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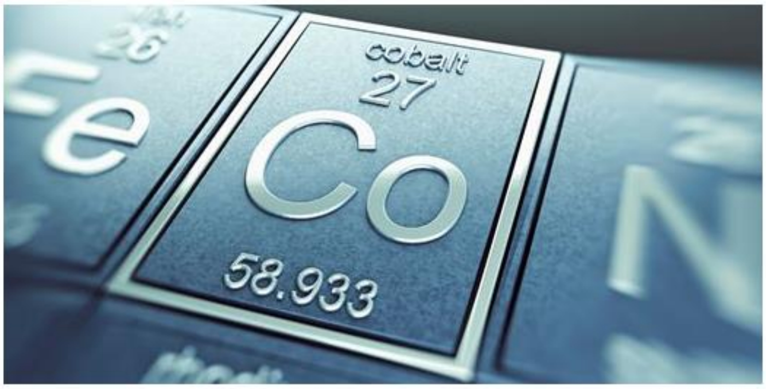
How to win big in the commodities race

By **Dalvinder Kular** / 08 Dec, 2017



The shift towards new technology such as driverless cars has become a big investment theme. However, these developments are underpinned by portable power in the form of a battery, which presents investors with a new range of challenges.

Richard Robinson, who manages the Ashburton Global Energy fund, says new technology will be constrained by the supply of commodities.

'One of the major reasons why the rollout of EVs [electric vehicles] will be held back is the constrained supply of certain commodities,' he says.

'Cobalt, one of the key materials in all types of batteries – from those in your phone to those in your electric vehicle – is a high-risk commodity. Over 60% of the world's cobalt comes from the Democratic Republic of Congo, a notably volatile region.'

The country has high levels of political corruption and a range of human rights issues. It is estimated that about 30% of those working in the country's mining industry are children.

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Driving demand

Citywire + rated Alessandro Guzzini, who manages the Finlabo Investments Sicav – Dynamic Equity fund, says electric cars are fuelling the bulk of cobalt demand as this material increases the speed at which a battery can recharge.

'We calculated that for each Tesla sold, there are about 16kg of cobalt. To produce 500 thousand cars, which is the company's objective, will require about 5% of the total amount of cobalt currently produced globally. This will be an important addition to the demand for cobalt around the world,' Guzzini says.

Citywire AAA-rated Tobias Tretter, manages two funds at Zurich-based Commodity Capital and has a small position in cobalt-producing firms. He says the options for car manufacturers in this space are limited, especially on ethical grounds.

'If you are Tesla, Mercedes or BMW, it is pretty hard to buy cobalt which is coming out of the Congo. You most likely know that eight-year-old kids are producing the cobalt for your company. It is hard for those companies to use that cobalt, therefore there is a huge need for a supply that is being produced in an environmentally and socially safe environment,' he says.

Tretter says that increased battery production has boosted demand for cobalt, inflating the metal's price as well as investor interest.

'We invested in cobalt a year ago. It is not that easy for us to build

any positions because there are not many cobalt companies around and we also want to be invested in safe jurisdictions.

'The cobalt sector needs further investment and we see demand for more companies producing it. As battery production is going up, the market is priced inefficiently and we will need more cobalt to supply the growing market,' Tretter says.

Despite the problems involved with extracting cobalt, Tretter emphasises that mining is not all bad news.

‘In general, locals are always pro-mining. They love to have jobs, they want to have a mining company close by. It gives them a lot of wealth and opportunity. Most of the time it brings power lines and more water. However, mining companies have to do it the right way and that is where some are lagging as they are not socially responsible enough.’

Tretter says investors have to see the lie of the land themselves to be certain that a mining company is adhering to ESG criteria and he will be travelling for around 300 days this year to check up on these firms.

‘We look at our investments on the ground because that is how you can ensure whatever you get in a presentation is really the truth. You see a lot of things. If you drive through the little towns nearby you can talk to the locals and see how happy they are with the mining company,’ he says.

Guzzini adds that cobalt is a typical by-product when mining other metals such as nickel. UK miner Glencore is one such producer that sources cobalt as part of its wider mining activity and the firm accounts for around 1% of his fund.

Other metals could provide an ethical solution to the cobalt problem if companies look for alternative sources of power. Robinson says there are companies which have taken these steps already.

‘One firm helping to facilitate this reduction is Umicore, a major manufacturer of nickel manganese cobalt (NMC) batteries. NMC products use only a fifth of the cobalt found in lithium cobalt oxide (LCO) alternatives, which currently make up almost half of the world’s batteries,’ Robinson says.

‘There are few reasons why LCO batteries should go on being favoured, as NMC ones have superior energy density and a longer lifecycle. Meanwhile, the price of cobalt has risen 150% in 18 months, making LCO batteries notably more expensive.’

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