

# Pengana Global Resources Fund

## October 2009 Update



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### 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 performance in excess of 15% p.a. <sup>2</sup>	<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\$5.86m
<b>Minimum Initial Investment Amount</b>	A\$100,000	<b>Application Price at Month End</b>	A\$1.4261
<b>Inception Date</b>	March 2007	<b>Redemption Price at Month End</b>	A\$1.4147

### Fund Commentary

#### Fund Performance (A\$, net of fees)<sup>3,4</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	2.43%	0.05%	0.45%	6.05%	6.01%	-2.35%	8.61%	0.24%	5.58%	1.70%			<b>32.12%</b>
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>

- **Gold price in Australian dollars is now down 8.3% year to date**
- **The Reserve Bank of Australia begins to tighten official interest rates**
- **G20 economies unlikely to follow Australia's lead in raising official rates in the short-term.**

The upward momentum in commodity prices continued during October with most commodity prices pushing higher due to a combination of a weak U.S. dollar and continued improvement in the breadth of economic recovery globally. The largest gain for the month was posted by the zinc price (+14.71%) whilst copper (+7.15%), nickel (+6.52%) and oil (+9.05%) all achieved healthy gains in October. Tin was the only major metal to post a loss during October with a fall of 2.32%. Since the beginning of 2009 it is worth noting that the oil price has increased 70%, the price of copper has increased 126%, the U.S. dollar has fallen 28% against the Australian dollar, the price of gold in U.S. dollars has increased 17.7% (in Australian dollars the gold price has fallen 8.3%) and the S&P/ASX 300 Resources Accumulation Index has risen 32.2%.

As at the end of October the net long position of the Fund was 54.3%, down from 77.3% a month earlier. In addition, the gross exposure of the Fund was reduced to 81.6% as at the end of October, down from 104.6% a month earlier. During October the number of positions within the portfolio increased to 45 with the addition of new positions in companies such as Exxon Mobil, Anvil Mining, Silver Lake Resources and Discovery Metals. A number of less liquid positions were closed in October as the portfolio was positioned with a more liquid structure following strong gains over the past 6 months. Posco, Mineral Deposits, Po Valley Energy and Bannerman Resources were among those positions closed during October.

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

<sup>2</sup> This is an objective only. No guarantee can be given that this objective will be achieved

<sup>3</sup> Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

<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. The value of investments can go up and down

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### Market Commentary

The Reserve Bank of Australia began to raise official interest rates in October, announcing a 0.25% increase in the cash rate from 3.00% to 3.25%. The move in October 2009 by the Reserve Bank of Australia brought to an end a 19 month period of easy monetary policy which saw the cash rate in Australia fall from 7.25% down to 3.00%. In early November, the Reserve Bank of Australia increased the cash rate by a further 0.25% to leave the official cash rate at 3.5%, still well below the 7.25% target level in March 2008.

In contrast to Australia's Reserve Bank it seems there is little likelihood that the United States' Federal Reserve will raise its official cash rate any time soon. The U.S. economy has shown itself to be in a much more precarious position than the Australian economy as it continues to suffer from a protracted housing downturn, an increase in unemployment to 10.2%, high consumer indebtedness, a currency that continues to depreciate and an ever-growing funding requirement to accommodate past stimulus and current initiatives. The key point of differentiation between U.S. monetary policy and Australian monetary policy is that official interest rates in the United States are currently targeting 0 – 0.25% whilst the Australian official cash rate bottomed at 3.0%. With no scope to lower official interest rates below 0%, the U.S. Federal Reserve must err on the side of over-stimulating the economy as a premature increase in cash rates risks killing off economic growth and consumer confidence for an extended period of time and having limited ability to utilise monetary policy as a means to re-start the growth engines if they stall.

On balance, most economic data points are confirming a broadening of the recovery in economic growth globally. However, despite growth improving there are sectors of the global economy that remain fragile. Furthermore, the rate of growth at this juncture in many economies is being exaggerated by severe moves in the inventory cycle. Taking into account such concerns it is unlikely we will see changes to monetary policy in most G20 economies for the remainder of 2009 and the current "holding pattern" for official interest rates may persist well into the second half of 2010.

### Portfolio Action

The net long position of the portfolio decreased from 77.3% as at the end of September to 54.3% as at the end of October. In addition, the gross exposure of the portfolio fell from 104.6% to 81.6% during October. Over the month the Fund increased the number of positions from 44 to 45 with additions to the portfolio including new long positions in Exxon Mobil, Anvil Mining, Silver Lake Resources and Discovery Metals. On the other hand, positions in Posco, Mineral Deposits, Po Valley Energy and Bannerman Resources were closed as the portfolio moved to a more liquid structure following strong gains over the past 6 months.

In Australia, the S&P/ASX Metals and Mining Accumulation Index ended October with a gain of 0.52%. United Minerals (+42.13%) benefited from a takeover offer for the company by BHP Billiton. The positive newsflow associated with the proposed United Minerals acquisition by BHP Billiton spilled over into the share prices of small iron explorers/producers with Brockman Resources (+18.24%), Flinders Mines (+11.54%), Mount Gibson Iron (+10.91%) and Atlas Iron (+11.42%) all benefiting from renewed interest in iron ore. Elsewhere, the share prices of many gold companies reflected improved sentiment towards gold. Perseus Mining (+20.90%), Mineral Deposits (+14.71%), Resolute Mining (+14.40%) and St Barbara (+12.96%) all substantially outperformed the Metals and Mining Accumulation Index during October as the gold price continued to consolidate after moving through the US\$1000 per ounce barrier. The S&P/ASX Energy Accumulation Index returned -5.37% in October despite the oil price being up 9.05% during the month and spot uranium prices moving higher due to interruptions to BHP Billiton's Olympic Dam Copper/Uranium production. The share price of Oil Search (-8.99%) weakened following a large \$895 million equity issue after a previously announced deal to sell IPIC a direct interest in some of its PNG interests failed to be agreed upon. Woodside Petroleum (-8.50%) had to contend with news third parties such as Apache Corporation had decided to seek a deal with Chevron rather than commit gas to the Pluto LNG project. In the United States, the S&P Metals and Mining index fell 3.97% in October. In London the FTSE 350 Mining Index ended the month up 0.33% whilst the S&P/TSX Global Mining Index recorded a loss of 0.51%.

