



SEPTEMBER 2014

- The DIGGA Australian Mining Index fell 10.2% during Q3 2014 to 1,472 near its record low reached in 2013. The perfect storm of slumping iron ore prices, weaker offshore equity markets and a rising USD causing heavy selling of Australian equities in September.
- Global stock indices declined toward the end of the quarter yet outperformed Australia as USD strength promoted a home bias. Foreign capital begun leaving Australian markets, prompted by the sharp selloff in the AUD which ended the quarter at \$0.8738, lower against the greenback by 7.3%. The Reserve Bank of Australia retained their "on hold" stance toward official interest rates, and signalled it may adopt unspecified non standard policies designed to slow the property market.
- Following a strong July, resources stocks generally slipped in August and slumped heavily in September as the continuing slide in iron ore prices appeared to rattle investor confidence in mining stocks. Benchmark 62% Fe fell to a low of US\$77/tonne, the lack of any meaningful bounce prompting analysts to remain negative on the bulk commodity.
- Heightened supply has been a critical focal point for iron ore pricing in 2014, rhetoric from Australia's globally diversified miners BHP and RIO, suggesting higher output remains their preferred strategy. Iron Ore exports from Port Hedland also remain at record levels, around 36 million tonnes per month, as increasing stockpiles in China have been reported more frequently.
- Analysts continue to be cautious with regard to China reaching its stated GDP growth target of 7.5% for 2014. Economic data released including the Purchasing Managers Index data (PMI's) suggested a stabilisation of manufacturing activity, and at just above the key 50 level indicating modest expansion. Readings have been higher than those from H1 2014.
- Funding conditions remained tight for junior miners during the quarter. Lynas (LYC) tapped the equity capital markets twice during the quarter. After an initial relief rally in July, its share price eventually plummeted 38% by quarter end, reflecting the latest issuance price of \$0.08. Western Desert Resources (WDR), Australia's most recent iron ore producer, appointed administrators after funding arrangements with Macquarie Bank could not be finalised. Bandanna Energy (BND) similarly appointed administrators as Wiggins Island Coal consortium costs and a declining Coal price placed the company's cashflows under severe pressure. The performance impact to the DIGGA Index of these collapses was approximately 1.1%.
- Base metals prices were generally weaker particularly in September; yet Zinc prices rose 3% during the quarter to \$2,288 p/t. LME Nickel prices fell dramatically in September after reports of a switch from deficit to surplus of the commodity saw speculative long positions cut aggressively. Until September, Nickel had been driven higher on bullish analyst forecasts, the September drop cutting prices by close to 20% to 16,310p/t by 30 September. Copper prices fell around 5% to 6,667p/t, futures prices holding the key \$3.00 lb level.
- Benchmark Newcastle coal hit a fresh one-year low of US\$65.30/t as China announced a ban on the import of coal with high ash (>40%) or sulphur (>3%) content from 2015 onwards. Additionally, low grade lignite burnt by power plants will be banned. The move is anticipated to affect almost half of Australia's thermal exports.
- In the United States, the Federal Reserve reiterated its position with regard to monetary policy accommodation, its concerns over sluggish growth and employment underutilisation still remain. Despite this, its QE program will finish in October 2014, and bond market yields have begun rising modestly in anticipation of future rate hikes.

REAL TIME INDICES		
	DIGGA	DRILLA
Bloomberg	DIGGA <INDEX >	DRILLA <INDEX >
Reuters	.DIGGA	.DRILLA
IRES	DIGGA.IF	DRILLA.IF

