



Fund Focus: A reflective of a fund within our Select Investment Range

JP Morgan Asset Management: JPM Natural Resources

06 August 2010

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Fund Objective

To provide a portfolio primarily of shares in companies throughout the world engaged in the production and marketing of commodities. The Fund aims to provide capital growth over the long term.

Fund Facts

- JPM Natural Resources is a diversified commodity fund, which invests predominantly in mining stocks related to the gold & precious metals, energy and base metals industries.
- The fund has been managed by Ian Henderson since 1992. He was joined by Stuart Connell in 2009 as co-manager of the fund.
- Henderson is a 30-year veteran of the fund management industry and a trained accountant. Connell is a former geologist, who worked as a mining analyst with Royal Bank of Canada before joining JPM in 2006.
- The fund has a distinct small- and mid-cap bias with around 20% of the portfolio invested in speculative names. The fund acts as a financier for these start-up mining projects and holds the positions for the long-term.
- This results in a long tail of high risk positions in micro-cap miners where production has yet to begin. These are blended with the giant cap miners, such as BHP Billiton and Rio Tinto. As a result, there are more than 240 stocks in the fund.
- The management pair are predominantly bottom-up stock pickers, looking for mining companies whose growth has yet to be recognised or has been misunderstood by the market.
- Henderson and Connell are looking for miners with a well-understood geology, sound financing and a strong management team.

IMA Sector	Specialist				
Fund manager (since)	Ian Henderson (October 1992) Stuart Connell (August 2009)				
Fund launch date	June 1965				
AuM	£1,865.5m				
3-mth returns (Lipper Global rank)	-9.84% (25/118)				
1-yr returns (Lipper Global rank)	40.21% (5/108)				
3-yr returns (Lipper Global rank)	6.08% (18/76)				
5-yr returns (Lipper Global rank)	130.44% (3/45)				
Five-year discrete annual performance					
	30.6.2009 to 30.6.2010	30.6.2008 to 30.6.2009	30.6.2007 to 30.6.2008	30.6.2006 to 30.6.2007	30.6.2005 to 30.6.2006
JPM Natural Resources	40.21%	-34.34%	15.23%	36.92%	58.66%
Lipper Global Equity Sector – Natural Resource	21.89%	-29.37%	21.13%	18.66%	37.42%

Source: Lipper Hindsight, JPMorgan Asset Management as at 30.6.2010

The Lipper Global rank is based on the Lipper Global Natural Resource equity sector as at 30 June 2010. Lipper data based on bid-to-bid prices with net income reinvested in sterling terms. All returns ignore commissions, fees and charges.

The performance figures are calculated gross and refer to the past; past performance is not a reliable indicator of future results.

Top Ten Holdings

Security	Portfolio
Rio Tinto	3.6%
Pacific Rubiales	2.7%
Petropavlosk	2.1%
Red Back Mining	2.1%
Xstrata	2.0%
Anglo American	1.9%
Semafo	1.8%
Barrick Gold	1.7%
CNOOC	1.5%
Centamin Egypt	1.5%

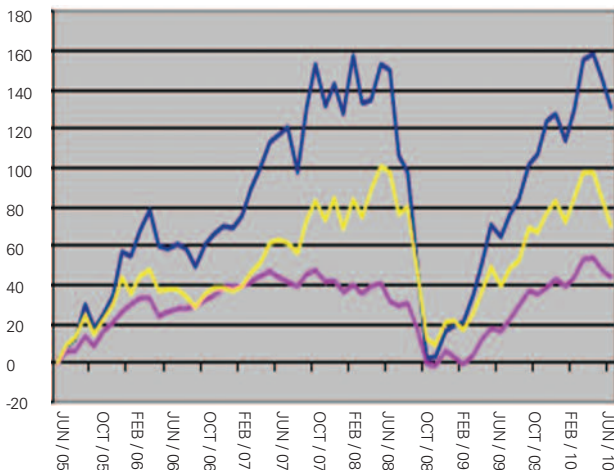
Sector Breakdown

Sector Breakdown	Portfolio
Gold and Precious Metals	39.1%
Base Metal and Diversified	27.3%
Energy	25.4%
Diamonds and other	4.6%
Soft Commodities	1.9%
Cash	1.7%

