

RIO Professional Investors Fund Limited

13 July 2009

This fund continues to hold both Gold and uranium related investments within its asset class and increased its exposure to Sterling based assets during 2008. Negative Sterling/ Dollar exchange rate movement had affected fund performance, recently however, Sterling has continued to strengthen from the historic lows witnessed, just as predicted. Looking forward our view is that the USD will continue to strengthen this year; in fact an exchange rate of 1.73 would be more in line with our forecasts.

The Fund's trading in both Gold and Uranium holdings having recently been increased. A more detailed look at BHP Billiton, a stock held by the fund is presented below. Added also is further information on Gold and our recent research into this asset.

Uranium

One mining company is preparing to dig more than 1 million tonnes of dirt a day for six years, before getting a dollar back. Miner BHP Billiton is preparing to spend \$15 billion in South Australia and this may start as early as July next year. Earthmoving operations will see the opening of one of the biggest man made holes on Earth to gain access to the world's largest deposit of uranium and the fourth-largest deposits of copper and gold. The ultimate aim is to boost annual uranium production at the mine from 4,500 tonnes a year to 19,000, copper from 235,000 tonnes to 750,000, and gold from 100,000 ounces to 800,000. Silver, produced as a by-product, will rise from 800,000 ounces to 2,9 million a year.

At current prices that works out to annual mineral production valued at \$6,2 billion, but getting there will take a series of staged expansions over ten years to widen and deepen the pit, after the initial six years of preparation.

The target customers are Asian, especially China. "Exporting uranium to new customers, such as China, will be an integral part of creating value from the Olympic Dam ore body. In our last report we highlighted the fact that China has the largest nuclear power development planned in the world, a fact Billiton wishes to cash in on.

In previous research I had come across this mine; research showed that it was discovered 35 years ago and that the Olympic Dam has been difficult to explore and develop. Because the ore body does not outcrop at the surface but at a depth of nearly 300 meters, which requires extensive and continual drilling to pinpoint its location, and assay the mineral content.

My previous research also indicated that the detailed surveys carried out by Billiton since 2004 had shown that the company was indeed sitting on a single source of ore that contains five times as much Uranium as its closest rival. BHP Billiton is then anticipated be holding a real asset with an estimated value of a \$1 trillion at today's market price.

I have positioned the Professional Investors Fund to benefit from any forward movement in this asset.

Gold

The latest (June 2009) world official gold holdings released by the World Gold Council showed little change in gold holdings by the world's largest reserves holders, namely the US, Germany, IMF, Italy and France.

However, as has been forecast in my previous reports, China increased its stake in the gold standings between March 2009 and June 2009, moving up from 9th place to 6th place, just behind France and overtaking Switzerland, Japan and Netherlands as the 6th world's largest holder of gold. Its holdings jumped from 600 tonnes, representing 0.9% of its total reserves, to 1,054 tonnes, representing 1.8% of reserves.

This doubling of gold holdings supports further the evidence that China is diversifying its reserves away from core USD assets to non-USD assets and commodities, as RIO forecasted many months ago.

Many other financial institutions may comment that even if this is at the margins the USD is still a substantial holding. My comment, however, would be that the US needs to provide more comfort to the Chinese to prevent a further shift away from USD dependence, which I could easily see happening for many reasons.

As mentioned in previous reports, it was during the 1970s that President Nixon cut the dollar's last remaining tie to gold. It set off a decade of inflation that crippled the U.S. economy. It was also a decade of rapidly-rising gold prices.

At the time professors at Harvard all thought Nixon did the right thing. Gold was a "barbarous relic," they said. I was then a young man, but even then the comments in gold did not quite make sense to me. It made even less sense when I studied old cases like the ones that came up after President Franklin Roosevelt seized the gold of U.S. citizens in 1933. After all, gold had been part of the human economy for 5,000 years or more!

By 1980 I saw gold making a run past \$800 an ounce, and my gold coin collection suddenly became worth a great deal more. I then sold most of the collection immediately, and continued to save from my meager income never forgetting the gains made in gold.

But I have never forgotten the value of gold! I kept on watching and reading and talking with people about the metal. On the topic of gold coins I noticed that the U.S. Mint has sharply limited production of its one-ounce Gold Eagles, which is why U.S. precious metals dealers are telling their customers to wait as long as 14 weeks for delivery. European dealers talk about shortages that are "absolutely unprecedented." The Financial Times commented that some of the world's wealthiest investors are piling into bullion and saving it in their personal vaults. I continually buy and sell Gold holdings within the Professional Investors Fund, and will continue to do so when the market is sensibly positioned.

Looking at Gold Stocks in the past lead me to the present investment opportunity

Looking back at the performance of small gold mining companies during the period mentioned above was very interesting. At that time investors in small mining companies turned an incredible profit so much so it is almost unbelievable that the stock of one company, Copper Lake Exploration, made **13,025% in just 22 Months**.

To illustrate my point, **\$10,000 invested could have become \$1,302,500!**

And then, after 1980, gold sank into a 20-year bear market!

Today Yamana ranks among the world's biggest gold miners. Its shares went up to nearly \$20 in just five years. Yamana's Marrone knows his market very well. This made me give thought as to why he would be selling off shares of his own stock and buying shares of junior gold miners?

He obviously still believes in his company and he's heavily invested in it. Having researched Yamaha myself it is clear that it is going to deliver big gains in the short term. Further, I recently noted that Marrone said "sometimes it's not a bad idea to take a little bit of money and invest into juniors at the right time". But is today the time?

Well I believe that Marrone's already done the hard work of building a world-changing company in just five years, and growing it ten-fold.

He is now investing some of his hard-earned wealth into other companies with the same ten-fold potential, something like the one I highlighted above. The CEO of one of the world's best-run gold producers is putting a percentage of his money into junior companies. Should the Fund do the same? More on this later as I continue to research the above.

Finally, the maximum allocation considered to the juniors would be 2% -3% of fund due to the down side risk which has already be assessed. Note; although the down side would have little effect on the fund as a whole, as I have said above the rewards from identifying the correct company in this sector could have a very positive effect on the potential up side of this fund.

William Gray
The RIO Club