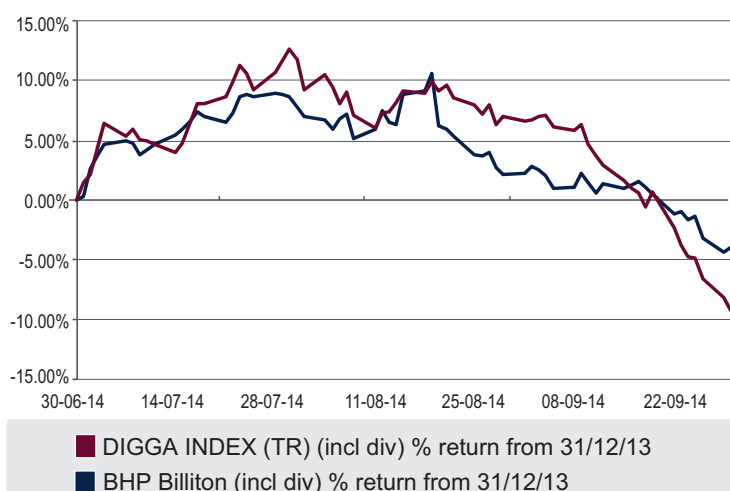
No other Australian indices track exclusively the performance of **ASX listed companies, whose predominant asset(s)/operations are located within Australia.**

Tracking the DIGGA and DRILLA Indices	
DIGGA Australian Mining ETF	
ASX Code	DGA

SEPTEMBER QUARTER PERFORMANCE SUMMARY

DIGGA INDEX fell by -10.2% in Q3 2014, closing at 1,472.

DIGGA Index (TR) vs BHP



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

- New entrants to the DIGGA Index during the quarter; Guildford Coal (GUF), Toro Energy (TOE), Red Metal (RDM), Sipa Resources (SRI), Minotaur Exploration (MEP), Cassini Resources (CZI) and Ironbark Zinc (IBG).
- Exiting the Index this quarter; Cauldron Energy (CXU), Rum Jungle (RUM), Cokal (CKA), Padbury Mining (PDY), Rey Resources (REY), Aquila Resources (AQA) and Energy & Minerals Australia (EMA).
- DIGGA Index performance in Q3 2014 highlights the magnitude of iron ore stock underperformance which contributed -7.3% as well as weakness in Nickel stocks which contributed a further -1.5% to total index returns.
- Sluggish sentiment for iron ore weighed on the mid and large scale iron ore producers, including Fortescue Metals Group Ltd (FMG), Mount Gibson Iron Ltd (MGX) and Atlas Iron Ltd (AGO). The trio declined by between 15% to 31% for the quarter.



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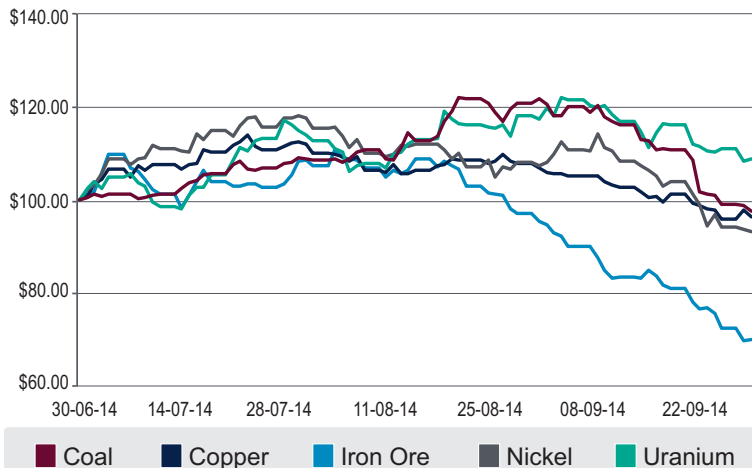
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DIGGA Sector Performance

