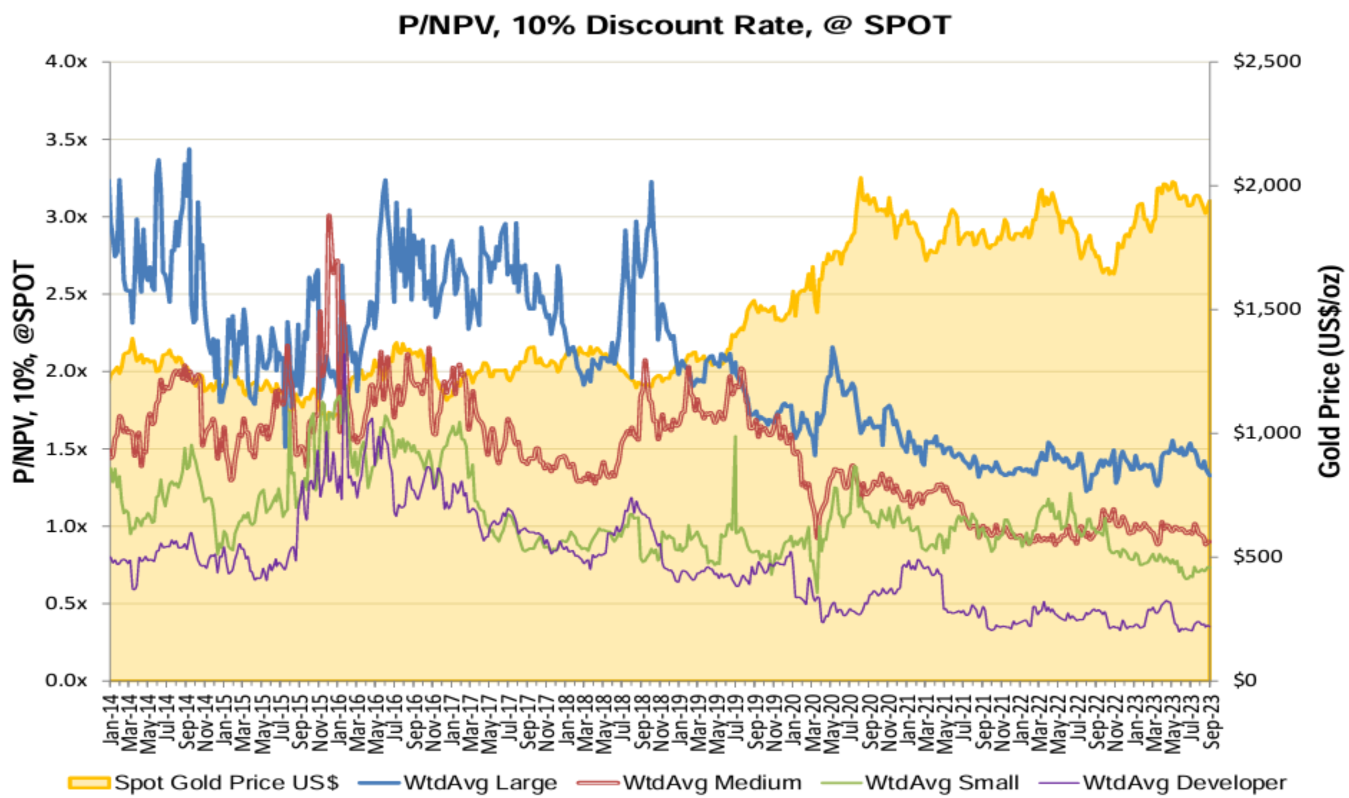
Valuations

- Close to Lowest P/NAV's ever
- Cost Inflation pressures easing
- M&A – Larger producers have under spent on exploration and now need to acquire, in order to avoid depleting reserves and grow

Example

- Emerald Resources
- Gold producer in Cambodia with strong FCF and significant self funded growth pipeline in Australia

Valuations have lagged the current Gold Price[1]



Source: [1]BMO Capital Markets, Bloomberg, FactSet 'Materials – Precious Metals & Minerals' as at 22 September 2023.

