



26 July 2011

**Emerging Resources Company Share Fund  
Investment Manager's Annual Letter 2011**

Dear Unitholder,

Improved investment returns in the first half of the 2010/11 financial year gave way to a loss of momentum and weakening markets in the second half. Movements in the value of the Emerging Resources Company Share Fund reflected this pattern. Nonetheless, for the full year ended June 2011, the net asset value of the Fund rose by 33.6%.

Background market conditions were generally stronger in 2010. Global growth accelerated more sharply in 2010 than in any calendar year since 1960. As a result, demand for industrial raw materials grew strongly.

Moving into 2011, we entered a period of transition. Global economic growth rates and, with them, growth rates in raw material usage began a decline to something more sustainable. The effect of the fiscal and monetary policy settings which had supported prices prior to 2011 also began to diminish and, in some cases, reverse.

By the end of the 2010/11 financial year, the risks to markets loomed larger. There were heightened doubts about the sustainability of the U.S. economic recovery, European debt levels were raising fears about the possibility of another global financial crisis, the Japanese earthquake and tsunami had disrupted global supply chains and, in China, policy makers were trying to dampen inflation expectations by raising interest rates and cutting back on bank lending causing investors to fear a larger than desired slowdown in economic activity.

**Investment 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 has invested are developing new projects or undertaking substantial expansions of existing capacity.

A history of the stock market reacting positively as companies pass key milestones along their development paths underpins expectations about likely investment returns.

As the growth in raw material off-take slows to more sustainable rates and quantities produced continue to expand in response to recent strong prices, the risk that commodity prices will weaken becomes greater. In such an environment, companies without significant organic growth prospects will be hard pushed to sustain their earnings and will face downward pressure on their investment returns.

**Officium Capital Limited** • ACN 108 747 637 • Australian Financial Services Licence No. 275101

**PO Box 1886, Toowong DC QLD 4066 • Terrace House 3, 249 Coronation Drive, Milton QLD 4064**  
Phone (07) 3834 7111 • Fax (07) 3876 4377 • Email [admin@officiumcapital.com.au](mailto:admin@officiumcapital.com.au)

[www.officiumcapital.com.au](http://www.officiumcapital.com.au)

Officium Capital Limited is a subsidiary of Snowball Group Limited



The Emerging Resources Company Share Fund seeks to identify investment opportunities in which the value created from organic growth can offset the risk of potentially lower commodity prices over the medium term.

**Portfolio changes**

There were an unusually large number of changes to the Portfolio during the year, all in the first half. The stock sales and purchases are summarised in the table below.

Company	Commodity Exposure	Project Location
<b>Sales</b>		
Western Areas	Nickel	Western Australia
PanAust	Copper-gold	Southeast Asia
Mount Gibson Iron	Iron ore	Western Australia
Bauxite Resources	Bauxite	Western Australia
Terramin Australia	Zinc	Algeria
Platinum Australia	Platinum	South Africa
Matilda Minerals	Mineral sands	Northern Territory
<b>Purchases</b>		
Indo Mines	Iron sands	Indonesia
Coal and Allied	Coal	New South Wales
Nucoal	Coal	New South Wales
Orecobre	Lithium	Argentina
Kasbah Resources	Tin	Morocco
Sylvania Platinum	Platinum	South Africa
Aguia Resources	Phosphate-Potash	Brazil

Generally, a stock will be sold if it reaches the valuation target set by the Manager. The Manager’s analytical processes lead to a clear dollar price value being attached to each investment so that decisions to buy or sell can reflect an expectation about prospective investment returns.

Western Areas, PanAust and Mount Gibson Iron were sold after successfully reaching the valuation targets set for them. In the cases of Terramin Australia, Platinum Australia and Bauxite Resources, the Manager decided that slippages in the achievement of important development milestones had affected their valuations detrimentally and that other stocks would represent better returning opportunities. The Matilda Minerals position was sold after company management sought approval from shareholders for a change in strategic direction.



These transactions and subsequent purchases of replacement stocks broadened the commodity exposure of the Fund. With the exception of Sylvania Platinum, the new additions to the Portfolio offered commodity exposures the Fund did not have from its previous investments. The Portfolio now includes exposure to phosphate, lithium and tin, for example. One of the benefits of that change, from a risk management standpoint, was that commodity price changes affecting the stocks in the Portfolio became less closely correlated.

Cutting nickel, copper and zinc exposure also reduced the proportion of the Fund linked to the main daily traded non-ferrous metals. These are the products likely to be most at risk in the short term from adverse macroeconomic occurrences such as a deceleration in global economic growth, fluctuations in the value of the U.S. dollar or changes in policy settings in the major advanced or developing economies.