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



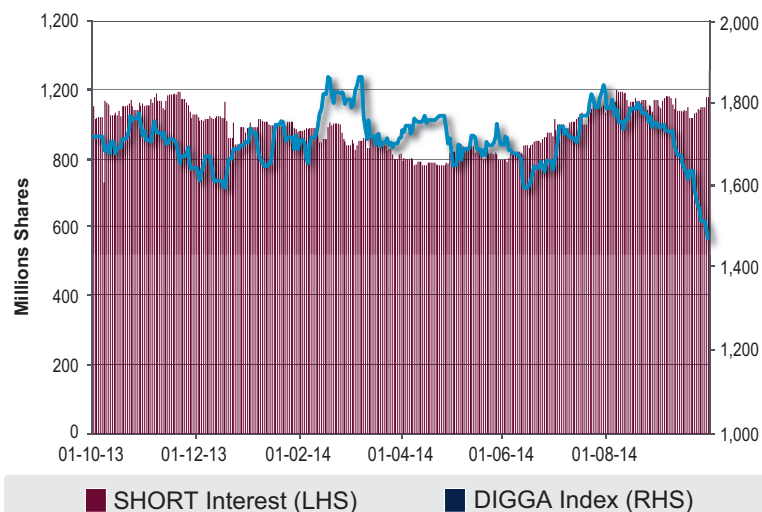
*Source: Chimaera Index Advisors, S&P, Bloomberg.

Key Stock Exposures by Sector

Coal	Whitehaven (WHC), Cockatoo (COK), Guildford (GUF)
Iron Ore	Fortesque (FMG), Atlas (AGO), MT Gibson (MGX), BC Iron (BCI), Gindalbie (GBG), Grange (GRR)
Copper	Oz Minerals (OZL), Sandfire (SFR), Cudoco (CDU), Hillgrove (HGO), Aurelia Metals (AMI), Altona (AOH)
Nickel	Independence (IGO), Western Areas (WSA), Sirius (SIR), Mincor (MCR), Panoramic (PAN)
Uranium	Paladin (PDN), ERA Ltd (ERA), Toro Energy (TOE)
Other	Alumina (AWC), Iluka (ILU), Lynas (LYC), Metals X (MLX)

- Uranium players Paladin (PDN) and ERA Ltd(ERA) bounced strongly in July as spot Uranium rose sharply from a 10yr low of US\$28lb to US\$35lb by the end of September. Bouncing from oversold conditions in the prior quarter, PDN and ERA were able to hold earlier gains as resources markets capitulated during September. The DIGGA Uranium sector rose by 8.8% for the quarter and added 0.6% to overall index returns.
- Alumina Limited (AWC) emerged as a bright spot in the deep sea of red, as Deutsche Bank reiterated a "buy" rating on the bauxite miner on better prospects for global Aluminium prices. Alumina rose 25.5% for the quarter, contributing 1.3% to overall DIGGA Index returns.
- 60-day volatility of the DIGGA Index generally declined during the quarter ending at 18%, well below the long term average of 31%.
- Short Interest across the DIGGA Index constituents appeared to rise over the quarter consistent with the negative performance profile of the index. At the sector level, the brief surge in iron ore stock prices in July was viewed as a selling opportunity by hedge funds resulting in higher reported short positioning by end September. Lynas Corp (LYC) short interest rose by 37m shares to 163m short as at 30 September. Offsetting the iron ore short positioning was a drop in short interest for Alumina (AWC) as well Paladin (PDN,) as both stocks advanced over the quarter.
- The best performing small cap constituents were, Poseidon Nickel (POS, +144%), following the acquisition of Lake Johnston, underscoring investors' confidence in the strong outlook for the company on the verge of production. Valence Industries* (VXL*, +64%) again performed strongly as phase 2 funding was completed for its South Australian based graphite processing operation. Minotaur Exploration (MER, +79%) announced a new copper gold deposit at Cloncurry sending the stock from \$0.10 to \$0.28, prior to settling at \$0.165 by 30 September.

DIGGA Index vs Constituent Short Interest



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

- Traded volumes remain subdued for the DIGGA Index constituents. The cumulative value traded of the current constituent set remains around \$225m per day, of this Fortescue Metals (FMG) comprises half of that total.
- Cross border takeovers have been infrequent during 2014. In early August BC Iron(BCI) made a takeover offer for Iron Ore Holdings (IOH) initially valuing the target at \$191m. The deal looks set to be completed, IOH shareholders receive 0.44 BCI shares for each IOH share held plus \$0.10 cash. The table below highlights notable acquisitions within the DIGGA Index universe as well as market based premiums offered.