Base Metals 11% of fund

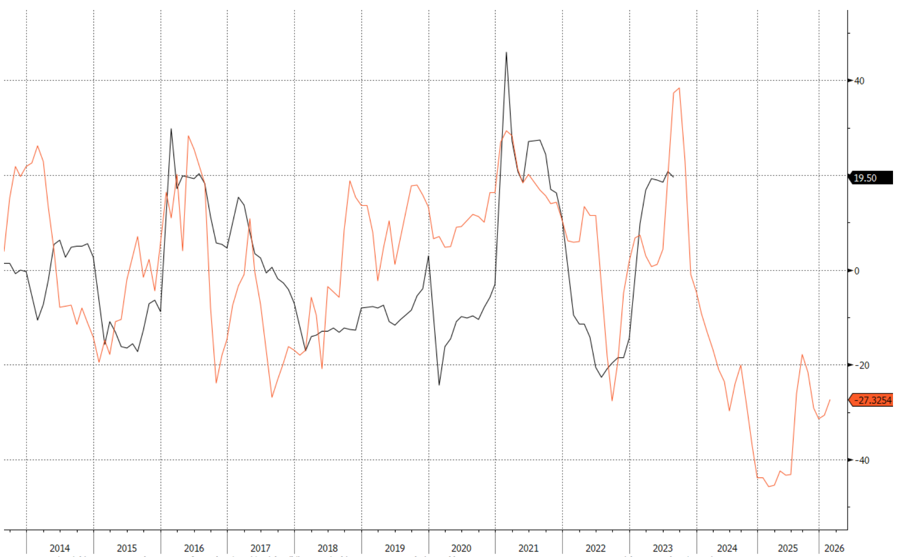
Long term fundamentals are positive but near term risks

- Some near term demand concerns due to global slow down and Chinese property slowdown
- Environmental themes accelerated through Government spending – EVs, Renewable power and electrification.
- Supply remains constrained following years of low expansion capex – 10 years to bring a copper mine into production
- ESG focus restricting new capex in to growth

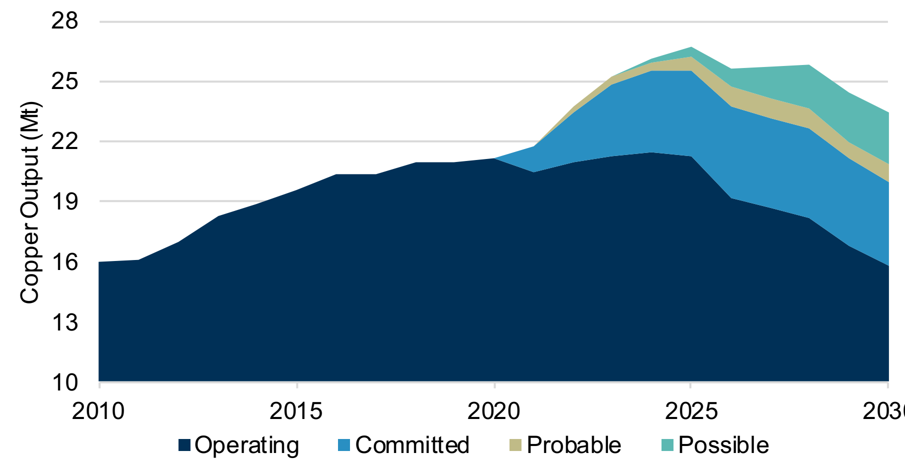
Examples

- Talon Metals:C$250m Nickel developer in US, JV with Tesla
- ERO Copper: C$1.6bn Copper miner Brazil
- First Quantum: C$16.5bn Copper miner in Africa & C.America

Chinese property sector outlook remains depressed – completions lagged new starts 2.5 yrs