The Portfolio changes also diversified the geographic exposure of the Fund, at the margin. Indo Mines, for example, provides exposure to the fast growing Indonesian economy and the development of that country's iron and steel industry. The investment in Agua Resources exposes the Fund to Brazil, another dynamic developing economy, and its burgeoning agricultural segment.

#### **Investment contributions**

Of the 26 stocks held in the Portfolio during the year, 14 increased in value and 12 declined.

The four stocks that made the largest positive contributions to the investment performance were Sundance Resources, Overland Resources, Agua Resources and Indo Mines. West African iron ore mine developer, Sundance Resources and Yukon zinc mine developer, Overland Resources, have been long term holdings for the Fund. The other two stocks were among the more recent additions.

The stock that subtracted most from investment performance was Bass Strait oilfield developer, 3D Oil. Lesser losses were made by Kasbah Resources, Sylvania Platinum and Orecobre.

#### **Cash position**

At the end of June, 13.4% of the value of the Portfolio was held in cash to be invested as market conditions permit.

#### **Outlook**

Investment opportunities in the sector are increasing. Favourable business conditions have been stimulating exploration for mineral resources. Existing and new companies are coming up with increasing numbers of commercially viable mining and oil and gas projects.

Despite heightened exploration activity, no large scale mines of the size of Escondida or Red Dog, for example, that date from the 1970s and 1980s are being found today. This poses both a challenge for the industry and an investment opportunity.

**Officium Capital Limited** • ACN 108 747 637 • Australian Financial Services Licence No. 275101

**PO Box 1886, Toowong DC QLD 4066 • Terrace House 3, 249 Coronation Drive, Milton QLD 4064**

Phone **(07) 3834 7111** • Fax **(07) 3876 4377** • Email **admin@officiumcapital.com.au**

[www.officiumcapital.com.au](http://www.officiumcapital.com.au)

Officium Capital Limited is a subsidiary of Snowball Group Limited



The challenge for the industry is to find an ever larger number of smaller mines as the size of markets increases. With the size of raw material markets having continued to grow, the need for an increasing number of smaller mines opens up new opportunities for emerging resource companies. While macroeconomic risks may ebb and flow through the course of a year, even substantially lower rates of growth in raw material usage than we experienced in 2010 will require new mines to be developed every year for the foreseeable future.

#### **Distributions and Taxation Statement**

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 (both gains and losses) and the size of those realisations relative to the operating costs of the Fund. Unrealised gains are not taken into account in calculating a distribution.

There have been no distributions for 2010/11 as the Fund's expenses, capital losses and carried forward tax losses from prior years exceeded the value of realised capital gains, dividends and interest received during the year. Consequently, you will not receive a taxation statement covering your investment in the Fund for the financial year ended 30 June 2011.

Yours sincerely,

#### **E.I.M. Capital Managers Limited**

##### **Important Information**

This report is provided for the information of clients and is not intended to provide advice. Whilst all care has been taken in the preparation of this report (using sources believed to be reliable and accurate), no person including Officium Capital Limited, E.I.M. Capital Managers or any other affiliated company accepts responsibility for any loss suffered by any person arising in reliance on this information other than under law which cannot be excluded. You should seek your own financial and taxation advice before dealing with your investment.

The product disclosure statement ("PDS") for the Emerging Resources Company Share Fund is issued by Officium Capital Limited. The PDS details the terms of the offer and if you wish to invest in the Fund, then you should consider the contents of the PDS, consider whether or not an investment in the Fund is appropriate for you and complete the application form accompanying the PDS. You should also consider the PDS in deciding whether to continue to hold an interest in the Fund.

Past performance should not be taken as an indication of future performance. This information does not take into account your investment objectives, financial situation or particular needs. Before making any investment decision, you should obtain and carefully consider the PDS, having regard to your investment objectives, financial situation and particular needs.

**Officium Capital Limited** • ACN 108 747 637 • Australian Financial Services Licence No. 275101

**PO Box 1886, Toowong DC QLD 4066 • Terrace House 3, 249 Coronation Drive, Milton QLD 4064**  
Phone (07) 3834 7111 • Fax (07) 3876 4377 • Email [admin@officiumcapital.com.au](mailto:admin@officiumcapital.com.au)

[www.officiumcapital.com.au](http://www.officiumcapital.com.au)

Officium Capital Limited is a subsidiary of Snowball Group Limited