

CHIMAERA INDEX ADVISORS RESOURCES INDEX QUARTERLY

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MARCH 2014

- The DIGGA Australian Mining Index rose 0.5% for Q1 2014, benefitting from diversification across the ASX listed mining segment as nickel stocks performed strongly, whilst Iron Ore and Copper stocks generally dragged on returns.
- Signs of stabilisation across the Australian Mining segment have appeared since mid 2013, seemingly correlated with stable, albeit weaker Chinese growth of 7-8%. The DIGGA Australian Mining Index has increased by +17% from its cycle low point around end June 2013, a strong rally in iron ore producers during H2 2013 initially driving market based returns, with Nickel miners also performing strongly in 2014.
- Following a decent start to 2014 for ASX listed miners, Chinese Export data released in March fell 18.1% versus a year earlier, sharply lower than consensus estimates. This data became a key catalyst for a major sell down across key commodities and globally traded resources stocks, fears for weaker Chinese GDP growth also exacerbated by tightening credit availability in Chinese money markets.
- Stronger Chinese Import data of key Australian raw materials product was largely overlooked by investors. Port Hedland iron ore export data was released at record levels in March 2014.
- The Chinese narrowly averted a high profile default in January, as state-owned ICBC bailed out investors of China Credit Trust's RMB3b high yield product. Chaori Solar, devoid of bailout support, then defaulted in early March, followed by Zhejiang Xingrun Real Estate in the same month. Premier Li Keqiang's ongoing rhetoric remains that some defaults may be unavoidable as the government shifts its policy to tighten credit. The Shanghai Composite Index ended 4% lower in Q1 2014.
- Emerging Markets have borne the brunt of investor uncertainty regarding the Asian growth story, stock indices generally underperforming more developed markets during Q1 2014. EM currencies also weakened as reported flows from EM stock and bond funds accelerated.
- US stock markets by contrast, rose with Federal Reserve chair Janet Yellen signalling continuing monetary accommodation, yet slower QE bond purchases. Australian markets followed suit, the benchmark S&P/ASX 200 Index rising 2.5% in Q1 consistent with other developed markets.
- Highly correlated to Chinese growth, Copper slid sharply losing 9.7% for the quarter, ending at \$6,645/tonne. Despite some supply disruptions caused by Freeport halting production at its key Indonesian mine, weaker Chinese exports demand coupled with tightening credit conditions gave rise to fears of a growth slowdown ahead.
- Nickel prices hit an 11-month high as Indonesia, the world's largest producer of the base metal continued its total ban of unprocessed nickel and bauxite exports. The export ban is likely to persist at least until post the presidential election, scheduled for the latter half of 2014.
- Although excluded from the DIGGA Australian Mining Index, Gold and gold stocks bounced strongly during the quarter, before falling heavily during the last two weeks of the quarter as better performance from global stock markets, dampening the demand for safe haven assets. At the same time, the premium spot price of gold in China also hit its 18-month low against the international benchmark price.
- Critical to Australia's mining sector performance, the AUD rose 3.8% for the quarter ending at 0.926. RBA indications that further interest rate cuts are unlikely in the near future drove the positive sentiment and caused a repricing across the Australian money market curves during the quarter.

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

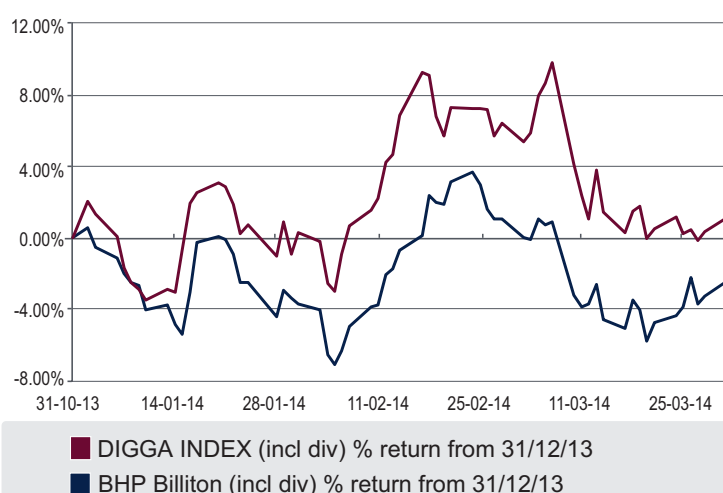
DIGGA Australian Mining ETF

ASX Code DGA

MARCH PERFORMANCE SUMMARY

DIGGA INDEX rose by 0.5% in Q1 2014, closing at 1,702.49.

