Global Resources Investment Trust : GRIT

QUOTEDDATA

Look beyond initial performance

24 September 2014

A few months into the life of Global Resources Investment Trust ("GRIT") the net asset value has fallen by 37% and its ordinary share price has fallen much faster. As we explain in this note, this unusual state of affairs is related to the way in which GRIT was established. New investors in GRIT have an opportunity to get access to a diversified portfolio of junior resource companies at a time when investors in the sector believe the commodity cycle might be turning. Furthermore this opportunity is available at a discount to asset value close to 50%.

A tried and tested structure

The management team behind GRIT have used this structure in the past. The basic idea is that junior resource companies, strapped for cash and unloved currently by investors, swap stakes in their businesses for ordinary shares in GRIT. The junior resource companies then sell their GRIT shares to new investors, for cash, providing badly needed funds to enable them to develop and grow their operations. Assuming they thrive, investors will begin to take more interest in them, their share prices then rise and GRIT cashes out.

This arrangement worked well for Resources Investment Trust, another fund established by the same team. Shares in that fund were issued at 100p in January 2002 and fell to the low 40s initially before recovering. £15m was invested in the fund and £54.5m had been returned to shareholders by the time the fund was liquidated six years later. Investors at launch made around 3x their money.

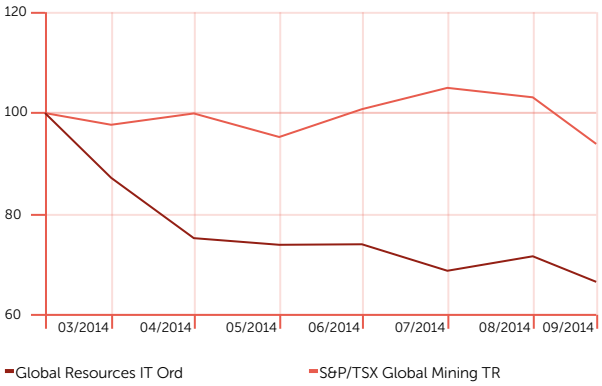
A similar fund, Grafton Resources, was launched by the team in 2008/2009 but this was less successful. In October 2013, at the end of its planned life, Grafton had not sold all its investments. In April 2014 it delisted from the Irish Stock Exchange and is in the process of winding up through the disposal of its remaining assets.

The major difference between Resources Investment Trust and Grafton Resources was that Resources was launched into a recovering commodity market while Grafton struggled in a declining commodity market. The BlackRock Mining team and David Hutchins, co-manager of GRIT, are among a number of high profile investors in resources that have said that we might be at or close to the bottom of the current commodity cycle. We explore the evidence for this in this note on page 7.

AIC Sector	Commodities and Natural Resources
Benchmark	None (we have used S&P/TSX Global Mining)
Base Currency	Pound Sterling
Price	0.33
NAV	0.62
Discount (-ve) / Premium (+ve)	-47.23
Ongoing Charges	n/a
Yield %	none

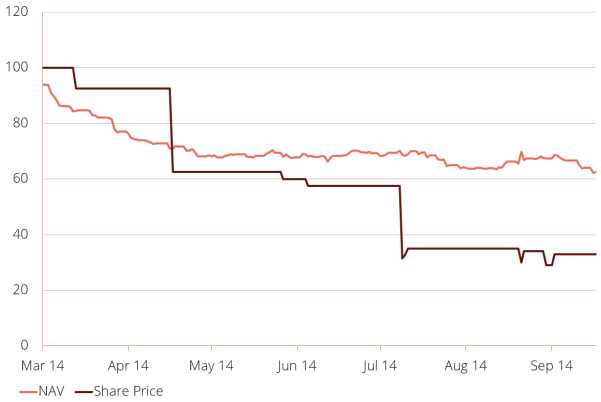
Share Price vs. Benchmark (Total Return)

Time Period: 08/03/2014 to 23/09/2014



Share Price vs. NAV

Time Period: 08/03/2014 to 23/09/2014



Investment Objective

GRIT's investment objective is to generate medium and long-term capital growth through investing in securities issued by a diverse portfolio of primarily small and mid-capitalisation natural resources and mining companies, which are listed/quoted on a Relevant Exchange.

www.globalresourcesinvestments.com

Domicile	United Kingdom
Inception Date	07/03/2014
Market Capitalisation £	13,041,604
Shares Outstanding	39,520,012
Avg Daily Volume (3 Mo)	n/a

James Carthew : jc@martenandco.com
Matthew Read : mr@martenandco.com

www.QuotedData.com

History of the fund

GRIT is a relatively new fund. It was admitted to trading on the main market of the London Stock Exchange on 7 March 2014.

How the fund works

Initial stock swap

GRIT issued 39,520,012 shares in exchange for stakes in 41 companies (we list the inital portfolio on page 4) on the basis of issuing £1 of stock in GRIT for £1 of value in the resource company. The companies were valued using market bid prices.

