



Why Invest in the Pengana Global Resources Fund?

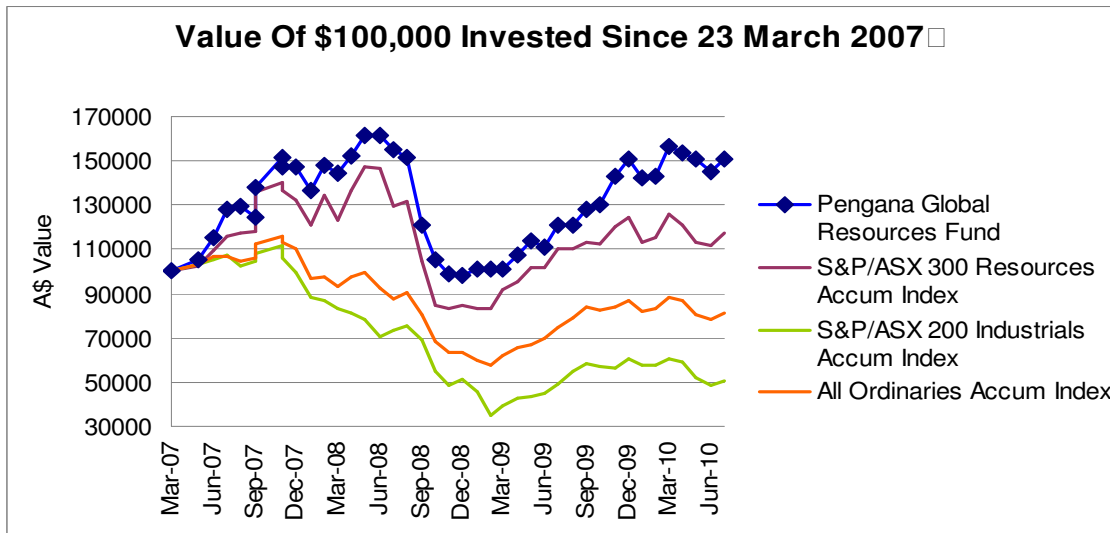
Introduction:-

This article builds on the key findings of “Resources: Not a Lump of Coal in your Christmas Stocking”, August, 2010

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

In the graphs below we have depicted the returns of the Pengana Global Resources Fund (“Fund”) from the date of its inception on 23 March 2007 through to July 2010 relative to a variety of alternative investments in an effort to put into context the performance of the Fund over this time period.

The Australian Sharemarket



Source: IRESS, Pengana Capital

* Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

The first observation that can be made from the above graph is the underperformance of the All Ordinaries Accumulation Index (orange) since 23 March 2007. In fact, of the three Australian indices used; S&P/ASX 300 Resources Accumulation Index, S&P/ASX 200 Industrials Accumulation Index and the All Ordinaries Index only one has provided investors with a positive return since April 2007 – **The S&P/ASX 300 Resources Accumulation Index.**

Also worth noting is the strong outperformance of the Australian Resources sector by the Pengana Global Resources Fund over the same time frame, something that most of our competitors have failed to do¹. The Fund has achieved this with lower than market risk.

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Pengana Global Resources Fund – Relative Returns

The performance of the Resource sector may surprise some investors who have the pre-conceived notion that investment in resources stocks is higher risk and less attractive than investing in other parts of the Australian market. 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.².

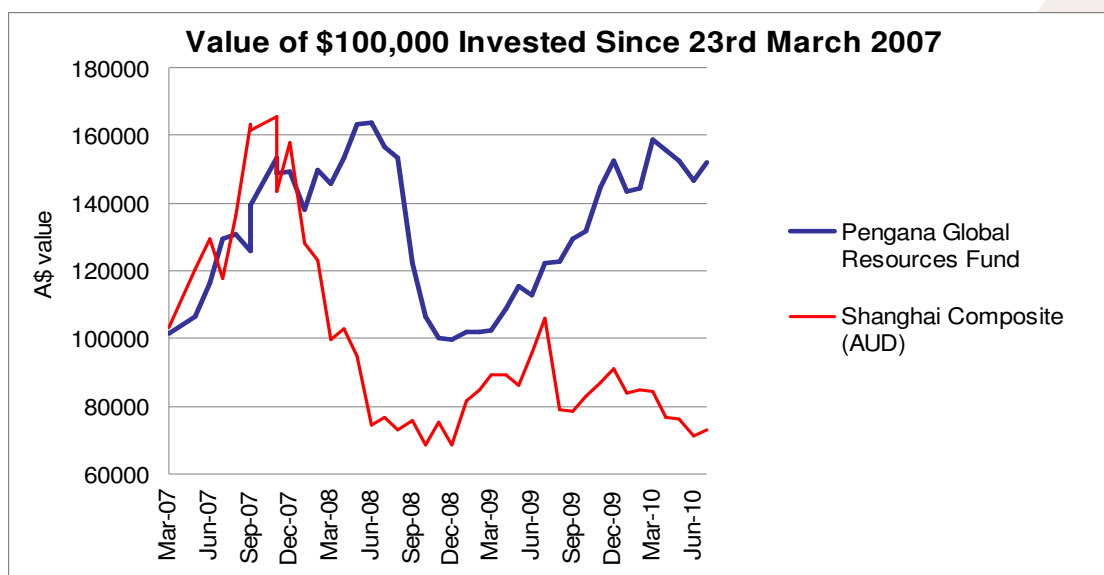
The table below provides some statistics for the Australian Resource and Industrial sectors from January 2001 to July 2010².