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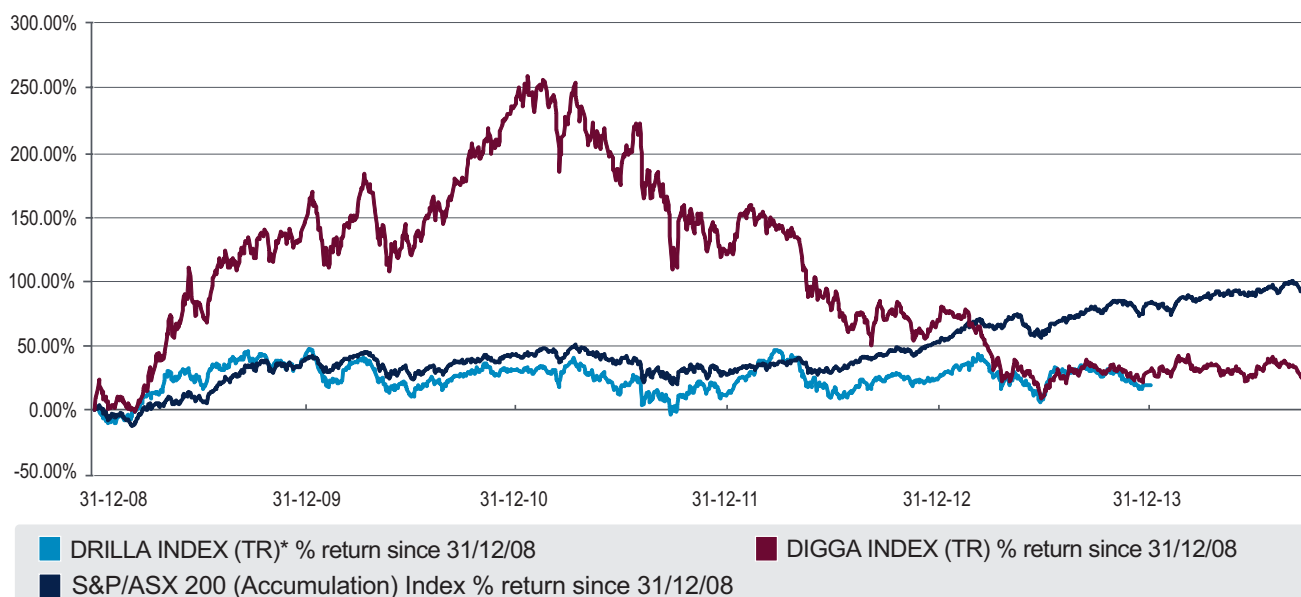


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Corporate Actions

Action Type	Ticker	Announce /Declared Date	Target Company	Acquirer Company		Price pre Announcement -5 days	Price post Announcement + 5 days	Gain / loss %
Acquisition	AQA	05/05/2014	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%
Acquisition	IOH	11/08/2014	Iron Ore Holdings	BC Iron Ltd	% acq/sought:	101.00	0.910	1.330 33%

Performance Comparison



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

Historical and Comparison Performance

As at 30 Sept 2014	Q3 2014	Q2 2014	Q1 2014	2013	2012	2011	2010	2009	5 Year %	Since Inception %*	Since Inception (Ann) %*
DIGGA	-10.2%	-4.4%	0.5%	-24.4%	-24.3%	-36.6%	37.1%	133.7%	-52.2%	47.3%	4.0%
DIGGA (TR)	-9.1%	-4.4%	1.1%	-23.3%	-23.2%	-35.7%	38.2%	136.2%	-48.9%	73.0%	5.8%
DRILLA	n/a	n/a	n/a	-4.8%	10.0%	-15.8%	-8.4%	38.8%	-18.3%	134.8%	9.9%
DRILLA (TR)	n/a	n/a	n/a	-3.6%	11.3%	-14.9%	-7.2%	40.8%	-14.2%	171.8%	11.7%
S&P / ASX 200 (Accumulation) Index	-0.6%	0.9%	2.1%	20.2%	20.3%	-10.5%	1.6%	37.0%	38.8%	104.2%	7.6%