Valued at bid prices

The daily net asset value calculation is also based on bid prices. This means that it is more conservative and less volatile than it would be if the net asset value was based on the price of the last trade.

Ordinary shares, loan notes and warrants

In addition GRIT issued £4.85m worth of convertible unsecured loan notes - details of which are given below - and attached to these loan notes were warrants to subscribe for new shares in the company (see below). £2.4m of the loan note issue went to settle the company's launch costs and the balance provided the fund with some working capital. This is the only money that GRIT will borrow over the first three years of its life. At 31 August 2014 the fund's gearing, provided by the convertible unsecured loan notes, was 18.2%.

Scheduled continuation votes

GRIT has an unlimited life but shareholders have the opportunity to vote on the continuation of the company at the AGM planned for 2019 and at every fourth AGM thereafter. The manager says that they will recommend that the Board offers shareholders an exit if they feel that the commodity cycle is starting to peak again.

No dividend

Given the immature nature of many of the stocks in its portfolio, GRIT has said that it is unlikely that it will pay dividends.

Buy-back and issuance powers

The Board has the power to buy-back stock in the company (up to 14.99% of the issued share capital) and they intend to ask shareholders to approve the renewal of this power at each AGM. The Board also has the power to issue up to 1 million new shares in the company for cash.

Listed but illiquid portfolio

Almost all the portfolio is listed but some stocks are quite thinly traded. Up to 10% of the portfolio can be invested in unquoted equities. The fund publishes net asset values daily but revalues its unquoted holdings less frequently.

No more than 15% of the portfolio can be invested in any one stock at the time of acquisition.

The Convertible Loan Notes

9% interest, 2017 maturity

GRIT has issued £4.85m worth of convertible loan notes. This is debt owed by the company to the loan note holders and the debt has to be repaid on 7 March 2017 unless the loan note holders decide to convert their loan notes into ordinary shares. The interest on the loan notes is 9% per annum, the rate reflects the nature of GRIT's portfolio.

Repaid if certain conditions aren't met

To protect their interests, the loan note holders can demand that the debt is repaid immediately if certain conditions aren't met including - GRIT failing pay the interest; borrowing more money; changing the nature of its business; not keeping enough cash to pay at least a year's worth of loan note interest in reserve (at 31 August the fund had c£850,000 of cash vs. £436,500 needed to pay one year's interest); and, after 7 March 2015, if the value of GRIT's portfolio is less than four times the value of the loan notes (at 31 August the portfolio was 6.5x the value of the loan notes).

Conversion ratio linked to share price

The loan notes can be converted at any time into ordinary shares in the company on the basis of one share for £1 of loan note. This ratio can change. On 7 March 2015, if the average share price for the preceding 15 business days was less than 75p, the conversion ratio changes to one share for 75p of loan note. On 7 March 2016, if the average share price for the preceding 15 business days was less than 50p, the conversion ratio changes to one share for every 50p worth of loan note.

Holders

£3.5m of the loan notes were issued to LIM Asia Multi-Strategy Fund Inc. and, as part of that deal, GRIT agreed that, as long as it holds at least half the loan notes, LIM can appoint one of GRIT's directors (a list of directors is on page 8). The manager is also a holder of the notes which will soon be listed on the Channel Islands Stock Exchange.

The warrants

There are warrants attached to the loan notes - one warrant for every £1 worth of loan notes. These can be exercised (converted into ordinary shares) at any time up to 7 March 2019 at a price of £1.

The ordinary shares

Potential investors in the ordinary shares should bear in mind that each of the original shareholders in the company hopes to be able to sell its shares in GRIT (though the manager says that some original shareholders can afford to be patient). It is important to note the protections afforded to the convertible loan note holders as described above. Also ordinary shareholders could be diluted if the convertible loan note or warrant holders convert into ordinary shares at a price which is less than GRIT's net asset value at the time of the conversion.

We asked the manager why someone might invest in GRIT

- To gain access to a portfolio of resource companies diversified by geography and commodity at a significant discount to net asset value.
- In their view the values of underlying companies are at or close to cyclical low point as the sector is unloved by investors.
- They believe there are tentative signs that sentiment toaward the sector is improving.
- The upside on many of the holdings is substantial provided that they can unlock finance to complete their exploration programmes and/or develop the resources they discover.
- GRIT is a significant and potentially influential shareholder in many of the companies it holds and uses that to promote good governance within those companies

How they manage the portfolio

The investment manager selected the initial portfolio from a universe of many thousands of stocks and met the management teams of well over 100 companies before selecting the initial portfolio.

Looking at:
People
Project
Financing

When deciding which companies were best suited to the fund, the manager assessed them on the basis of the quality of the people involved in running the companies; with most emphasis placed on their past track records and their experience. They also formed a view about each company's potential, thinking about - what size could it be, the scale of the project, what stage of development had it achieved to date (see below), the ownership structure, the legal jurisdiction it operates in, how close its projects are to local infrastructure, its current cash position and cash burn rate, and its abilty to finance necessary capital expenditure.

