

# Global Resources Investment Trust

## Unlocking value in resource juniors

Investment trusts

**Global Resources Investment Trust (GRIT) is a new fund seeking to generate medium-term capital growth through investing in a targeted portfolio of primarily small-capitalisation natural resource companies. The managers aim to exploit investment opportunities through investing new capital and providing active shareholder support. GRIT is fully invested in an initial portfolio acquired through a share exchange issue. A planned secondary placing of GRIT shares should enable the portfolio companies to access the cash required to finance their projects and this may trigger a re-rating of the portfolio constituents. Once the placing provides liquidity, GRIT shares will provide access to a niche market with the benefit of diversification to mitigate potential volatility.**

6 May 2014

<b>Price*</b>	<b>62.5p</b>
<b>Market cap</b>	<b>£24.7m</b>
<b>AUM</b>	<b>£33.0m</b>
NAV**	70.7p
Discount to NAV*	11.6%
Yield	Nil

\*Price and premium reflect quoted mid-price – no shares yet traded.

\*\*As at 30 April 2014.

Ordinary shares in issue	39.6m
Code	GRIT
Primary exchange	LSE
AIC sector	SS: Commodities & Natural Resources

### Gearing

Gross	17.9%
Net	9.2%

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## Investment strategy: Bottom-up stock specific

GRIT's investment strategy takes a bottom-up approach focused on individual stock selection from a global universe of small-cap resources stocks. The managers seek to identify companies where factors such as size, funding requirements and political risk have created a valuation opportunity. The managers also look for businesses with growth opportunities comprising development of low cost reserves and application of new technologies to convert marginal deposits. While investments are assessed from a micro rather than macro perspective, at a portfolio level the managers seek to reduce risk through a balanced exposure to a range of commodities across developing and developed regions globally. GRIT has a benchmark unaware absolute return focus.

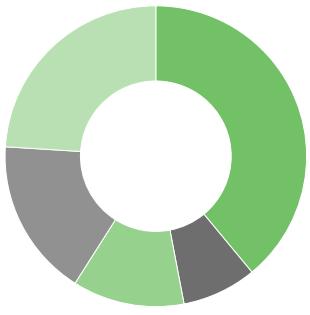
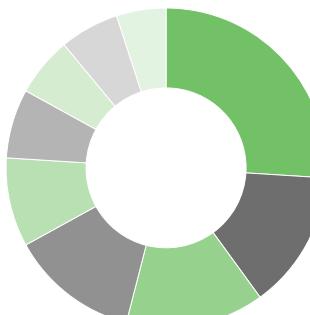
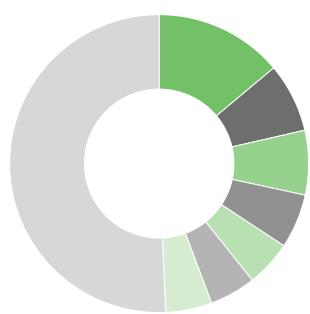
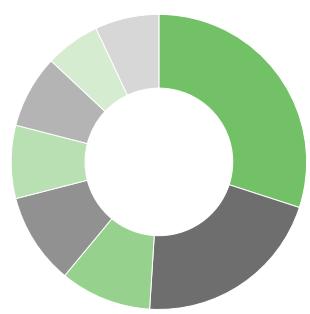
## Sector outlook: Positive medium-term drivers

Following two years of decline, the period of stability since mid-2013 is considered by some to indicate that the resources sector is bottoming out and the sector's relative underperformance has encouraged some investors to increase their sector weighting. Fluctuating market macroeconomic expectations are likely to create near-term volatility in both commodity and share prices. However, in the longer term, demand for natural resources should be driven by global economic growth. The current company focus on profitability is restricting development of new projects thereby increasing the potential for longer-term supply deficits as demand continues to rise. This is expected to put upwards pressure on commodity prices over the medium term. In the recent downturn, small-cap shares saw the greatest declines (see Exhibit 3) and, in a rising market, they appear to offer substantial upside from a re-rating. However, financing risks remain for companies with unfunded projects.

## Valuation: True discount yet to be established

There has been no trading in GRIT shares since admission to the LSE as all shares are held by portfolio companies that have agreed to a six-month lock-up outside of the share placing. Thus, a true share price discount to NAV has not yet been established. The peer group discount, ranging from 6-33% with an average of 19%, probably serves as the best guideline for the potential discount at which GRIT shares could trade once a share placement has been completed. While NAV has declined since GRIT's launch, investors should consider that acquiring shares in the planned secondary placing provides exposure to the potential re-rating of the portfolio once the companies access the cash required to finance their projects.

