

Global Mining Investments

January 2011

Global Mining Investments (ASX:GMI) is a Listed Investment Company (LIC) specialising in international equities in the mining sector. Under the direction of Investment Manager BlackRock, GMI seeks to exceed the return of the HSBC Global Mining Capital Index in Australian dollars over the medium to long term. GMI provides a potentially attractive and well managed international equities play to investors seeking targeted exposure to global mining stocks.

GMI's investment manager is the BlackRock Natural Resources team (BNR) who is a significantly experienced player in the global sector (arguably one of the best) with extensive industry networks and research capabilities. Based in London, BNR operates five global equity funds in the natural resources sector (US\$34bn at June 2010), in addition to the GMI mandate. The BNR team has a significant number of key individuals with backgrounds intrinsically related to mining (geology, geophysics or engineering). This depth of technical expertise creates a significant competitive advantage in the stock selection process and is judged by Zenith as a key strength.

BNR utilises a disciplined bottom up stock research process combined with a top down qualitative macro overlay. While the investment manager's philosophy is to take a value based approach, the output of stock selection is more akin to being style agnostic and the team does not categorise their approach as having a particular style bias. GMI's portfolio is concentrated, typically at around 50 stocks in a benchmark unaware portfolio. Country and sector exposure tends to be a function of stock selection and given the global exposure it is important to note that GMI's holdings are unhedged and although currency risks are taken into account during the portfolio construction process, returns will be affected by prevailing currency movements.

Based on Zenith's assessment of BNR's long standing and successful investment process in their global mining mandates and given our strong regard for the investment team, Zenith has a high level of conviction in the team's ability to achieve portfolio returns in excess of the benchmark over the longer term. However given the nature of LICs, investors must be aware that it may not always be possible to crystallise portfolio outperformance into outperformance of GMI shares against the benchmark owing to share price movements.

Management fees for GMI are 1.25% pa plus applicable performance fees. While the management fees are considered

reasonable compared to specialist international equities funds focusing on resource stocks, they are at the high end of the scale when taken in the context of the LIC universe.

Owing to the nature and concentration of GMI's portfolio Zenith considers that it is likely to be most appropriate for investors who are tolerant to the volatility and higher risks associated with equities exposure to resources stocks. While generally possessing a low correlation to other asset classes, the historical volatility of resources means GMI is best used as part of a blended portfolio given the risks associated with sector specific plays. The style neutral approach means it can be blended with either growth or value style funds.

Key Features	Description
Product type	ASX Security – Listed Investment Company
Asset Class	International shares
Manager	Bell Asset Management Limited
Investment Manager	BlackRock Investment Management (UK) Limited
Custodian	BNY Mellon
Registrar	Link Market Services Limited
Auditor	Ernst & Young
Currency exposure	International
Investment term	Open ended
Minimum investment	N/A
Liquidity	Daily on the ASX

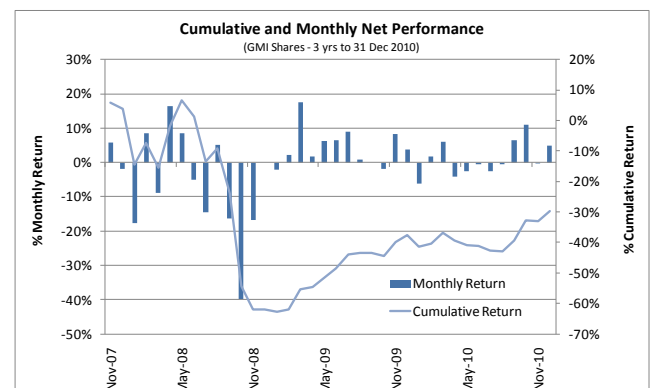
Monitoring Policy

On release of this Product Assessment, the Product Issuer has undertaken to notify Zenith of any material changes which may impact on the products rating. Zenith reserves the right to amend its view or withdraw the report at any time. This assessment, **dated 28 January 2011** expires after 12 months or if there are any material changes.

NOTE: Zenith LIC Ratings

Zenith ratings applied to LIC products do not take into account share prices and do not represent a buy/sell recommendation based on a LICs valuation. Potential investors should make their own determination of the appropriateness of prevailing trading prices and premium(discount) to NTA when utilising LICs.

Zenith rates Global Mining Investments RECOMMENDED.