They model each company's predicted cash flows to estimate its value and then set this against the company's current market capitalisation to form a view of the potential upside.

Diversified

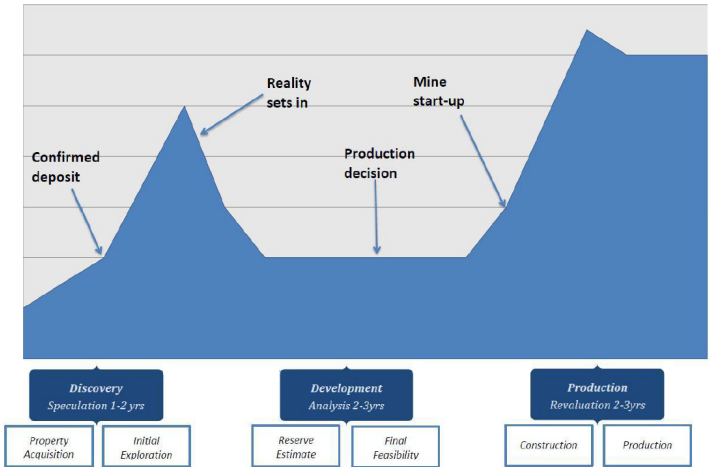
To reduce the overall risk of the portfolio it was designed to be diversified by both commodity and geography.

Timing is everything

The manager believes that catching a commodity company at the right point in its investment cycle can have a big impact on future returns. They illustrate this using the graphic on the left.

Early in the company's life, excitement builds as it acquires the right to explore for minerals and peaks as it confirms that it has discovered valuable resources. It may take considerable time and money to take that resource from discovery to exploitation however. Investors often become impatient or are put off by the level of capital expenditure needed and many resource companies fail at this stage as they struggle to secure finance. Those that do find the money start to attract attention again and, when production starts, investors come flocking back to what should be a lower risk investment.

Life cycle of a typical mining stock



source: RDP

Good governance

The day-to-day management of the portfolio is the responsibility of the investment manager. Because GRIT can have quite sizeable stakes in the companies that it invests in, it has some influence over them. GRIT's managers are keen to promote good corporate governance within the companies that they invest in. If they believe it worthwhile, they can seek to be represented on the Boards of these companies but they have said they will not try to get legal or mangerial control over portfolio companies.

Probably no more stock swaps

The manager can initiate the purchase of new investments but, unless these are less than 5% of the portfolio and less than 5% of the ownership of the company, each investment will have to be signed off by GRIT's investment committee. The managers say, having constructed the initial portfolio, it is unlikely that additional holdings will be added by way of stock swaps and they would sound out the opinions of the Board and major shareholders before initiating such a deal. They say GRIT will not issue shares at less than NAV.

Value targets

The manager has a value target for each investment. Sales of investments are made based on the relation between the manager's assessment of the company's value and its market value.

Relationships

The managers are often approached by management teams and companies seeking finance and advice. RDP are happy to introduce interesting ideas to portfolio companies (and do not seek a reward for doing so).

Global Resources Investment Trust : GRIT

QUOTEDDATA

What is in the portfolio?

There were 41 companies in GRIT's initial portfolio - the full list is given below - these were spread across a range of commodities and diversified by location. The loan note investments, including Arakan Resources and Siberian Goldfields, are unquoted.

The bulk, by number are listed on Toronto's TSX Venture Exchange. The managers believe investors in the Canadian mining sector were amongst the worst affected by the downturn in the commodity cycle as money flooded out of many of the open-ended funds dedicated to the sector. They say the small size of many of these companies also means that they are often overlooked by Canadian institutional investors. By contrast, the Australian mning sector was not nearly so badly affected. Big infrastructure investment in Perth helped alleviate some of the pain but Australian companies also cut back on capital expenditure earlier. Sizeable equity issues of the type used to build GRIT's portfolio are also easier to put together in Canada than in markets such as the UK and Australia because of local stock market rules.

