

# Pengana Global Resources Fund September 2011 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\$5.68m
<b>Minimum Initial Investment Amount</b>	A\$20,000	<b>Application Price at Month End</b>	A\$1.4943
<b>Inception Date</b>	March 2007	<b>Redemption Price at Month End</b>	A\$1.4853
<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

An environment dominated by fear pervaded for most of September as investors indiscriminately moved to a more cautious stance. Commodity prices and resource equities were sold aggressively during the month as fears of recession grew amongst investors who have become increasingly frustrated by the lack of meaningful policy response in addressing sovereign debt woes in Europe and an unconvincing economic recovery in the United States.

The S&P/ASX Metals and Mining Accumulation Index fell 14.23% in September whilst the FTSE 350 Mining Index fell 19.59% and the S&P 500 Metals & Mining Index fell 22.50%. Commodity prices, even gold (-11.43%), were not immune from selling pressures during the month with copper down 22.46% for the month.

Fund Performance (A\$, net of fees) <sup>3</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	2.19%	0.96%	-1.15%	-0.13%	-1.37%	-1.60%	-0.55%	-3.06%	-10.59%				<b>-14.80%</b>
2010	-5.88%	0.54%	9.79%	-1.91%	-2.05%	-3.66%	3.94%	2.50%	7.93%	5.25%	5.01%	6.43%	<b>30.07%</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>

<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> 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

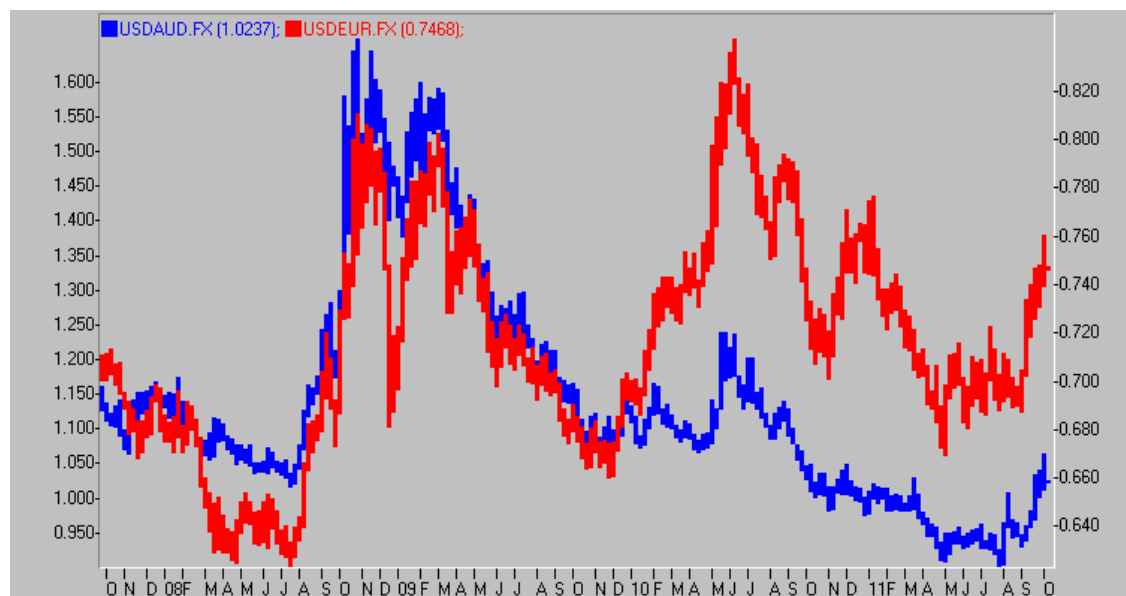
### Increasing civil unrest globally

Increasing mistrust of market mechanisms and political processes has occurred around the globe in 2011. As a result, we have seen several uprisings across the Middle East and North Africa as well as increased demands by people in Japan, the United States and the United Kingdom for greater transparency and inclusion. Most recently we have seen the "Occupy Wall Street" movement gather momentum. So much so, that the movement has spread beyond New York City to other cities within the United States as well as globally. Is this the beginning of the United States' equivalent of perestroika? This is a sign of the times where protracted periods of hardship and declining living standards for the silent minority have cajoled some into action in an attempt to be heard and spend some of their significant political currency.