PERFORMANCE ANALYSIS

In assessing the performance of LICs, it is vital to understand how their structure affects demonstrated performance figures, which is materially different to that of unlisted managed funds. As listed companies, portfolio returns generated by LICs are exposed to additional volatility of share price movements and can trade at significant premiums or discounts to NTA. In addition, the impact of pre and post tax returns needs to be taken into account given that LICs distribute returns net of company tax and benchmark index returns are quoted on a pre-tax basis ("pre-tax NTA" is the asset backing calculated prior to the provision for tax on unrealised capital gains

but is after the payment of company tax). Accordingly, it is difficult to accurately compare shareholder returns to either benchmarks which do not account for tax or peer group LICs where the timing of company tax on realised gains differs. As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- Share price + dividends;
- Change in pre-tax NTA value + dividends; and
- Returns generated internally by the investment portfolio.

Performance statistics ¹	5 yrs	3 yrs	1 yr	Tax treatment
GMI: Share price + dividends	7.29%	-12.21%	12.24%	Company tax paid ²
GMI: Portfolio (net of fees)	13.89%	-5.51%	20.25%	Pre-tax
GMI Pre-tax NTA + dividends	2.73%	-7.54%	18.86%	Company tax paid ²
Benchmark	9.90%	-2.84%	13.63%	Pre-tax

¹ Performance data to 31 December 2010. ² Realised gains and unfranked income.

While for comparison purposes the use of internal portfolio returns vs. the benchmark gives the closest measure of the skill of the investment manager in generating returns, these returns may not be able to be fully crystallised to shareholders given share price movements of GMI itself. Caution should be used in too close a comparison of these figures as share price and pre-tax asset NTA are measures which take into account company tax paid on realised capital gains and unfranked income whereas benchmark performance is a wholly untaxed measure.

The stated investment objective for GMI is to provide returns focussed on maximising capital growth and outperforming the HSBC Global Mining Capital Index (A\$) over the medium to long term. Despite the presence of the performance benchmark, GMI's portfolio construction is benchmark unaware being measured against the benchmark but not restricted by it.

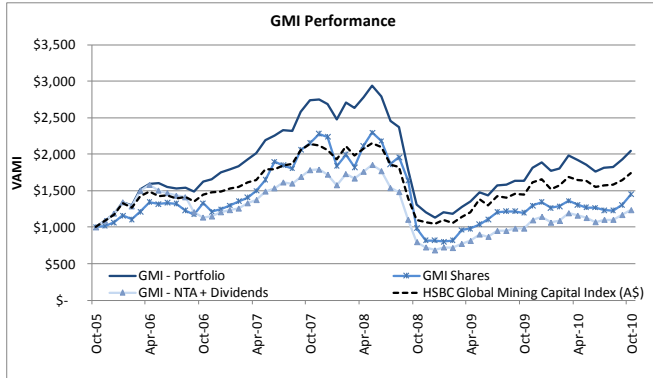
While Zenith notes that the investment objective is on maximising capital growth we have some issues on the use of a capital only index as the benchmark rather than an accumulation index. Notwithstanding that the difference between a price index and an accumulation index may not be as marked in resource stocks as the wider equities market, we are of the opinion that using a price index to derive performance is potentially a lower threshold.

The BNR team have developed a very strong team track record in their global mandates for natural resources funds. GMI's portfolio has also showed strong performance over the medium to longer term in-line with their stated objective despite having suffered significantly during 2008 along with most equities managers. This does however illustrate the potential risks in resources

investments and reinforces the need for investors to take a longer-term view with vehicles exposed to this sector.

Zenith notes that the BNR team were openly disappointed in the FY2009 results for the GMI portfolio relative to the benchmark return and have demonstrated considerable chagrin in making two key errors during this period, firstly in not anticipating the severity of the financial crisis and secondly not being aggressive enough during the recovery phase of early 2009. Considering that the bulk of the investment management industry were guilty of the same actions, this does not impede our view of the abilities of the BNR team. However given the number of investment managers who were willing to 'blame the market' for underperformance during this period, the public position of the BNR team is refreshing to say the least.

GMI's investment portfolio net of fees has performed very strongly on a cumulative basis over the past 5 years generating returns in excess of the benchmark index. While on a purely quantitative basis the performance of GMI's shares has struggled to keep pace with investment portfolio returns and that of the benchmark index, this does not allow for equalised taxation treatment. This does however illustrate one of the potentially negative issues with the LIC structure, the gap between NTA and share price (see 'Share Price vs. NTA' below for further details). Investors should carefully consider whether or not the LIC structure suits their requirements in this case, where the considerable skills of the BNR team to generate excess performance may be eroded by the volatility and persistent trading discount of GMI's shares.