### Key Contributors

Key contributors to the portfolio's performance during October included Terramin Australia (+23.46%), Vale (+10.2%), Anglo American (+11.14%), Mineral Resources (+16.94%) and Gryphon Minerals (+18.60%).

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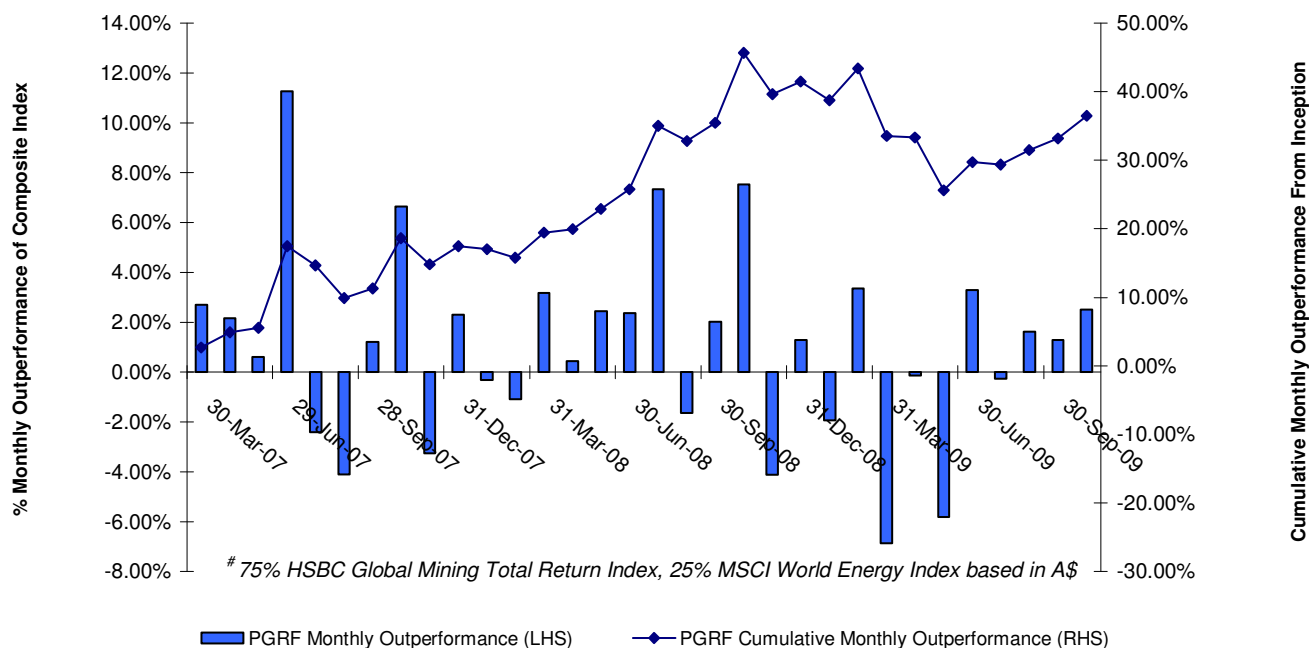
## Fund Performance

Net Returns to 31 October 2009	Pengana Global Resources Fund <sup>3</sup>	Composite Index *
<b>1 Month</b>	1.70%	-0.81%
<b>3 Months</b>	7.62%	2.02%
<b>6 Months</b>	21.01%	17.19%
<b>12 Months</b>	23.50%	29.86%
<b>Since inception<sup>4</sup></b>	<b>+32.27%</b>	<b>-7.50%</b>

\*75% HSBC Global Mining Total Return Index, 25% MSCI World Energy Index denominated in AUD

## Pengana Global Resources Fund – Monthly and Cumulative Outperformance of Composite Index \* From Inception.<sup>3,4</sup>

Monthly and Cumulative Outperformance of Composite Index<sup>#</sup> From Inception



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### Commodity Price Changes for October 2009

Commodity	US\$ Price Change	A\$ Price Change	€ Price Change
Oil	9.05%	7.11%	8.49%
Gold	3.08%	1.14%	2.52%
Copper	7.15%	5.21%	6.59%
Aluminium	2.75%	0.81%	2.19%
Zinc	14.71%	12.77%	14.15%
Nickel	6.52%	4.58%	5.96%
Lead	2.02%	0.08%	1.46%
Tin	-2.32%	-4.26%	-2.88%

### Portfolio Structure (as at end of October 2009)

<b>Number of Stocks</b>	45
<b>Gross Exposure</b>	81.6%
<b>Net Long Exposure</b>	54.3%
<b>Breakdown by Strategy</b>	Pairs 23.58% Directional Long 83.85% Directional Short -7.43%

### Top 5 Positions (in alphabetical order)

BHP Billiton
Occidental Petroleum
Rio Tinto
Vale
Xstrata

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