

**“The stock market is designed to transfer money from the active to the patient.”**

Warren Buffett

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**Dear Partner,**

We reached the end of 2019 with the Fund delivering a net result of -10.59% for the year.

The last quarter of 2019 was marked by expectations regarding the Nuclear Fuel Working Group (NFWG) report and the subsequent decision by President Trump.

On December 5, we had a small sample of what could happen with this market, when speculation about a recommendation by the Working Group regarding the purchase of uranium by the American government caused the shares of some uranium miners to skyrocket 25%.

To recap, in early 2018, two American mining companies, Energy Fuels and Ur-Energy, filed a Section 232 petition requesting that the U.S. Department of Commerce initiate an investigation into imports of uranium into the U.S. In short, they asked the US government to make American utilities buy at least 25% of their uranium demand from American producers.

Due to the fact that the USA is the largest consumer of uranium in the world, the request caused a great deal of uncertainty in the sector. Until then utilities were willing to start negotiations for another contracting cycle, but then decided to await a final decision by the American Government.

The Department of Commerce surprised the utilities and accepted the request to launch an investigation and submitted a report with a recommendation to President Trump in April of last year. Trump, from then on, had 3 months to make a decision, which he made in July, not to impose quotas. However, Trump, who is a nuclear energy enthusiast, decided to create a Working Group (NFWG) to study the sector and come up with recommendations. These recommendations should include steps to be taken in order to revive the so important American nuclear sector, responsible for generating about 20% of the country's electric output.

The NFWG had to report back to the White House within 90 days (extended by 30 more days), which it did in December. Trump has not yet taken a stance. However, it is speculated that the report suggests the purchase of American uranium by the federal government to boost the national stockpile and even the creation of tax incentives for utilities that buy uranium from American mining companies, among other possible recommendations that would directly benefit the producers.

In our opinion, there is actually no bad decision or outcome, they are all good or, at worst, neutral. With the uncertainties that have been clouding the sector, the talks between utilities and uranium producers have been halted for the past 2 years (and counting). Once a decision is made and the elephant is out of the room, utilities will be able to go back to the negotiating table. And they really need it. It is worth noting that uranium takes about 18 to 24 months to leave a mine and enter a nuclear reactor. Thus, the utilities that need uranium in 2021 are already late to buy it now. As most long-term contracts expire in 2022, utilities will have to negotiate new terms as of next year – but we suspect this contracting cycle will start sooner.

Contracts typically take between 3 and 9 months to be signed. It is a lengthy process, involving negotiations, discussions, approvals, lawyers, Board of Directors and due diligence. In our view, the procedures should start soon and we should see the results in 2020, especially in the second half. The first utilities to contract should probably have a little advantage since there is availability in the market (mines already producing) and the price will most likely not rise much in the beginning of this contracting cycle. As contracts are signed and the installed capacity to produce is taken, we should see prices going up. The price increase should be even more significant when all the current capacity is taken and miners need to ramp up production to supply additional volumes (our vision for 2021, with effect from 2023 onwards). The price will have to reach levels not seen in the past few years in order to attract the attention of capital providers, who can then enable the development of new mines and the start of production (our long-term vision and the core of our bullish thesis for metal).

## The Market

The uranium market continues to move favorably to our thesis, despite what the stock market is telling us.

European Union (EU) leaders included nuclear energy on the list of clean sources and as an important part of the process of transforming the old continent into carbon neutral by 2050. France, whose energy matrix is highly nuclear (almost 80%), played an important role in that. Macron insisted that the use of this type of energy is essential to ensure that EU members are not dependent on gas imports, a subtle dig at the countries that are under Russian influence. Atomic energy is important and responsible for about 30% of all energy produced in the European community.

In Australia, a committee of the House of Representatives recommended that the government remove the ban on the use of nuclear energy. The report, entitled “Not without your approval: a way forward for nuclear technology in Australia”, also recommended assessing the use of third and fourth generation reactors. We understand that this is just a first step, but we have noticed a growing change of opinion regarding atomic energy in the country.

We believe that only when all aspects of power generation are taken into account, such as cost, efficiency, reliability, safety and environmental impact, it is possible to make a correct decision. Nuclear energy is clean, safe (see table below) and reliable, that is, it does not need wind, sun or any exogenous factor to function. Furthermore, the efficiency of a nuclear power plant is several times that of any other known source of clean energy.

