

# Pengana Global Resources Fund

## December 2008 Update



1 of 4

### Fund Description

The Pengana Global Resources Fund provides investors with equity exposure to companies within the global mining, energy, steel, commodities and associated services sectors. The Fund is managed out of Melbourne, Australia and uses multiple strategies to profit from inefficiencies in the pricing of companies in its investment universe. Among the strategies utilised by the Fund is the ability to be both long and short securities which allows market volatility to be better managed.

### Fund Features

|  |   |  |  |
|--|---|--|--|
| <b>Style</b>                             | Fundamental, Long bias, Long Short              | <b>Management Fees <sup>1</sup> (monthly)</b>    | 1.5% p.a.                                |
| <b>Fund Aim</b>                          | To achieve a total return in excess of 15% p.a. | <b>Performance Fees <sup>1</sup> (quarterly)</b> | 20% of NAV above a prior high water mark |
| <b>Investors</b>                         | Wholesale Clients Only                          | <b>AUM at Month End</b>                          | A\$6.15m                                 |
| <b>Minimum Initial Investment Amount</b> | A\$100,000                                      | <b>Application Price at Month End</b>            | A\$1.0794                                |
| <b>Inception Date</b>                    | March 2007                                      | <b>Redemption Price at Month End</b>             | A\$1.0708                                |

### Fund Commentary

| Fund Performance (A\$, net of fees) <sup>2</sup> |        |       |        |       |       |        |        |        |         |         |        |        |                |
|--|--------|-------|--------|-------|-------|--------|--------|--------|---------|---------|--------|--------|----------------|
|  | Jan    | Feb   | Mar    | Apr   | May   | Jun    | Jul    | Aug    | Sep     | Oct     | Nov    | Dec    | YTD            |
| 2008   | -7.53% | 8.67% | -2.68% | 5.29% | 6.20% | 0.30%  | -4.27% | -1.99% | -20.28% | -12.45% | -6.16% | -0.39% | <b>-32.87%</b> |
| 2007   |        |       | 1.59%  | 4.91% | 9.03% | 11.51% | 1.07%  | -3.89% | 10.84%  | 10.06%  | -3.02% | 0.16%  | <b>49.13%</b>  |

- **Australian listed gold equities have gained 58.34% since the gold price hit US\$699/oz in November**
- **Oil price continued to decline as demand falls faster than supply**
- **Oz Minerals placed in trading halt as it seeks refinancing**

The gold price continued to strengthen during December reaching a high of US\$886/oz and closing near that high at US\$884.30/oz. Since its recent low in November 2008 of US\$699/oz the gold price has appreciated 26.8%. In comparison, Australian Gold equities, measured by the All Ordinaries Gold Index, achieved gains double that of those achieved in physical gold with a gain of 58.34% over the same period. Gold bullion has benefited from continued lowering of official interest rates globally, an increasing focus on risk aversion and demand for liquid assets with store-of-value characteristics. With investor nervousness remaining high amidst very volatile asset markets it is likely that gold will continue to be a beneficiary of the global financial crisis.

After falling 19.72% in November the oil price continued to ease in December losing another 16.96%. During the month OPEC announced it would curtail production quotas for members by a further 2.2 million barrels of oil per day beginning 01 January 2009. Despite OPEC having reduced production quotas for members by a total of 4.2 million barrels of oil per day since September the price of oil has failed to stabilise as market participants fear demand for oil is falling at a greater rate than supply evidenced by growing inventories of oil, particularly in the United States. Since reaching a peak in July 2008 of US\$147.08/bbl the oil price had fallen 73.3% as at 31 December 2008. Over the same time period the S&P/ASX 300 Energy Accumulation Index has fallen 29.42% with Woodside Petroleum falling 38.12% and Santos falling 20.37%. Despite some cushioning of revenue declines due to the fall in the Australian dollar relative to the US dollar there may be further downside risk to Australian oil and gas companies, particularly if they fail to meet market expectations on production growth.

