



# LOWELL RESOURCES FUNDS MANAGEMENT



## MONTHLY UPDATE

Lowell Resources Funds Management Ltd. ABN 36 006 769 982 AFSL 345674

October 2021

### October 2021 Performance Summary: Lowell Resources Fund (ASX: LRT)

The Lowell Resources Fund net asset value ('NAV') at the end of October 2021 was approximately \$56.5m compared to \$54.6 million at the end of September, representing a 3.7% increase.

The NAV per unit finished the month of October at \$1.927/unit (vs \$1.859/unit at 30 September 2021). The traded unit price of the ASX listed LRT units at month end was \$1.76/unit.

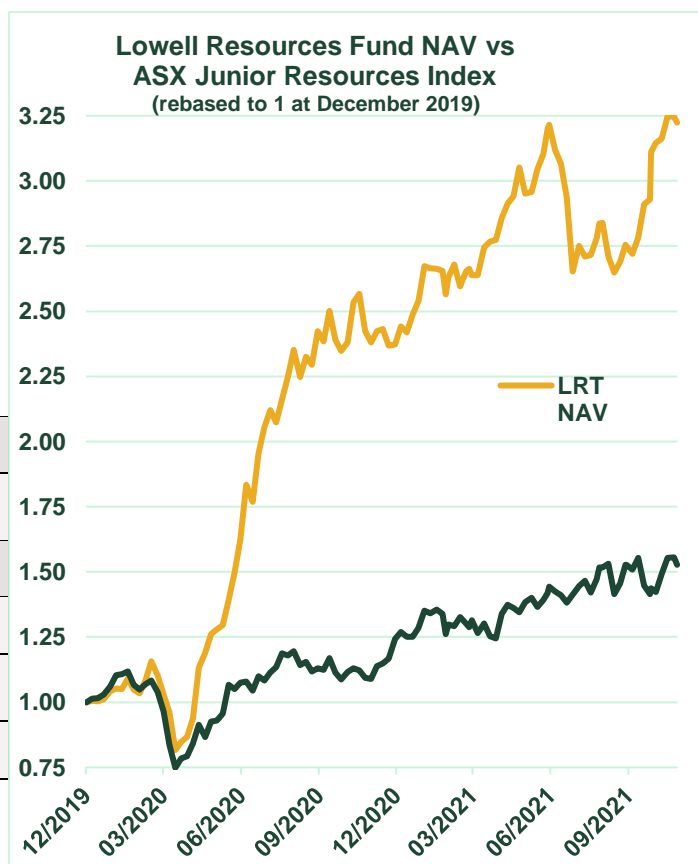
The number of units on issue was reduced by 83,599 units due to implementation of a buy-back by the Responsible Entity.

#### FUND OVERVIEW

Investment Manager	Lowell Resources Funds Management Limited
Managed since	6 February 2004
ASX code	LRT

#### Income Annual FUND SNAPSHOT 31 October 2021

NAV per unit	\$1.927
No. of Units on issue	29,299,825
Market Price (ASX)	\$1.76 / unit
Net Asset Value	\$56.5m
August 2021 Distribution	\$0.15/unit
Market Capitalisation	\$51.6m



## Fund Investment Actions - October 2021

In October, the Fund banked more of its profits in key gold holding Predictive Discovery as the company addressed questions over the future grant of mining licence for its NE Bankan deposit in Guinea's Haut Niger National Park.

