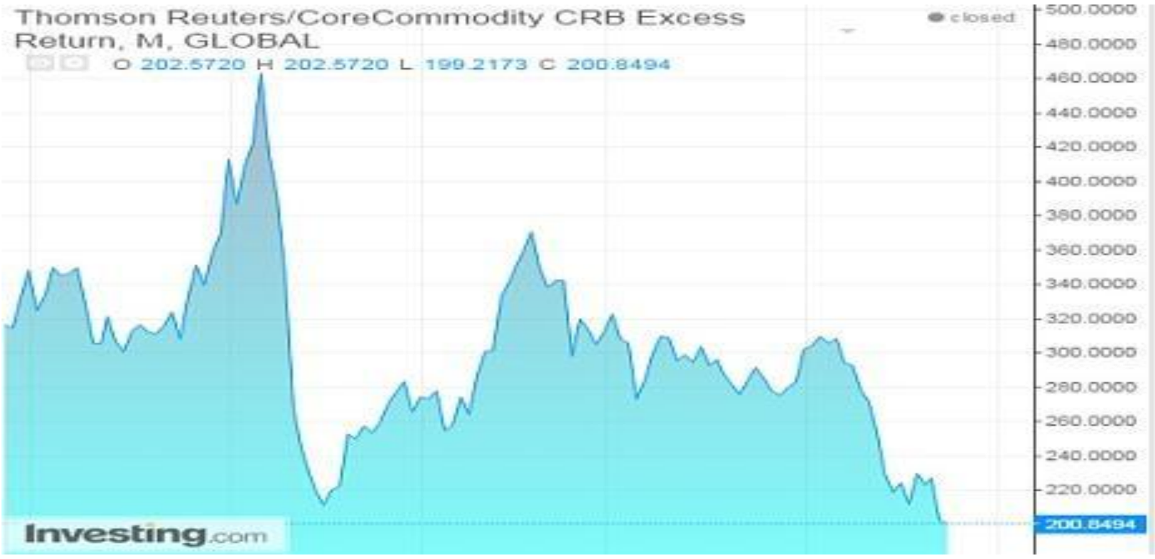
Dear Shareholders and Colleagues,

Is it as black out there as it looks?

Ambrose Evans-Pritchard of the Telegraph wrote in a recent article (http://goo.gl/fKd7QW)*"the commodity crash may feel as if Armageddon has arrived but it is, in reality, the tail-end of China's hard landing, compounded by Saudi Arabia's political decision to flood the global crude market… "there has been a sharp drop in the 'commodity-intensity' of China's economic growth," said George Magnus,… "vast swathes of the emerging market universe have lost their export prop.""* He continues by pointing out that *"the Reuters-Jeffrey CRB index of raw materials has collapsed by almost 60pc from its peak in 2008 and is back to levels first reached in 1971."* You can see this index below, with recent levels falling below the low established after the 2008 Global Financial Crisis.



The one year charts of oil, manganese and iron ore show the extent of the recent falls.

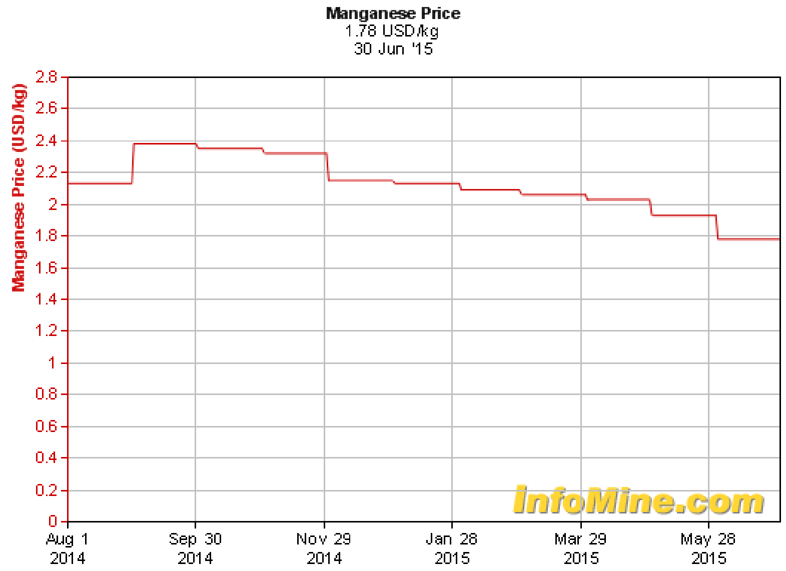
Brent Crude Oil has fallen from $105 to $50 a barrel:

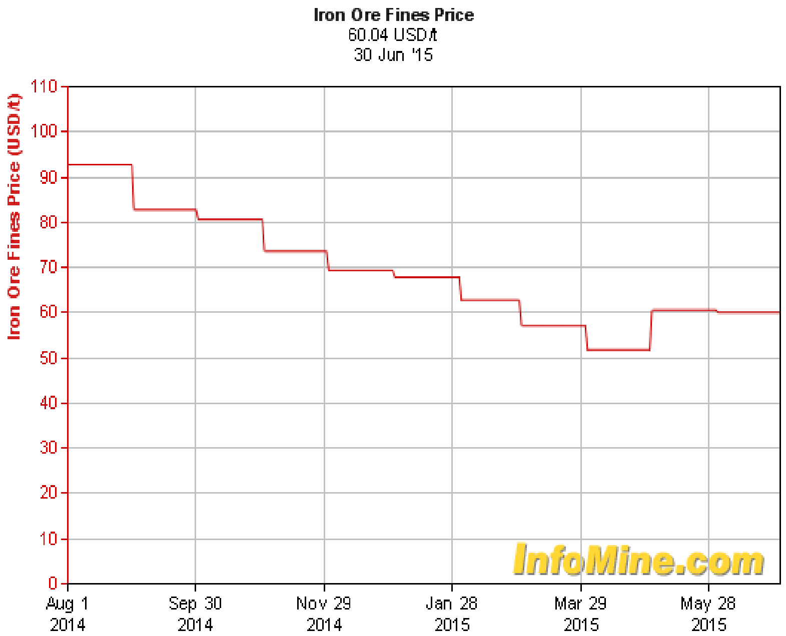
Iron ore and manganese, which had begun their downtrends some time earlier, have fallen less in the timeframe, though the fall in iron ore over the last 12 months was at its maximum point, some 45%.

Manganese appears to have fallen less, but that figure is a false comforter: at current prices RTZ, BHP and Vale can still make money on their iron ore production, though others cannot. At current, Manganese prices are such that even a major producer cannot expect to make profits. Jupiter, in which we hold shares, is about the cheapest producer, and had budgeted for a loss in the 4 months to June, due to these low prices: it was in fact able to make profits, but current prices are continuing to drop so the cost-cutting must continue.

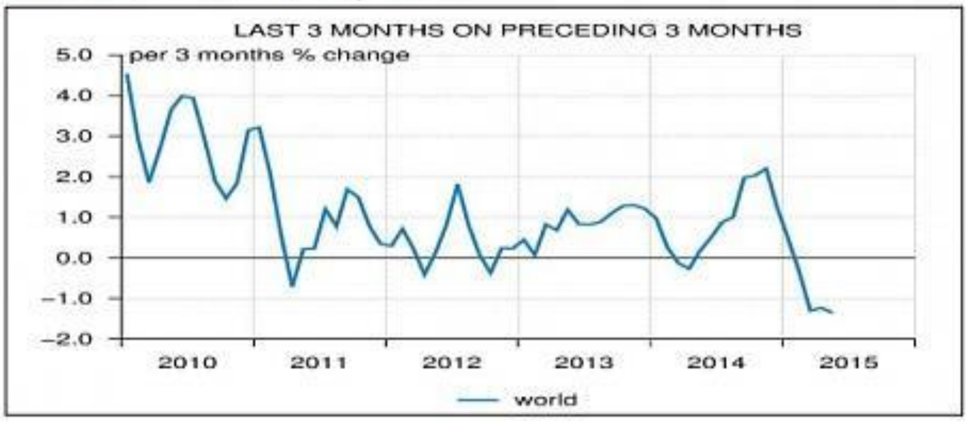
The implication of this may be that as destocking ends the manganese price is likely to rebound, as iron has done, and possibly sharply.

