

## GLOBAL MINING INVESTMENTS LIMITED

We believe that the global resources sector is the place to be for the next decade and GMI is a simple, diverse and high quality way to secure exposure and benefit from this growth. GMI offers global and commodity diversification, internationally renowned and specialised investment management, exposure to “hard to access” resources, a bias towards producers, franked dividends, and instant ASX liquidity.

### HIGHLIGHTS

- Global economic concerns drove investor sentiment lower
- Exchange-traded commodity prices fell sharply as long positions reduced
- Bulk commodities resilient as tight fundamentals support prices
- Focus on economic uncertainties, commodity demand ignores tight supply
- GMI increased exposure to gold sector
- Commodity companies’ cash flows at record highs
- Mining company valuations at extremely attractive levels
- Dividend paid of 4 cents per share fully franked

### GLOBAL MARKETS UPDATE

Persistent concerns about financial contagion in the Eurozone, weaker global growth and the possibility that China’s economy would suffer a hard landing drove investor sentiment lower during the quarter. In September, the already jittery markets fell sharply after US Federal Reserve Chairman Ben Bernanke announced the implementation of the Fed’s ‘Operation Twist’ and Moody’s and Standard & Poor’s downgraded ratings on Italian debt. The resultant “risk-off” trade caused an indiscriminate liquidation across most asset classes and weakness in commodities and equities prevailed. This made for a challenging quarter for the mining sector with the result that the portfolio declined by 19.5% (in A\$ terms), underperforming its benchmark, the HSBC Global Mining Index, which returned -17.9% over the same period.

The International Monetary Fund’s (IMF’s) downgrade of its world economic growth forecasts, also in September, led commodity prices lower, with exchange-traded commodities suffering as speculative long positions were reduced. Industrial metals weakened with the copper price falling 25.7% over the month to US\$3.17/lb, (DataStream) its lowest level in 2011. Declines were also evident across the precious metals spectrum; the silver price falling by 13.1% (DataStream) to levels last seen in February of this year. The gold price was relatively strong by comparison, remaining above US\$1,600/oz, an increase of 14% year to date (DataStream).

In sharp contrast to exchange-traded base metals, bulk commodities were relatively resilient as tight fundamentals in the market supported prices of both thermal coal and coking coal. The iron ore price experienced a moderate pull back to US\$159/t (spot Platts 62% fines FOB Australia – Macquarie). As yet there has been no evidence of any weakening of demand in the iron ore market. Despite macro-economic concerns in the Chinese market, steel producers do not appear to have been affected by any significant liquidity issues.

The precarious economic situation in the developed world has in our view led to too narrow a focus on commodities demand. Commodities supply, the other side of the equation, has been significantly challenged so far this year across a number of key commodities. To name but one example: output from the world's largest copper mine, Escondida in Chile, fell 14% in the first half from the same period in 2010 due to declining ore grades and labour issues.

Despite the economic woes, company cash-flows are at record levels due to higher commodity prices on average over the year. Second quarter reporting in August from major miners such as BHP Billiton and Rio Tinto showed this strength and the balance sheet of the mining sector is in good health (unlike in 2008 when the industry was heavily indebted, largely with short-term instruments that were ill-matched to the longer-term nature of their asset bases and cash-flow profiles).

Given the impact of the market weakness, mining company valuations now look extremely attractive. It has been no surprise to see the corporate world respond and M&A activity continue apace. Of relevance to the portfolio were: the joint offer from Rio Tinto and Mitsubishi to buy out the minorities of Coal and Allied – the Australian coal producer; China Minmetals' friendly offer for Anvil Mining – the copper producer in the Democratic Republic of Congo; and the offer by Banpu Minerals for Hunnu Coal – a small-cap Mongolian coal explorer.

## PERFORMANCE

Consistent with the decline in equity markets, and in line with the decrease in portfolio performance of 19.5% for the quarter, net tangible assets before tax also fell by 19.6%, underperforming the benchmark by 1.7% over the same period. The share price however performed better, falling by 13.2% over the quarter as the discount to the net tangible assets narrowed. Over the year to 30 September 2011 the portfolio has outperformed the benchmark by 2.4 percentage points. On an annualised basis over 5 years, the portfolio has returned 2.6% (p.a.) exceeding the benchmark by 1.8 percentage points (p.a.).