### Changing economic circumstances

2011 continues to be a year of adjustment and re-adjustment for financial markets as participants grapple with adjusting valuations to a rapidly changing (deteriorating) macro-economic backdrop. The corollary of events so far this year has been a marked increase in volatility as well as a progressive fall in equity markets. Further complicating matters has been the disappointing policy response to deteriorating conditions in both Europe and the United States. Firstly, in Europe the ability of *troika* to establish a clear way forward in terms of addressing Greek sovereign debt; European bank solvency and an appropriate level of funding and structure of the European Financial Stability Fund (EFSF) is being watched more and more closely. In the United States, policy makers are yet to find a middle ground in attempting to get the U.S. economy to a point of where it is self-sustaining whilst moving to pay down government debt over the medium to longer term. The problems in the United States have been compounded by an inability of Republicans and Democrats to find a common ground in structuring a fiscal response to complement accommodative monetary policy and provide an additional source stimulus to a faltering economic recovery.

### U.S. dollar strength= Commodity price weakness?



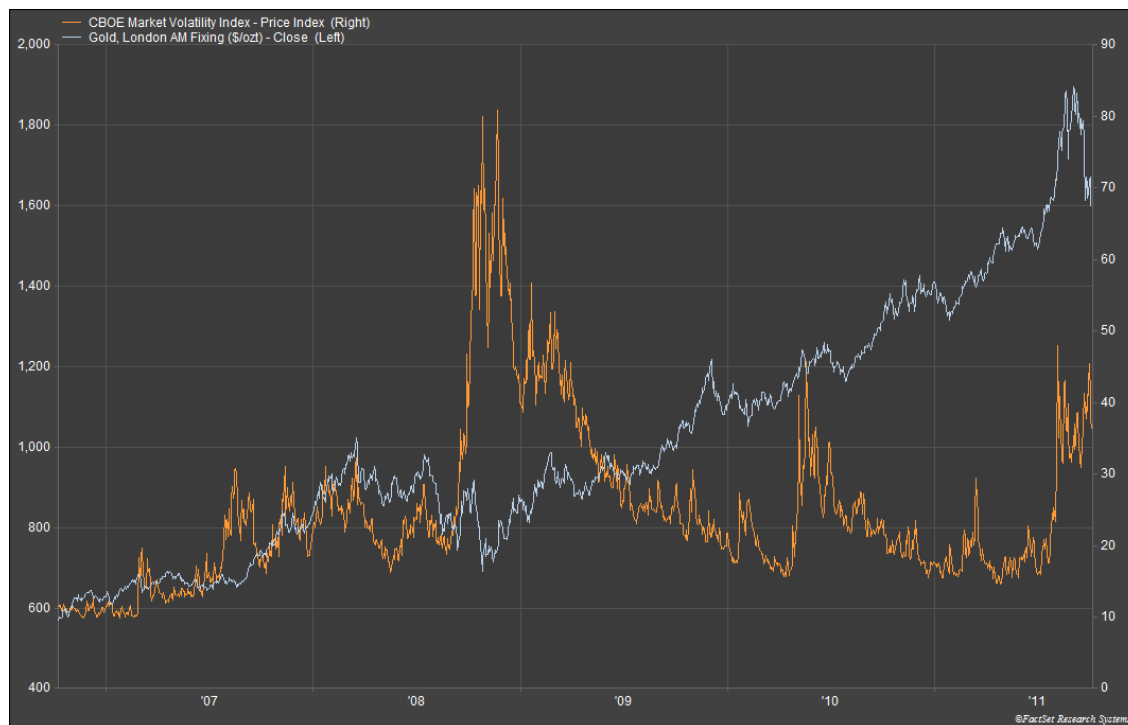
The U.S. dollar began to strengthen relative to the euro and Australian dollar in September. Given commodity prices are largely denominated in U.S. dollars, a strengthening U.S. dollar has served to exaggerate commodity price weakness during September as investors overall migrated to a "risk-off" stance.

The "risk-off" theme was also apparent in the rally in U.S. 10 year bond yields from 2.21% as at the end of August down to 1.92% as at the end of September.

