

## Who would buy an iron ore stock?

Iron ore has fallen from a high of US\$180/tonne to \$47/t on concerns of oversupply and a slowdown in China – iron ore’s biggest consumer. At \$47/t, the majority of iron ore producers lose money. Who would want to own an iron ore stock? We would, because we’re contrarian investors.

### Labrador Iron Ore Royalty - why we own it

Iron Ore Company of Canada (IOC) is a leading Canadian producer of iron ore pellets and concentrate owned by Rio Tinto Group (59%), Mitsubishi Corporation (26%), and Labrador Iron Ore Royalty Company (15%). IOC is a low cost operator in a low cost jurisdiction with strong, financially stable partners. While the mine’s cost of production may be higher than its Western Australian competitors, it competes well as its product is of much higher quality and its mine has a 25-year reserve life. IOC produces a high quality iron ore concentrate and pellets which are necessary for blending with low quality ores. IOC’s ore is in demand and trades at a premium.

In addition to its 15% interest in IOC, LIF receives a 7% royalty on IOC’s gross revenue – before expenses. LIF’s share price has suffered along with the price of iron ore. However, as a royalty, LIF offers a lower risk exposure to the iron ore market. In recent weeks, LIF’s stock price has also suffered on rumors of Rio Tinto’s intention to close the Labrador-based mine, putting the royalty payments at significant risk. Rumours have fed the bears and the short interest in the stock reached 11 million shares (of 60 million outstanding). We believe the rumours are unfounded and may be the actions of potential suitors hoping to acquire LIF at depressed prices. We’ve taken advantage of this and added significantly to the Fund’s position in LIF. At time of writing, LIF accounted for 5% of Taylor Partners Fund assets.

IOC competes well. As the rout in iron ore prices forces out many of the high cost producers, we are confident IOC will be one of the last mines standing. Today’s iron price is not sustainable and we believe is easily manipulated by large global players whose objective is to push out the competition. With global destocking leveling off, iron ore prices should stabilize. In fact, prices are up some 30% in the past three weeks. IOC is positioned to benefit significantly from a resurrection in iron ore prices, with its high quality asset and long reserve life.

### Osisko purchases 10% interest in LIF

At current valuations, LIF is a very attractive take out candidate. Don’t just take our word for it. Osisko Gold Royalties Ltd. (OR) today announced it has amassed a 9.8% interest in LIF. LIF rose 11% on the news. While OR denies it has any intentions to acquire the company, we believe its interest in LIF is a toehold and that in time, it will. Osisko executives are astute businessmen keen to take advantage of a great asset trading at an attractive price in an effort to increase shareholder value. Alternatively, Osisko’s move may provoke interest among other potential buyers as we believe there are a number of firms with similar objectives.

It takes guts to buy into a commodity stock when it’s getting beat up but sometimes the market gets it wrong, and we believe this is one of those times.

David Taylor, MBA, CFA  
 President and Chief Investment Officer  
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LABRADOR IRON ORE ROYALTY (LIF)  
 Share price and dividend yield



Taylor Partners Fund is a prospectus-exempt product offered on a private placement basis. Units of the Fund can be purchased through applicable dealers, and are offered to investors resident in the provinces or territories of Canada pursuant to exemptions from the prospectus requirements set forth under NI 45-106 contained in the applicable securities legislation. Comprehensive information about the Fund, the investment strategy and potential risks are contained in the Fund’s Confidential Offering Memorandum. Please review the Fund’s Confidential Offering Memorandum before investing. Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Statements in the foregoing are intended to illustrate their approach in managing the Fund and should not be relied upon for any other purpose. Any statement contained herein that pertains to the future presents the portfolio manager’s current view regarding future events, and is included for the purpose of illustrating the portfolio manager’s investment strategy, current beliefs and positioning of the portfolio. Actual future events may differ from these views. Taylor Asset Management does not undertake any obligation to update this information. Source for chart data: Bloomberg.