

Quarterly Update  
for period ending 31 December 2014

## Quarter Highlights

- Small Resources Index continues falls with ongoing depression in commodity prices
- Fund outperforms Small Resources Index but major positions continue to affect performance

## Key Performance Statistics

	31 December 2014	30 September 2014	30 June 2014
NTA after tax	\$1,850,680	\$2,018,319	\$2,116,277
NTA after tax per Share	\$0.3844	\$0.4192	\$0.4395
Percentage Gain/(Loss)	(8.3)%	(4.2)%	(11.9)%
Small Resources Index	(21.6%)	(9.2%)	0.88%

## Portfolio Performance

AFM Perseus Fund Limited (“the Fund”) experienced a decline in NTA for the quarter following significant volatility in the markets and a substantial decline in the S&P ASX Small Resources Index, which fell by 21.6%; the Fund’s NTA declined by 8.3%, an outperformance of 13.3%.

The broader market experienced significant volatility over the period with a large downturn occurring in October and a subsequent recovery through November.

The global economy continued its growth at a moderate pace, with China slowing, in line with forecasts and policymaker objectives. Australian economic growth remained moderate although resource sector spending declined significantly. US economic growth was buoyant while concerns in Europe and Japan continue.

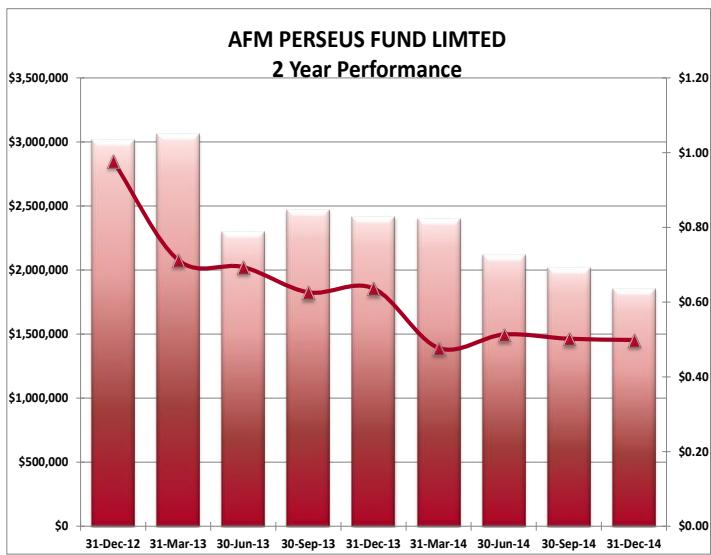
Commodities also continued to suffer being led by a sharp decrease in Brent Crude Oil (-39.44%). Iron ore persisted in its ongoing decline, falling a further 17.5% to \$US68.00 by the end of the quarter.

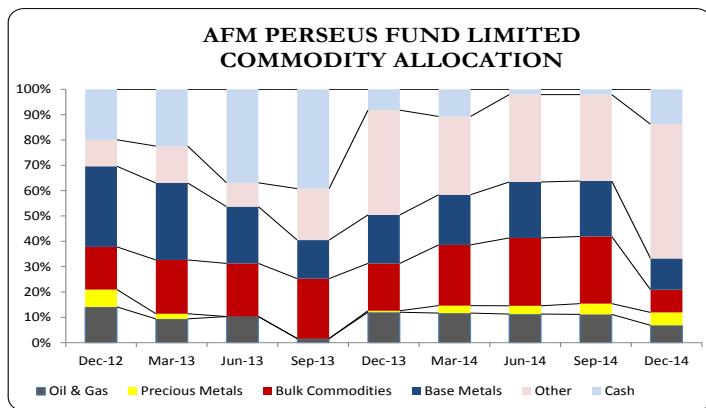
Other key commodities were also negative including Copper (-7.5%) and Gold (-2.28%).

