

# Pengana Global Resources Fund

## July 2010 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>	1.54% 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>	20.5% of the performance above the Index*
<b>Investors</b>	Open	<b>AUM at Month End</b>	A\$4.29m
<b>Minimum Initial Investment Amount</b>	A\$20,000	<b>Application Price at Month End</b>	A\$1.6499
<b>Inception Date</b>	March 2007	<b>Redemption Price at Month End</b>	A\$1.6399
<b>Index*</b>	*75% HSBC Global Mining Total Return Index, 25% MSCI World Energy Accumulation Index denominated in AUD	<b>Identification Code(s)</b>	ARSN 142 322 361 APIR PCL0003AU

### Fund Commentary

Fund Performance (A\$, net of fees) <sup>3</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-5.88%	0.54%	9.79%	-1.91%	-2.05%	-3.66%	3.94%						<b>-0.04%</b>
2009	2.43%	0.05%	0.45%	6.05%	6.01%	-2.35%	8.61%	0.24%	5.58%	1.70%	9.88%	5.44%	<b>53.07%</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>

- **In our view, now is an opportune time to invest in Resources.** For a detailed report, please visit:

<http://www.pengana.com/assets/3183/GRF%20Article%20August%202010%20Latest%20with%20Risk%20Analysis.pdf>

- **The Australian Federal Government replaces the Resource Super Profit Tax (RSPT) with the Mineral Resource Rent Tax (MRRT)**
- **5 of 91 European banks failed stress tests**
- **Base metal prices bounced in July with lead (+20.04%) leading the way.**

After a forgettable first half of 2010 characterised by profit taking and increased focus on risk, base metal prices all achieved strong gains through July. Lead (+20.04%) was the standout amongst base metals with double digit gains also occurring for aluminium (+10.03%), zinc (+13.17%) and tin (11.22%). Copper prices also gained strongly (+9.93%) whilst nickel increased a more modest 5.65% during July. Oil (+4.30%) was posted a small gain in July whilst the gold price after benefitting from its safe-haven status for much of 2010 lost 5.23% over the month.

<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.

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### Market Commentary

The Australian Federal Government announced a new Minerals Resources Rent Tax (MRRT) on 2<sup>nd</sup> July 2010 which replaces the previously announced and highly contentious Resource Super Profits Tax (RSPT). Under the proposed new arrangements the new MRRT will only apply to iron ore and coal resources from 1<sup>st</sup> July 2012 with all other minerals being excluded. The rate of tax will be 30% applied to the taxable profit at the resource with no MRRT liability for taxpayers with profits less than \$50 million per annum. An extraction allowance equal to 25% of the otherwise taxable profit will be deductible to recognise the profit attributable to the extraction process which in effect sees the effective tax rate drop to 22.5% (not the 30% headline number). A Policy Transition Group led by Resources Minister Martin Ferguson and former BHP Billiton Chairman Don Argus will oversee the development and detailed technical design of the MRRT before it becomes legislation. Of course, with a Federal Election looming on 22<sup>nd</sup> August 2010, the MRRT remains subject to the Labor government retaining power.

In late July the Committee for European Banking Supervisors (CEBS) reported the results of stress tests applied to 91 European banks. Seven of the ninety-one banks that underwent the stress tests failed including five Spanish banks – Diada, Espiga, Banca Civica and Cajasur. The other two banks that failed were Germany's Hypo Real Estate and Greece's ATEbank. It was reported the seven banks that failed would need a total of €3.5 billion of additional capital to meet regulatory standards.

### Outlook

The first half of 2010 was a challenging period for Resources equities and the broader market as investors grappled with a number of headwinds including the European sovereign debt crisis, bank stress tests, a disappointing recovery in U.S. housing and employment growth and China's attempts to curtail more speculative elements of its economy and bring growth to a more sustainable level.

From this juncture, our view is that the relative outlook for Resources is strong. We consider that the global economic recovery will be moderate and uneven with emerging economies carrying the developed world. The "Fear Trade" is abating and as such, in our view, the near to medium term outlook for gold is negative. High investor cash levels, robust earnings versus expectations and strong corporate balance sheets igniting merger and acquisition activity in the sector are all expected to drive undervalued resource equity prices higher in the near term. We consider that the longer term story for Resources, sketched out herein, is strong and easier to understand than many alternate investments.

The proposition that Resources carry undesirable risk for investors is not supported by the evidence. While there is no doubt that resource equities can be volatile, it is worth putting the volatility and absolute performance of the resources market in context. To this end, the S&P/ASX 300 Resources Accumulation Index has substantially outperformed both the All Ordinaries Accumulation Index and S&P/ASX 200 Industrials Accumulation Index since January 2001 with only slightly higher volatility and significantly lower draw-downs.<sup>4</sup>

Ironically many Australian equity investors are under-exposed to the Australian Resources sector. We believe this is unwarranted based on the characteristics of the sectors, and that Australian equity investors should act to remove unwarranted biases to Industrials.

Since its inception on 23 March 2007, the Pengana Global Resources Fund ("Fund") has delivered class leading absolute performance of 13.3%p.a.<sup>1</sup> (after fees and assuming re-investment of distributions), well above the Australian Resources Sector, with lower risk. The Fund has demonstrated the ability to strongly participate on the upside of global resource market movements, while limiting downside movements. The September quarter is a seasonally quiet time for the sector and we consider it an opportune time to invest leading into the December quarter in which we expect resources to deliver higher relative and absolute returns.