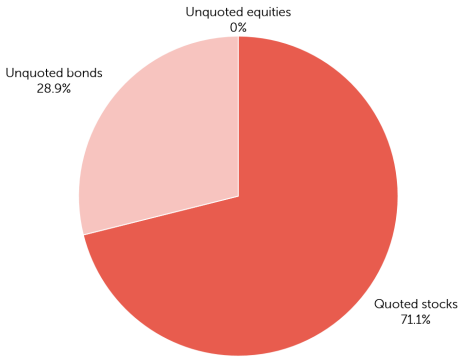
Alhambra Resources (ord, loan notes & Wts)	Gold	Kazakhstan	TSX Venture Exchange
Anglo-African Minerals	Bauxite	Africa	GXG Markets
Apogee Silver (ord & Wts)	Silver	South America	TSX Venture Exchange
Arakan Resources (ord and loan notes)	Coal	Kyrgystan	GXG Markets
Archer Petroleum (ord and loan notes)	Oil	North America	TSX Venture Exchange
Black Star Petroleum	Oil	North America	Australian Securities Exchange
Blue River Resources	Copper	North America	TSX Venture Exchange
Bowmore Exploration	Gold	North America	TSX Venture Exchange
Canoel International Energy	Oil	Africa	TSX Venture Exchange
Copper Cowboy Resources	Gold	Africa	Canadian National Stock Exchange
Discovery- Enterprises	Copper	North America	TSX Venture Exchange
Elcora Resources	Graphite	Asia	TSX Venture Exchange
European Uranium Resources	Uranium	Europe	TSX Venture Exchange
Forte Energy NL	Uranium	Africa	Australian Securities Exchange & AIM
Freyja Resources	Silver	Mexico	TSX Venture Exchange
Global Met Coal (ord & Wts)	Coal	North America	TSX Venture Exchange
IMC Exploration Group	Lead/Zinc	Europe	GXG Markets
Inca One Resources	Gold	South America	TSX Venture Exchange
Incor Holdings	Nickel	North America	GXG Markets
Jaxon Minerals	Lead/Zinc	North America	TSX Venture Exchange
Maxim Resources	Oil	South America	TSX Venture Exchange
Merrex Gold	Gold	Africa	TSX Venture Exchange
Mineral Mountain Resources	Gold	North America	TSX Venture Exchange
Nitinat Minerals (ord & Wts)	Oil	Russia	TSX Venture Exchange
Nouveau Monde Mining Enterprise	Copper	North America	TSX Venture Exchange
NuLegacy Gold	Gold	North America	TSX Venture Exchange
Oracle Energy	Oil	Africa	TSX Venture Exchange
Parlane Resource	Gold	North America	TSX Venture Exchange
Phoenix Gold Resources (ord & Wts)	Gold	North America	TSX Venture Exchange
Portex Minerals	Lead/Zinc	Europe	Canadian National Stock Exchange
Sage Gold (ord & Wts)	Gold	North America	TSX Venture Exchange
Santa Fe Metals	Lead/Zinc	North America	TSX Venture Exchange
Saturn Minerals (ord & Wts)	Oil	North America	TSX Venture Exchange
Secova Metal	Uranium	North America	TSX Venture Exchange
Siberian Goldfields (loan notes)	Gold	Russia	Unquoted
Sniper Resources	Gold	North America	TSX Venture Exchange
The Waterberg Coal Company	Coal	South Africa	Australian Securities Exchange
Tirex Resources	Copper	Europe	TSX Venture Exchange
Westminster Resources	Silver	South America	TSX Venture Exchange
Wishbone Gold	Gold	Australia	AIM
Zadar Ventures	Uranium	North America	TSX Venture Exchange

By end August, the manager had not made any additions to or disposals from the portfolio. The valuations of the investments had changed however. The split of the portfolio at the end of August is shown in the adjacent graphics. Arakan, held through ordinary shares and a loan note, was by far the largest holding, accounting for 19% of the fund. The top ten investments accounted for 70% of the fund, we look at these in more detail below.

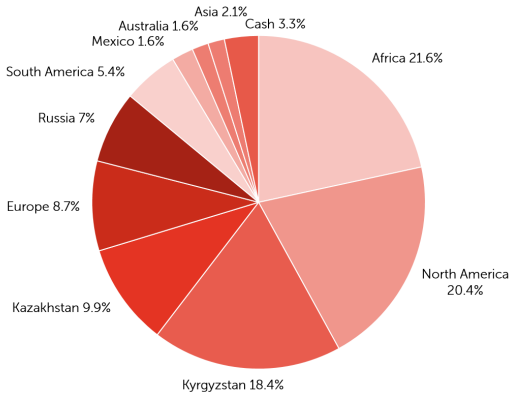
Arakan Resources (ARK G4) 19.0%

RDP were instrumental in introducing Arakan Resources to Posit Coal. Posit Coal, now a subsidiary of Arakan, is trying to exploit part of the Kara Keche coal deposit in central Kygyzstan. Posit has has entered into a 50:50 joint venture with Kyrgyz Kumor, a state-owned company, to develop the resource. Kara Keche is said to hold c440m tonnes of coal and Posit's operations cover an estimated 120m tonnes of this. The mine currently produces 100,000 tonnes per annum. The plan is to get this up to 1.5m tonnes per annum over the course of the next three years. Part of the problem with commercialising the deposit to date has been its distance from major transport links. A local power station provides some demand, more could come from an Alsthom project to build a 1.2MW coal fired power plant in the Kara Keche area. Otherwise coal has to be trucked to China. There is talk that the China--Kyrgyzstan-Uzbekistan railiway project (long discussed) might be closer to getting off the ground but this would take some time. Arakan also owns four copper/gold exploration leases in Myanmar.

