

# Global Resources Equities

Targeting long-term growth by investing in quality global resources companies.

Commodities are the building blocks of society. They construct, maintain and power all aspects of modern life and industry.

The Colonial First State Global Asset Management (CFSGAM) Global Resources team has a long track record of investing in high quality resource companies. These companies provide exposure to global economic growth.

The team's philosophy is to make long-term, responsible investments in high margin companies with a clear strategy to grow earnings through the cycle.



## Global Resources provide exposure to long-term economic growth

“Approximately 3 billion

new entrants to the middle class by 2030”

(OECD)



“1.3 billion people

with no access to modern energy sources”

(McKinsey and Co)



“Almost 70%

of the world will be urbanised by 2020”

(UN)



## Tap into the dynamic global resources market

The global resources sector includes companies involved in the exploration, development, production and recycling of various hard commodities. These commodities include copper, nickel, zinc, aluminium, gold, silver, platinum, iron ore, coal, oil, gas and renewable energy. These commodities are the building blocks of modern society.

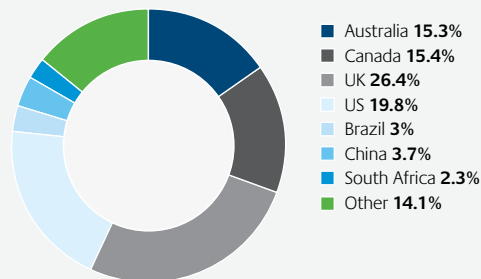
The statics above are just a snapshot of the enormous economic growth potential that remains in emerging markets. When these figures are coupled with population growth and increasing consumer wealth, it creates a compelling long-term picture for demand.

In recent years, China’s stratospheric growth rates have moderated and this has coincided with the ramp up of new supply from resource producers. The market is currently working through this looser supply-demand environment. In the long-term, however, supply naturally declines (through mine closures and oilfield depletion), and we know from history that demand is generally cyclical. Our investment philosophy is to allocate client funds to high quality companies with long lives, low costs and conservative balance sheets who can generate profits even in challenging markets.

## Diversification benefits

Some clients may think investing in a single resources stock like BHP Billiton or Rio Tinto gives them comprehensive exposure to resources. In reality, BHP and Rio Tinto have relatively concentrated commodity exposure. A large part of both businesses is iron ore, and this has been exacerbated for BHP by the spin out of South32. Our strategy has a highly diversified number of best in class producers across the commodities spectrum. By consequence, it also has less single stock risk. The diversification of our strategy by commodity and country is shown in the following pie charts.

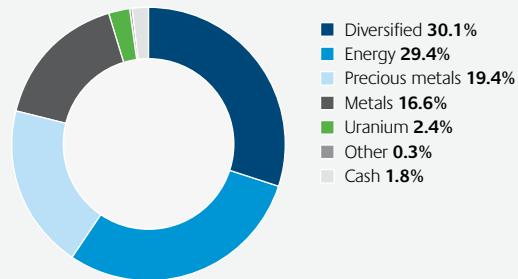
### Country diversification



Source: CFSGAM. Based on composite benchmark 75% Euromoney Global Mining Index and 25% MSCI All Countries Energy Index as at 30 September 2015.

By spreading investments across the world, the risk of a downturn in any individual country is reduced.

### Sector diversification



Source: CFSGAM. Based on composite benchmark 75% Euromoney Global Mining Index and 25% MSCI All Countries Energy Index as at 30 September 2015.

Global resources equities have a relatively low correlation with other asset classes, therefore providing an excellent diversifier for investor portfolios.

## Low correlation to other asset classes

	Global Mining	Global Energy	Australian Bond	Global Bonds	Australian Equities	Global Equities	Global Emerging Markets
Global Mining	1.00	0.65	-0.36	-0.50	0.63	0.37	0.74
Global Energy	0.65	1.00	-0.30	-0.25	0.50	0.57	0.62

Source: Data used from 01 January 2005 to 30 September 2015 in AUD. Rimes; CFS GAM; Global Mining: Euromoney Global Mining Index; Global Energy: MSCI AC World Energy Index; Australian Bonds: Bloomberg AusBond Composite 0+Yr Index; Global Bonds: Citigroup World Government Bond All Maturities Index; Australian Equities: S&P/ASX 300 Accumulation Index; Global Equities: MSCI AC World Index; Global Emerging Markets: MSCI Emerging Markets Index.

## Our approach to investing

### Investment philosophy

The Global Resources team's investment philosophy is consistent across each of the portfolios it manages. The team focuses on quality companies, which are able to deliver growth and operate with relatively low cash costs. The team believes this will deliver good returns over the full commodity price cycle, without taking on excessive risk.



