

CHIMAERA INDEX ADVISORS RESOURCES INDEX QUARTERLY

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JUNE 2014

- The DIGGA Australian Mining Index fell 4.4% during Q2 2014, a sharp sell off in ASX listed iron ore and coal stocks, causing a broader capitulation particularly in June.
- Over the financial year to 30 June however, the DIGGA Australian Mining Index returned 11.9% (13.6% including dividends).
- Australian resources markets were transfixed with weakening iron ore prices as burgeoning Australian supply fuelled market saturation fears, at a time when Chinese demand is perceived to be slowing. Benchmark 62% Fe fell to a 21-month low of US\$89/tonne, despite a bounce to US\$93.80/tonne by the end of June.
- Iron Ore exports from Port Hedland surged to a new monthly record of 36.1 million tonnes in May 2014, yet rhetoric from China remains cautious as the China Banking Regulatory Commission (CBRC) signalled reduced credit to steelmakers who pollute or overproduce, and wider curtailment of speculators who use iron ore inventory to secure credit lines.
- Global miners including Rio Tinto and Fortescue reportedly widened their discounts for 57% Fe ore to 13% - 17% for Chinese steel mills.
- The muted DIGGA Index performance in 2014 belies some significant underlying sector performance, especially from the Nickel sector as prices hit \$21,000/tonne during the quarter; levels not seen since 2012. Corporate activity has also increased, including the restart of refurbishment at Poseidon's Mt Windarra Nickel mine in Western Australia ahead of a restart later in the year. Russia's Norilsk Nickel, the world's largest producer, also announced the sale of its two mines in Australia. Key nickel producer Indonesia, continues to show no sign of rolling back its ban on export of unprocessed ore.
- Copper prices went sideways early in the quarter but ended 5% higher as above consensus Chinese PMI data was released in June. Guangdong Rising Assets Management, a state-owned Chinese investment group, produced a cash bid of A\$1.5 billion to take control of PanAust Ltd (PNA). The bid was valued at 46% premium to its market capitalisation. Other base metals prices generally rose during the June quarter; weakness across the bulks complex proving only a temporary detractor.
- Benchmark Newcastle coal for 6000kcal reached a new five-year low of \$70.35/tonne during the June quarter: BHP Billiton announced that it will slash 163 jobs at its Mt Arthur coal mine in an effort to cut costs, whilst Chinese state-owned Baosteel, together with Aurizon, announced a \$3.40/share offer for Aquila Resources Ltd (AQA), one of Australia's remaining, large scale listed coal assets.
- In the United States, the Federal Reserve reiterated its position with respect to low rates for longer and gave comfort to the forward outlook following a very weak Q1 GDP report. The Dow Jones closed at new record highs above 17,000, as manufacturing activity picked up in the United States and Asia, fuelling optimism as to the health of the global economy. At the same time, the FED's monthly asset purchase was cut by another \$10 billion, now standing at \$35 billion per month.
- The Reserve Bank of Australia retained their "on hold" stance toward official interest rates, yet signalled a lack of comfort with the high AUD. The yield premium of the Australian 10-year notes over that of United States to 103 basis points, lowest in 11 months.
- The AUD rose 3.8% for the quarter ending at 0.9264.

REAL TIME INDICES

	DIGGA	DRILLA
Bloomberg	DIGGA <INDEX >	DRILLA <INDEX >
Reuters	.DIGGA	.DRILLA
IRESS	DIGGA.IF	DRILLA.IF
No other Australian indices track exclusively the performance of ASX listed companies , whose predominant asset(s)/operations are located within Australia.		

Tracking the DIGGA and DRILLA Indices

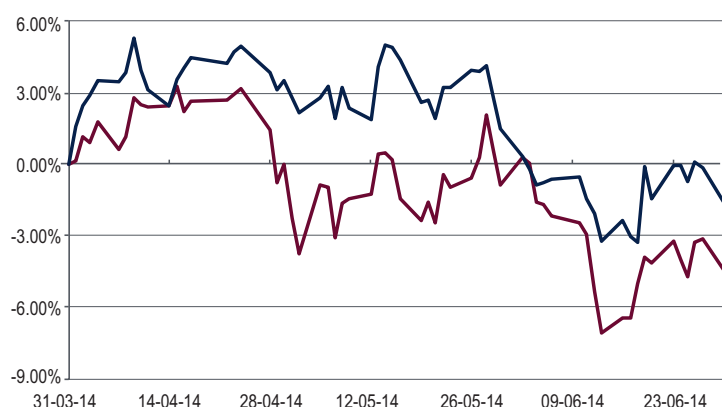
DIGGA Australian Mining ETF

ASX Code DGA

JUNE PERFORMANCE SUMMARY

DIGGA INDEX fell by -4.4% in Q2 2014, closing at 1,639.56.