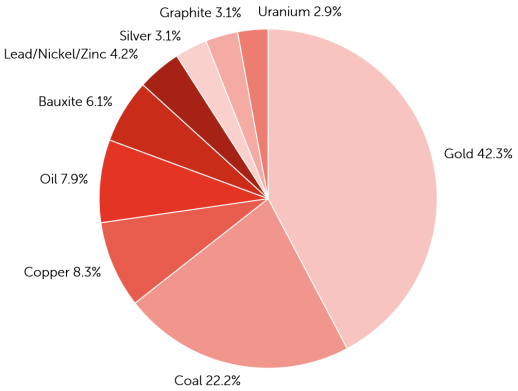
Portfolio split by asset type 31/08/14



Portfolio split by geography 31/08/14



Portfolio split by commodity 31/08/14



Portfolio concentration 31/08/14

Top ten = 70.5%

Arakan Resources loan note	11.1%
Alhambra Resources loan note	10.3%
Merrex Gold	9.4%
Arakan Resources ord shares	7.9%
Siberian Goldfields loan note	7.2%
Tirex Resources	6.9%
Anglo African Minerals	6.1%
NuLegacy Gold	5.1%
Saturn Minerals	3.6%
The Waterberg Coal Company	3.0%

What is in the portfolio?

Alhambra Resources (ALH CN) 10.3%

Alhambra is a Canadian listed gold exploration/development company operating in Kazakhstan. It has licences (valid until 2022 but extendable for up to 20 years) to explore 2.4 million acres of North Central Kazakhstan. The area includes the Uzboy Project, which hosts numerous world class gold deposits.

Cash constraints have curtailed mining operations for the moment but it continues to process previously mined ore. In 2013 it produced 389oz and had an estimated 30,000 oz of recoverable gold in unprocessed ore. Subject to raising sufficient finance, Alhambra plans to resume its exploration and development activity. RDP belives the exploration area has a lot of promise - Newmont Mining were interested at one point and might return.

Merrex Gold (MXI CN) 9.4%

Merrex Gold has been one of GRIT's most successful investments to date, its share price has risen more than fourfold since March 2014. Merrex has a joint venture with IAMGOLD Corporation on the Siribaya Gold Project in Mali, West Africa. The JV has exploration permits over 910 sq km. Prior to this year, exploration activity had indicated a resource of just over 300,000 oz at 2.34 g/t and an inferred resource of 300,000 oz at 2.17 g/t.

In July 2014 Merrex announced that exploration activity at a previously identified gold anomaly at Diakha was indicative of "an impressive new gold discovery". According to the company, 80% of drilling activity showed the presence of gold in significant quantities and, for the most part, at depths less than 100m.

Investors have also been encouraged by a takeover bid for a company operating a gold project close to Merrex on the same geological formation. B2gold targeted Papillon Resources in a merger valuing Papillon at $570m.

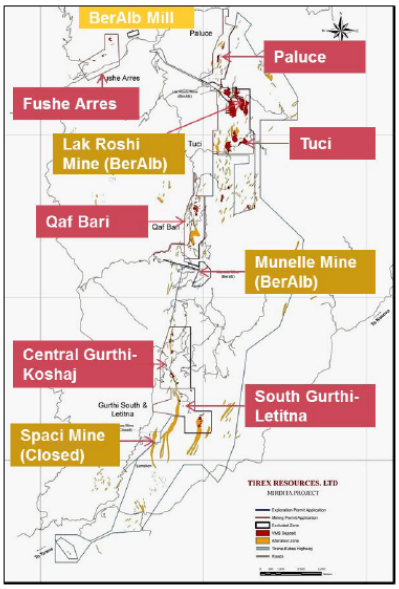
Merrex also has permits for zinc/lead projects in Nova Scotia, Canada and in Ireland.

Siberian Goldfields (unquoted) 7.2%

Siberian Goldfields is a developing the Zhelezny Kryazh gold, bismuth and iron ore deposit in the Chita region of Russia - near the border with China. It was also held by Grafton Resources. They have identified a resource with grades between 2.5 and 15 g/t. that could hold as much as 70 tonnes of gold. The Bismuth resource could total 30,000 tonnes and the estimate for iron ore is 59m tonnes. The site is some distance from the nearest paved road.

RDP is backing Tony Williams (ex Yorkton Securities, now Dragon Group) on this project via a convertible loan note with a 15% coupon that will convert into equity at a 25% discount to an IPO price.

Tirex Resources (TXX CN) 6.9%



Tirex Resources is focused on Albania where it has six separate 25 year mining licences in the Mirdita District in the north of the country. The project covers 344 sq km about 70km north of Tirana. Tirex is looking at Volcanogenic Massive Sulphide deposits - formed by discharges from hydrothermal vents. Exploration activity has revealed significant quantities of gold, silver, copper and zinc.