**Exhibit 1: Trust at a glance**

Investment objective and fund background				Recent developments	
Global Resources Investment Trust's investment objective is to generate medium- and long-term capital growth through investing in a diverse portfolio of primarily small- and mid-capitalisation natural resource and mining companies that are listed/quoted on a relevant exchange.				7 March 2014: GRIT launched.	
Forthcoming	Capital structure			Fund details	
AGM	N/A	Total expense ratio	N/A	Group	RDP Fund Management
Preliminary results	December 2014	Net gearing	8%	Managers	David Hutchins, Kjeld Thygesen
Year end	31 August	Annual mgmt fee	1.50% / 0.75% of NAV	Address	3rd Floor, 49 Albemarle Street, London W1S 4JR UK
Dividend paid	N/A	Performance fee	15% of capital gains above 7% hurdle		
Launch date	7 March 2014	Trust life	Indefinite	Phone	+44 (0)20 7290 8540
Continuation vote	March 2019	Loan facilities	None	Website	<a href="http://www.rdpfm.co.uk">www.rdpfm.co.uk</a>
Distribution of holdings by development stage (as at 7 March 2014)			Geographic exposure of portfolio (as at 7 March 2014)		
Over 75% of portfolio assets were accounted for by exploration and development companies.			The portfolio has a diversified geographic exposure. Notably, less than 5% of operations are located in Australia.		
					
Shareholder base (as at 7 March 2014)			Commodity exposures of portfolio (as at 7 March 2014)		
At launch, all shares were issued to portfolio companies under a share exchange.			The portfolio has a diversified commodity exposure.		
					
Top 10 holdings (as at 7 March 2014)					
Company	Country	Commodity	Portfolio weight % 7 March 2014*		
Arakan Resources Limited	Kyrgyzstan	Coal	13.9		
Anglo-African Minerals plc	Africa	Bauxite	7.6		
Tirex Resources Ltd	Europe	Copper	7.5		
Alhambra Resources Ltd	Kazakhstan	Gold	7.0		
The Waterberg Coal Company Ltd	South Africa	Coal	5.9		
Apogee Silver Ltd	South America	Silver	5.0		
Siberian Goldfields Limited	Russia	Gold	5.0		
NuLegacy Gold Corporation	North America	Gold	4.4		
Portex Minerals Inc	Europe	Lead/Zinc	3.7		
Black Star Petroleum Limited	North America	Oil	3.3		
<b>Top 10</b>			<b>63.2</b>		

Source: Global Resources Investment Trust. Note: \*Trust launched on 7 March 2014; no historic data for comparison.

## Fund profile and summary

Global Resources Investment Trust (GRIT) is a new specialist investment trust established to exploit investment opportunities in the junior natural resource sector with a benchmark unaware absolute return focus. The managers target capital constrained companies where GRIT can provide a capital injection to achieve a specific development objective enabling the company to self-fund further development or access more traditional sources of development funds. This is intended to create value and also act as a catalyst for a re-rating of the shares. GRIT will seek to ensure, through active shareholder involvement, that investee companies act to maximise long-term shareholder value.

GRIT's stated investment objective is to generate medium- and long-term capital growth through investing in a diverse portfolio of primarily small- and mid-capitalisation mining and oil & gas companies that are listed/quoted on a relevant exchange. It will seek to achieve this through investing without commodity or geographical constraints in exploration, development and production companies believed by the managers to have considerable valuation upside potential (see Exhibit 1 for a profile of the initial portfolio).

GRIT will invest primarily in companies with shares and securities that are listed, quoted or admitted to dealing on a relevant exchange (including debt securities convertible into quoted equity securities). However, it may hold some investments in non-quoted, seed capital or pre-IPO companies.

### Formation of GRIT

The premise for the formation of GRIT is that current market conditions provide material opportunities for a listed, actively managed dedicated investment company to act as a catalyst for change in the quoted small- and mid-cap resources sector. The intention is for GRIT to take advantage of these opportunities by:

- providing capital and support to selected companies,
- ensuring companies have appropriate cost and skill bases, and
- driving management changes, where deemed necessary

The idea to launch GRIT was conceived in late 2012 by the team that launched and managed Resources Investment Trust (RIT) in 2002. The original intention was for GRIT to follow the strategy adopted by RIT to acquire orphan assets (large shareholdings in illiquid small-cap stocks) from other asset managers as well as taking significant stakes in companies through directly acquiring treasury shares. Current regulatory requirements made GRIT's acquisition of orphan assets overly complex, thus moving the focus entirely to acquiring treasury shares directly from companies.

During 2013 and 2014, investment targets were identified and agreements reached with management and relevant exchanges regarding the acquisition of stakes of up to 20% in the target companies through share exchanges. The launch of GRIT entailed the issue of shares to 41 investee companies, comprising the initial portfolio, in exchange for shares, securities and debt securities (convertible into equity securities), and the admission of GRIT shares to trading on the London Stock Exchange. A secondary placing of GRIT shares is anticipated within six months of admission to enable the portfolio companies to access the cash required to finance their projects.

GRIT's investment in the initial portfolio is intended to provide some liquidity to the portfolio companies in an otherwise difficult market and to provide GRIT with the opportunity to invest in a broad portfolio of companies at what the directors believe to be a low valuation point.