But that is to look to the unknown future: the present reality is a harsh one for commodity producers. As Mr Evans-Pritchard points out (see third chart below) global shipping volumes contracted by 3.4pc between January and May, according to Holland's CPB world trade index, and the world economy came within a whisker of tipping over into recession earlier in the year.





WORLD MERCHANDISE TRADE, CHART 2

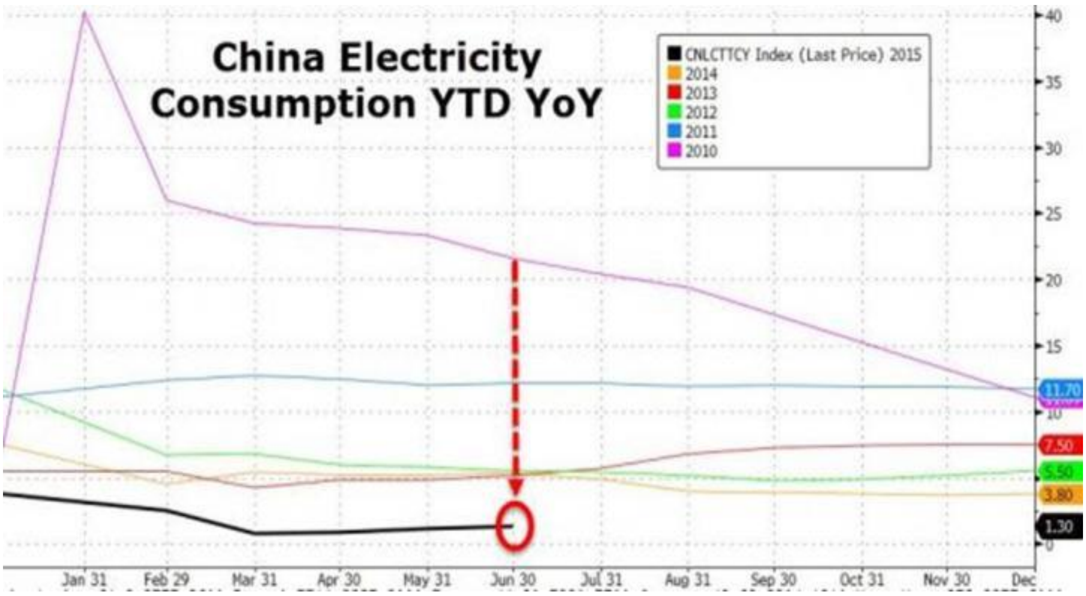


The figures from China were particularly discouraging, with housing data showing heavily negative trends year on year and electricity consumption (one neutral and easily measured indicator) showing very low growth. This is important because China has displaced the U.S. in recent years as the biggest consumer of and driver of demand for a host of metals, from aluminium and nickel to iron ore and manganese.

In the ten years to 2014, the lowest electricity demand growth was 5.23% YOY, in 2008. In 2013 it was 7.5% (only slightly below the reported economic growth rate), and in 2014 it fell to 3.8% YOY. In the first six months of 2015 it fell to 1.3% YOY, the lowest for 30 years.

