

Lowell Resources Fund (LRT)

Listed Managed Investments

September 2018 Quarterly Review

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LMI Type

Listed investment trust

Investment Area

Australia & International

Investment Assets

Listed companies and other

Investment Sectors

Resources and Energy

Key Investment Information

Price (\$) as at 4 December 2018	4.84
Market cap (\$M)	13.5
Shares on issue (M)	2.8
Options on issue (M)	1.2
Shares traded (\$M p.a)	1.0
12-month L/H (\$)	4.84/8.50
Listing date	March 2018
Inception Date	January 1986
Fees:	
Management Fee (%)	2.1645%
Performance incentives (%)	17.94% of returns above a 10% hurdle

Discount/Premium to NAV

As at 30 September 2018	-19.1%
Average since listing	-8.2%

Dividend Yield	%
FY16	0.00
FY17	5.21
FY18	0.00

Largest Shareholders	%
Tizima Pty Ltd	2.5
Lowell Pty Ltd	1.9

As at 30 September 2018

COMPANY OVERVIEW

Lowell Resources Fund (ASX:LRT) is a listed investment trust that invests in a portfolio of global junior mining and energy securities. The Fund is managed by Lowell Resources Funds Management Ltd which has managed the fund for 14 years. The trust has been established for many years, but only listed on the ASX in March 2018 following a public offer of new units.

INVESTMENT OBJECTIVE

The investment objectives of the Fund are to maximise absolute returns to unitholders over the medium to long-term, along with annual distribution payment contingent on taxable profits generated over the term.

STYLE AND PROCESS

The investment process is a combination of top-down and bottom-up. The top-down view will inform and influence commodity weightings as well as focus the Manager's attention in terms of prospective investments. The ultimate focus of the top-down investment process is optimising the stock selection process to achieve maximum performance, whereby bullish commodity sectors are up-weighted, while the less promising sectors are downgraded. The Manager then considers individual stocks within those weighted sectors, based on their fundamentals, chart patterns and pricing, and identifies entry positions and potential exit strategies for each stock. However, weightings are also partly driven by identifying stock specific opportunities based predominantly on bottom-up, company specific analysis.

PORTFOLIO CHARACTERISTICS

Depending on market conditions, the portfolio usually comprises around 20-40 junior mining and energy companies that are actively exploring for, developing, and/or producing specific commodities and that have strong fundamentals. The Manager will mainly target mining and energy companies on the ASX, but to a lesser extent may include companies listed on overseas stock exchanges as well as a smaller proportion of investments pre-listing. At September-end, the top five holdings amounted to 29% of the portfolio with a heavy weighting to gold companies. The largest exposure was to unlisted gold company, Laguna Gold, which is pursuing a listing on the ASX. Its shareholders passed a resolution facilitating the listing during April.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

Largely by the nature of the investment strategy, LRT is a high risk-return investment proposition, with a concentrated portfolio of earlier stage, relatively illiquid junior resource companies and material concentrations to particular commodities, such as gold currently. Junior resource stocks are heavily influenced by commodity prices, which can result in high levels of volatility. This provides opportunities for profits, but can also increase the potential for losses. So investors should be comfortable with the expected additional volatility the portfolio may experience. The Fund is generally a capital vs income investment proposition, although annual distributions have been paid in four of the last seven years, with the variability reflecting the inherent volatility of the sector. The portfolio has performed poorly over the 12 months to 30 September 2018, with the portfolio down 17.4%, compared to the S&P/ASX 300 Resources Accumulation Index increase of 29.2%. While the portfolio has underperformed over the short-term, the portfolio has outperformed over the long-term. The Trust was trading at a significant discount to NAV at September-end. The share price has been on a steady decline since the Trust listed in March. The share price has declined 41.8% from the listing price of \$8.32. In August 2018, the Trust announced the commencement of an on-market buy-back enabling the Trust to buy-back up to 10% of the units on issue over the coming 12 months. The Trust has enacted the buy-back in an attempt to reign in the discount.

Board of Directors (Investment Manager)

Stephen Mitchell	Non-Executive Chairman
Richard Morrow	Non-Executive Director
Steven O'Connell	Non-Executive Director
John Forwood	Executive Director
David Hobday	Executive Director

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance*	Sep Quarter	1 year	3 year p.a	5 year p.a
NAV + Distributions (%)	-13.5	-17.4*	12.6*	4.8*
S&P/ASX 300 Resources Acc Index (%)	0.6	29.2	22.4	5.1
Out/Under performance of index (%)	-14.2	-46.6	-9.8	-0.2
Share Price + Dividends (%)	-17.8	na	na	na

*LRT only listed on 22 March 2018, however, the company listed the existing unlisted trust which has been in operation since January 1986. The above numbers include the returns of both the listed and unlisted vehicle.