During the quarter GMI paid a fully franked dividend of 4 cents per share, bringing the total dividends paid in respect of the year ended 30 June 2011 to six cents per share fully franked, as compared to five cents for the year ended 30 June 2010.

## PERFORMANCE ATTRIBUTION

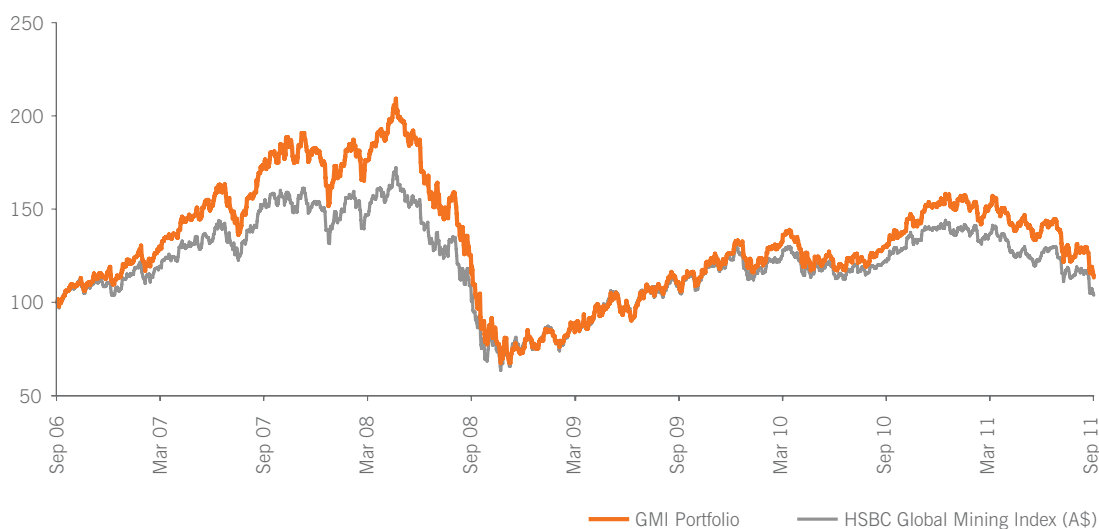
As global economic issues dominated the market, investors continued their rotation out of risk assets. This was the main driver behind declines in both commodity prices and commodity equities. Commodities more closely aligned with industrial production, such as copper, were hardest hit and the portfolio's overweight to copper producers such as Teck Resources (also a significant coking coal producer) and Freeport detracted from relative performance. Although we increased our large cap gold exposure over the quarter, the portfolio's underweight position to these companies also hurt relative performance.

Positive contributors were the portfolio's holdings in the acquisition targets: Coal and Allied, Anvil and Hunnu Coal. One of the portfolio's private investments, GV Gold, also saw a pricing uplift on the back of a significant new shareholder investing in the company.

### GMI PORTFOLIO (NET OF MANAGEMENT FEES) V HSBC GLOBAL MINING INDEX (A\$)

#### Non-annualised returns (re-based to 100) for five years to 30 September 2011

Source: DataStream and Internal. All data in A\$.



## PORTFOLIO ACTIVITY

Over the quarter we reduced our exposure to those smaller cap names that need to raise capital over the coming months in order to develop new/existing projects or those where free cash flows would come under considerable pressure were commodity prices to weaken further.

We increased the portfolio's allocation to the gold sector by adding to our Goldcorp holding and initiating a position in the large cap gold producer Barrick.

By the second half of September we began to add to those equities where we saw significant value emerge following the sharp sell-off including West African iron ore developer London Mining and Australian mineral sand producer Iluka.

We decreased our gearing from 5.4% to 4.7% over the quarter.

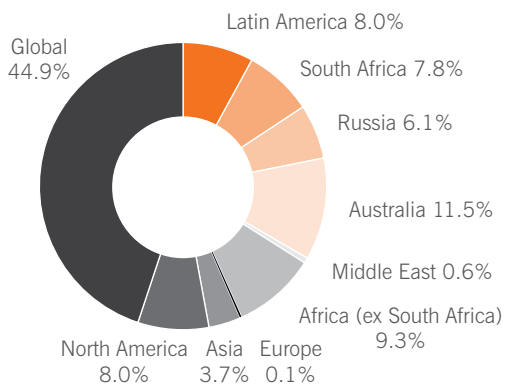
## OUTLOOK

During much of 2011, the mining sector has faced the headwinds of an uncertain macro-economic environment. This has obscured the strong underlying fundamentals from which the sector is benefitting. Solid demand, particularly from emerging markets such as China and India, coupled with supply-side constraints have kept markets relatively tight. This has resulted in record earnings in the first half for many of the portfolio's major holdings.