On 01 December 2008 Oz Minerals requested that its shares be voluntarily suspended from trading on the Australian Stock Exchange until 29 December as the company endeavoured to refinance some of its current loan facilities. The company continues to work closely with banks in trying to refinance loan facilities after the initial deadline of 29 December was not met and is undertaking a review of its operations, including possible asset sales and mine closures, as it seeks to conserve cash. As refinancing efforts continue the company has requested that its shares remain suspended until 27 February 2009 or until its finance position has been resolved. The Fund does not have a position in Oz Minerals.

<sup>1</sup> Including GST less any reduced tax input credits. Please refer to the Product Disclosure Statement for a more detailed explanation.

<sup>2</sup> Net performance figures are shown after all fees and charges, and assume reinvestment of income. Past performance is not a reliable indicator of future performance.

# Pengana Global Resources Fund

## December 2008 Update



2 of 4

There were only minor changes to the overall positioning of the portfolio as at the end of December with a net long position of 67.8% and gross exposure of 77.2%. With the fall in energy prices, particularly oil, we are becoming more comfortable with the relative pricing of some of the offshore exploration and production companies and have begun to increase our weighting with the addition of Apache Corporation to the portfolio during December. We took advantage of an equity issue during December to increase our weighting in BlueScope Steel and believe the company is well positioned to benefit from fiscal stimulus in Australia, China and United States. We remain cautious ahead of the impending company reporting season and expect some companies will require further equity capital after incurring significant write-downs in asset values as at 31 December 2008.

### Market Commentary

Just when investors were starting to think that the worst was over in terms of the global financial crisis there was another event to further de-stabilise investor confidence and undermine the dwindling faith in financial system regulation. In early December it was revealed that Bernard Madoff, a former Chairman of the NASDAQ Stock Exchange, had been arrested after it was alleged that the hedge fund he was running was a Ponzi Scheme with estimated losses as high as US\$50 billion.

There is no sign as yet of a bottoming out phase occurring in the global economy with recent economic statistics still pointing to further deterioration. For instance, in the United States the unemployment rate in December 2008 was 7.2%. The deterioration in the US economy has been rapid with the unemployment rate rising from 4.9% in December 2007 and the number of unemployed people increasing by 3.6 million over the 12 months to December 2008. In an effort to arrest the decline of the US economy the incoming Obama administration is proposing an additional US\$825 billion of economic stimulus. It will be critical that these funds make their way to the real economy if the objective of employment stabilisation/creation is to be achieved.

Whilst governments and central banks globally continue to work towards stabilising their respective economies and financial systems there remains a huge impasse which is preventing any significant progress in the corporate sector. At this stage, credit spreads have begun to contract from the extreme levels of the past few months, although we are yet to see significant liquidity emerge from the banking system despite the best efforts of central banks to prime the system with cheap funds and guaranteeing deposits. As a result, refinancing of existing debt remains difficult with many companies looking at equity as a source of financing despite the collapse in many company share prices over the past 12 months.

### Portfolio Action

As at the end of December the S&P/ASX 300 Resources Accumulation Index was down 46.1% from the high achieved in May 2008. Commodity prices have continued to languish as companies move towards improving working capital given uncertainty over debt refinancing and future pricing and sales volumes. It is still too early to suggest a trough in demand has occurred with the most recent data showing that despite the best efforts of companies to reduce stock, sales are falling at a faster rate than inventories.

Strategically, we continue to prefer large, diversified exposures capable of weathering a protracted period of soft demand and pricing pressure. Gold miners remain an attractive investment given continued investor nervousness, falling yields in cash and government bonds and continued high levels of volatility in currency and stockmarkets. We believe offshore oil and gas companies are starting to represent excellent long-term value as share prices reflect a very weak oil price. As a consequence, we added to our oil and gas exposure during December establishing a new long position in Apache Corporation. Also, we increased the portfolio's exposure to steel companies closing out a short position in OneSteel and adding to an existing position in BlueScope Steel via an equity raising during the month.