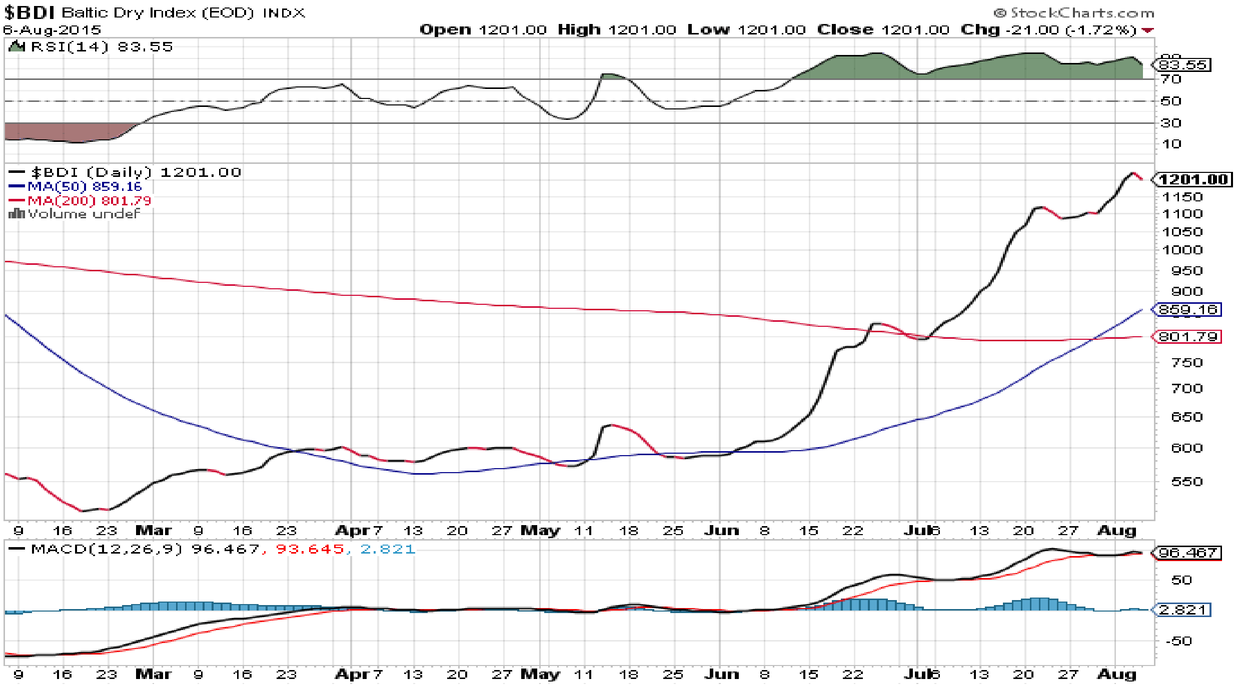
If one believes the Chinese economy is moving to a slower growth path, or just that it is transitioning to a different economy, the consequences of either would be likely to include lower growth in metal demand.

Even if neither of these changes is occurring, the short term prospects do not seem favourable for anything better than the current low growth in underlying metal demand. This seems to be corroborated by other relevant indicators (industrial production, auto production, construction activity).



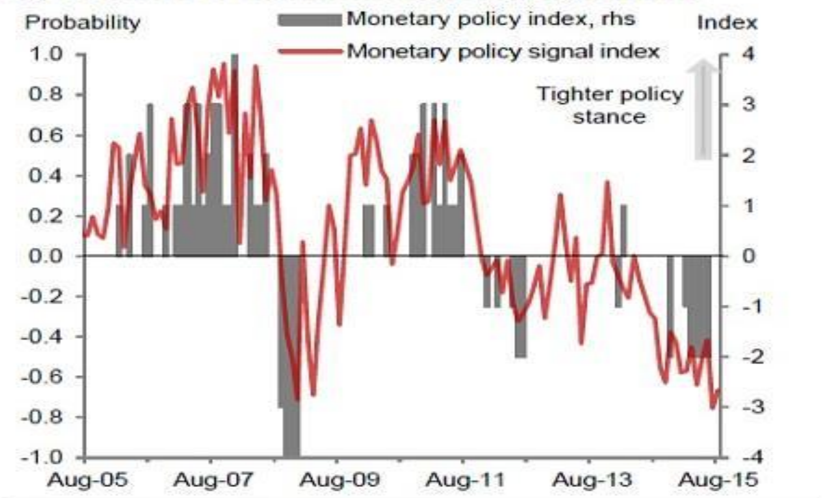
However, the economic data which has been published and which 'explains' recent price weakness is historic data. What is happening now? Here monetary data and indices such as the Baltic Dry Cargo Index can help, as these are lead indicators of economic activity.

