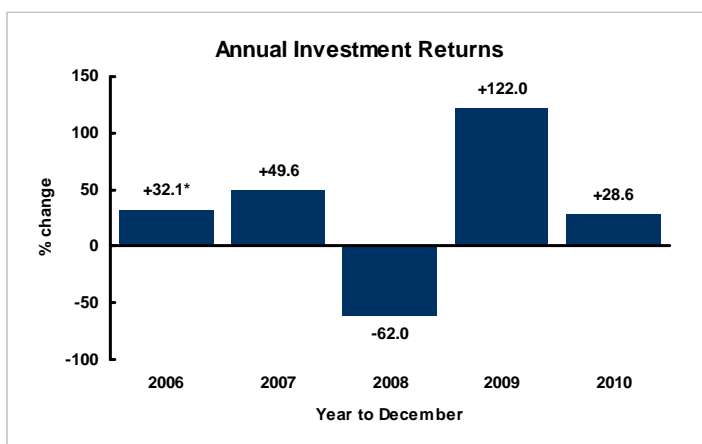


**Emerging Resources Company Share Fund
Investment Manager's Letter
Six months ended December 2010**

Dear Unitholder,

The net asset value of the Emerging Resources Company Share Fund rose by 65.79% in the six months ended December 2010. The return for the 12 months to December was 28.64%. Between the inception of the Fund in April 2006 and the end of December 2010, the net asset value rose by 17.71% a year.



Market conditions were generally stronger during the second half of 2010 after weakening over the first five months of the year. As the half progressed, there was growing optimism about the continuity of a U.S. economic recovery, less concern about a European financial crisis precipitating another global recession and evidence that demand from China for industrial raw materials was being maintained. Favorable global financial

liquidity conditions contributed to commodity price strength.

Strategy

The investment strategy of the Fund rests on the idea that sustainable value in the resources sector is only created from new projects. Consequently, all the companies in which the Fund invests are developing new projects or undertaking substantial expansions of existing capacity. The stock market should react positively as companies add value by passing key milestones along their development paths.

In the face of the short term peak in market values in January 2010, the Manager decided "to hold its positions in companies making good progress along their development paths, including Pluton Resources, 3D Oil and Overland Resources, in the belief that they were fundamentally well placed to add value to the portfolio later in 2010 and 2011"¹.

As it turned out, Pluton Resources and Overland Resources were among the four stocks that made the largest contributions to investment performance in the second half of 2010. Other stocks also passed significant business milestones to help underpin the investment outcome.

The Manager would normally seek to sell stocks that had reached their production and price targets and buy into new, attractively priced companies at an earlier stage in the

¹ "Investment Manager's Annual Letter 2010", 29 July 2010.

* For the period from 28 April 2006

development life cycle. In some cases, stocks may also be replaced because of evidence that other stocks will add value more speedily.

This strategy permits the Manager to adjust the composition of the portfolio to protect its underlying value and prospective investment returns. The number of changes to the portfolio in the last six months were larger than usual but consistent with this intent.

Portfolio changes

The manager sold the Fund's positions in Matilda Minerals, Western Areas, PanAust, Mount Gibson Iron, Bauxite Resources, Terramin Australia and Platinum Australia.

Nucoal, Indo Mines, Kasbah Resources, Coal and Allied Industries and Orocobre were added to the portfolio.

- Indo Mines is developing an iron sands project in Indonesia approximately 30 kilometres from Jogjakarta. The company is anticipating a two stage development with initial production of concentrate subsequently moving to pig iron. The investment offers an opportunity for the Fund to benefit from the growth and industrial development opportunities in Indonesia for which the International Monetary Fund is forecasting GDP growth between 6% and 7% in each year between 2010 and 2015.
- Nucoal is a New South Wales coal mine developer looking to produce semi soft coking and thermal coals in areas adjacent to existing Xstrata and Peabody Energy operations. The company has an inferred resource of 420 million tonnes with a targeted potential of 500-600 million tonnes upon which to base its production plans.
- Coal and Allied Industries is an existing Hunter Valley coal producer with output in 2010 of 25 million tonnes of thermal and semi soft coking coal, predominantly for the export market. Annual output by 2015 of 40 million tonnes is being targeted with the first expansions scheduled for 2011/12.
- The primary focus of aspiring South American lithium producer Orocobre is the Salar de Olaroz lithium-potassium brine project in Argentina. It is aiming to complete a feasibility study, in partnership with Toyota Tsusho Corporation, during the first quarter of 2011. Toyota Tsusho is a trading group associated with the Japanese Toyota Motor Company.
- Kasbah Resources is developing the Achmmach tin project in Morocco, a location which positions it well to meet demand from European smelters looking for feedstock. Tin has received a new lease of life from modern electronic applications which take advantage of its unique combination of low melting point, malleability and corrosion resistance.

The Orocobre purchase, among other transactions, broadened the commodity exposure of the Fund. Overall, the recent transactions have reduced exposure to the principal daily traded nonferrous metal markets. These are the parts of the sector most at risk in the event of adverse macroeconomic influences such as fluctuations in the value of the U.S. dollar or movements in the stance of monetary policy in the USA or China.

Investment contributions

Of the 26 stocks held in the portfolio during the six months, only four fell in value, subtracting just 1.5 percentage points from the sixth month investment return.

The four stocks that made the largest positive contributions to investment performance were Sundance Resources, Overland Resources, Pluton Resources and Red 5. In each case, the companies reported significant progress toward their ultimate development objectives.

- Sundance Resources signed memoranda of understanding with Chinese parties to begin studies into the port and rail infrastructure needs of its west African iron ore mine developments.
- Overland Resources received further geological and metallurgical test results pointing to the economic viability of its Yukon zinc mine properties.
- Pluton Resources reported additional reserves of commercial iron bearing ores, more promising metallurgical test results and a legally binding agreement with the Mayala native people covering its proposed mining sites.
- Red 5 received its necessary development permits and finalized funding arrangements for its Philippines gold mine. It also reported encouraging exploration results in the area surrounding its primary development at Siana.

Cash position

At the end of December, 17.5% of the value of the portfolio was held in cash. While the Manager was active in initiating new positions, the balance of transactions added to the cash position. Sales of stock in the last quarter of 2010 were equivalent to 45% of the value of the portfolio at the beginning of the quarter. The Manager also delayed some potential stock purchases toward the end of December in recognition of a pronounced seasonal tendency among smaller and less liquid stocks to rise in the last days of the year before weakening in the early part of January.

Having identified the stocks toward which new funds will be directed, the manager will look to take advantage of the cash position as market conditions permit over the early weeks of 2011.

Distributions

As the Emerging Resources Company Share Fund seeks to invest for medium term capital gains rather than dividend income, distributions depend on the extent to which investments are realised and the size of gains from those realisations relative to the operating costs of the Fund. Unrealized gains are not taken into account in calculating a distribution.

In the six months ended December 2010, the Fund's expenses and capital losses, including those carried forward from 2009/10, were approximately equal to its realized capital gains so that there has not been a distribution for the period.

E.I.M. Capital Managers Limited

15 January 2011