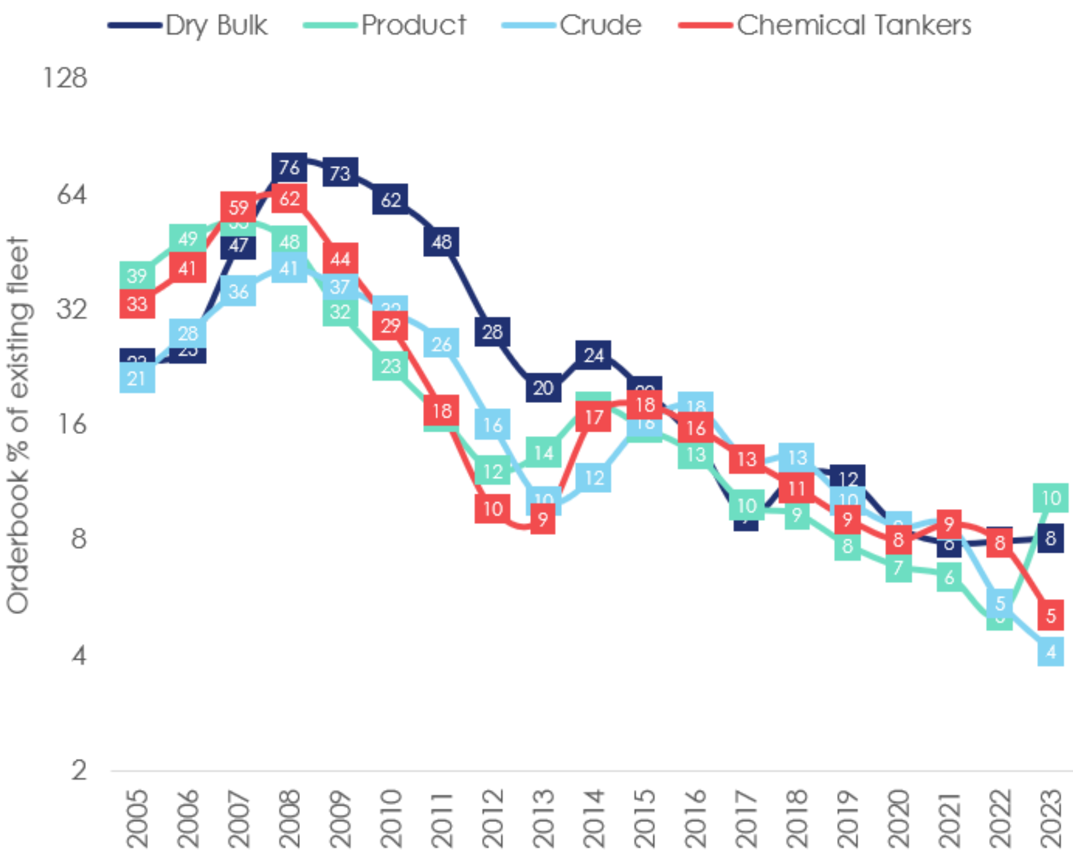
Global mined copper output to fall over 2025-30[2]



Source: [1]Bloomberg as at 25 September 2023. [2]S&P Global Market Intelligence ‘Copper project pipeline — Project shortage to see supply lag demand post-2025’ as at 12 October 2021.

Shipping – 6.4%

Tanker and dry bulk orderbooks at lowest levels in decades



Summary

- Order book for new vessels at lowest on record
- Uncertainty on environmental requirements are constraining new orders
- Demand growth for Bulks, Oil and Gas to raise demand
- Strong FCF to lead to support high dividend pay outs
- IMO target cutting carbon emissions by 40% by 2030 – this will lead to slow steaming and more scrapping
- IMO 2020 ruling to lower sulphur fuel or scrubbers and the ballast water treatment policy to accelerate scrapping further
- Strong earnings and vessel value uplift to drive returns
- Examples: Euronav – Oil, BWLPG – Propane, 2020 Bulkers and Goodbulk –dry bulk