The Australian Dollar decreased in USD terms to \$0.818, a fall of 6.4% and the Reserve Bank maintained the cash rate steady at 2.5%, despite a rise in Australian unemployment and subdued

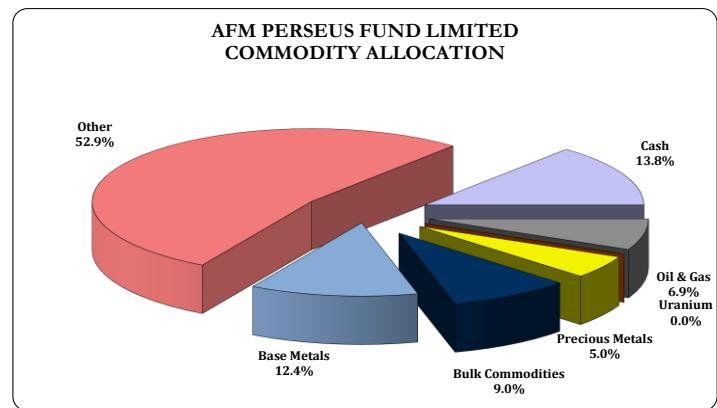
rises in labour costs. Inflation remained at the lower end of the Reserve Bank of Australia's target band of 2 to 3 per cent, with spare capacity in the labour sector leading to lower wage growth and hence satisfactory levels of inflation, even though record low rates have continued for an extended period.

The Net Tangible Asset (“NTA”) value of the portfolio declined to \$1.851 million. The NTA value per share of the Fund was \$0.3844 per share after all allowances for fees, taxes and dividends.





The fund took the opportunity to exit from or reduce its investments in South American Ferro Metals, Oklo Resources and Redstone Resources, having formed the view that markets will remain difficult for explorers and iron ore producers, and that cash remained preferable to take advantage of new opportunities.



At the end of the quarter, the Fund's cash position stood at \$127,560, representing a substantial increase in cash from the previous quarter. The Fund's investments in the period continue to see the geographic spread of the Fund's portfolio have its largest concentration in Australia, which retains the heaviest weighting of 44% and the Fund considers this to be an appropriate weighting.

## Commentary

Global equity markets were particularly volatile in the 2014 December quarter as weakness in Europe and China, and disinflationary oil price pressures caused investor concern. Small resources stocks suffered the most, failing to receive any uplift associated with buoyant US economic data which led to a late quarter rise in the wider market. Investors continued to shy away from stocks with inherent risk, instead chasing yield across multiple asset classes. For so long as concern continues regarding the slowdown in China, sovereign debt in Europe, the normalization of US interest rates and emerging market instability, market risks will continue to remain elevated.

A general decrease in operating costs for producers, and a falling Australian dollar each continue to support companies that are able to take advantage of a more favourable operating environment. These companies in particular remain leveraged to any expected upturn in commodity prices and markets generally.

The Fund experienced a decline in NTA during the quarter again in large part due to the performance of its key legacy holdings. Despite this, the Fund outperformed its benchmark index. The Fund's view with respect to the small resources sector remains unchanged and it will continue to look for selective opportunities that represent exceptional prospects for value and growth. In accordance with that view, the Fund maintains an active investment outlook and the Fund has taken steps to realise smaller liquid positions in order to make prudent investments going forward.

## Investor Information

The Manager continues to hold its belief that the downturn in commodity prices is at or near its historical lows and as such it would not be in shareholders' interests to realise the Fund's positions across the portfolio. Further, the Manager is of the view that patient investors will be rewarded in an expected market upturn. By focusing on select investment opportunities, the Fund will be well placed to take advantage of that occurrence. We will endeavor to facilitate a liquidity event when circumstances allow, provided it does not disadvantage shareholders who remain within the Fund.

The Board reiterates that the AFM Perseus Fund is an **unlisted** fund and as such, there is no market in which to buy or sell shares in the Fund. An investment in the Fund is an illiquid investment and should be considered long term in nature. Any enquiries from investors wishing to buy or sell shares in the Fund should be directed to the Manager.

### NOTES

1. Please note that past performance is not necessarily a guide to future performance.
2. The financial product advice contained in this quarterly update document is general advice only. This report has been prepared without any consideration of any specific investment objectives, financial situation or needs. Before acting on any advice provided in this document, you should carefully consider the appropriateness of this general advice in light of your financial circumstances and speak with your advisor before making a decision. AFM Zeus Pty Ltd is a corporate representative of Argonaut Funds Management Pty Ltd, who is the holder of Australian Financial Services License 224815.

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