DIGGA Index vs BHP



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

- New entrants to the DIGGA Index during Q1 2014 included: Altura Mining Ltd (AJM), Copper Strike Ltd (CSE) Padbury Mining Ltd (PDY), Valence Industries (VXL), Northern Mining (NMI) and NuCoal (NCR).
- Exiting the Index during the quarter: Impact Minerals Ltd (IPT), IMX Resources Ltd (IXR) and Kidman Resources Ltd (KDR), Ventnor Resources (VRX), Carabella Resources (CLR) and Great Western Exploration (GTE).
- As Chinese economic data rocked the global bulk commodities market, coal and iron ore prices moved sharply lower. Newcastle thermal coal prices dropped to a four year low of \$73/ton, bringing the year to date decline to 13.3%. Whitehaven Coal Ltd (WHC) continued its slide ending 13.3% lower during the quarter; environmental protests at its Maules Creek mine also weighing.



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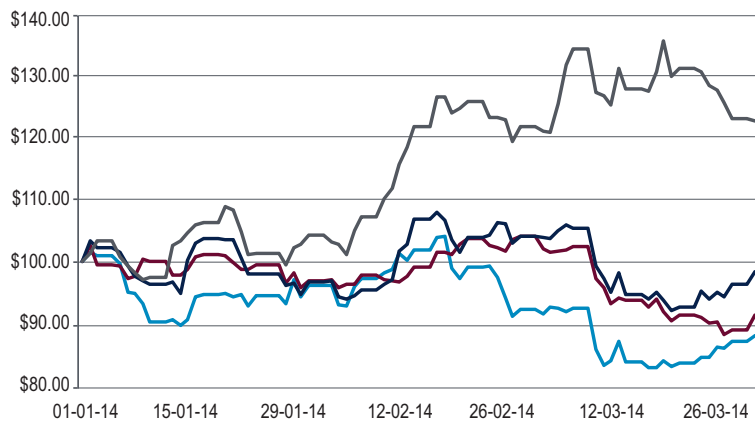


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S&P
CUSTOM
INDICES

MARCH 2014

DIGGA Sector Performance

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



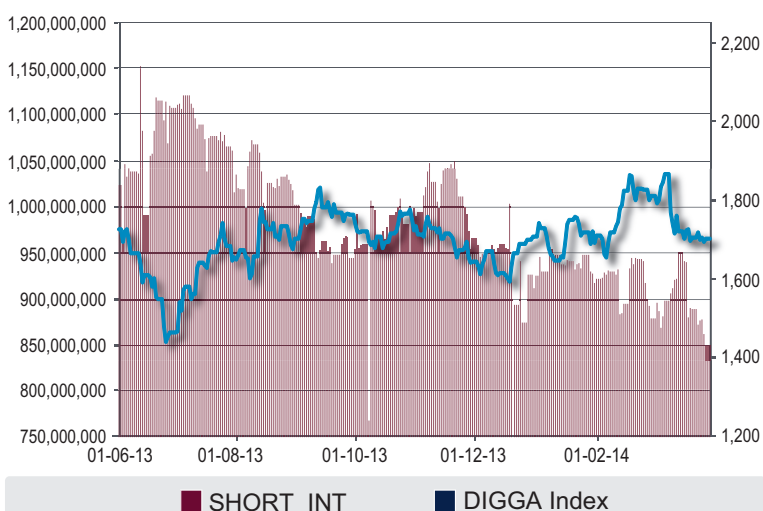
■ Coal ■ Copper ■ Iron Ore ■ Nickel

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

Key Stock Exposures by Sector

Coal	Whitehaven (WHC), Aquila (AQA), Guildford (GUF), 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), Altona (AOH), Peel (PEX)
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