Domestically, the S&P/ASX Metals and Mining Accumulation Index finished December with a modest gain of 1.72%. Gold stocks, buoyed by a 7.97% increase in the US dollar denominated price of gold over the month, were major positive contributors to the performance of the index during the month. Major Australian listed gold mining companies Newcrest Mining (+38.04%) and Lihir Gold (+36.82%) were strong outperformers in December helping to offset losses in both BHP Billiton (-1.81%) and Rio Tinto (-18.45%). We took advantage of the strong share price appreciation in Newcrest Mining during the month and reduced our exposure to the stock. In the United States, the S&P Metals and Mining Index gained 16.08% in December. In London the FTSE 350 Mining Index ended the month marginally higher, up 0.095% whilst the S&P/TSX Global Mining Index was up 8.20%.

In Australia, the S&P/ASX 300 Energy Accumulation Index gained 2.67% in December seemingly shrugging off a near 25% decline in the Australian dollar denominated price of oil during the month. The best performers in the Energy index for the month included coal seam gas plays such as Eastern Star Gas (+82.54%) and Molopo Australia (+25.93%) whilst energy coal producers and listed uranium producers Energy Resources of Australia (+17.57%) and Paladin Energy (+4.64%) were strong contributors to the sector's performance. Taking advantage of share price strength, we closed out our long position in Energy Resources of Australia during the month.

# Pengana Global Resources Fund December 2008 Update



## Key Contributors

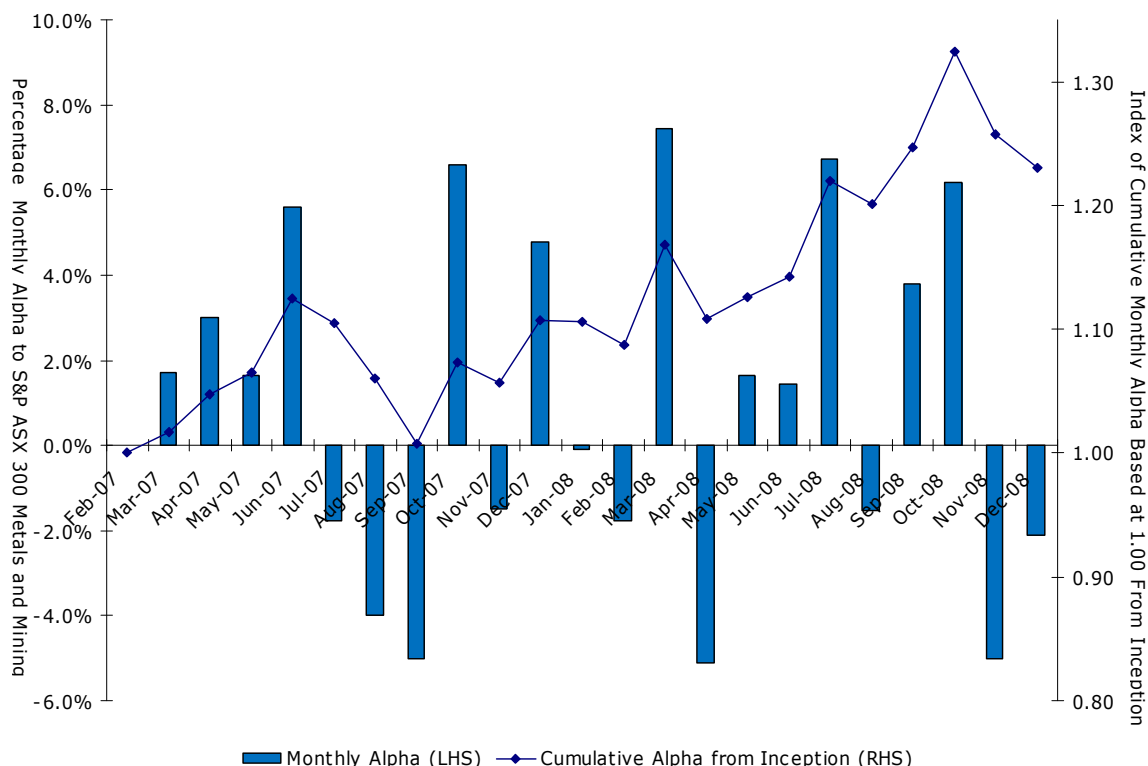
Key contributors to the portfolio's performance during December included Barrick Gold Corporation (+24.81%), Newmont Mining (+20.95%), Newcrest Mining (+38.04%) and Lihir Gold (+36.82%).