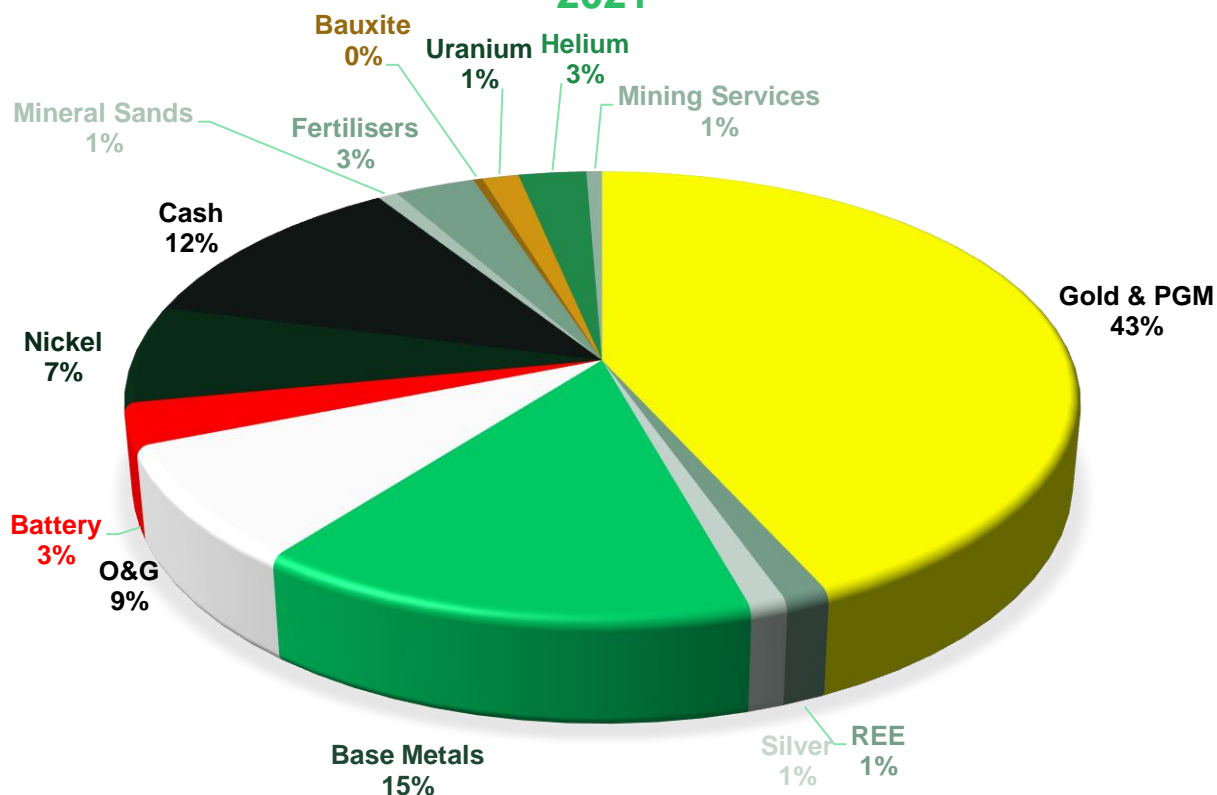
With the energy crisis driving continued strong demand for fossil fuels, the Fund boosted its positions in high-impact west African oil & gas exploration company FAR Ltd and acquired a block of ADX Energy, a European-focused O&G and hydrogen player. Due to high share prices for uranium equities, the Fund sold down some of its holding in Vimy Resources.

In gold, the Fund added to its holdings in Arrow Minerals, Mako Gold, Matador Mining, Saturn Metals and Musgrave Minerals. The Fund also subscribed for shares in the upcoming Hamelin Gold IPO, which is focused on the Tanami gold belt in WA.

The Fund continued to switch some of its nickel exposure from Centaurus Metals to Azure Minerals.

The Fund also participated in a placement by polymetallic explorer Alchemy Resources.

### LRF COMMODITY EXPOSURE 31 OCTOBER 2021



## Fund Top Holdings

**Musgrave Minerals (MGV.ASX)** announced thick aircore intersections at its Lake Austin JV with Evolution Ltd, including 68m at 1.5g/t Au and 53m at 2.0g/t Au. Bonanza grades were intersected at MGV's 100% owned "Big Sky" prospect including 28m at 35.9g/t Au.

**Predictive Discovery (PDI.ASX)** announced that its 3.6Moz NE Bankan discovery in Guinea, west Africa is located in the buffer zone of the Haut Niger National Park core zone. The project continues to grow its high grades at depth and in new potential satellite prospects.