Tirex has €6m funding from the European Bank for Reconstruction and Development (EBRD) which falls due for repayment in October 2014 (having been extended for a year). At present Tirex does not have sufficient finace to repay this but RDP believes Tirex has a good relationship with EBRD and the loan will rollover again. Production should have commenced at at number of sites under a joint venture agreed with a Turkish company, Ekin Maden (Tirex was contributing the licences to this JV and Ekin Maden the financing). To date Ekin Maden has not contributed the necessary funds. There were delays in Tirex receiving mining licences (although they were obtained in April 2013) and Ekin Maden has not yet fulfilled its side of the JV obligations alleging Tirex has not been in a position to fulfill its obligations. RDP believes this dispute will be resolved and production will get underway.

What is in the portfolio?

Anglo African Minerals (AAM G4) 6.1%

Anglo African Minerals is focused on bauxite in Guinea, West Africa. It has four core assets -

- Forward Africa Resources (Far), which is capable of producing 2 million tonnes per annum from a 300mt resource and, if Anglo can find £10m to fund the first stage of development, could be producing in 2016;
- Société Minière d'Alumine (Somalu), which Vale spent some money on and could produce 5m tonnes per annum from a 2bnt resource in the medium term - they are aiming to sign a minig convention in 2015 and for production in 2017/18;
- Tougue Bauxite and Alumina Corporation (Toubal), which they own 62% of, is further inland (and therefore requires more up front investment) but could produce 5m tonnes per annum for export by 2019 and 5m tonnes per annum for refining from 2021. It sits on a resource of 1bnt;
- Mineral Technology Exploration Production Guinée (Mintep) sits just north of Toubal and is estimated to hold an addition 1bnt of bauxite - their timescale for exploitation of this is the same as for Toubal.

Anglo reckons the total cost of getting Far into production is $40m and thereafter it could generate $20m per annum in free cash. RDP says the scale of Anglo African's operations makes it the fifth largest player in the bauxite market in the world (by reserves).

NuLegacy Gold (NVG CN) 5.1%

NuLegacy Gold optioned a 60sq km parcel in Nevada from Barrick Gold in 2010 and found a large "Carlin-type" gold deposit with potentially 90m - 110m tonnes grading between 0.7 g/t and 1 g/t. NuLegacy aims to spend $2.9m on exploration by autumn 2015 by which time it would have earned a 70% stake in the project. Barrick can then chose to spend $15m developing the mine, giving NuLegacy a 30% production royalty, or it can opt to remain a 30% minority partner and NuLegacy can find the development funding elsewhere.

Alex Davidson (ex Executive Vice-President of Exploration and Corporate Development of Barrick Gold Corporation) has just joined NuLegacy's board.

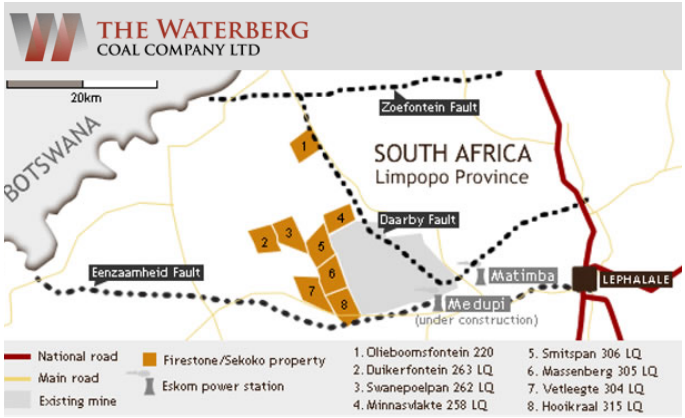
Saturn Minerals 3.6%

Saturn is exploring the North Williston basin in Saskatchewan, Canada - an extension of the geological formation that runs under North Dakota and Montana. To date it has found coal deposits on two sites - Armit and Overflowing, the latter of which they believe may include one the largest coal seams found in Canada. They also have another coal exploration site, Red Earth.

At the moment though, Saturn is focused on its oil operations. They have two areas where they are prospecting for oil in a 50:50 JV with Vector Exploration - Little Swan and Bannock Creek. They hope to commence drilling at Bannock Creek very soon having identified promising sites using 3D siesmic surveys.

RDP believes the discovery of oil in commercial quantities could have a meaningful impact on Saturn's share price.

The Waterberg Coal Company 3.0%



The Waterberg Coal Company has an interest in coal tenements totalling 7,979 hectares adjacent to an existing mine, the Exxaro Grootegeluk coal mine in South Africa. The measured, indicated and inferred resource totals 3.9bnt of coal.

An existing coal fired power plant, operated by Eskom provides one source of demand for coal and a second plant is under construction. A coal supply agreement with Eskom is being negotiated now.

The holding structure for the project is probably more complex than it needs to be and RDP believe this will be addressed. Once this is complete, raising finance for the capex required to get the project underway should be simpler. The company is targeting completion of fund raising within six to twelve months of the coal supply agreement being signed and due diligence work completed.