* DIGGA 20 December 2004, DRILLA 15 December 2004

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



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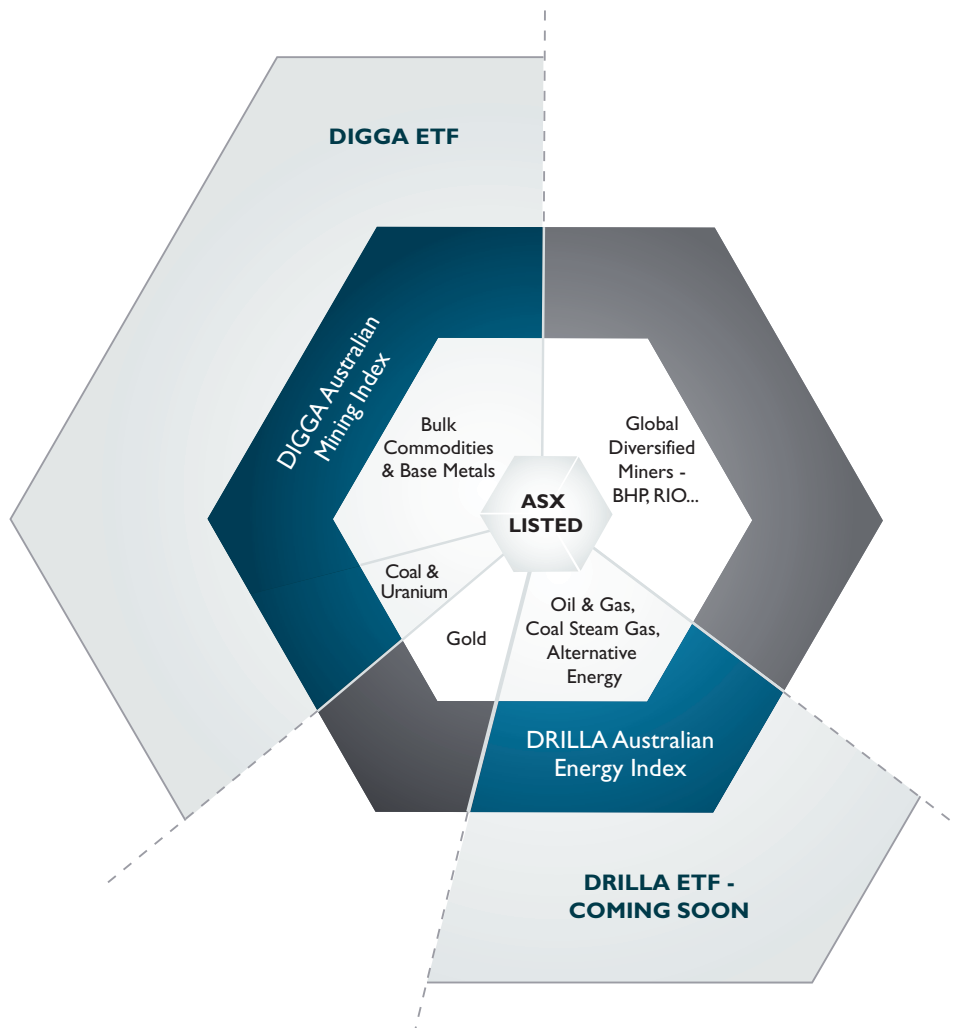
The Chimaera Australian Mining Index <DIGGA> measures the performance of the Australian based mining sector within the ASX listed equity universe. The index includes approximately 70 of the largest publicly-traded bulk commodities and base metals businesses, under A\$10bn market cap, that meet specific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