### Initial portfolio

GRIT purchased the initial portfolio through a share exchange with portfolio companies at its launch on 7 March 2014. The acquisition of the underlying shares, securities and debt securities (convertible into equity securities) comprising the initial portfolio provides investors in GRIT with immediate

exposure to a diversified portfolio of investments consistent with GRIT's investment policy. The initial portfolio, comprising 41 companies, had an aggregate value of £39.5m based on the share exchange agreements and £35.9m based on the latest valuations available immediately prior to admission.

The share exchange subscription price was reached by negotiation but was primarily related to the bid market price for the relevant shares and securities. The price was fixed on the date each share exchange subscription agreement was signed.

The portfolio companies have agreed not to dispose of any interest in GRIT shares other than in accordance with GRIT's reasonable requirements so as to ensure an orderly market for the issued share capital of GRIT for a period of six months following admission.

## **The fund manager: RDP Fund Management**

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### **Experienced team**

GRIT's investment manager, RDP Fund Management, is a UK-based investment management company authorised and regulated by the FCA. The members of RDP responsible for the management of GRIT are Sam Hutchins and Kjeld Thygesen, who have worked together for over 10 years and both have extensive fund management experience in the natural resources sector.

#### **David ('Sam') Hutchins**

Hutchins has 30 years' experience as a resources analyst and fund manager. His career began with the Melbourne Stock Exchange in 1979 and he headed the International Desk at M&G Investment Management from 1995, where he was concurrently responsible for M&G's investments in the precious metals and commodities sector globally. He was a founding director of RIT, launched in January 2002, and CEO of Ocean Resource Capital Holdings, admitted to AIM from 2003 to 2007. In 2008, through RDP, he became a director and fund manager of Grafton Resource Investments, a Cayman Island exempt company investing in the resources sector. He was also a founding partner of [www.minesite.com](http://www.minesite.com) and is a member of the FTSE gold mines index committee.

#### **Kjeld Thygesen**

Thygesen has 40 years' experience as a natural 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 as part of its highly rated gold and mining research team, and in 1979 he became manager of N M Rothschild & Sons' Commodities and Natural Resources Department. In 1989, he co-founded Lion Resource Management, a specialist investment manager in the mining and natural resources sector. He was a director of Ivanhoe Mines from 2001 to 2011 and served as investment director for RIT from 2002 to 2006. From 2005 he has been a resources advisor to a European-based family office.

### **Investment advisory panel**

RDP has constituted an investment advisory panel to assist in identifying and assessing investment opportunities and devising strategies to maximise GRIT's return from its investments. Investment advisory panel fees will be paid by RDP and will not be a cost to GRIT.

The initial investment advisory panel comprises:

- **Merfyn Roberts** – a fund manager and investment advisor for more than 25 years closely associated with the mining industry. He holds a BSc in geology (Liverpool University) and an MSc in geochemistry (University of Oxford) and is a member of the Institute of Chartered Accountants in England and Wales. He was a founding director of RIT and is a director of a

number of resource companies, including Agnico-Eagle Mines, Eastern Platinum and Rambler Metals & Mining.

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

### **Managers' track record**

Sam Hutchins and Kjeld Thygesen were involved with the listing of Resources Investment Trust (RIT) on the London Stock Exchange in January 2002. RIT had a similar investment objective and investment policy to GRIT, aiming to generate medium- to longer-term capital appreciation through investing in undervalued companies in the natural resource sector. Its major investments included Cambrian Mining, Emerald Energy, Great Panther Resources, Max Petroleum and Summit Resources. RIT shares were issued in January 2002 at 100p and achieved an all-time high 290.6p NAV, following which a shareholder resolution was adopted to wind up the company. Following realisation, £54.5m was returned to RIT shareholders, from an initial investment of £14.7m, equating to an absolute return of 363% (source: GRIT).

The principals of RDP launched Ocean Resources Capital (OCE) onto AIM in 2003. OCE differed from GRIT in holding a very concentrated portfolio and being established with a limited life. It was wound up in September 2007 reporting an absolute return of -62%. Shareholders also received an *in specie* dividend of shares in two investee companies, Archipelago Resources and Rheochem, through which they could have recouped the majority of their investment in OCE. The *in specie* dividend for Archipelago Resources was based on an Archipelago share price of 28p, which increased to a high of 79p per share in August 2011 (now delisted). The *in specie* dividend for Rheochem was based on a share price of 15.25p which peaked at 17.8p in December 2007.

RDP (originally under its former name Newland Fund Management) has been the manager of Grafton Resource Investments (Grafton) since its admission to listing on the Irish Stock Exchange in July 2009. Grafton was set up primarily as a natural resource sector venture capital fund with a five-year life and the majority of its investments were unquoted companies. As at 30 June 2013, it had 17 investments, of which 52.9% were unlisted and 47.1% were listed/quoted. Based on its value as at 30 September 2013, Grafton's NAV had decreased by 89% from launch in 2008 due to difficult market conditions. Following an EGM on 28 April 2014, shareholders approved the winding up of Grafton Resources and its de-listing from the Irish Stock Exchange, effective immediately.