Standard Bank is providing project finance at the moment via a A$35m convertible secured facility. This falls due for repayment in October 2014 and is currently being renegotiated.

RDP describes Waterberg as a world class project in a very small company.

Waterberg also holds three exploration licences in South Australia where it is looking primarily for gold.

Commodity markets

Sell-off triggered by Chinese weakness

As the graphs on the right show, most commodities came under severe pressure in 2008 as fears grew that the credit crunch would curtail demand in the developed world. Gold was an exception to this as investors believed that the actions the central banks took to reinvigorate their economies would fuel inflation. That inflation did not materialise however and the gold price ran out of steam in 2011. Most other commodity markets though bounced off the lows over 2010 and the early part of 2011 only to come under renewed seling pressure when doubts began to grow about the strength of Chinese demand.

"Share prices overreacted"

RDP thinks that we are now three to four years into a downturn and that share prices have overreacted to falling commodity prices. They acknowledge that in many cases commodity prices have held up better than anticipated and think this may be linked to greatly increased liquidity in the sector as the number of trading houses dealing in commodities and the range of derivatives linked to them has ballooned. Peversely, with so many ways to "play" the gold or oil price for example, they feel that investors are neglecting the companies that are actually producing the stuff.

Cycle turning?

The managers say that nobody can predict perfectly when a cycle will turn and it is often hard to know when it happens until after the event. As one indicator that perhaps things are getting better, there is evidence with stocks like Merrex that good news is pushing share prices higher rather than just attracting sufficient attention to let frustrated shareholders get out.

We thought it was interesting that, as highlighted in our monthly roundup of the economic and market views of the people who run investment companies for August, the BlackRock mining team say that they are "cautiously optimistic that the bottom of the cycle might well be behind us".

Big miners underinvesting

Big miners have been divesting assets and restructuring themselves - RDP say this activity is often associated with a turn in the cycle. The big miners slashed capital expenditure on things such as exploration activity in the face of the downturn and, as existing projects are depleted, will soon have to look to the junior miners as a source of new projects to develop. RDP say the situation is analogous to that pharmaceutical / biotech sectors where big pharma curtailed R&D expenditure and then had to acquire or JV with biotech companies to acquire new drugs.

Supply side disruptions?

RDP sees a risk of continued supply side disruptions. Protectionism is a problem, they cite Indonesia's move to ban exports of Nickel and, most recently Bauxite; countries dependent on Indonesian exports are having to turn elsewhere. They think some governments, faced with dwindling tax revenues, may also consider nationalising assets (which is something investors should bear in mind with GRIT's portfolio).

Lower outflows

The flood of money exiting the sector may soon be stemmed as well. For some time hedge funds dedicated to investing in commodity related securities have been shrinking and many have been wound up altogether on the back of poor performance. However, according to Hedge Fund Research Inc, August saw positive performance by funds following commodity and equity hedge energy/basic materials strategies and the latter is the best performing equity hedge strategy year to date.

Encouraging signs

Chinese demand remains an issue but RDP point out that slower growth in China is still growth, that growth is more sustainable and that growth is coming on a much larger base than it was five or ten years ago. Across the globe infrastructure spending is increasing - this will suck in raw materials. Also there are definite signs that the US economy is picking up.

Gold spot price

Coal - Rotterdam

Copper - LME

Oil

Management Team

RDP Fund Management specialises in managing portfolios of small resource companies. The team are all industry veterans with vast experience in the sector. RDP runs focused portfolios, helping to ensure that it has in depth and up to date knowledge on all its funds' holdings. RDP's funds take large stakes in portfolio companies. They have regular contact with the management of investee companies and RDP advise them in areas where they may have less expertise. These sizeable stakes allow RDP to promote good governance within its holdings, ensuring that companies make decisions in the best interests of shareholders, rather than management.

David (Sam) Hutchins

David has 30 years' experience as a resources analyst and fund manager. His career began with the Melbourne Stock Exchange in 1979 and he then moved to London, becoming an executive director and head of the International Desk of M&G Investment Management. David was responsible for M&G's investments in the precious metals and commodities sector globally. Later he became involved in Fund Management with Yorkton and AWI Administration Services. He was a founding director of Resources Investment Trust plc at its launch in January 2002. David was also a founding partner of www.minesite.com, a resource industry specific news related website and conference business, and is a member of the FTSE Gold Mines index committee.

Kjeld Thygesen

Kjeld is a graduate of the University of Natal in South Africa and has 35 years experience as a resources analyst and fund manager. He joined African Selection Trust in 1970, researching and managing a portfolio of South African mining companies. In 1972 he joined James Capel and Co. in London in 1972 and subsequently became manager of N M Rothschild & Sons' Commodities and Natural Resources Department in 1979. In 1987 he became an executive director of N M Rothschild International Asset Management Limited, before co-founding Lion Resource Management Limited, a specialist investment manager in the mining and natural resources sector, in 1989. Kjeld was director of Ivanhoe Mines Ltd 2001-2011 and served as Investment Director for Resources Investment Trust PLC from 2002 – 2006.