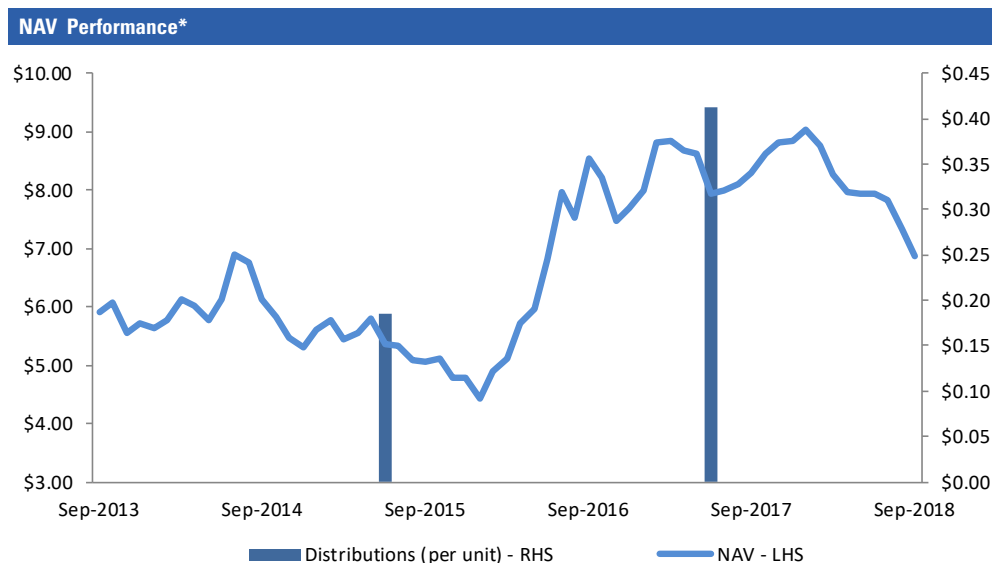
OTHER DATA

- ◆ **Distribution policy** – If the fund pays a distribution to unitholders, it is generally expected to be paid on an annual basis. The amount of the distribution is anticipated to be an amount approximately equal to the taxable components of the Fund for the period that the distribution relates to, usually the financial year in which the income is earned. In some years it is possible that no distribution will be paid.
- ◆ **Capital management policy** – n.a.
- ◆ **LIC tax concessions** – n.a.
- ◆ **DRP available** – Yes.

LRT'S PORTFOLIO (TOP 5) WEIGHTING

Name	Portfolio (%)
Laguna Gold (unlisted)	9.0
Gold Road Resources (ASX:GOR)	6.0
Tinka Resources Ltd (TSX:TK)	5.0
Indago Energy (ASX:INK)	5.0
Cardinal Resources Ltd (ASX:CDV)	4.0
	29.0

Source all figures: LRT/Independent Investment Research/IRES. All data as at 30 September 2018 unless otherwise specified.

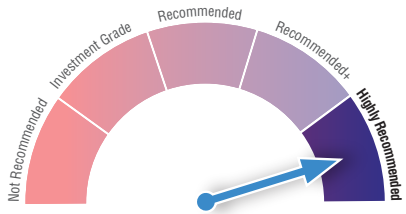
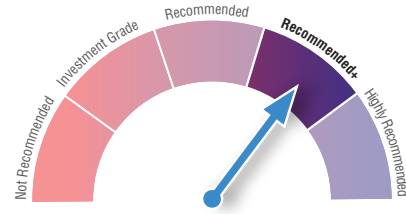
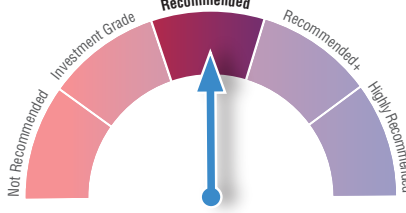
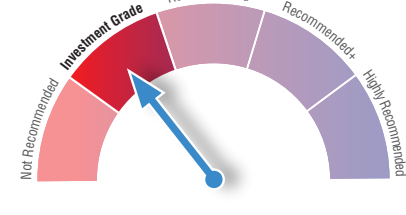
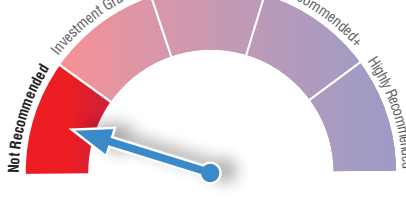


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APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

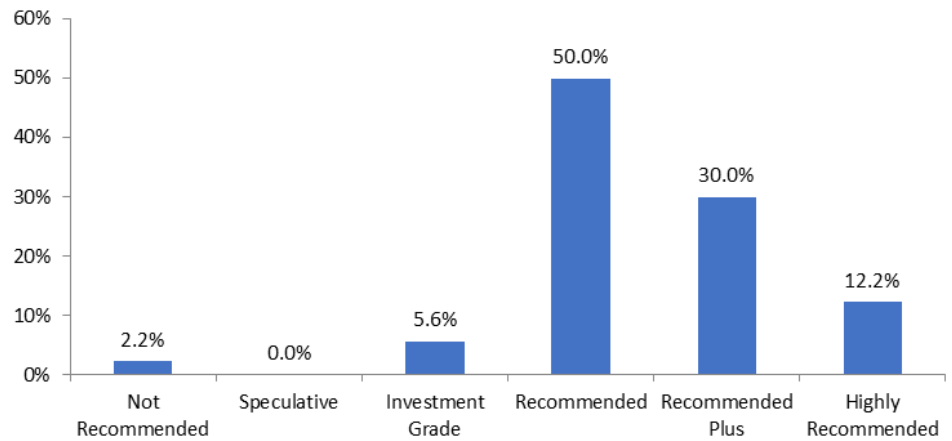
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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