



IMMEDIATE RELEASE

“Investors are advised the Commodity Bull Market will last” says East Midlands Wealth Manager, Cockburn Lucas

29 November 2004: According to East Midlands Wealth Manager, Cockburn Lucas “the recent bull market in commodity prices looks set to continue, as the commodities industry is not fully prepared for what many believe will be a sustained increase in consumption from Emerging Markets”. Mike Horseman and Angus Shaw, Private Client Directors, set out their reasons why they believe that the current bull market in commodities still has plenty of upside.

1. The recent surge in prices needs to be put into an historical context

Although base metal prices have been rising strongly, it is important to remember that this sector has actually been in deflation since 1988 and the weighted basket of London Metal Exchange (LME) traded commodity prices remains over 30% below its 1988 peak. Additionally, although gold prices have firmed over the past few years, the price is still low, compared with its 1980 high, which topped US\$835 an ounce. We believe, on an historical basis, that there is still plenty of support for prices to rise and demand to go with it.

2. Increasing demand for raw materials

Much seems to be made of the cyclical nature of markets, and the fact that, traditionally, any upturn in the market is soon followed by a downturn. We share the view that this market is experiencing a structural change, where producers will face a real challenge to keep pace with the insatiable demand being seen from countries such as China, and the emerging world. Inadequate investment in new productive capacity, we believe, will add pressure and could potentially create a shortage of supply which will lead to increasing demand, which, in turn higher prices. Given that future capacity takes five years to bring on line, we are confident that

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this end of the market will continue to reward investors over the medium term. To put demand potential into perspective, currently there are only eight cars per 1,000 households in China. That compares to over 500 in Japan and more than 900 in the UK per capita. “*You do the maths*” says Mike Horseman.

3. Supplies continue to fall

As a result of almost two decades of price deflation, together with rising Emerging Market demand, inventories of commodities are currently very low. Base metal inventories have continued to fall virtually every day in the LME warehouses and currently stocks look likely to hit a 15-year low. According to JPMorgan Fleming and Ian Henderson, fund manager of the highly successful Natural Resources Fund, which aims to exploit commodity prices, “as at late October, stocks in terms of weeks of consumption of iron ore are less than one week, a mere 2.2 weeks for copper and lead, and approaching five or less weeks for nickel and zinc”. With Chinese demand re-accelerating, supply shortages seem inevitable, which we would argue provide further reason for upward momentum.

4. Demand support for energy prices

Currently OPEC produces close to 30 million barrels of oil per day. One would expect storage to be overflowing. However, storage has not been built and spare capacity is currently marginal. Also there remains many political uncertainties. Consequently, we share the view that the prospect of oil prices falling below US\$30 is remote.

5. Prices do not reflect future earnings and have yet to be re-rated

Cockburn Lucas agrees that many analysts have been slow to raise their price estimate for commodities; therefore, company earnings have repeatedly beaten expectations. We also believe there is now scope for a substantial upward revision in both near and medium term earnings prospects, which will provide further support for prices in this sector. We believe many companies are currently undervalued, with their price/earnings multiples in mid-teens which do not reflect huge demand growth from areas such as China and emerging economies. A strong buying opportunity continues to exist for the immediate future.

Both Angus Shaw and Mike Horseman conclude: “Although we expect some price volatility to remain within the commodities sector, it is important that investors shift from a traditional cyclical view of this market and recognise that structural changes are happening to this asset class due to a profound change in the consumption habits of countries such as China and Asia. Now, more than ever, it is important for investors to rebalance their portfolios, which have traditionally been biased towards equity markets, in favour of other asset classes, such as commodities. One way to access this exciting market is by using a collective investment, such as the JPMorgan Fleming Natural Resources Fund, as we believe this asset class will help provide portfolio diversification and help towards achieving positive returns on invested capital”.

For further information about investing in commodity funds, please contact Cockburn Lucas IFC, Wealth Managers on telephone number 0115 947 6005, or visit www.cockburnlucas.co.uk.

Ends

30 November 2006

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