■ SHORT_INT ■ DIGGA Index

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

- Following strong performance in H2 2013 from iron ore, this segment reversed course and fell by 12% based on DIGGA weightings, contributing -2.5% toward overall index returns. Amongst a very negative environment for commodity prices during March, news of Chinese government efforts to reign in steel sector over-capacity helped push iron ore prices to 52-week lows of \$104.70/ton during March. Although the steelmaking ingredient recovered somewhat to close at USD116.80/ton for March, iron ore stocks underperformed and profit taking was evident across the largest names including Mt Gibson Iron (MGX) -10.3%, Atlas Iron (AGO) -15.2% and Fortescue Metals (FMG) -8.2%.
- Buoyed by rising nickel prices, Panoramic Resources (PAN) released details of a major Nickel find to the north of its current Savannah operations, sending the stock 60% higher in Q1. The DIGGA Nickel sector rose 22.5% contributing +3.6% to overall index returns. Other notable performances included Western Areas (WSA) +40.5% and Independence Group (IGO) +26.6%.
- Graphite junior Valence Industries Ltd (VXL*) entered the DIGGA Index in February and subsequently rose 60.0% for the month of March. The strong performance mirrors another graphite junior; Lamboo Resources Ltd (LMB), which rose 364% during Q1 2014. Driving the positive sentiment for this commodity is speculation that future graphite demand for use within lithium ion batteries will rise. The recent announcement by Tesla Motors that it may build a \$5b lithium-ion battery plant in the United States, further fuelling the sector.
- Short interest across the DIGGA constituents has generally fallen since mid 2013 when observed at the index level. Overall Iron Ore sector short positions rose to significantly higher shorts for Atlas Iron (AGO) and Western Desert (WDR), despite reduced short positions in Fortescue (FMG), Mt Gibson (MGX) and Grange (GRR). Strongly performing Alumina (AWC) has seen heavy short covering since 30 June 2013 when 210m shares were reported as Short, now down to 81m as at 31 March 2014. Short Interest fell by 36% for Lynas Corp (LYC) over the same period, perhaps due to the major deterioration in the stocks liquidity profile rather than due to price performance.
- 90-day volatility of the DIGGA Index steadily rose across the quarter ending at 23%, well below the historical average of 32%.
- Trading volumes remain subdued for the DIGGA Index constituents, the daily trading values constant at around \$250m per day as measured over the previous 6 months.
- Cross boarder takeovers were infrequent during 2013. The table below highlights notable acquisitions within the DIGGA Index universe as well as market based premiums offered. Of the few transactions recorded in 2013, Hong Kong and mainland Chinese based entities were again the dominant acquirers for ASX listed entities. Asset based transactions were in fact more prevalent during 2013 as low cash balances and access to funding remain difficult for many smaller explorers and future producers.



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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	AWC	15/02/2013	Alumina Ltd	CITIC Resources Holdings Ltd	% acquired:	15.00	1.150	1.250	9%
Acquisition	BWD	17/10/2013	Blackwood Corporation Limited	Cockatoo Coal Limited	% acquired:	100.00	0.070	0.090	29%
Acquisition	ELM	12/04/2013	Elemental Minerals Ltd	Dingyi Group Investment Ltd	% acquired:	100.00	0.260	0.475	83%
Acquisition	PEM	4/09/2013	Perilya Ltd	Shenzhen Zhongjin Lingnan Nonfermet Co Ltd	% acquired:	100.00	0.220	0.320	45%
Acquisition	IVR	21/08/2013	Inova Resources Ltd	Shanxi Donghui Coal Coking & Chemicals Group Co Ltd	% acquired:	100.00	0.190	0.200	5%
Acquisition	CLR	3/12/2013	Carabella Resources Ltd	China Kingho Energy Group	% acquired:	100.00	0.210	0.420	100%