Jan 2001 to July 2010	Annualised Return	Annualised Standard Deviation	Maximum Drawdown	Sharpe Ratio (Rfr -5%)
S&P/ASX 300 Resources Accumulation Index	17.5%	21.4%	-43.4%	0.6
S&P/ASX 200 Industrials Accumulation Index	3.6%	19.1%	-65.9%	0.0

Although the volatility of returns is slightly higher for Resources rather than Industrials, this is more that adequately compensated for by the significantly higher performance, resulting in a far superior Sharpe Ratio², (a measure of risk adjusted performance). In addition the maximum drawdown, a measure of absolute risk, is much lower for the Resources sector.

Alternatively, the strong performance of the resource sector may be attributed solely to the strength of the Chinese economy with investors asking **“Why not just invest directly in China?”**

Pengana Global Resources Fund relative to Shanghai Composite (in AUD)



Source: IRESS, Pengana Capital

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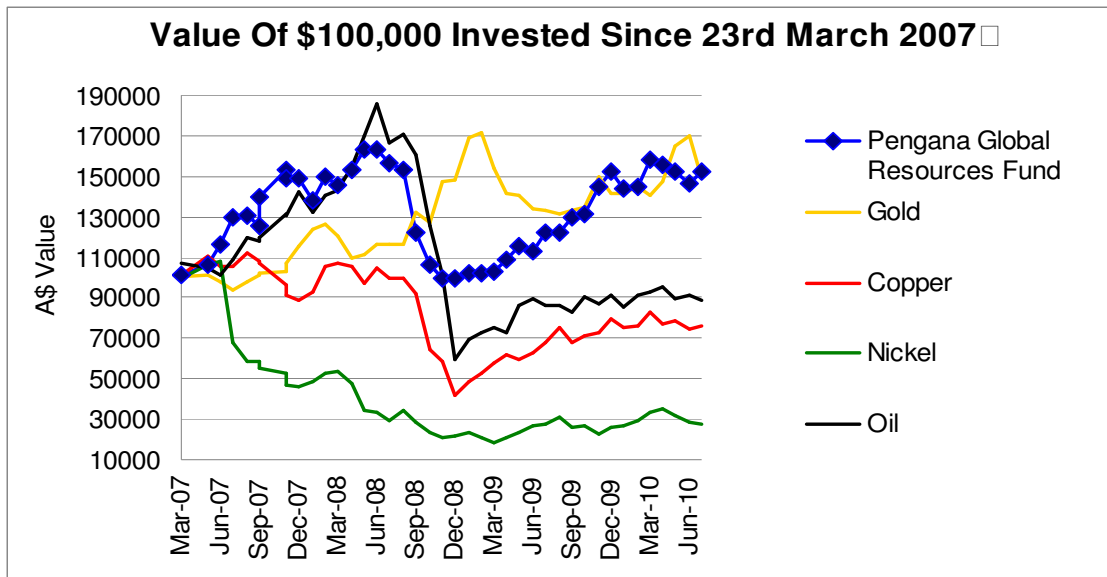
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Pengana Global Resources Fund – Relative Returns

The above chart represents the relative performance of the Pengana Global Resources Fund and the Shanghai Composite Index (Chinese stockmarket) expressed in Australian dollars. Interestingly, despite the Chinese economy proving remarkably resilient in weathering the volatility associated with the Global Financial Crisis the returns from the Chinese stockmarket in Australian dollar terms have been lacklustre, especially when compared to the returns from the Pengana Global Resources Fund³.

Given China's emergence as the world's largest consumer of a number of commodities, **would it be smarter to invest directly in commodities?**

Pengana Global Resources Fund returns relative to Gold (in AUD), Copper (in AUD), Nickel (in AUD) and Oil (in AUD).



Source: IRESS, Pengana Capital

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What can be identified in the graph above is the wide disparity in returns generated by investments in the four commodities: Gold, Copper, Nickel and Oil. Whilst the returns from 23 March 2007 to July 2010 have been similar for copper and oil the same cannot be said when looking at gold and nickel.

The return of an investment in gold has been very similar to the return generated by an investment in the Pengana Global Resources Fund. In comparison, an investment in nickel over the same period would have seen an investor erode over two thirds of their capital.

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Pengana Global Resources Fund – Relative Returns

Since inception the Pengana Global Resources Fund has captured strong participation in upside movements of global resource equities markets, while limiting downside movements⁴. For more information on the Fund and how to invest, please visit:

www.pengana.com/investment-funds/global-resources-fund

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