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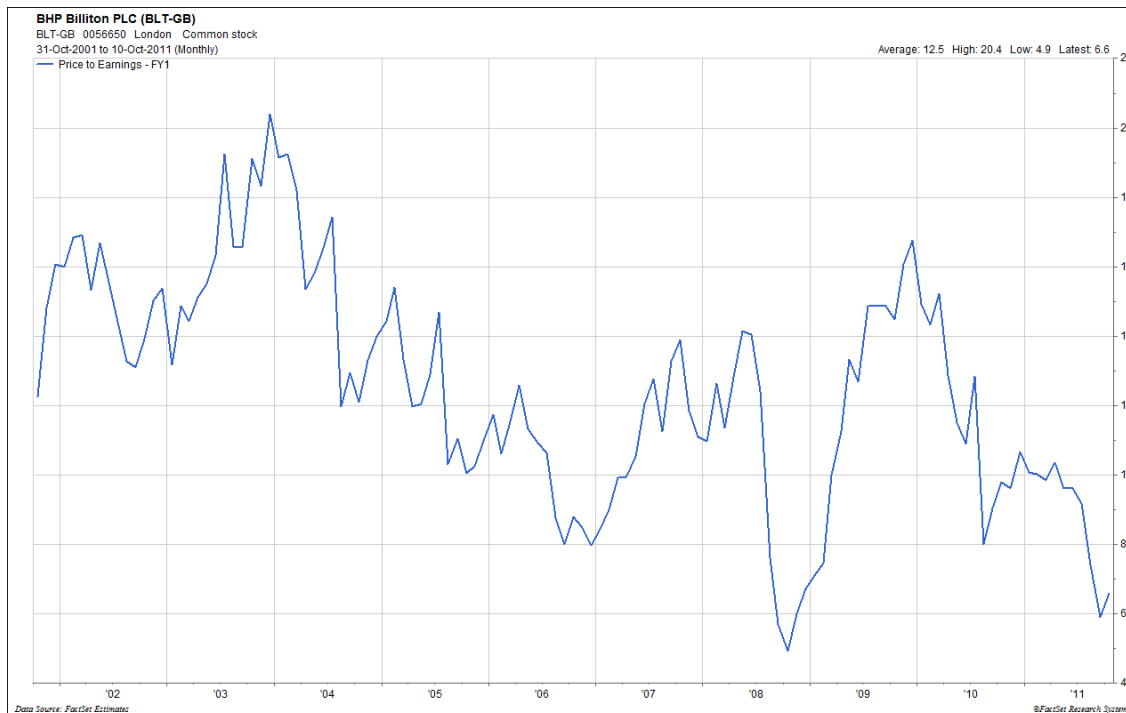


The chart above shows the London morning fix for the gold price (LHS) and the CBOE Market Volatility Index (RHS). There has been a notable upward movement in both the gold price and volatility index reflecting increased uncertainty. Interestingly, the gold price sold off during September despite increased levels of market volatility. Historically, the gold price has rallied substantially following “risk-off” induced selling.