The Baltic Dry Cargo Index – whose precipitate decline in 2008 was an accurate predictor of economic crisis – has doubled since June. Mr Evans-Pritchard writes that *"the shipping firm Clarksons said it is being driven by a revival of Chinese steel demand"*, and Clarksons' opinion would be taken as reasonably authoritative. If the Chinese steel industry is restocking on raw materials, this has implications for near-term price movements in iron (perhaps already begun) and manganese (where price movements often lag), and indicates confidence in recovering economic activity in China.



The interest and relevance for our sector of Mr Evans-Pritchard's article is his analysis in the last part of the turnaround in the Chinese economy. "*Stimulus-as-usual becomes more dangerous with each stop-go mini-cycle*" as the Chinese Government tries to deflate the credit bubble, he points out, and the world, seeing the falls in the Shanghai stock market, had feared that the Chinese economy was "*now in the grip of such powerful debt-deleveraging that stimulus no longer works*". The evidence now is that monetary policy, as loose as in the depths of the post-Lehman crisis, with real borrowing costs halved in the last year, heavy securities issuance and renewed infrastructure spending plans, is working. One factor in this is that the Chinese Government controls all the levers: the foreign exchange value of the renminbi, interest rates, reserve requirements, and even credit volume (not perfectly, but to a much greater extent than in our economy).

Fig. 7: Nomura's China monetary policy signal index

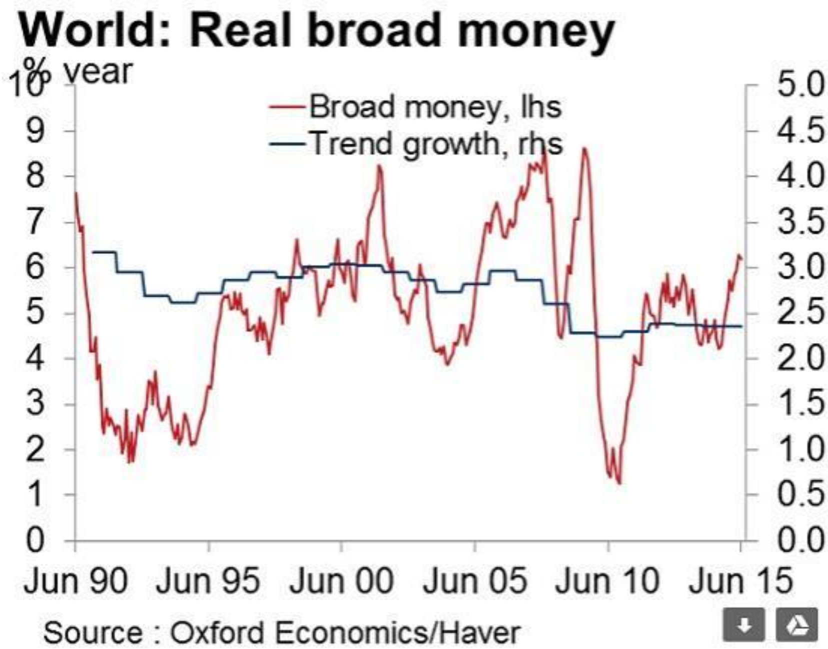


Source: Nomura Global Economics estimate.

In short, it appears that China, having possibly miscalculated the hard landing, has bought another two years' cycle. Nomura expects a "*strong rebound*".