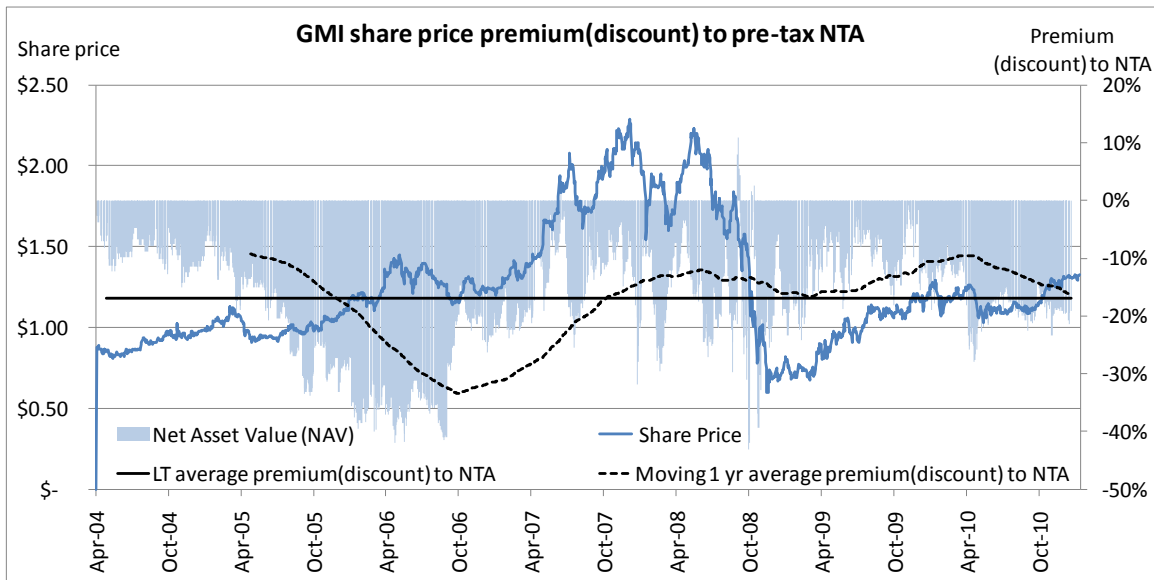


SHARE PRICE VS. NTA

As indicated previously, the real performance of LICs as opposed to the performance of their investment portfolio can be unduly affected by their underlying NTA relative to their share price. While Zenith cautions

that premiums or discounts to NTA are not in itself an indicator of relative value, it can be an indicator of other issues which can represent either buying opportunities or triggers for disposal.

GMI has historically traded at a firm discount to pre-tax NTA of -18% over the 5 years to 31 December 2010. This compares to a sector average of -12% for LICs focussing on domestic and global equities. Over the medium term (3 yrs) GMI's average discount has narrowed somewhat to -15%. GMI have proactively sought to continue to close the share price/NTA gap utilising share buybacks and increased marketing activities which has seen some success, however the gap currently persists at -20% as at 31 December 2010.



Common to many LICs, GMI's share price has shown a relatively consistent discount to pre-tax NTA over its life. At various times when assessed on a purely quantitative basis, the prevailing discount has seen periods where it has trended away from the longer term average and represented periods of good buying opportunities at a deep discount. While there can be opportunities to boost

investment returns when buying at a deeper discount, there is no guarantee that any gain through positive movement in the discount to NTA can be crystallised. Potential investors must keep in mind that while discount opportunities may frequently present themselves there is no guarantee that management will be able to close the price to NTA gap.

CONSISTENCY ANALYSIS

Consistency statistics ¹	5 yrs	3 yrs	1 yr
Excess return – All markets (% of mths)	68%	56%	75%
Excess return – Rising mkts (% of mths)	27%	25%	42%
Excess return – Falling mkts (% of mths)	40%	31%	33%

¹ Based on GMI portfolio returns to benchmark. Performance data to 31 December 2010

The Consistency Statistics Table measures the number of months (in percentage terms) a fund has outperformed its benchmark over different time periods. Zenith seeks to find managers who can outperform their benchmark index in greater than 50.0% of months, as it represents

a persistence of manager skill. The table also breaks down the fund's historical monthly outperformance of its benchmark in rising and falling markets, to ascertain which market environments the fund is best suited.