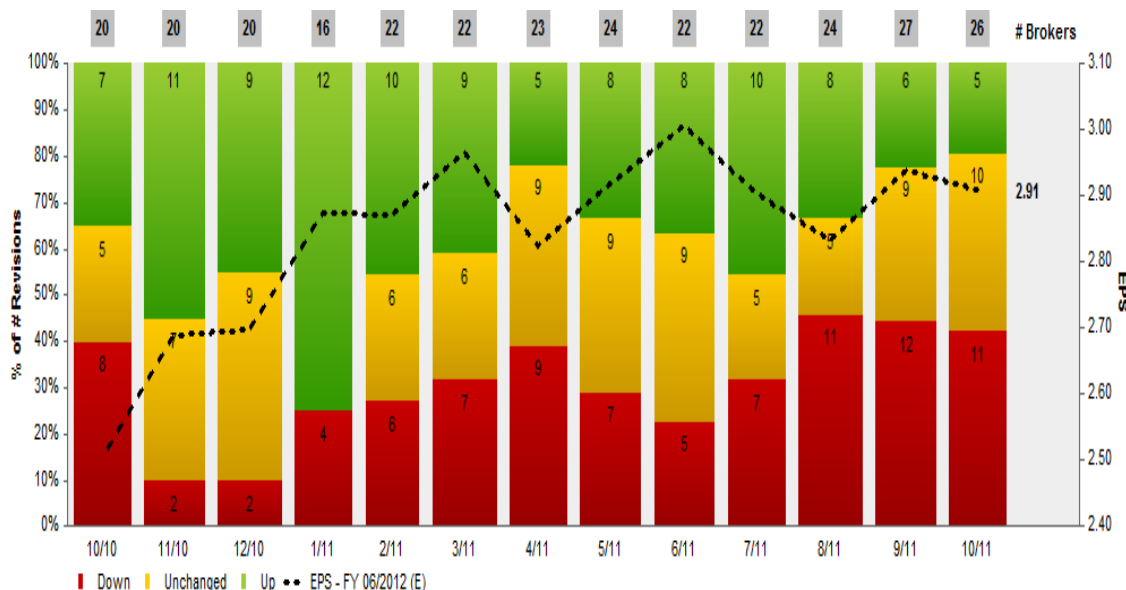
## Valuations

Valuations for resource equities have been undergoing a period of re-calibration. Given increased uncertainties surrounding global growth expectations and market volatility there has been a decreased willingness of investors to factor in higher commodity prices into future earnings estimates. As a result, we have seen a revision downwards in future earnings estimates. In addition, the rate at which those earnings are capitalised (price to earnings ratio or enterprise value/earnings before interest, tax, depreciation and amortisation EBITDA) has been reducing in some instances.

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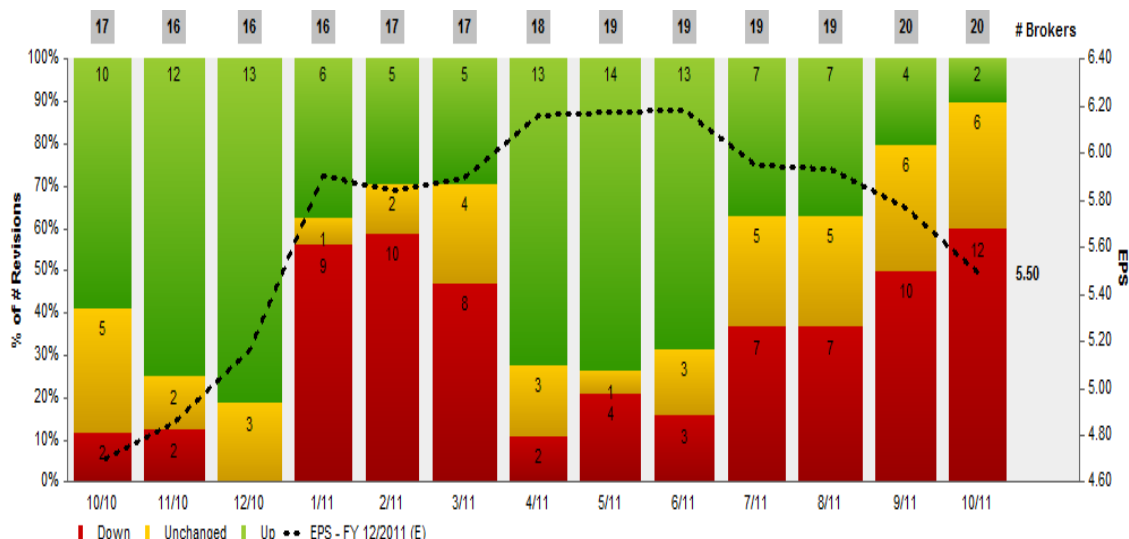
The above graph represents the prospective price to earnings multiple for BHP Billiton plc over the past 10 years. The average prospective price to earnings multiple for BHP Billiton plc has been 12.5 times. At around 6.6 times currently, there has been a huge de-rating which infers either earnings estimates and commodity price forecasts are lagging reality and/or investors are less certain and need more compensation (more attractive valuations) in such a rapidly changing macro-economic environment.



Earnings per share estimates for BHP Billiton plc in the 2011/2012 financial year have moved down from where they peaked in June 2011, but only modestly at this stage. The move downwards has been more marked in copper producers. For instance, Freeport-McMoran Copper & Gold (see earnings estimate table below) has seen earnings revised downwards due to lower copper price forecasts and reduced sales as strike action impacts mine output.