### Key characteristics that we seek in a resource company:

- World class assets
- Low cost producers
- Organic EPS growth
- Strong financials
- Strong management

**Quality companies  
+ growth = Superior  
returns with lower risk**



## Investment process

### Favouring quality companies

We look for robust businesses that have the operational flexibility to adapt to changing commodity prices. One key quality filter relates to cash costs of operation. All companies must hold assets which fit into the lower half of the relevant industry's cost structure. This reduces earnings and cash flow risk during down cycles. High margin world class long-life assets, balance sheet strength, proven management, and prudent environmental, social and corporate governance (ESG) policies are among the attributes of a quality company. Companies with these attributes often outperform their peers and generate superior returns with lower risk over the long-term.

### Focus on production growth

Quality companies that are able to create wealth through discovery, development and production growth should increase their earnings per share (EPS) over time. We recognise that commodity prices can rise and fall at short notice, so we start with companies that have larger than average margins compared to their industry peers. We stress test their balance sheets under a range of capital cost, timing, commodity price and currency scenarios to assess how robust their business plans might be. The successful delivery of growth projects is a key area of focus for our site visits.

### Diversification

A portfolio that is well diversified across a wide number of commodity types, geographies, market capitalisations and along the value chain reduces risk. Rarely do all commodities reach their highs and lows simultaneously.

### We pay sensible prices

Understanding whether a company's earnings potential justifies its price is key to successful investing. We spend time assessing not just the valuation but also the risks to each business so that we can determine a fair price. Quality companies generally deserve a premium and we try to avoid those that are cheap for a good reason. Whilst in the short-term prices are often influenced by market sentiment, they tend to reflect their risk-adjusted valuation in the longer term. Price to net present value (P/NPV) is a useful measure of relative value.

**Long-term perspective**

We are long-term investors with a 3-5+ year time horizon. We prefer companies that are robust, have a clear long-term strategy and are well placed to outperform through the cycle. The key evidence of this is our low name turnover.

**Environmental, Social and Governance (ESG)**

Rigorous analysis of ESG factors and risks has been a core part of the Global Resources team’s investment process and philosophy since the flagship fund’s inception in 1997. The framework is focused on assessing risks related to safety, industrial relations, community, environmental performance, board structure, compensation and ownership. Primary research is supplemented with externally-sourced databases to ensure broad coverage. We engage with companies that we are invested in on material ESG issues. We have developed an ESG framework that is fed by data supplier Bloomberg accompanied by data from Sustainalytics and GMI which we use to assess the current status and trends over successive years of 35 ESG factors – including energy consumption, CO2 emissions, accidents and environmental incidents.

Engagement on ESG issues is primarily carried out directly with company management. Although we use various independent ESG research tools, we find that the clearest understanding of ESG risks come from our site visits. It is not uncommon for our first hand assessment to differ significantly from that of the ESG database providers, which tend to be based purely on company supplied information and media reports. Where company management does not respond adequately to our engagement, we determine our course of action with reference to achieving the best long-term result for our clients.

Key differentiators that set us apart from our competitors

**1. An experienced and specialised team**

We have a dedicated team of nine investment specialists from a wide range of resources-related industry backgrounds. Our strong reputation in the market ensures that we gain access to the top echelons of company management.

**2. Strong historical philosophy, process and performance track record of over 18 years**

We have a long, proven and successful performance track record managing metals and mining funds and strategies.

**3. Bottom-up analysis**

The team adopts an active management approach with bottom-up analysis that helps them find the best investment opportunities, regardless of which country or sector they are in.



**4. ESG**

Rigorous analysis of ESG factors has been a core part of the Global Resources team’s investment philosophy and process since the flagship fund’s inception in 1997.

**5. Site visits**

Commitment to regular site visits ensures we understand the full spectrum of project risks and opportunities. The team has undertaken more than 1,200 site visits to mining and energy projects in over 76 countries since its inception. Therefore, we have an excellent understanding of the full spectrum of risks attached to the project. Our comprehensive in-house research includes stock reviews.

## Global Resources team

The Global Resources team, headed up by Dr Joanne Warner, is one of the most experienced Global Resources investment teams in the industry. The team has a passion for the global resources sector and benefits from a blend of experience in mining, petroleum and civil engineering, physics, chemistry, economics and law combined with proven financial skills.

With five portfolio managers, three analysts and one investment manager, the team has extensive portfolio management experience in natural resources to draw upon.

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A strong blend of resources  
industry and finance skills to  
exploit market inefficiencies

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**Dr Joanne Warner**  
Head of Global Resources

**Todd Warren**  
Portfolio Manager

**Tal Lomnitzer**  
Portfolio Manager

**Mark Hume**  
Portfolio Manager

**Mario Maia**  
Portfolio Manager

**Rebecca O'Dwyer**  
Senior Analyst

**Peter Mangano**  
Senior Analyst

**Pete Campbell**  
Senior Analyst

**Ryan Felsman**  
Investment Manager

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Over 140 years of combined investment experience

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