**Genesis Minerals (GMD.ASX)** 1.6Moz Ulysses Gold project in WA returned drilling intersections from the Puzzle corridor of 44m at 3.5 g/t Au and 28m at 2.0 g/t Au.

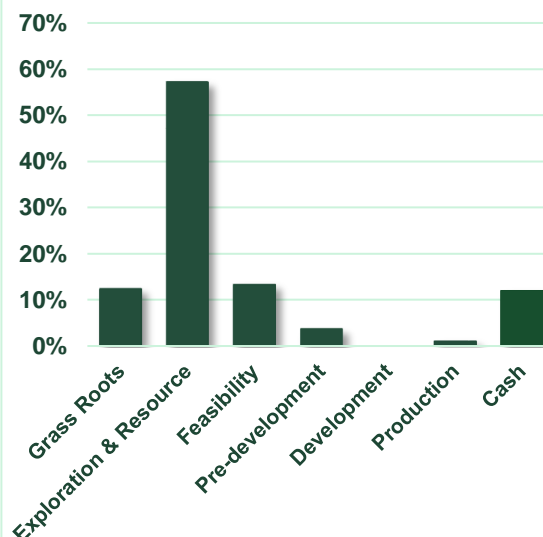
**De Grey Mining (DEG.ASX)** issued the scoping study for the Mallina Gold Project, with a headline NPV5 (pre-tax) of A\$2.8bn at an average AISC of A\$1,224/oz based on 450koz pa production.

**Talon Metals (TL.TSX)** announced it had moved to 51% ownership of the high-grade Tamarack nickel project in Minnesota. Ongoing drilling intersected 4.35m at 4.3% Ni and 1.9% Cu.

## Fund Top Performer

**South Harz Potash (SHP.ASX)** share price rose over 100% in October. SHP was granted the drilling permit for its Ohmgebirge potash project in Germany, where it holds an inferred potash resource of 5.3 billion tonnes. Drilling aims to convert part of the resource to the 'Indicated' JORC category.

LRF Portfolio Value by Project Stage  
31 October 2021



Company	Commodity	% of Gross Investments
Cash	Cash	11.9%
Musgrave Minerals	Gold	7.0%
Predictive Discovery	Gold	6.7%
Genesis Minerals	Gold	4.9%
De Grey Mining	Gold	4.4%
Caravel Minerals	Copper	4.1%
Talon Metals	Nickel	3.9%
Azure Minerals	Nickel	3.1%
South Harz Potash	Potash	2.8%
Blue Star Helium	Helium	2.7%
Apollo Consolidated	Gold	2.0%

## Performance Comparison – October 2021

Over the past 12 months, the Lowell Resources Fund's change in underlying net asset value per unit (inclusive of distributions and after fees and expenses) was 46.4%, and 80.9% pa over two years. The Fund has outperformed the benchmark S&P/ASX Small Resources Index (XSRD), the ASX Resources 300 Index, and the ASX 200 Index over one, two, five and ten years.

Total Portfolio Performance to 31 October 2021	LRT Change in NAV per unit incl distributions	S&P/ASX Small Resources Index (XSRD)	ASX Resources 300 Index	ASX 200 Index
12 months	<b>46.4%</b>	+43.3%	19.8%	28.0%
2 years p.a.	<b>80.9% pa</b>	+20.2% pa	7.7% pa	8.4% pa
5 years p.a.	<b>21.8% pa</b>	+11.9% pa	13.6% pa	10.9% pa
10 years p.a.	<b>14.8% pa</b>	-3.9% pa	3.4% pa	10.0% pa

The LRT.ASX traded unit price at the end of October was \$1.76/unit, compared to \$1.45/unit at the end of September.