### **The managers' view: Material opportunities exist**

The managers believe that small- and mid-cap resource stocks are trading at a cyclical low valuation point and many development stage companies with economically viable resources have no access to cash to support their projects and cannot generate income. They also consider that many listed resource companies are now too small to warrant an expensive administrative overhead despite having good projects and therefore need to find partners to create efficient scale operations. These factors are creating investment opportunities, which GRIT has been formed to exploit.

The managers believe that the outlook globally for the resource industry is positive with commodity prices likely to remain steady or increase over the medium to long term, supported by supply and demand fundamentals. They consider the key drivers of demand for metals and energy to be continuing worldwide growth in the number of people achieving middle class incomes and aspirations, the continuing industrialisation of economies such as China and India, and the demand for new and replacement infrastructure globally. They also believe that constraints on financing for new projects and the depleting nature of reserves are likely to moderate growth in production.

The managers believe that GRIT is in a strong position to exploit these opportunities to generate capital growth by injecting new capital and offering active shareholder support. Where necessary, they are prepared to take an activist approach to re-rate existing and potential resource assets and drive consolidation.

## Asset allocation

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### Investment process: Bottom-up stock-specific approach

GRIT's investment strategy takes a bottom-up approach focused on individual stock selection with a benchmark unaware absolute return focus. RDP uses in-house expertise together with external broker and industry-related research to identify companies where factors such as size, funding requirements and political risk have created a valuation opportunity. The managers also seek to identify potential growth opportunities comprising development of low-cost reserves and application of new technologies to convert marginal deposits.

RDP has an extensive network of industry relationships established over many years in the investment business, which it leverages in managing the portfolio. This network is maintained and strengthened through meetings with companies in London and abroad, including attending mining conferences, which are often held in a variety of the mineral producing countries. The managers also undertake site visits to development projects.

The due diligence process into potential new investments incorporates meetings with management, a technical assessment of the project, often in conjunction with an independent consulting geologist or engineer, along with a financial evaluation of the project and the target company.

The managers summarise their initial screening process for potential new investment as the three Ps, which highlights the qualitative and quantitative criteria that are assessed:

- **People** – management team, their skills, experience and track record
- **Project** – potential size and scale, stage of development, ownership, jurisdiction, location in relationship to suitable infrastructure
- **Pricing** – market capitalisation (actual and relative to peer group), cash position and annual 'burn' rate, ability to finance potential capital expenditure

Companies that screen positively are subject to fundamental analysis including comparable company analysis, ratio analysis and discounted cash flow modelling. The managers consider the results of this analysis together with macro research, information from third-party sources and the results of due diligence in reaching a final investment decision.

While the investment managers exercise considerable freedom with respect to stock picking, attention is also given to the portfolio's overall exposure to commodity classes and geopolitical areas. The managers seek to reduce portfolio risk through maintaining a balanced exposure to a variety of commodities across developing and developed regions globally.

While RDP manages the portfolio on a day-to-day basis, GRIT's investment committee is required to approve any potential investment in excess of 5% of the portfolio's NAV or any investment resulting in ownership of more than 5% of a company. At the time an investment decision is made for any new portfolio company, RDP also establishes a sell discipline for the holding, based on the managers' view of the expected investment return.

RDP regards itself as a proactive investor and has a strong belief that shareholders have an important role to play in encouraging a high level of corporate governance and best practice. Consequently, RDP seeks board representation in underlying investments where it is deemed necessary to achieve the investment objective.

## Case studies

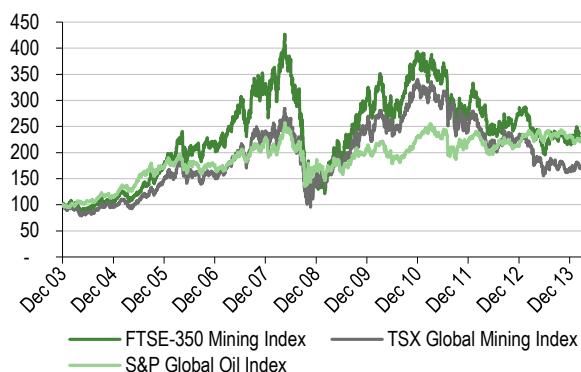
The RDP investment team have previously taken an active role in a number of high-profile resource companies. RIT took a significant stake in **Emerald Energy**, changing the board, assisting in introducing new management and playing an active role in the recapitalisation of the company. The new management developed the existing assets and expanded geographically enabling RIT to sell its holding into a rising market. RIT was one of the founding shareholders in **Cambrian Mining** alongside management, assisting in its graduation from junior OFEX market to AIM and subsequently selling its holding into a rising market. OCE, also managed by RDP, was a major shareholder in the private company that became **Archipelago Resources**. It assisted with the AIM listing and set up an SPV providing project finance funding to purchase a second-hand processing plant, which helped fast-track the project to early production.