Source	Deaths / Trillion Kwh	% electricity
Coal (world)	100000	41%
Coal (China)	170000	75%
Oil	36000	8%
Natural Gas	4000	22%
Hydroelectric (world)	1400	16%
Solar	440	←1%
Wind	150	2%
Nuclear (including Chernobyl and Fukushima)	90	11%

Source: US Energy Information Administration

These were the main highlights of the quarter on the (possible) demand side. Both EU and Australia had an unfriendly stance towards nuclear energy, but knowing that the EU is not discouraging its use and that Australia is considering building reactors is something that could not have been imagined a few years ago. This is an important sign of the beginning of an inflection point.

Beside these highlights, India and Russia signed contracts for the construction of 6 new reactors, South Africa granted a 20-year extension for a reactor and so did Florida with 2 of its reactors; France announced the construction of 6 new nuclear power plants, Duke requested an extension of 20 years for all of its 11 reactors and the Brazilian government, which will resume the construction of Angra III next year, is considering the development of 6 additional nuclear plants.

Not to mention China, which continues to invest heavily in the construction and development of new nuclear reactors, as we mentioned in the last report.

The United States' 2020 budget forecasts an increase of US\$400 million in capital for research involving nuclear energy. With that, almost US\$1.8 billion will be invested in the sector throughout 2020. Bill Gates' lobby is working, as we expected.

In addition, Commerce Secretary Wilbur Ross said a few days ago that nuclear power is and should remain an essential part of the US power generation grid for many years to come. He made a statement saying that "If the US and Japan don't lead this renaissance, then somebody else will.", probably referring to China and Russia. Finally, Democratic presidential candidate Elizabeth Warren said she would keep existing nuclear power plants in order to fight global warming (big U-turn there).

All of the aforementioned news was positive for the sector, but one deserves a special mention. Angela Merkel's party spokesman said Germany had acted wrongly in phasing out nuclear power. The chairman of the Volkswagen Board also said clearly that if someone is taking the climate issue seriously, nuclear power plants should run for longer. Will we see a German U-turn? Unlikely, but if it does happen, it could mark the beginning of another "nuclear era".

On the supply side, we had the announcement of two more mines that will be closed soon. Ranger, in Australia, will shut down its activities next year and Cominak, in Africa, will have the same fate in March 2021.

## The Investment

We believe that the risk x return relationship of investing in uranium is much more attractive than any other we have ever analyzed and, for this reason, we have concentrated a lot on this thesis.

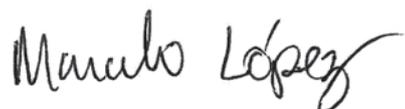
We actively participate in the uranium sector in different ways: television interviews on specialized channels (the last interview can be seen [here](#)), newspaper and blog articles, podcasts, etc. In addition, our CIO participated in the largest uranium conference in the world as a speaker (video available [here](#)), in Australia, and also at the WNA (World Nuclear Association), in London.

We spoke with several players in the industry around the world, including purchase managers, miners, traders, geologists, engineers and executives, and our vision has been strengthened further. Really, nobody is paying attention to it and, exactly for that reason, we see an excellent windfall potential for investors with patience and diligence.

We will not describe the details of the thesis again, since we have already done this a few times over the past year, but it is worth recapitulating the general idea. The investment in uranium is an investment in a commodity used for the production of clean, cheap, safe and reliable energy; it has no substitute, it is very close to historical lows and its cost of production is almost twice its current selling price – when this kind of event occurs, there are only two possible ways out: either the price rises or the production of the commodity ceases. We strongly believe that the price should go up (and a lot).

In addition, the end buyers, the utilities that operate nuclear reactors, are practically indifferent to the price they pay for uranium; demand is increasing visibly and supply is being reduced at alarming rates. To put this into perspective, in 2018 around 140 million pounds of uranium were produced and about 190 million pounds were consumed. There is already a huge deficit between production and consumption, and it should be even greater in 2019, and we believe that an adjustment should take place to bring the sector back into balance.

We would like to thank you once again and wish you a happy 2020, full of joy, health, peace, success and prosperity.



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