CAN METALS BE MADE TO SHINE?

It's fair to say the metals sector has been lacking lustre over the past 7 years and many investors remain cautious about putting their money into a sector that has lacked stability. But while there is still volatility, there are signs that lessons have been learned from the recent downturn and opportunities do exist. There is no guarantee that any forecasts made will come to pass.

__Capital at risk:__ All financial investments involve an element of risk. Therefore, the value of your investment and any income from it will vary and your initial investment amount cannot be guaranteed.

During the first part of the century, rising demand from emerging markets, particularly China, resulted in a boom in commodity prices. As commodity prices rose, companies took on debt to fund additional projects in what proved to be a triumph of optimism over pragmatism. These additional projects resulted in the oversupply of mined commodities, which, in conjunction with the slowing of China's economic growth rate, resulted in the sector coming under significant pressure. Subsequently, we saw earnings for the miners fall consistently between 2011 and 2016[1] as investors lost confidence in management and concerns surrounding debt levels arose.

However, since 2016 commodity prices have experienced a degree of normalisation and, as these companies started to produce considerable cashflow, they paid off debt rapidly. Taking control in this way reduces the volatility in the market. This return to capital discipline means that unless a new project satisfies certain investment criteria, including how much it costs to raise finance, it simply won't go ahead.

Managing risk

At BlackRock, we have access to a huge array of resources to support our work. There is a whole department that analyses our portfolio on a daily basis to ensure all our investments are intentional and that risk is being controlled. We have regular deep-dive meetings on the portfolio in which our decisions are challenged and suggestions are offered. It's collegiate but efficient and involves a great deal of specialist knowledge.

This is important as there will always be risks. A recent one is the US policy to place tariffs on imported aluminium[2]. But while the US imports around 90% of its aluminium, it is unlikely sufficient funding will be achieved to increase domestic production during the remainder of Donald Trump's presidential term as there would be no certainty that the tariffs would remain in place beyond 2021.

It's also important to note that mines are a wasting asset – they only have a certain life while deposits last – and so we must be rigorous in our investment process. This involves visiting the sites and getting a strong feel for how much resource is in the ground. We even have a metallurgist and a geologist on the team to ensure nothing is missed.

Although we focus on large mining companies, we also look for other ways to generate revenues for the Trust. In 2013, we entered into an agreement with Avanco Resources, an Australian listed copper company to receive royalties over the life of a Brazilian mine for a $12 million investment[3]. This deal has already returned around $7.9million[4] to the Trust since June 2016 and is on track to achieve a less than three-year payback on the initial investment. Avanco Resources has now been acquired by Oz Minerals, another copper company whose shares are owned by BlackRock.

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A changing landscape

Another important development for the sector is the increased uptake of electric vehicles – with China planning to have five million public charging points by 2020[5] – that is creating new sources of demand. The metals required for electric vehicle batteries are cobalt, lithium and nickel and these have all seen quite strong price increases[6].

Environmental, social and governance matters are also increasingly important. There is growing engagement with this subject as companies are more strictly regulated. The Chinese government, for example, has clamped down on environmental pollution and this has had the effect of restricting production of some metals.

Finally, although dominated by large companies, the mining sector has a proliferation of smaller companies that do much of the work around exploration and initial engineering. They can be extremely lucrative and offer good investment opportunities.

The Trust's silver jubilee

The BlackRock World Mining Trust celebrates its 25th anniversary later this year and mining remains as relevant today as it was at the start of the Industrial Revolution. What's more, the sector is unlikely to experience the level of disruption that retail, technology and even energy are witnessing.

Society needs raw materials for manufacturing and that entails sourcing and extracting them. Mining will continue to remain relevant because longevity is hardwired into it.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. ■

For more information on this Trust and how to access the opportunities presented by mining, please visit www.blackrock.com/uk/brwm.

__Trust specific risks:__ Overseas investment will be affected by movements in currency exchange rates. Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation. Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities. Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

__Important information:__ BlackRock have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our products are suitable, please read the Key Investor Documents (KIDs) and the Annual and Half Yearly Reports available at blackrock.co.uk/its which detail more information about the risk profiles of the investments. We recommend you seek independent professional advice prior to investing.

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1. IndexMundi, August 2018.
2. FT, May 2018.
3. BlackRock World Mining Trust Plc Half Yearly Financial Report, June 2018.
4. BlackRock World Mining Trust Plc Half Yearly Financial Report, June 2018.
5. Forbes, March 2018.
6. The Times, January 2018.

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