## Market outlook: Positive medium-term perspective

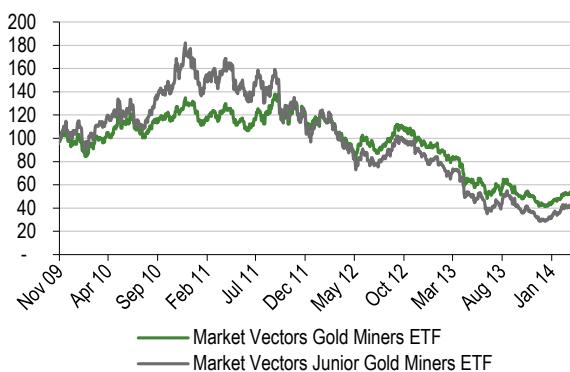
As illustrated by Exhibit 2, natural resources equity indices peaked in mid-2008 and dropped over the next few months to bottom out in November 2008. The sector rebounded over the next three years tracking the rise in commodity prices driven primarily by growth in emerging market economies. From mid-2011, commodity prices were in general decline coinciding with a period of considerable cost inflation across the mining industry. The result has been a compression of margins across the mining industry, which has driven management teams to refocus on profitability. This represented a major change from the previous decade when growth was the primary focus and many mining companies changed their management teams to provide the different skillsets required to deliver cost control and productivity boosting initiatives. Falling profitability resulted in company valuations reducing and mining equity indices declined from mid-2011 to mid-2013.

In the recent downturn, small-cap shares saw the greatest declines and in the prior market rally they demonstrated significant outperformance (see Exhibit 3). This geared performance reflects the industry dynamic whereby major mining companies effectively outsource high-risk exploration to junior companies, seeking to acquire the most attractive exploration projects through JV or acquisition once they have been de-risked. When the majors cut investment budgets, many theoretically attractive exploration projects remain unfunded. The market appetite for providing funding to junior exploration companies is also highly cyclical, potentially providing opportunities for a specialist investor such as GRIT.

**Exhibit 2: Resources equity indices over 10 years, rebased**



**Exhibit 3: Large- and small-cap mining ETF relative performance**



Source: Bloomberg, Edison Investment Research

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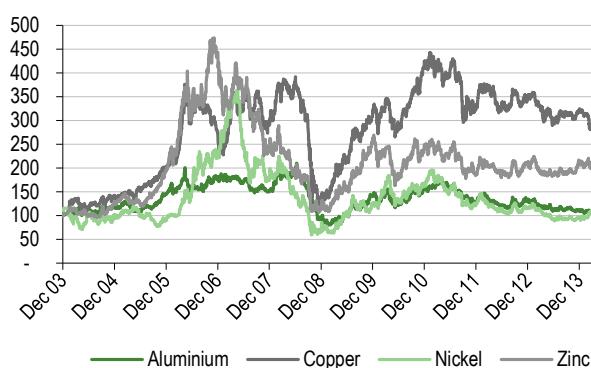
In the medium and long term, demand for natural resources would be expected to increase driven by global economic growth and the accompanying increase in demand for physical goods and infrastructure development. With the exception of gold, the underlying drivers of commodity prices

are the supply demand balance and the cost of production, which generally provides a floor for prices. Investment demand has a strong influence on the gold supply demand balance and the market price tends to act as a cap on production levels. Although the supply outlook varies considerably by commodity, in broad terms, investment in supply growth is being curtailed across the industry and this should lead to rising prices in the medium term as demand rises to exceed current supply and the supply growth from residual development projects.

Economic recovery and QE tapering seem likely to remain features of the macroeconomic environment in 2014 and fluctuating market expectations over their speed and duration are likely to affect both commodity prices and natural resources companies' share prices in the near term. However, the relative stability of the sector since mid-2013 is considered by some to indicate that the sector is bottoming out and the relative underperformance of the sector has encouraged some investors to increase their sector weighting.

The natural resource sectors are broadly split into four main commodity categories: precious metals, base metals, bulk commodities and oil and gas. Exhibits 4 to 7 show the price trends of the key commodities within each of these categories and highlight that while there have been significant differences in the relative price movements of individual commodities across and within categories, there has been a broad declining trend in prices across the categories over the past three years.