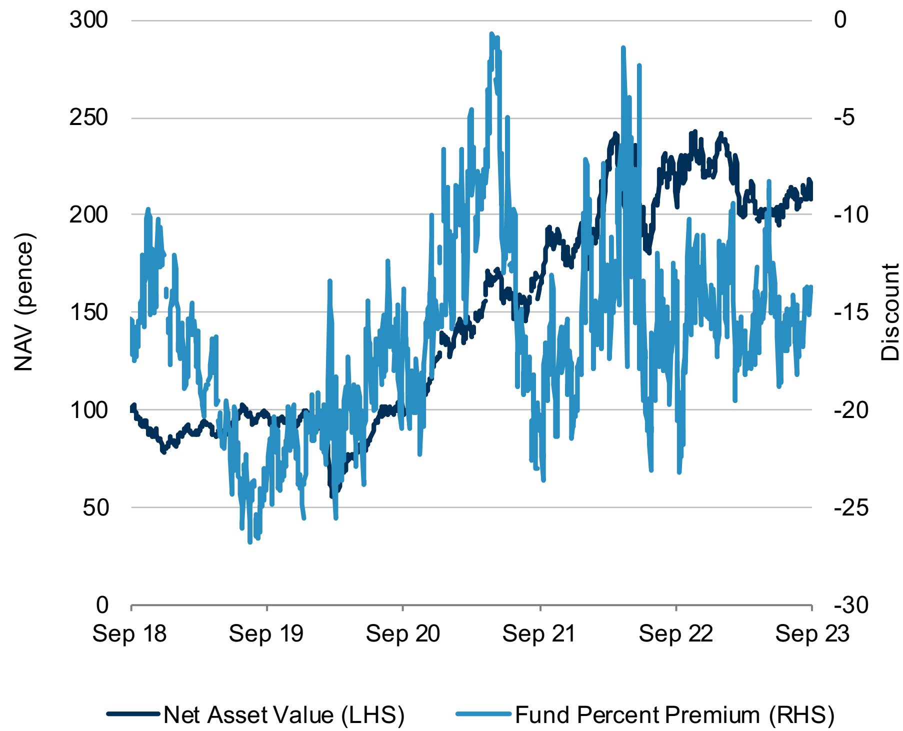
Source: Clarkson Research Services Ltd., Clarksons Securities AS, as at September 2023.

Conclusion

The CQS Natural Resources fund aims to provide investors with capital growth and income

- Exposure for inflation protection
- Closed end structure enables a focus on valuation rather than liquidity – SMID cap at a discount/ higher beta
- We do not hold BHP, Rio, BP etc. – believe investors can do this themselves
- Supply constrained by years of underinvestment and ESG pressures
- Environmental focus delays capacity additions
- Fund at a discount to NAV despite strong sector fundamentals and performance

Discount to NAV



Source: CQS as at 25 September 2023.

At a Glance: Multi-Sector Alternative Credit Platform

Years

20+

Managing research-driven credit strategies across multiple market cycles

AUM

$16.1bn

Alternative credit strategies in public and semi-liquid markets, focused on long-term returns

Employees

~145

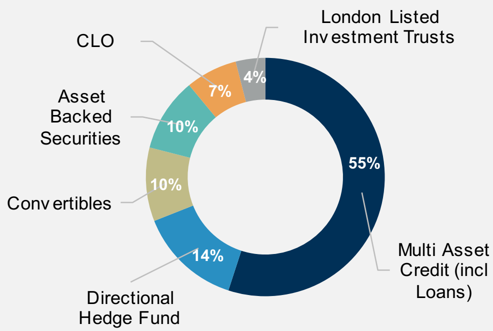
Headquartered in London with investment offices in New York & Hong Kong

Investment Professionals

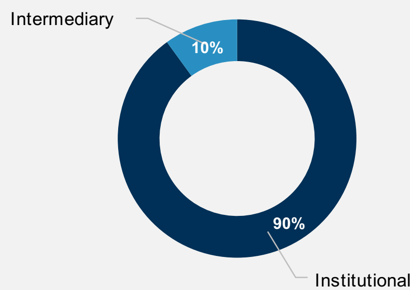
55+

Including a research team which supports all strategies in our investment platform

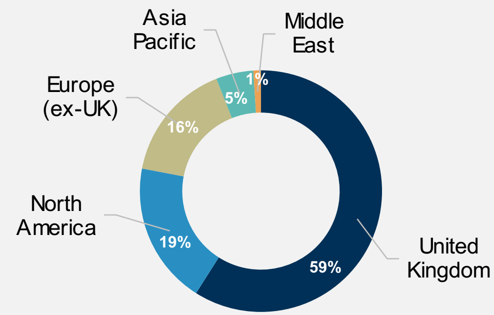
Asset Classes



Client Type



Client Domicile



Source: CQS as at 30 June 2023.

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GMv10.

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