Source: JPMorgan Asset Management, as at 30.6.2010

JPM Natural Resources

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 IMA Specialist —
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Source: Lipper Hindsight as at 08.05.2010

The returns shown above are for the underlying JPM Natural Resources fund. When you invest through a product from the Select Portfolio, you are investing in an Alico version of this fund (Alico JPM Natural Resources) which is constructed so that it mirrors the composition of the underlying fund. However, the returns achieved by the Alico fund may vary from those achieved by the underlying fund.

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- The managers also look to vary the weighting of the commodity sector in the fund based on the underlying strength of the physical spot market. Commodity futures markets and inventory levels on the London Metal Exchanges are also used as indicators of market sentiment.
- The target commodity weightings are 30% in base metals, 30% in gold and precious metals, 30% in energy and 10% classified as other (diamonds, etc). There is considerable flexibility in the mandate to vary these.

Macro Analysis

- Ian Henderson has been bullish on the commodity sector for a long time and continues to see the demand for natural resources being led by China and other emerging economies.
- He sees China's, and to a lesser extent India's, buying of stakes in foreign mining companies as evidence for demand in emerging markets for commodities to support their infrastructure growth.
- Q2 2010 saw a pronounced sell-off in the commodity sector, especially in the base metals space. Companies like Rio Tinto and BHP Billiton lost a quarter of their value in H1.
- Henderson blamed fears over Chinese tightening, the unwinding of fiscal stimuli in developed markets and US attempts to reduce banks trading in commodities as reasons for the sell off.
- However, he points to a turn in sentiment in recent weeks. According to Henderson, three-month futures for the majority of commodity markets are pricing in spot price rises. Also, spot inventories on the London Metal Exchange are trading at their lowest levels in 2010.
- Favoured sectors include base metal miners, which are trading well below 5x p/e ratios. The fund also has overweight positions in palladium, which is used to make catalytic converters in cars, and the copper market.
- Risks include political intervention, such as the planned introduction of a mining tax in Australia. The disappearance of the current risk-free arbitrage opportunities could mean speculators dumping aluminium and other metals on the market all at once.
- He sees the oil price at \$80 as being well supported, and believes it will remain at this level through 2010.

Alico Analysis

- The fund is one of the highest risk funds available on Alico Choice and this is reflected by its risk rating. This is partly due to the volatility of the underlying commodity sector but also to the small- and mid-cap bias to the portfolio.
- The fund currently has around 60% in small- and mid-cap stocks, compared to a sector average of just 27%.
- The key driver behind the fund's very strong out- and under-performance relative to its peers has been these micro-cap holdings. For example, the fund bought Fortescue Minerals in 2004 and it subsequently rose 150 times over the following five years.
- Henderson tries to mitigate this risk by spreading his investments in the microcap sector across multiple names.
- In general, JPM Natural Resources is marked by high volatility and is suitable for investors interested in emerging markets.
- Miners tend to sit among the top performing stocks when the market rises and among the worst performers when the market falls.
- That said, the potential for long-term returns from holding this fund is compelling. China is growing at around 10% per annum and the emerging markets need commodities to support this GDP growth.

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- Alico Wealth Management Risk Rating: 9. Long term superior returns are the investor's primary concern. Significant levels of short term volatility and potential for capital loss are accepted.
 - Select Portfolio: Asset Charge 0.75%, Fund Manager AMC 0.75%
 - Trustee Portfolio Bond 1%, Capital Portfolio Bond and Pension Bond 0.75%, Fund Manager AMC 1.00%.

Please note: this fund is available through all products within the Select Portfolio as well as previously existing Capital Portfolio Bond, Trustee Portfolio Bond and Pension Bond.

For more information about our entire fund range, please go to Alico Wealth Management's website www.alicowm.co.uk

For more information about JPM Natural Resources, please refer to JPM Asset Management's website: www.jpmmorganassetmanagement.co.uk

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