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# Pengana Global Resources Fund September 2011 Update



## Conclusion

The adjustment of financial markets globally to a lower growth, more fiscally responsible environment post the Global Financial Crisis is continuing with the immediate focus on the ensuing policy actions about to be announced in Europe in coming weeks. It should be noted that emerging economies continue to do well, although it would be naive to suggest some moderation in growth rates in developing economies will not occur. In the medium to longer term, a move from public sector demand to private sector demand is required, with a transition at this juncture appearing anything but smooth. In the near term, European bank solvency (and to a degree global banking system solvency) need to be assured for financial assets to sustain moves higher from current levels.

Despite a pull back in economic growth expectations, inventory adjustments (including unwinding of investment/speculative demand for many commodities) and a stronger U.S. dollar the demand/supply balance for most commodities remains robust. Commodity prices do, however, remain vulnerable to liquidity flows and are likely to remain volatile in the foreseeable future. Developing economies will continue to become an increasingly important constituent of the global growth mix.

Whilst valuations are compelling at current levels, share prices in the near term are likely to reflect the ebb and flow of sentiment towards policy initiatives in Europe. Given prevailing uncertainties, there is likely to be increased scrutiny of companies who are yet to secure funding for projects as well as those companies who are in the middle of major capital expenditure initiatives. Project delays and cost over-runs are less likely to be forgiven in the current environment.

## Portfolio Action

As at the end of September, the net long position of the Fund was 62.1%, down from 69.8% as at the end of August. The gross exposure of the Fund was 88.5%, down from 96.4% a month earlier. In September the Fund exited long positions in Petrobras, CONSOL Energy, BC Iron and GR Engineering. The Fund used market weakness as an opportunity to increase its long positions in Alacer Gold and Iluka Resources. The S&P/ASX Metals and Mining Accumulation Index fell 14.23% in September while the FTSE 350 Mining Index fell 19.59% in local currency terms. In North America, the S&P500 Metals and Mining index fell 22.50% and the S&P/TSX Global Mining Index fell 16.41%.

## Key Contributors

Key contributors to the portfolio's performance during September included Antofagasta plc (-31.28%), Freeport-McMoran Copper & Gold (-35.36%), Rio Tinto plc (-24.01%), Royal Dutch Shell Petroleum (-3.15%) and Teck Resources (-34.15%).

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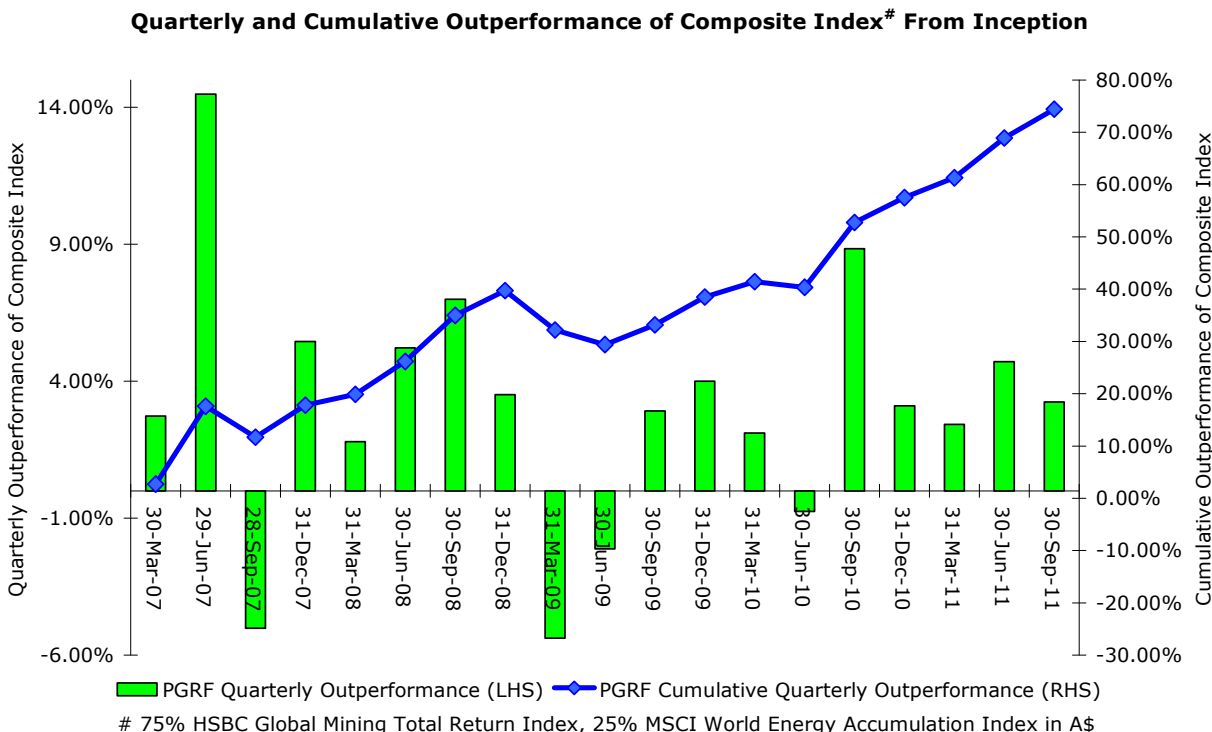
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## Fund Performance