DIGGA Index vs BHP



■ DIGGA INDEX (incl div) % return from 31/03/14

■ BHP Billiton (incl div) % return from 31/03/14

*Source: Chimaera Index Advisors, S&P, Bloomberg.

- New entrants to the DIGGA Index; Cauldron Energy Ltd (CXU) and Sovereign Metals Ltd (SVM), Energy & Minerals Australia (EMA), Prairie Downs (PDZ) and TNG Ltd (TNG).
- Exiting the Index this quarter:- Investigator Resources Ltd (IVR), Ironbark Zinc Ltd (IBG), Northern Mining Ltd (NMI), NuCoal (NCR), Red Metal Ltd (RDM) Guildford Coal (GUF) and Minemakers (MAK).
- DIGGA Index diversification helped alleviate the downside from the iron ore stock slide in Q2 2014 as sector performance deviated wildly. Best performing was the DIGGA Nickel Sector which rose 29.6%, adding 5.1% to overall index returns with Western Areas (WSA) +39%, Panoramic (PAN) +107% and Sirius Resources (SIR) +33% the key contributors.



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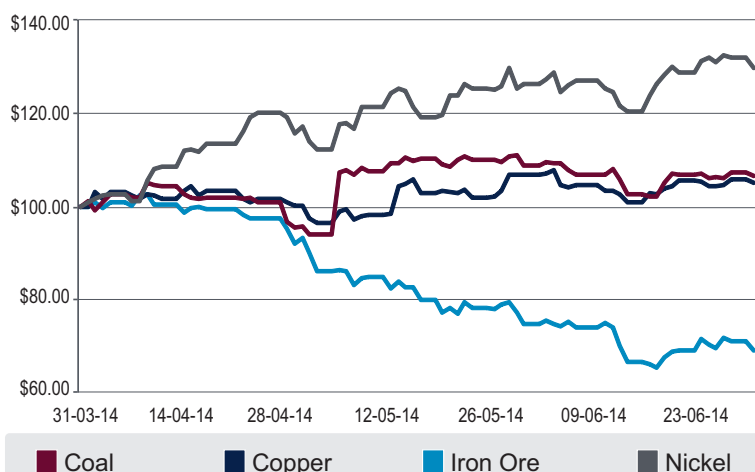
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DIGGA Sector Performance

* Approximate value of \$100 invested using DIGGA Index Weights

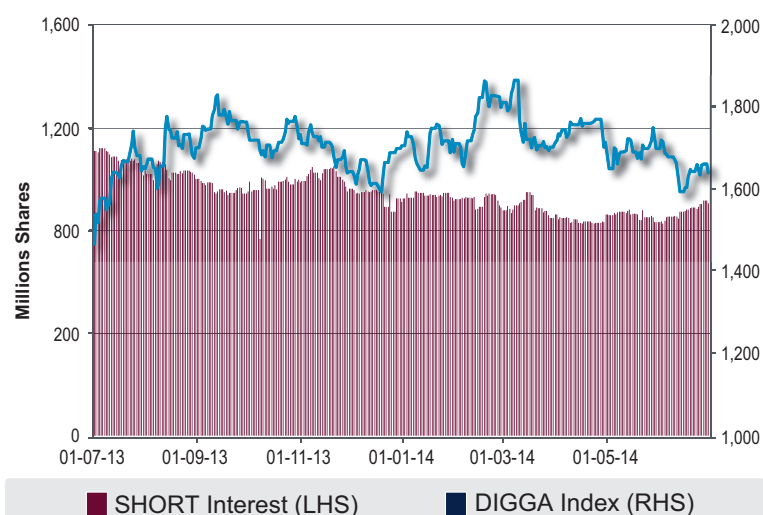


*Source: Chimaera Index Advisors, S&P, Bloomberg.

Key Stock Exposures by Sector

Coal	Whitehaven (WHC), Aquila (AQA), Cockatoo (COK), Bandanna (BND).
Iron Ore	Fortescue (FMG), Atlas (AGO), MT Gibson (MGX), BC Iron (BCI), Gindalbie (GBG), Western Desert (WDR), Grange (GRR).
Copper	Oz Minerals (OZL), Sandfire (SFR), Cudoco (CDU), Aditya Birla (ABY), Hillgrove (HGO), Aurelia Metals (AMI), Altona (AOH).
Nickel	Independence (IGO), Western Areas (WSA), Sirius (SIR), Mincor (MCR), Panoramic (PAN).
Other	Alumina (AWC), Iluka (ILU), Lynas (LYC), Paladin (PDN), ERA Ltd (ERA).