### **For a detailed report on the outlook for the Resources Sector, please visit:**

<http://www.pengana.com/assets/3183/GRF%20Article%20August%202010%20Latest%20with%20Risk%20Analysis.pdf>

### Portfolio Action

As at the end of July the net long position of the Fund was 72.3%, up from 68.8% a month earlier. The gross exposure of the Fund was 114.6%, up from 105.2% as at the end of June. During the month the Fund reduced its holdings in Matrix Composites and Engineering, Medusa Mining and Lihir Gold as well as exiting positions in Atlas Iron, Antares Energy, Panoramic Resources and Perseus Mining. New long positions were initiated in Paladin Energy, Cliffs Natural Resources, Anglo American and Flinders Mines. The S&P/ASX Metals and Mining Accumulation Index gained 4.72% in July whilst the FTSE 350 Mining Index gained 9.41% in local currency terms. In North America, the S&P/00 Metals & Mining Index gained 7.47% and the S&P/TSX Global Mining Index gained 4.19%.

<sup>4</sup> Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Global Resources Fund (ARSN 142 322 361) (the "Fund"). A Product Disclosure Statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the Product Disclosure Statement and should consider the Product Disclosure Statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including a possible delay in repayment and loss of income and principal invested.

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## Key Contributors

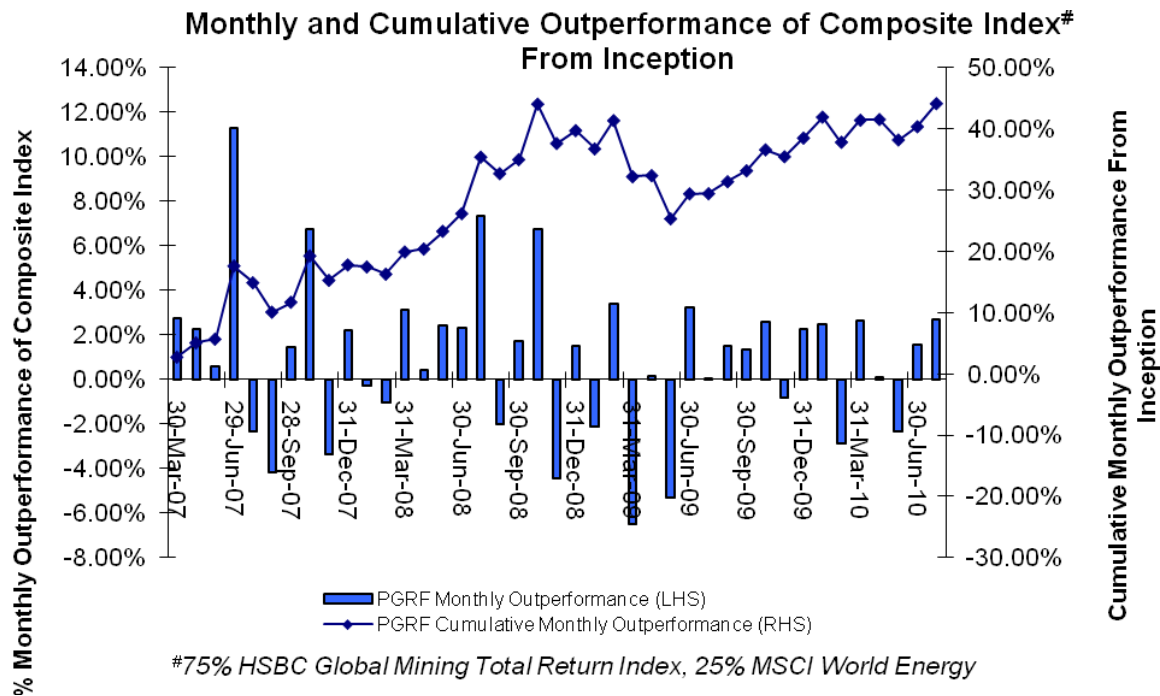
Key contributors to the portfolio's performance during July included Antofagasta plc (+25.62%), Freeport McMoran Copper & Gold (+20.99%), PanAust (+15.15%) and Teck Resources (+19.17%).

## Fund Performance

Net Returns to 31 July 2010	Pengana Global Resources Fund <sup>3</sup>	Composite Index *
1 Month	3.94%	1.26%
3 Months	-1.92%	-3.73%
6 Months	6.20%	4.59%
12 Months	24.63%	11.69%
3 Years	5.36% p.a.	-3.71% p.a.
Since inception <sup>5</sup>	<b>+13.29% p.a.</b>	<b>+0.52% p.a.</b>

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

## Pengana Global Resources Fund – Monthly and Cumulative Outperformance of Composite Index # From Inception<sup>3,5</sup>



<sup>5</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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## Commodity Price Changes for July 2010

Commodity	US\$ Price Change	A\$ Price Change	€ Price Change
Oil	4.30%	-3.10%	-2.14%
Gold	-5.23%	-12.63%	-11.67%
Copper	9.93%	2.53%	3.49%
Aluminium	10.03%	2.63%	3.59%
Zinc	13.17%	5.77%	6.73%
Nickel	5.65%	-1.75%	-0.79%
Lead	20.04%	12.64%	13.60%
Tin	11.22%	3.82%	4.78%

## Portfolio Structure (as at end of July 2010)

Number of Stocks	42
Gross Exposure	114.6%
Net Long Exposure	72.3%
Breakdown by Strategy	Pairs 29.58% Directional Long 76% Directional Short -5.58%

## Top 5 Positions (in alphabetical order)

BHP Billiton
PanAust
Rio Tinto
Vale
Xstrata

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