Net Returns to 30 <sup>th</sup> September 2011	Pengana Global Resources Fund	Composite Index *
<b>1 Month</b>	-10.59%	-11.47%
<b>3 Months</b>	-13.80%	-16.66%
<b>6 Months</b>	-16.45%	-22.95%
<b>12 Months</b>	0.21%	-12.45%
<b>2 Years</b>	14.27% p.a.	-0.32% p.a.
<b>3 Years</b>	11.56% p.a.	1.35% p.a.
<b>Since inception<sup>4</sup></b>	<b>+12.25% p.a.</b>	<b>-1.53% p.a.</b>

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

## Pengana Global Resources Fund – Quarterly and Cumulative Outperformance of Composite Index # From Inception.



<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

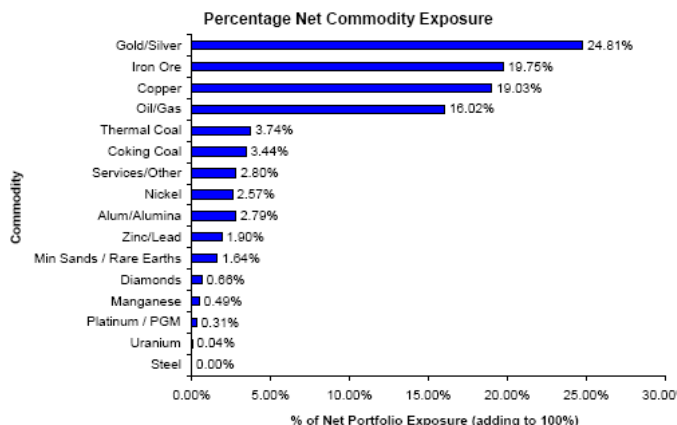
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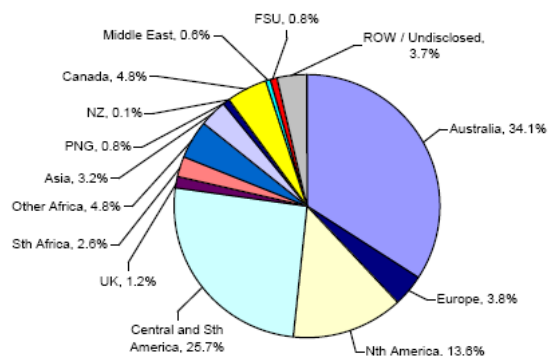


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## Portfolio Commodity and Geography Exposures for September 2011



Net Portfolio Exposure by Asset Geography (Adding to 100%)



## Commodity Price Changes for September 2011

Commodity	US\$ Price Change	A\$ Price Change	€ Price Change
Oil	-11.43%	-1.73%	-4.58%
Gold	-11.43%	-1.73%	-4.58%
Copper	-22.46%	-12.76%	-15.61%
Aluminium	-8.14%	1.56%	-1.29%
Zinc	-15.65%	-5.95%	-8.80%
Nickel	-16.98%	-7.28%	-10.13%
Lead	-19.35%	-9.65%	-12.50%
Tin	-13.84%	-4.14%	-6.99%

Portfolio Structure (as at end of September 2011)	
Number of Stocks	32
Gross Exposure	88.5%
Net Long Exposure	62.1%
Breakdown by Strategy	Pairs 25.38% Directional Short 0.46% Directional Long 74.16%

Top 5 Positions (in alphabetical order)
Antofagasta
BHP Billiton
Freeport McMoran Copper & Gold
Rio Tinto
Xstrata

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