DIGGA Index vs Constituent Short Interest



*Source: Chimaera Index Advisors, S&P, Bloomberg.

- Gains in nickel stocks were offset by similarly sized fall in the larger iron ore sector, stripping 8.4% off the overall index return for the quarter. Coupled with iron ore price weakness, a strike at Port Hedland did not help sentiment. Worst affected was Atlas Iron Ltd (AGO, -35%), with Mt Gibson (MGX, -24%) and BC Iron (BCI, -32%).
- Paladin Energy Ltd (PDN) lost 24.5% for the month of June after it suspended operations at its Kayelekera mine in Malawi, the weakness compounded by poor uranium spot price sentiment, which hit US\$28 per pound, near a 10-year low. The stock contributed -0.6% to overall index returns.
- Lynas lost 38% during the quarter, yet some fresh capital issued during May marked a low point for the stock as it looks to ramp up production from its Malaysian operation.
- Chinese steel giant Baosteel and Australia's Aurizon Holdings Ltd secured control of Aquila Resources Ltd (AQA) after it received approval from Australia's Foreign Investment Review Board. Aquila Resources Ltd (AQA) rose 44% over the quarter contributing 2.2% to overall index returns.
- Short Interest across the DIGGA Index constituents generally rose over the quarter consistent with the negative performance profile of the index. At the sector level, the main areas of rising short interest were within the Uranium and Iron Ore sectors. Paladin (PDN) short interest rose by 20m shares to 108m short as at 30 June. Bulk commodity players Fortescue Metals (FMG), Whitehaven Coal (WHC) and Mt Gibson Iron (MGX) all had increases in their respective short interest positions, although with only modest increases in Q2 it appeared most of the short positioning had occurred earlier in the year.
- The best performing small cap constituent was Vanadium junior, TNG Ltd (TNG, +193%). The announcement of new partners creating a credible platform for future Mt Peake production.
- Oz Minerals Ltd (OZL), Australia's third largest copper producer, announced that it may halt its work at Carrapateena, after failing to garner any interest after inviting as many as 12 potential buyers to acquire its stake in the copper/gold project.
- 60-day volatility of the DIGGA Index generally declined during the quarter ending at 19.9%, well below the long term average of 30.7%.
- Traded volumes remain subdued for the DIGGA Index constituents. The cumulative value traded of the current constituent set is around \$248m per day, of this Fortescue Metals (FMG) comprises half of that total.
- Cross boarder takeovers were infrequent during 2014. The table below highlights notable acquisitions within the DIGGA Index universe as well as market based premiums offered. Asset based transactions continue to be more prevalent as low cash balances and access to funding remain difficult for many smaller explorers and future producers.



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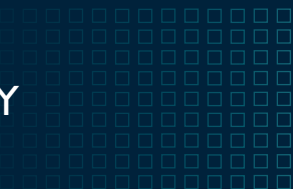
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Corporate Actions

Action Type	Ticker	Announce /Declared Date	Target Company	Acquirer Company		Price pre Announcement -5 days	Price post Announcement + 5 days	Gain / loss %
Acquisition	AQA	05/05/2012	Aquila Resources	Aurizon / Baosteel	% acq/sought:	80.20	2.500	3.420 37%
Acquisition	MMX	17/03/2014	Murchison Metals	Mercantile Investment Co	% acq/sought:	100.00	0.042	0.046 10%
Acquisition	AMX	10/12/2013	Ampella Mining	Centamin PLC	% acq/sought:	100.00	0.077	0.125 62%

Performance Comparison



*Source: Chimaera Index Advisors, S&P, Bloomberg.

Historical and Comparison Performance

As at 30 June 2014	Q2 2014	Q1 2014	2013	2012	2011	2010	2009	5 Year %	Since Inception %*	Since Inception (Ann) %*
DIGGA	-4.4%	0.5%	-24.4%	-24.3%	-36.6%	37.1%	133.7%	-35.2%	64.0%	5.3%
DIGGA (TR)	-4.4%	1.1%	-23.3%	-23.2%	-35.7%	38.2%	136.2%	-31.0%	90.3%	7.0%
DRILLA	n/a	n/a	-4.8%	10.0%	-15.8%	-8.4%	38.8%	-9.5%	134.8%	9.9%
DRILLA (TR)	n/a	n/a	-3.6%	11.3%	-14.9%	-7.2%	40.8%	-4.5%	171.8%	11.7%
S&P / ASX 200 (Accumulation) Index	0.9%	2.1%	20.2%	20.3%	-10.5%	1.6%	37.0%	73.0%	108.0%	8.0%