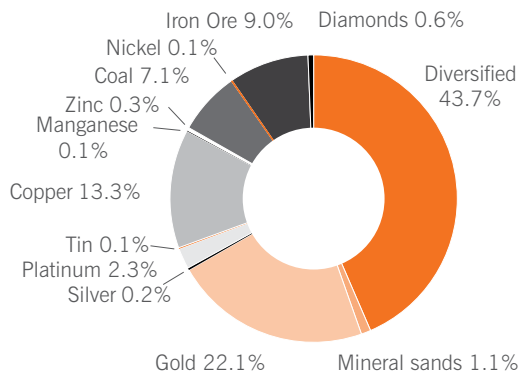
With the sell-off we have seen mining company valuations look extremely attractive across a variety of metrics such as earnings and cash flow multiples and price-to-NAV levels. The balance sheet of the mining sector is now significantly stronger than it was in 2008; companies are better positioned to weather market volatility as well as supporting growth of dividends and share buybacks.

A near-term catalyst for the mining sector would be a greater degree of certainty about the outlook for the US and European economies and that Chinese monetary policy is moving away from credit tightening. This should refocus the market on the strong underlying fundamentals and provide reassurance over continued strength in the Chinese economy and in turn commodity demand growth.

### GEOGRAPHIC EXPOSURE as at 30 September 2011



### COMMODITY EXPOSURE as at 30 September 2011



WITH THE SELL-OFF WE HAVE SEEN MINING COMPANY VALUATIONS LOOK EXTREMELY ATTRACTIVE ACROSS A VARIETY OF METRICS SUCH AS EARNINGS AND CASH FLOW MULTIPLES AND PRICE-TO-NAV LEVELS. THE BALANCE SHEET OF THE MINING SECTOR IS NOW SIGNIFICANTLY STRONGER THAN IT WAS IN 2008; COMPANIES ARE BETTER POSITIONED TO WEATHER MARKET VOLATILITY AS WELL AS SUPPORTING GROWTH OF DIVIDENDS AND SHARE BUYBACKS.

# ABOUT GLOBAL MINING INVESTMENTS LIMITED

Global Mining Investments (ASX: GMI) is one of the largest listed global mining investment vehicles in the Australian market.

GMI provides exclusive exposure for Australian shareholders through a single ASX-listed entity to a global portfolio of metal and mining securities.

The portfolio comprises around 70 metal and mining stocks and goes well beyond holdings in BHP and Rio to include positions in other major international mining companies.

GMI's Investment Manager is the highly credentialed, London-based natural resources team from BlackRock.

The BlackRock natural resources investment group manages the world's largest mining mutual fund with some US\$35.7 billion invested in international mining stocks. As GMI's Investment Manager, BlackRock provides unique investment exposure backed by strong analytical skills and ready access to new investment opportunities.

## TOP TWENTY INVESTMENTS

AS AT 30 SEPTEMBER 2011

Company	% of GMI incl cash	Location	Commodity
Glencore	8.8	Global	Diversified
Rio Tinto	8.5	Global	Diversified
BHP Billiton	7.8	Global	Diversified
Vale	6.5	Latin America	Diversified
GV Gold	4.4	Russia	Gold
Teck Resources	4.2	North America	Diversified
Newcrest Mining	4.0	Australia	Gold
Freeport McMoran	3.8	Global	Copper
Anglo American	3.2	Global	Diversified
Minas Buenaventura	3.1	Latin America	Gold
African Minerals	2.7	Africa	Diversified
Xstrata	2.7	Global	Diversified
Sociedad Minera Cerro Verde	2.7	Latin America	Copper
Atlas Iron	2.3	Australia	Iron
Coal & Allied Industries	2.1	Australia	Coal
First Quantum Minerals	2.1	Africa	Copper
Goldcorp Inc	2.1	North America	Gold
Impala Platinum Holdings	2.0	South Africa	Platinum
Kumba Iron Ore	2.0	South Africa	Iron
Barrick Gold	1.6	Global	Gold
	<b>76.6</b>		

For further information, visit our website: [www.globalmining.com.au](http://www.globalmining.com.au) or phone 03 9235 1700.

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