**Exhibit 4: Base metals prices over 10 years, rebased**



Source: Bloomberg, Edison Investment Research

**Exhibit 5: Precious metals prices over 10 years, rebased**



Source: Bloomberg, Edison Investment Research

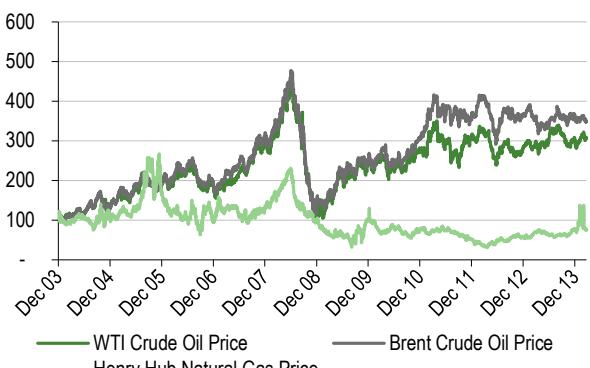
**Exhibit 6: Bulk commodity prices over 10 years, rebased**



Source: Bloomberg, Datastream, Edison Investment Research

Source: Bloomberg, Edison Investment Research

**Exhibit 7: Oil and gas prices over 10 years, rebased**



Source: Bloomberg, Edison Investment Research

The current company focus on profitability within the resources sector is restricting development of new projects thereby increasing the potential for longer-term supply deficits across the majority of commodities as demand continues to rise. This is expected to support and put upwards pressure

on commodity prices over the medium term, which should translate into increased earnings and higher potential valuations for resources companies. In a rising market, small-cap shares have the potential for substantial upside from a combination of value creation through project development and a re-rating of the shares.

## Overview and current portfolio positioning

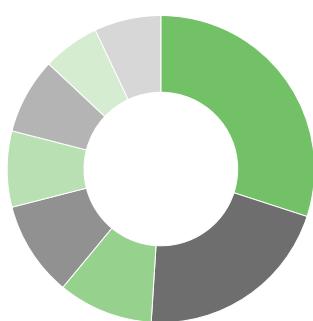
At launch, GRIT acquired an initial portfolio of investments in return for the issue of ordinary shares, making it fully invested and thus providing diversified exposure within its market niche from inception. A planned secondary placing of GRIT shares should enable the portfolio companies to access the cash required to finance their projects and this may trigger a re-rating of the portfolio constituents and a consequent positive impact on NAV.

The portfolio is focused on small-cap natural resource stocks without commodity or geographical constraints. In general, these stocks are under researched and do not attract the investment attention of large institutional investors. The portfolio also includes exposure to exploration stocks (39%), which offer the greatest leverage to metal price movements and are consequently the most volatile stocks in the natural resource sector, reacting swiftly to both positive and negative news.

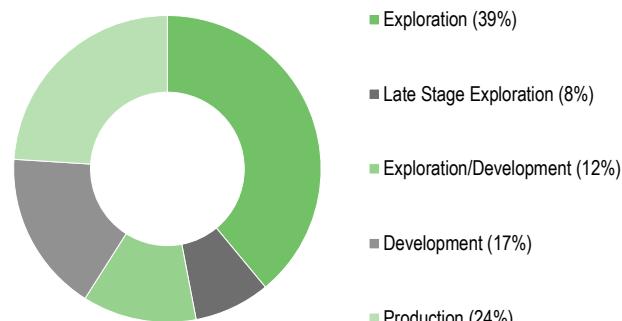
While the majority of companies active in the sector are listed on the major markets of Australia, New Zealand, Canada, South Africa, the US and the UK, their area of operations are likely to include emerging and developing countries. Approaching 50% of GRIT's portfolio is exposed to higher-risk regions including Kyrgyzstan, Kazakhstan, Russia and Africa (see Exhibit 1).

There is no minimum market capitalisation restriction to any investment, although only 5% of the portfolio can be invested in unquoted companies. All unquoted investments are subject to the approval of both the investment committee and the board.

**Exhibit 8: Portfolio split by commodity**



**Exhibit 9: Portfolio split by development stage**



Source: Global Resources Investment Trust plc

Source: Global Resources Investment Trust plc

The portfolio is not overly concentrated in terms of the number of investments, with 41 holdings currently. However, the top 10 holdings represent 63% of the portfolio by value (see Exhibit 1) and the top three holdings represent 29%. Turnover in the portfolio is set to be limited initially by the fact that 31 of the portfolio companies are TSX-listed where sales of newly issued shares are restricted for four months. Thereafter trading will depend on opportunities for attractive realisation.

### Top three holdings (£11.4m value, 29% of portfolio)

#### Arakan Resources – GXG:ARK (pro forma market cap US\$15m)

ARK is seeking to expand a coal mining operation in Kyrgyzstan to ship export-grade coal to China. GRIT estimates ARK has the potential to generate US\$15-18m pa free cash flow, which compares favourably with the current pro forma market cap of US\$15m.

While ARK has recently acquired four lease areas in Myanmar where it is exploring for copper and gold, the key value driver is its intended acquisition of 100% of privately owned Posit Coal. Posit operates the Kara-Keche coal mine in Kyrgyzstan delivering to a local power station via a 50:50 JV with the Kyrgyzstan government, which arranged an offtake agreement. The JV has an estimated export quality coal resource with the strategy to become a leading coal producer exporting to China. Cash costs of US\$30/t compare to current export sale prices of US\$65-130/t. Cash to be received from the GRIT placing should fund a production increase from 100ktpa to 550ktpa within a 12- to 15-month period and the resulting increased cash flow should fund a further production increase to 1.5Mtpa. GRIT expects that no further funding will be required beyond its US\$7m initial investment. GRIT will own 26% of ARK and the investment manager, RDP (which acquired its shares as a principal founder), will own 4% of ARK prior to conversion of GRIT's US\$5.0m convertible debt, after which GRIT will own 40% and RDP 3%. ARK is RDP's sole shareholding on its own account.