## Market Notes

- US\$ **gold** finished October at US\$1,784/oz, up 1.5% on the September month end of US\$1,757/oz.
- US CPI rose to a 30 year high of 5.4% in September with the core rate unchanged at 4%. EU inflation hit 4.1% in Oct as energy prices jumped. Eurozone **inflation** is more than twice the ECB target, and the highest level since the inflation index started in 1997. Supply chain bottlenecks are likely to be a major source of CPI inflation. Los Angeles ports had 97 vessels waiting offshore to unload cargoes. The pre-pandemic record stood at 17 ships waiting to anchor.
- Benchmark 10-year US bond yields were flat over the month at 1.55%pa. The Federal Reserve Chair Powell said the US central bank should start **QE** reduction but would not move to increase interest rates yet.
- Rio Tinto announced it will spend US\$7.5 billion on **decarbonisation** initiatives between now and 2030. The Bank of America estimated that reaching net zero by 2050 will cost the world \$150 trillion, i.e. about \$5 trillion a year (equal to Japan's total GDP in 2020). Significant inflationary pressures may come from decarbonization costs.
- Australian miners announced major **copper** acquisitions 'overseas' with South32 paying US\$1.55bn for 45% of the Sierra Gorda mine in Chile, while Sandfire had previously announced a US\$1.86bn acquisition of the Matsa copper mining complex in Spain. New

## MONTHLY UPDATE

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Century took a purchase option over the Mt Lyell Copper Mine in Tasmania, backed by Sibanye Stillwater.

- President Biden announced a target of 30GW of offshore wind energy to be installed in the US by 2030. Offshore wind farms are the most copper intensive renewable energy projects – using up to 9t of **copper** per megawatt of installed capacity.
- Goldman Sachs forecast that **copper** inventories would hit an all-time low before the end of the year, and "deplete entirely" by the second quarter of next year. Trafigura's head trader forecast a copper price of US\$15,000/t (vs US\$10,500/t currently). According to Bloomberg, freely available LME copper stocks fell to the lowest level since 1974. The London Metal Exchange imposed temporary measures to maintain order in the copper market.
- The LME Metals Index (weighted 43% Al, 31% Cu, 8% Pb, 2% Ni, 1% Sn, 15% Zn) hit a record high as energy shortages caused refined base metal producers to curtail supply.
- **Zinc** soared briefly to over US\$1.70/lb as Nyrstar reduced output at three of its smelters in Europe by up to 50% due to high energy prices. Glencore also cut its zinc production. Nyrstar and Glencore's European production accounts for around 10% of the 14Mpta zinc market, which has rapidly moved into balance from a forecast surplus in 2021.
- China's economy was impacted by the energy crisis and responses to the property development (Evergrande) crisis. **China** reported yoy GDP growth of 4.9% in Q3, down from 7.9% in Q2. Chinese industrial production rose only 3.1% in the month of September when 4.5% was forecast.
- In China, the desperation for energy security has resulted in once more importing Australian **coal**, backflipping from a previous import ban in December 2020. Small batches of Australian coal were permitted to clear customs by Chinese authorities.
- The current energy crisis is driving energy prices to levels where, if the prices are maintained, the cost of buying fossil fuels could triple from 3.0% of global GDP to 8.8% in 2022. This may have a major impact on global GDP akin to the 1973/74 energy crisis. Natural **gas** prices traded at their highest prices since February 2014 as shortages in Europe and Asia pushed the price to record levels. The natural gas crisis is expected to intensify as the northern hemisphere winter heating season approaches.
- EnergyQuest reported Australian east coast gas prices have been isolated from the record international LNG prices with prices actually falling in September, averaging \$8.28/GJ at Wallumbilla and \$8.36/GJ in Brisbane. Southern Australian spot gas prices also softened in September, attributed to extended lockdowns, mild spring weather, and increased renewables causing a 33% drop in gas-fired generation in September from August.
- **M&A activity** in both gold and gas sectors continued to heat up, with Korean conglomerate Posco making a \$815m offer for Queensland gas producer Senex, while WA gold miner Ramelius Resources bid \$126m for Apollo Consolidated.
- **Nickel** assets are in strong demand as nickel prices rose back above US\$9.00/lb. Andrew Forrest's Wyloo increased its offer for Noront Nickel to C\$0.70/sh, in response to which BHP offered C\$0.75/sh (up from C\$0.55/sh). Sibanye Stillwater outbid mining rivals and carmakers to buy the Santa Rita mine in Brazil, one of the world's biggest open pit nickel sulphide mines.
- 3-month LME **aluminium** prices have risen 50% this year. China reportedly stopped aluminium production in Guizhou province to prioritise power for households. The Aluminium Association of India stated that contracted supplies of coal have been stopped, noting that 'the entire [aluminium] industry has been brought to a standstill'.