## Fund Performance

| Net Returns to 31 December 2008 <sup>3</sup> | Pengana Global Resources Fund | S&P ASX 300 Metals and Mining | FTSE 350 Mining | S&P 500 Metals and Mining |
|--|-------------------------------|-------------------------------|-----------------|---------------------------|
| <b>1 Month</b>                               | -0.39%                        | 1.72%                         | 0.09%           | 16.08%                    |
| <b>3 Months</b>                              | -18.16%                       | -18.13%                       | -31.53%         | -29.94%                   |
| <b>6 Months</b>                              | -38.79%                       | -44.94%                       | -61.72%         | -61.70%                   |
| <b>12 Months</b>                             | -32.87%                       | -42.28%                       | -55.67%         | -57.50%                   |
| <b>Since inception<sup>4</sup></b>           | <b>+0.11%</b>                 | <b>-22.52%</b>                | <b>-33.52%</b>  | <b>-49.00%</b>            |

## Pengana Global Resources Fund – Monthly and Cumulative (A\$) Alpha versus S&P ASX 300 Metals and Mining Index:

**PGRF MONTHLY AND CUMULATIVE ALPHA vs. S&P ASX 300 METALS AND MINING INDEX**



<sup>3</sup> Performance figures are net of all fees and charges, and assume reinvestment of income. Past performance is not a reliable indicator of future performance.

<sup>4</sup> Inception date: March 2007, launch date: September 2007. March 2007 – September 2007: Performance of internal fund seeded by Pengana Capital. Past performance is not a reliable indicator of future performance.

# Pengana Global Resources Fund December 2008 Update



4 of 4

## Commodity Price Changes for December 2008

| Commodity | US\$ Price Change | A\$ Price Change | € Price Change |
|-----------|-------------------|------------------|----------------|
| Oil       | -16.96%           | -24.34%          | -27.07%        |
| Gold      | 7.97%             | 0.59%            | -2.14%         |
| Copper    | -18.96%           | -26.34%          | -29.07%        |
| Aluminium | -14.46%           | -21.84%          | -24.57%        |
| Zinc      | -5.44%            | -12.82%          | -15.55%        |
| Nickel    | 11.39%            | 4.01%            | 1.28%          |
| Lead      | -12.13%           | -19.51%          | -22.24%        |
| Tin       | -15.88%           | -23.26%          | -25.99%        |

## Portfolio Structure

| Portfolio Structure (as at 31 December 2008) |  |
|--|--|
| Number of Stocks                             | 28   |
| Gross Exposure                               | 77.2%  |
| Net Long Exposure                            | 67.8%  |
| Breakdown by Strategy                        | Pairs: 9.0%<br>Directional Long/Short: 91.0% |

| Top 5 Positions (in alphabetical order) |
|---|
| BHP Billiton                            |
| BlueScope Steel                         |
| Lihir Gold                              |
| Rio Tinto                               |
| Vale                                    |

## Contact Details

Pengana Capital Limited • Level 29, 20 Bond Street, Sydney, NSW 2000, Australia • T +61 2 8524 9900 • F +61 2 8524 9901  
ABN 30 103 800 568, AFSL 226566

For further information, please visit our website at [www.pengana.com](http://www.pengana.com) or contact:

**Institutional Clients:** Denis Carroll, +61 2 8524 9974, [denis.carroll@pengana.com](mailto:denis.carroll@pengana.com)

**Private Clients:** Juliet Dunworth, +61 2 8524 9984, [juliet.dunworth@pengana.com](mailto:juliet.dunworth@pengana.com)

**Advisors:** Justin Brooks, +61 3 8663 7906, [justin.brooks@pengana.com](mailto:justin.brooks@pengana.com)