* DIGGA 20 December 2004, DRILLA 15 December 2004

*Director of the Chimaera Financial Group holds an interest in the shares



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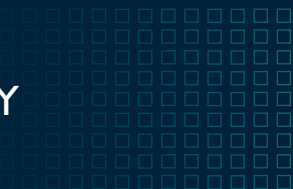
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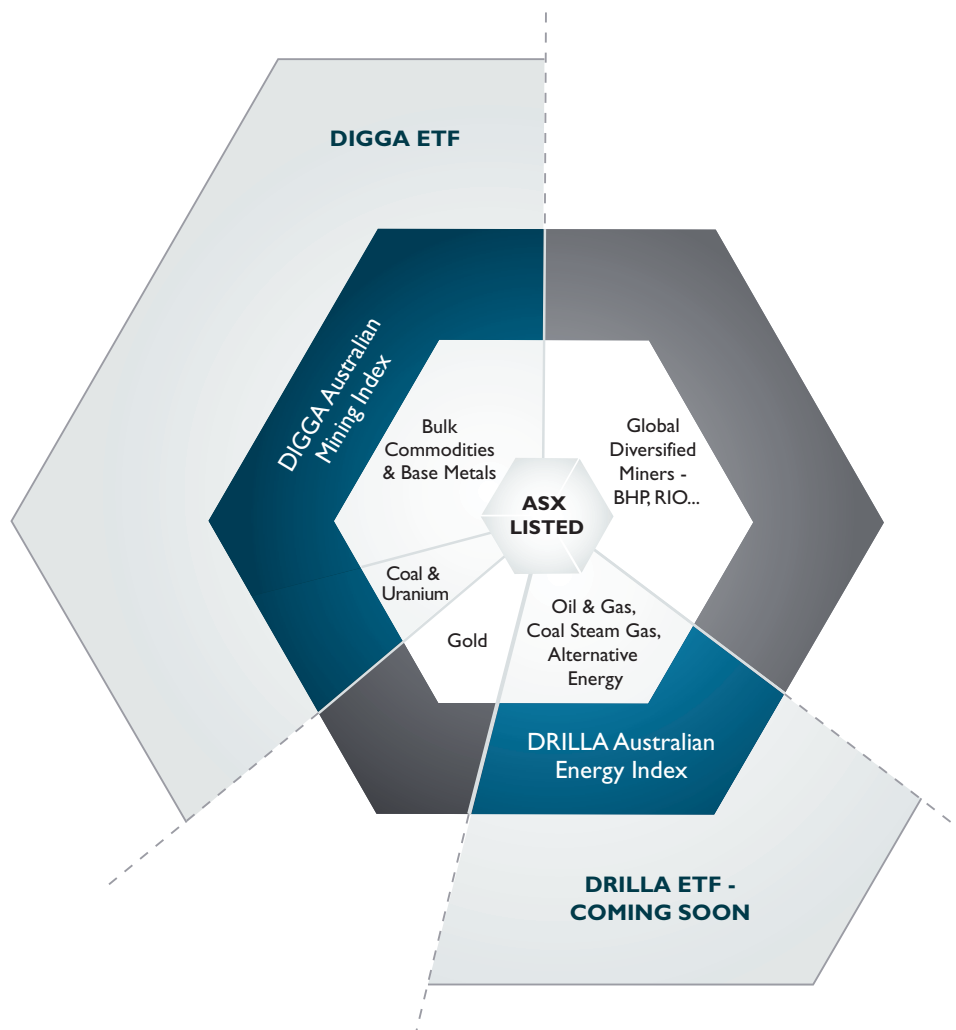
The Chimaera Australian Mining Index <DIGGA> measures the performance of the Australian based mining sector within the ASX listed equity universe. The index includes approximately 70 of the largest publicly-traded bulk commodities and base metals businesses, under A\$10bn market cap, that meet specific liquidity requirements.



The Chimaera Australian Energy Index <DRILLA>, measures the performance of the Australasian based energy sector within the ASX listed equity universe. The index includes approximately 40 of the largest publicly-traded companies who extract, and explore for oil and gas as well as other alternative energies from onshore and offshore regions around Australia.



Chimaera together with the S&P Custom Indices Group in New York, have constructed a set of specialised indices covering the Australian mining and energy sectors of the ASX listed equity market, with index values calculated on a real time basis, and performance history stretching back to 2004. Both indices are reconstituted regularly and are designed to ensure the very large stocks by capitalisation, including the global diversified miners, do not distort the performance and characteristics of each index.



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