### **Anglo African Minerals – GXG:AAM (market cap US\$28.6m)**

AAM owns the rights to major bauxite licence areas in central Guinea and has secured funding to bring its first project into production. GRIT estimates that this operation could generate free cash flow in excess of US\$20m pa from 2016.

AAM owns the rights to the Kindia and Toubal exploration licences in Guinea, which have potential 300Mt and 750Mt bauxite resources, with Kindia targeted to move into production at the end of 2015. Cash to be received from the GRIT placing should provide sufficient working capital to complete preliminary assessments on both resources and bring Kindia to production stage. AAM has signed a memorandum of understanding with Vancouver-based investor Samarium Resources for US\$40m to fund the capital expenditure required to bring Kindia into production. This should fund AAM through to an anticipated 1.0Mtpa production rate in 2016 increasing to a maximum of 2.0Mtpa. AAM has acquired licence areas in central Guinea estimated to contain a potential 5bn tonnes of high-grade bauxite, which would rank it in the global top 10 holders of bauxite. GRIT owns 18.1% of AAM and Grafton (managed by RDP) owns 14.4% of AAM. Grafton is currently looking to sell its AAM holding and RDP expects the sale will most likely be achieved as a block trade to an existing AAM shareholder.

### **Tirex Resources – TSX-V:TXX (market cap US\$32.2m)**

TXX has recently started producing copper concentrate in Albania and expects to increase production fourfold over the next two years. GRIT estimates free cash flow will rise to US\$24m pa during this period, which compares with the current market cap of US\$32m.

TXX owns exploration licences over c 344km<sup>2</sup> covering most of a pyritic VMS belt in the Mirdita Mining District in Albania. TXX has contributed six exploration licences to a 50:50 JV with Turkish mining company Ekin Maden, which is providing funding. The JV started copper concentrate production using an existing milling facility at the end of 2013 at 500tpd and is targeting 2,000tpd within 24 months. First revenues are scheduled for the second quarter of 2014. TXX budgets initial attributable free cash flow of US\$6m pa at 500tpd. Cash to be received from the GRIT placing should enable additional resources in TXX's 100%-owned licence areas to be defined over the following 12 months (predominantly copper and zinc with large gold credits).

## **Capital structure, dividends and fees**

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At launch on 7 March 2014, GRIT issued 39.5m ordinary shares with a gross subscription value of £39.5m, pursuant to the share exchange with portfolio companies. GRIT shares are listed on the London Stock Exchange's main market.

At launch, GRIT also raised £4.85m through the issue of convertible loan notes. GRIT's broker, Keith Bayley Rogers & Co, received £1.35m to cover commissions relating to the share exchange issue, which are subject to a put and call option agreement with RDP. RDP has also agreed to subscribe for an additional £0.15m at the time of option exercise. LIM Advisors (a Hong Kong-based hedge fund manager) subscribed for £3.5m for working capital and investment purposes. One nil-cost warrant was also issued for every £1 of loan notes subscribed, with each warrant entitling subscription for one ordinary share at £1.00 at any time up to five years from admission. Based on current shares in issue, the loan notes convert into 11.2% of the issued share capital (20.2% including full exercise of warrants). Under certain conditions relating to GRIT's share price performance the subscription price can be adjusted with the loan notes potentially converting into 20.2% of the issued share capital (27.5% including full exercise of warrants).

RDP receives a monthly management fee at the rate of 1.5% pa of the preceding monthly average NAV up to £100m and 0.75% pa of the amount by which the NAV exceeds £100m. In addition, RDP received an initial fee in respect of the establishment of GRIT equal to 8.33% of the annual management fee, based on the NAV at admission. RDP is entitled to receive a performance fee equal to 15% of the amount by which the NAV increases above a 7% pa rate. At RDP's request, GRIT may pay up to 75% of the performance fee in shares.

GRIT's investment objective is to seek long-term capital growth and not to invest in companies for income. Consequently, it is not expected that GRIT will pay dividends.

## Peer group

There has been no trading in GRIT shares since admission to the LSE as all shares are held by portfolio companies, which have agreed to a six-month lock-up. Consequently, a true share price discount to NAV has not yet been established. We consider the potential discount to NAV at which GRIT shares could be expected to trade once a share placing has been completed based on its peer group. There are 16 stocks within the AIC Commodities & Natural Resources sector and we exclude funds with market caps below £10m and above £100m to give a selected peer group of eight stocks.

Excluding GRIT, the peer group discount ranges from 6-33% with an average of 19%, which probably serves as the best guideline for the potential discount at which GRIT shares could trade once some liquidity has been established.

**Exhibit 10: Funds investing in global resources equities – total returns, Sharpe ratios and discounts**

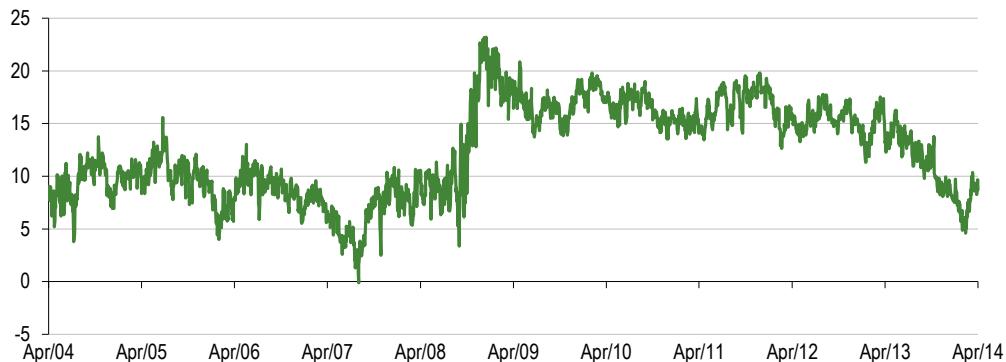
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Sharpe 1 year (NAV)	Sharpe 3 year (NAV)	Discount (ex par)	Ongoing charge /TER	Perf. fee	Net gearing
Global Resources Ord	24.7							(9.6)		Yes	125
Altus Resource Capital Ord	25.8	(19.9)	(62.4)			(1.0)	(1.0)	(17.4)	2.47	Yes	94
Baker Steel Resources Ord	27.6	(33.8)	(38.9)			(1.9)	(0.7)	(33.2)	2.18	Yes	101
City Natural Resources Ord	86.1	(15.6)	(56.0)	12.9	182.8	(1.6)	(1.3)	(17.2)	1.47	No	122
El Oro Ord	47.1	2.3	(42.0)	22.8		(0.8)	(1.0)	(23.7)	1.70	Yes	147
Geiger Counter Ord	19.7	(14.3)	(73.6)	(43.5)		(0.6)	(1.0)	(6.1)	2.96	Yes	101
Golden Prospect Precious Metal Ord	21.2	(24.4)	(64.8)	12.0		(1.0)	(0.8)	(16.2)	2.28	Yes	101
New City Energy Ord	19.7	(2.1)	(40.8)	42.9		(1.0)	(0.9)	(16.8)	3.35	Yes	101
<b>Simple average (ex GRIT)</b>		<b>(15.4)</b>	<b>(54.1)</b>	<b>9.4</b>	<b>182.8</b>	<b>(1.1)</b>	<b>(1.0)</b>	<b>(18.7)</b>	<b>2.34</b>		<b>110</b>
<b>Weighted average (ex GRIT)</b>		<b>(14.3)</b>	<b>(53.0)</b>	<b>12.5</b>	<b>182.8</b>	<b>(1.2)</b>	<b>(1.0)</b>	<b>(19.3)</b>	<b>2.04</b>		<b>116</b>

Source: Morningstar, 2 May 2014. Note: TR=total returns of NAV for investment trusts, TER=total expense ratio. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 36-month period by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as percentage of shareholders' funds.

We also take into account the historical discount range at which the AIC Commodities & Natural Resources sector has traded as an indication of GRIT's potential future discount. Exhibit 11 illustrates that although the sector discount range has narrowed over the last 12 months from

c 15% to c 10%, the current discount is similar to the 10-year sector average. Given GRIT's small-cap, exploration and development, and higher-risk country exposures, a somewhat wider discount could be expected.

#### Exhibit 11: AIC Commodities & Natural Resources sector discount over 10 years (%)



Source: Morningstar, Edison Investment Research. Note: Positive values indicate a discount; negative values indicate a premium.

## The board

The directors, who are all non-executive and independent of the investment manager and of the other funds managed by the investment manager, are Anthony St. John (chairman), Haruko Fukuda, Simon Farrell and James Williams. Anthony St. John is a member of the House of Lords specialising in African affairs. He has worked with Shell in South Africa and at County NetWest Securities as an oil analyst. He has served as a non-executive director at Regal Petroleum and is currently non-executive director of Albion Enterprise VCT. Haruko Fukuda is a non-executive director of Investec PLC and Aberdeen Asian Smaller Companies Investment Trust. She was the CEO and board director of the World Gold Council, having previously held many non-executive directorships of major public companies including Foreign & Colonial Investment Trust. Simon Farrell has held a number of senior management and board positions, principally in the natural resources sector over the past 30 years. He was a non-executive director of Kenmare Resources and was also founding managing director and CEO of Coal of Africa. James Williams has been nominated to the board by the holder of the loan notes, LIM Asia Multi-Strategy Fund.

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