Performance Comparison



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

Historical and Comparison Performance

As at 31 Mar 2014	Q1 2014	2013	2012	2011	2010	2009	5 Year %	Since Inception %*	Since Inception (Ann) %*
DIGGA	0.5%	-24.4%	-24.3%	-36.6%	37.1%	133.7%	6.4%	71.6%	6.0%
DIGGA (TR)	1.1%	-23.3%	-23.2%	-35.7%	38.2%	136.2%	13.3%	99.1%	7.7%
DRILLA	n/a	-4.8%	10.0%	-15.8%	-8.4%	38.8%	2.1%	134.8%	9.9%
DRILLA (TR)	n/a	-3.6%	11.3%	-14.9%	-7.2%	40.8%	8.1%	171.8%	11.7%
S&P / ASX 200 (Accumulation) Index	2.1%	20.2%	20.3%	-10.5%	1.6%	37.0%	86.3%	106.1%	8.1%

* DIGGA 20 December 2004, DRILLA 15 December 2004

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



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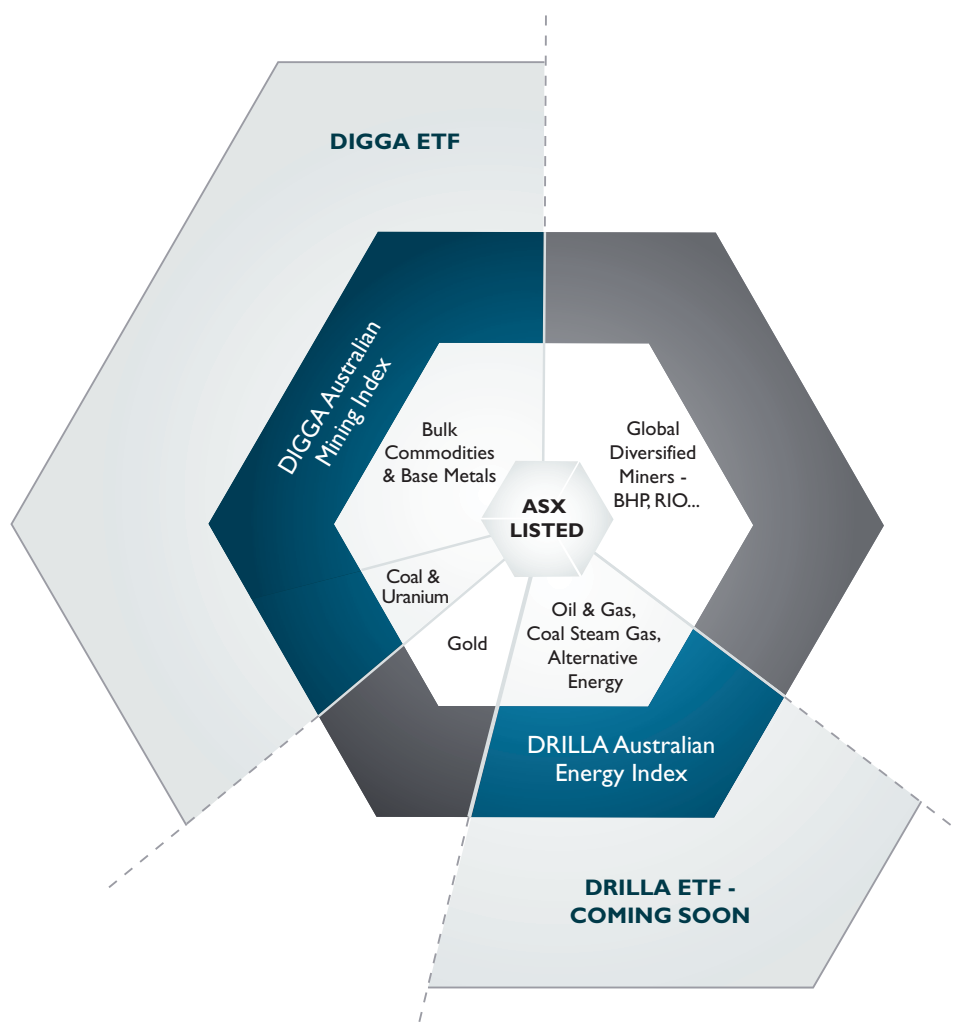
The Chimaera Australian Mining Index <DIGGA> measures the performance of the Australian based mining sector within the ASX listed equity universe. The index includes approximately 70 of the largest publicly-traded bulk commodities and base metals businesses, under A\$10bn market cap, that meet specific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