This is all happening at a time when the world economy is recovering. The IMF's WEO forecast, recently released (http://goo.gl/kZXOdR), predicts 3.5% global growth after 3.4% growth last year, with 3.8% forecast for 2016. Notably the Eurozone is growing at 1.5% this year, coming out of its long recession, and 1.6% next (revisions upwards of 0.3% and 0.2% since January). Japan is growing at 1% this year and 1.2% next (revisions upwards of 0.4% and 0.4% since January). Indian growth at 7.5% is adjusted upwards by 1.2%. One cause of this in the case of the Eurozone and Japan is the delayed effects of quantitative easing. Eurozone real six-month M1 is growing at 12.6% p.a., implying a surge in spending later this year.

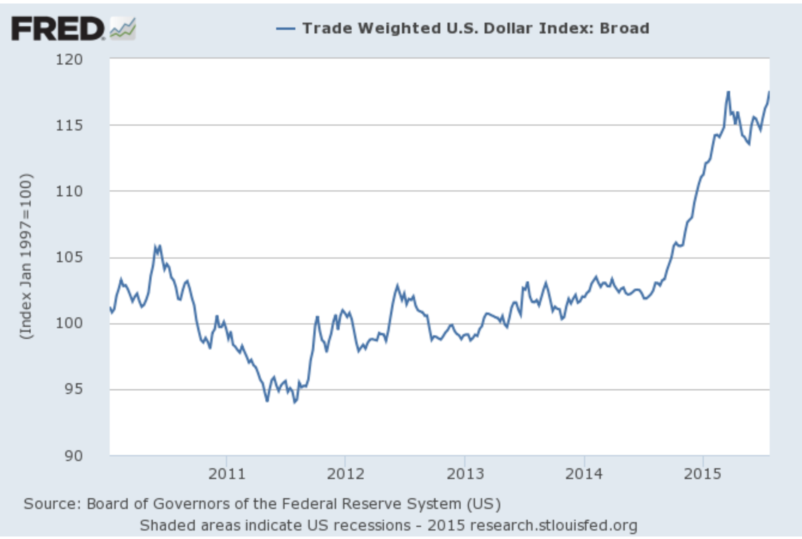
Mr Evans-Pritchard quotes Gabriel Stein of Oxford Economics as saying the growth rate of the world's real M3 money supply – based on the US, China, EMU, the UK, Japan and Canada – rose to a six-year high of 6.2pc in June. The M3 gauge tends to lead economic growth by 12 months or so.



The IMF's forecasts appear to overstate the likely strength of commodity prices in their assumptions, so that the stimulatory effect on the developed world of lower inputs (and the depressing effect on the developing world of lower incomes) may lead to further upward revisions in growth, both for the industrialised economies and perhaps globally.

Nevertheless, as the recovery continues, commodity prices will show some improvement and commodity demand will show a better growth trend than has recently been assumed.

One other noteworthy event is the resumption of the dollar uptrend. The trade-weighted dollar has just exceeded the level of 117.92 reached on 13th March, and may now break out to higher levels. One should not forget that the weakness of dollar-denominated commodities has been exaggerated by their being measured in dollars at a time of very great dollar strength. In the last year the dollar has appreciated on a trade-weighted basis by 14.2%. Were gold to be adjusted to take out the movement of the trade-weighted dollar, it would be today at $1144 an ounce, against $1306 a year ago. That it is at $1089 represents a real weakening of only 4.7%. Gold has been relatively strong compared with other commodities, and even many currencies.



The significance of the trend of price recovery in commodities and resumption of strong growth in the developed world and China for us is considerable.

At a time when our market capitalisation is £1.3m and the value at NAV of our stake in Jupiter Mines alone is £2.7m (we would argue the enterprise value to be considerably higher), confidence in that value and in the future of Jupiter will be greater when manganese prices are higher. No matter that Jupiter's Tshipi has accumulated profits over two years; no matter that it shipped 1 million tonnes of manganese in its first year and over 2 million tonnes in its second, with a life of many decades before it; no matter that it is the cheapest or about the cheapest producer; while sentiment is depressed people do not listen to any positives.

The improving situation for demand and prices will bring a recognition of the value of both this asset, with its growth and dividend prospects, as well as our other assets.

Yours,

Andrew Bell

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