The Advisory Panel - Merfyn Roberts and Miles Thompson

The role of the Advisory Panel is to act as a sounding board for the manager. The members of the Panel may introduce new investment ideas to the managers. They are also a valuable source of information on the industry.

Merfyn Roberts has been a fund manager and investment advisor for more than 25 years and has been closely associated with the mining industry. He is a graduate of Liverpool University (B.Sc., Geology) and Oxford University (M.Sc., Geochemistry) and a member of the Institute of Chartered Accountants in England and Wales. He is a director of a number of resource companies, including Agnico-Eagle Mines Ltd, Eastern Platinum Ltd and Rambler Metals & Mining Ltd.

Miles Thompson is a geologist with 28 years of technical and managerial experience in the mining and natural resource industries globally. An experienced CEO and Chairman of small-cap listed mining companies he is a British citizen, fluent in Portuguese and Spanish and currently resident in Brazil.

Management Fees and expenses

The Board have set the basic management fee at 1.5% per annum of net assets under £100m and 0.75% per annum above £100m. There is also a performance fee that is calculated as 15% of capital gains in excess of a 7% hurdle. This has a high watermark (so if the manager earns a performance fee in any one year, next time they have outperformed and are due a fee the NAV must be higher than last time they took a fee if they are to get paid). Up to 75% of the fee can be taken in shares.

The Board

There are four members of the Board all of whom are non-executive. The Chairman is paid £25,000 per annum, the Chairman of the Audit committee £22,000 and the other two directors are paid £20,000.

Chairman

Anthony St. John, is the Chairman. He is a hereditary member of the House of Lords specialising in African affairs, deregulation, financial services and information technology as a crossbencher. Anthony has a BSc from Cape Town University, a Bachelor of Law from the University of South Africa and Masters in Law from the London School of Economics. Previous positions held include acting as a consultant to Merrill Lynch International from 1991 - 2008.

Ms. Haruko Fukuda OBE, MA , FSCI is a non-executive director of Investec plc and Aberdeen Asian Smaller Companies Investment Trust PLC. She also holds a position as a Member of the Council for the Institute for Fiscal Studies and is a Trustee for the Mitsubishi Trust Oxford Foundation. Ms. Fukuda has been involved in global economics and investment for over 40 years and has written published books on international trade policy. She was a partner with James Capel & Co, an international securities firm bought by HSBC, for 14 years and then spent 10 years as vice chairman and board member of Nikko Europe Plc. Haruko has held many other noteworthy positions, including being a senior advisor to Lazard, director of AB Volvo and CEO and Board Director of the World Gold Council.

The Board (continued)

Chairman of the Audit Committee

Simon Farrell B.Com., MBA (Wharton) has worked in the mining industry throughout his career including executive positions at Hamersley Iron, Rio Tinto and Bond Corporation. Recently was a Managing Director of a Manganese Company operating out of the Pilbara in Western Australia before assisting in the development of various mining interests relating to Minproc. He was founding managing director of Coal of Africa and non-executive director of Kenmare Resources.

James Williams MA Oxon has worked throughout his career in the investment banking industry in London and the Far East including Directorships at ING Barings, ABN AMRO and global head of media at Commerzbank Securities. Latterly he has been a principal in Saginaw Capital and a private Hong Kong Investment Company with extensive interests in the natural resources sector.

Contact Details

The Fund Manager

RDP Fund Management LLP
3rd Floor
49 Albermarle Street
London W1S 4JR

Telephone: +44 (0)20 7290 8540

www.rdpfm.co.uk

The Registrar

Computershare Investor Services PLC
The Pavilions
Bridgewater Road
Bristol BS99 6ZZ

Telephone : +44 (0)870 702 0000

www.investorcentre.co.uk

Company Secretary

R&H Fund Services Limited
15-19 York Place
Edinburgh EH1 3EB

Stockbroker

Keith Bayley Rogers & Co. Limited
No. 1 Royal Exchange Avenue
London EC3V 3LT

Registered Office

6 New Street Square
New Fetter Lane
London EC4A 3AQ

This note was written for QuotedData by James Carthew on behalf of

MARTEN & CO

Authorised and regulated by the Financial Conduct Authority

123a Kings Road, London SW3 4PL
0203 691 9431

Registered in England & Wales number 07981621, 135a Munster Road, London SW6 6DD

IMPORTANT INFORMATION

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned in this report. This note has been compiled from publicly available information.

Permitted Users of the note: This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable & to ensure that the information in this note is up to date & accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use & information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice & may become outdated. You, therefore, should verify any information obtained from this note before you use it.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future & that the value of shares & the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co & its employees have any liability for consequential or special damages.

Governing Law & Jurisdiction: These terms & conditions & all matters connected with them, are governed by the laws of England & Wales & shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction