Lowell Resources Fund Monthly Update

Fund Introduction (ASX: LRT)

ASX-listed Lowell Resources Fund is focused on generating strong absolute returns from the junior resources sector. Our experienced team of fund managers has many years of experience in this high risk, high reward sector. Lowell Resources Fund Management (LRFM) manages the portfolio of exploration and development companies operating in precious and base metals, specialty metals and the oil and gas space. LRFM has a successful 16+ year track record managing LRT. An investment in LRT provides investors with exposure to an actively-managed portfolio focused squarely on one of the most rewarding sectors of the Australian as well as global share markets.

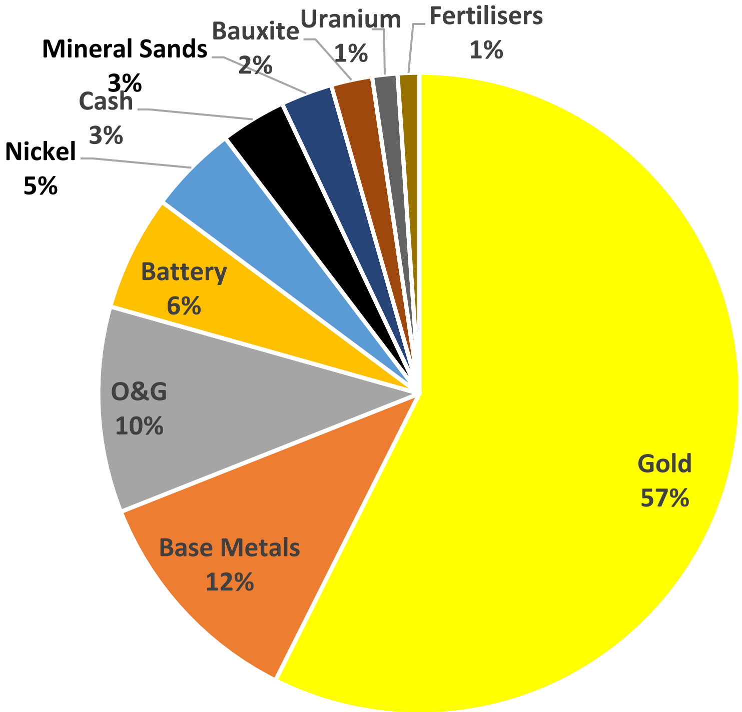
Fund Overview

Investment Manager	Lowell Resources Fund Management Limited
Managed since	6 February 2004
ASX code	LRT
Income distribution	Annual

Unit Price Snapshot as at 31 March 2020

NAV per unit	$5.05
No. of units on issue	2,735,474
Market price (ASX)	$4.52/unit
Net Asset Value	$13.8m

Fund Commodity Exposure



Fund Performance Summary

- While most sectors crashed in March, the LRT continues to strongly outperform the small resources index with a net 18% out performance over the last 12 months. The Fund's NAV per unit was $5.05 at 31 March 2020 vs $6.11 as at 29 February 2020.
- Unit price of the ASX listed LRT units at month end was $5.05/unit, representing a 10.5% discount to underlying NAV.
- The Fund's NAV at the end of the month was approximately $13.8 million.

Fund Top Holdings

During March, as a result of relative strength in gold prices and associated gold equities, the Fund's weighting to gold continued to increase, up to 57%. The Fund's largest holding De Grey Mining announced further excellent drill intercepts at its Hemi deposit in the Pilbara. Hemi is now one of the most exciting gold discoveries globally. While it is too early to determine the size of the deposit, the widths, continuity and grade indicate it could be multiples of De Grey's existing 1.7Moz resource base.

Cardinal Resources received an all-cash non-binding takeover proposal from unlisted Russian gold mining company Nordgold. There is no certainty that such a takeover will proceed, however Nordgold has acquired 19.9% of Cardinal and the proposal would be to acquire the remaining shares at A$0.45775/sh, a 40% premium to Cardinal's 31 March closing price.

Musgrave Minerals continued its drilling program at the Cue gold project in WA, with further thick high-grade drill-intersections in the Twilight-Link Lode structure. Similarly, Oklo Resources announced ongoing thick high grade gold intersections from the SK1 North prospect in Western Mali.

Finally, Liontown Resources continues to expand and confirm its world class high grade lithium spodumene deposit at Kathleen Valley in WA.

Company	Commodity	% of gross investments
De Grey Mining	Gold	13.9%
Cardinal Resources	Gold	7.1%
Musgrave Minerals	Gold	6.0%
Liontown Resources	Lithium	5.1%
Oklo Resources	Gold	5.0%
Cash		**4.5%**

March 2020 Portfolio Changes

The Fund took advantage of opportunities to increase its exposure to gold during the month, at equity prices deeply discounted to recent highs. Positions in a number of gold exploration companies were increased, including:

- Apollo Consolidated: 1Moz maiden resource estimate at the Rebecca gold deposit in WA;
- Oklo Resources: maiden resource estimate expected this quarter at the high grade Dandoko project in West Africa;
- Saturn Metals: update to the 780,000 ounce gold resource at the Apollo Hill deposit in WA expected mid-2020;
- Middle Island Resources: owner of the Sandstone gold plant in WA, in an area subject to neighbouring M&A activity

Comparison Performance

The Fund was subject to the global Corona-virus equity markets crash during March. However, in the 12 months to 31st March 2020, the Lowell Resources Fund significantly outperformed the benchmark by 18.4% The S&P/ASX Small Resources Index return of -28.9% (i.e. negative) compared to a -10.5% change in underlying net asset value per unit (after fees and expenses) for the Fund.

12 Month Performance	LRT Change in NAV per unit	S&P/ASX Small Resources Index (XSR.ASX)
31 Mar 2019 - 31 Mar 2020	**-10.5%**	**-28.9 %**

The ASX trade unit price of LRT at the end of the month was $4.52/unit, compared to $4.91/unit at the end of February.

LRFM March 2020 Market Commentary

Overview

The slowdown in the global economy currently underway may evolve into a full-blown recession, with commensurate reduction in demand for industrial materials. But other assets are likely to prosper under these conditions. The LRF portfolio is being adjusted to adapt to these changing circumstances.

The deluge of liquidity being injected by central banks to counter the disinflationary impact of falling prices has enhanced the appeal of precious metals, as has been the case during past crises. We anticipate that gold will appreciate significantly, but only after an end to the current spate of panic selling which is affecting all sectors – in large part arising from pre-existing overleveraged speculation.

Redemption of ETFs and other passive investment funds has necessitated the sale of underlying securities, including high-quality gold and other precious metal stocks, a process that is likely to reverse once the market settles. The LRF portfolio is therefore heavily overweight gold stocks, but also maintains a holdings of other high-quality junior mining & explorations stocks.

Beyond the short to medium term, the fundamentals for key metals such as copper and nickel are bullish, and we also anticipate a strong rebound in the energy sector in due course. But the dichotomy between beaten-down industrial resources and relatively buoyant precious metals is likely to persist during the downturn – the duration of which will be, to a large degree, dependent on the economic response to unprecedented global stimulus.

A "V-shaped" recovery in 6-12 months would be optimal; a considerably longer U-shaped, or even worse an L-shaped recovery, would be more painful. These are indeed uncharted waters, triggered by the pandemic but exposing the risk inherent in over-priced financial assets in increasingly vulnerable debt-burdened economies.

Coronavirus Crisis

The flight to US dollars also occurred during the 2008 GFC, with the notable difference that the speed of the fall in 2020 has been very fast. Markets reacted very quickly and do so faster all the time, so a future recovery maybe sharper as well. Secondly, this crisis is affecting the fundamentals of business rather than being a financial credit implosion. Governments are stimulating, but at the same time economic activity is curtailed by higher unemployment and lower company earnings. Its reminiscent of a car being driven with one foot jammed on the brake and another on the accelerator – something has to give.

Economic Stimulus

In response to the pandemic, the US Federal Reserve announced quantitative easing comprising "unlimited asset purchases", while Congress has signed off on US$2trn of stimulus. US 1 and 3 month treasury bond interest rates fell below zero as a result. Despite this, the US dollar strengthened as other countries followed suit and all assets classes were sold as investors sought liquidity and safety in US dollars and US Treasury bonds. Australia has followed suit with a $130 bn wages policy, to be accompanied by other stimulus measures. Other world economies have implemented fiscal and monetary policies aimed at cushioning the impact of the downturn.

It remains to be seen to what extent these measures will prove effective. In any event, they come at a cost of increasing the future debt burden. The US Federal Reserve Bank is supporting the debt market by purchasing securities and injecting funds, while boosting the Fed's balance sheet to record levels. Historically, this is bullish for precious metals.

Inflation or disinflation?

Central Banks have embarked on a new and particularly aggressive round of quantitative easing involving both monetary and fiscal stimulus, and in the process are "printing" or creating currency at an unprecedented rate to counter the powerful deflationary forces of unemployment, disruption of supply chains, and corporate bankruptcies.

The flood of newly generated money dilutes its value and hence its purchasing power, leading to monetary inflation (more money required to buy the same goods), leading to generally higher asset prices, but not uniformly across the board. The impact of post-GFC (2008-09) monetary stimulus, for example, was manifest in significantly higher equity markets but a generally modest rise in consumer prices.

The risks today are rather different. Disrupted supply is expected to increase the cost of goods, quite drastically in some circumstances, at the same time that wages are suppressed by a pronounced decline in corporate profitability and default, in tandem with overleveraged, debt-laden balance sheets.

This toxic combination has been referred to in the past, e.g. 1970s, as stagflation - an outcome that is by no means assured. But given expectations or weak economic growth, government deficits and soaring debt burdens, the alternatives scenarios are not attractive. That is, apart from expectations of far higher prices of tangible assets such as precious metals in particular.

It is the Fund Manager's view that the current negative supply shock (reduced availability of goods), coupled with government attempts via aforementioned stimulus to keep spending at high levels, may exert upwards pressure on inflation. Other factors such as growing trade restrictions and efforts to protect supply chains will also help to push up prices.

On the other hand, there are large counterbalancing disinflationary forces such as growing unemployment and a dramatic fall in the oil price. Sectors with high levels of leverage - in particular real estate - may see substantial price falls.

Gold

A number of factors are suggestive of higher gold prices. There is a close correlation between gold and the Federal Reserve balance sheet, which is rocketing higher. Gold benefits from low real (inflation adjusted) interest rates, which are at record lows and will remain so if there is any hint of inflation. However, if deflation occurs, real interest rates (nominal interest rate less the rate of inflation) will rise and this would be negative for the gold price.

Gold is regarded as a safe haven second only to the US dollar, the current risk-off magnet. But unlike the dollar, which has lost most of its buying power over the past century, gold retains its value. Gold can prosper under inflationary or deflationary conditions; it is "antifragile" implying that unlike most assets, gold benefits from chaos. The current geopolitical uncertainty, political polarization, wealth disparity and low cost of money are all positive for the gold price. In all major non-US currencies, the gold price has reached record territory in Q1 2020 as a result.

Oil

The oil market crashed in response to Russia and Saudi Arabia announcing they would abandon production cuts and increase supply, flooding the market at the same time that demand was collapsing with the economic downturn. There are forecasts that storage capacity will be full in 2020, although to date there have been no signs of Saudi oil exports rising.

Longer term, there are few producing operations, or energy projects under development consideration, which can survive at sub-US$30/bbl oil. Therefore we expect that the oil price will return to the US$50/bbl oil, although in the short term there is a likelihood of even lower prices.

While negative for oil and gas companies, the fall in energy prices is beneficial to operations such as mining which can spend 30% - 40% of their operating costs on fuel. Moreover, China, as well as being the world's largest consumer of many metals, is the world's largest oil importer. Lower fuel prices will assist the Chinese economy and hence metal demand.

China

High-profile Chinese investment bank CICC has cut its 2020 GDP growth forecast for the country to 2.7%, compared to the previous "official" target range of 6%. China is slowly returning to work. The Financial Times China Economic Activity Tracker shows activity bottomed around mid-February and is currently at approximately 70% compared to 1 January 2020.

Stockpiles of iron ore in Chinese ports are reported to be reducing, and prices for steel-making commodities metallurgical coal and manganese have been some of the strongest performers so far this calendar year. This augurs well for a rebound in the Chinese economy. Infrastructure spending measures of up to US$7trn are reported to far outstrip those during the GFC.

Mine Suspensions

A number of mines, mainly in the Americas and Africa, announced suspensions or reductions in output. Four major Canadian gold operations have been shut, while almost all operations in South Africa are on a 3 -week suspension. The suspensions in South America will affect copper concentrate production. Australian operations to date have been largely unaffected, possibly partly because most mines in Australia are either open-pit or underground decline (rather than shaft which requires close proximity of underground workers) although there have been a number of companies retracting 2020 guidance. Further, the preponderance of FIFO operations in Australia may make those mines vulnerable to Covid-19 travel restrictions.

Junior Resources Sector

The junior resources sector always has a high risk-return ratio. The positive about investing in the pre-production sector at the moment is that exploration and pre-development expenditure is largely discretionary – companies are relatively easily able to curtail drill programs and reduce salaries. The metal in the ground will still be there when programs resume.

Assuming a company is not in production, it will be better placed if is well funded, and therefore doesn't need to tap the market for equity, or if it is in JV with well-funded partners which will continue to spend on their joint projects.

On the other hand, if companies are forced to raise funds right now, and the projects are good, we can see extreme value, particularly if the raising will provide more than just a few months of "stay alive" capital. A number of gold companies have raised substantial equity capital in late March at large discounts to their recent share price highs.

In short, the Fund's Management is positioning the portfolio for a volatile and rapidly changing market buffeted by unforeseeable forces as assets are re-priced according to the news of the day. In our view, conditions are increasingly favourable for gold, as well as platinum group metals and silver. Copper, nickel and a few speciality metals are likely to appreciate once a degree of economic equilibrium is achieved, perhaps in late 2020 or 2021, and we foresee opportunities in natural gas, uranium and ultimately crude oil as the currently low and declining price will decimate higher-cost producers.

Characteristics of the Fund

Nature of fund	Long only, absolute return fund
Investee companies	Junior resource companies, including gold, base and specialty metals, and energy
Investment type	Focus on global listed and unlisted resource equities
Distribution policy	100% of taxable profits distributed annually