- France announced it would build 6 new small nuclear reactors, while the UK was expected to place nuclear power as a mainstay of its strategy to reach net zero carbon emissions by 2050. Kazatomprom (the world's largest producer of uranium) announced a **uranium** fund to hold physical uranium as a long term investment. Initial uranium purchases of US\$50m will be financed by Kazatomprom and the National Bank of Kazakhstan and the fund manager (3%). A second stage capital raising of up to US\$500m from private investors is planned.
- Rio Tinto cut its full year target for **iron ore** shipments (from 340Mt to 320-325Mt) as a severe shortage of labour in the WA mining industry. Projects are being put on hold as a result of labour / cost pressures. BHP's iron ore production is also down on 2020, due to an acute shortage of train drivers. In WA generally, there is a reported shortage of 40,000 mining personnel, partly due to the Covid state border closures. Further, a number of leading mining contractors are not tendering for any additional work in the current financial year.
- A shortage of **magnesium** (which is a critical alloying metal for **aluminium**) emerged as another factor threatening production in the global car manufacturing industry, which has also been dealing with a shortage of semi-conductors. Magnesium production is very energy intensive, and the vast majority of magnesium comes from China where 25 magnesium production plants have been shut down. Magnesium prices have increased from US\$2,000/t this year to over US\$10,000/t. Stocks in Europe are forecast to run out in November.
- Corporate activity in the **lithium** sector reached almost frenzied levels and has included the Orocobre takeover of Galaxy for A\$1,800m, Sibanye-Stillwater's 50% JV with Ioneer over the Rhyolite Ridge Nevada lithium project for US\$490m, the CATL purchase of Millennial Lithium for A\$413m, the Sayona purchase of 60% of Moblan for A\$115m, and most recently the Zijin Mining purchase of NeoLithium for A\$1,009m. Mineral Resources and Albermarle announced restart of their Wodgina lithium mine at 1/3<sup>rd</sup> capacity.
- **Tin** hit an all-time high of over US\$38,000/t with all-time low inventories of only ~1/2 day of global demand available in warehouses.
- **Zircon** demand continues to be very strong which, combined with limited supply and minimal inventories, has resulted in significant upward price pressure. Base Resources reported zircon prices for September quarter contracts increased by approximately US\$150/t from the June quarter and prices for the company's December quarter contracts have increased by an additional US\$600/t.
- **Fertiliser** prices have also spiked - the NW Europe Sulphate of Potash price is up 45% since the start of July. The price increase is driven by a number of factors including Chinese export and capacity curtailments, mines maturing / grade declines, sanctions on Belarus, and increased energy prices (a key input cost to the Mannheim Process, ~60% global SOP supply).

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**LRF Portfolio by Value 31 October 2021**

		DEG	AZS	AOP	BML	MAY	MKG	RDT
Cash	PDI				COI	AR3	MZZ	ZNC
		CVV	SHP	LEX				
					FAR	HCH	MTH	
								KWR EL8
MGV	GMD	TL	BNL	EM2	STN	ANX	AMD	BLU

## What is the Lowell Resources Fund? (ASX: LRT)

ASX-listed Lowell Resources Fund is focused on generating strong absolute returns from the junior resources sector. Our 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 17-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 market.

## Characteristics of the Fund

Number of investments: 69

Unlisted Investments: 7%

Average Market Capitalisation of Investee companies: AUD\$89 million

Weighted Average Market Capitalisation of Investee companies in portfolio: AUD\$190 million

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



## MONTHLY UPDATE

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### WARNING

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