GMI's history of monthly excess returns has consistently exceeded 50%, with excess returns marginally favouring falling markets, which is logical given the bias toward quality in the team's stock selection. This level of consistency provides Zenith with strong confidence in the team's ability to outperform the market over the longer term. Zenith expects GMI's portfolio to continue

to deliver competitive excess returns in both rising and falling conditions although we note that the team may struggle to keep pace in momentum driven bull markets given the protocols around stock selection. It is notable however that this process did deliver significant outperformance in the previous bull market rush of 2004-2007 which was in part resources led.

RISK / RETURN ANALYSIS

Risk/Return statistics ¹		5 yrs	3 yrs	1 yr
Information Ratio (% pa)	GMI Portfolio	-0.53%	0.36%	-1.20%
	Colonial ²	0.02%	-0.06%	-1.08%
	Perpetual ²	-0.71%	-0.60%	0.01%
Sharpe Ratio (% pa)	GMI Portfolio	0.45%	-0.19%	0.85%
	Colonial	0.32%	-0.18%	0.80%
	Perpetual	-	-0.19%	0.85%
Standard Deviation (% pa)	GMI Portfolio	26.62%	30.10%	17.67%
	Colonial	21.82%	24.56%	16.10%
	Perpetual	-	25.41%	18.28%
Tracking Error (% pa)	GMI Portfolio	7.45%	7.36%	5.50%
	Colonial	5.97%	6.55%	3.96%
	Perpetual	-	11.52%	7.65%

¹ Performance data to 31 December 2010. ² Comparison unlisted managed funds (net of fees) - Colonial First State Wholesale Global resources Fund (CFS FC Inv - CFS Global Resources). Perpetual Wholesale Global Resources Fund – Class A.

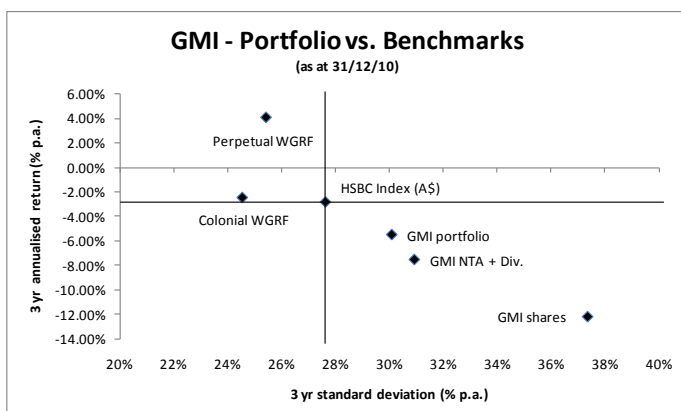
In assessing risk and returns, as discussed previously the returns part of the equation can be distorted by taxation issues. Potential investors should however take into account the differences in volatility between returns associated with the GMI portfolio as opposed to GMI shares. The risk/return chart below illustrated the 3 year risk/return relevant to;

- GMI shares
- GMI investment portfolio
- Benchmark Index

Owing to the lack of truly comparable LICs focusing on global mining stocks, Zenith has elected to utilise a peer universe of unlisted managed funds whose mandates

essentially fall into the same group as GMI. It should be noted that these should be compared to the GMI portfolio only and are not relevant in terms of comparison to GMI shares. It should also be pointed out that the peer funds illustrated here do not utilise an identical benchmark to GMI for their own performance measurement.

While the returns data is unflattering owing to the significant fall in stock prices largely across the board during 2008, the key takeaway is the standard deviation of returns. While GMI's portfolio is reasonably close to that of the benchmark (particularly given the benchmark unaware style), GMI shares are more volatile given they trade in their own right. This is a fundamental of the LIC structure and as such investors should carefully consider whether or not this attribute suits their need and risk tolerance.



INVESTMENT PERSONNEL

The following personnel are those members of the wider BNR team responsible for the mining/gold sectors.

Name	Title	Tenure
Evy Hambro	Joint Chief Investment Officer/ MD	16 yrs
Robin Batchelor	Joint Chief Investment Officer/ MD	14 yrs
Richard Davis	Managing Director/Portfolio Manager	16 yrs
Catherine Raw	Director/Portfolio Manager	7 yrs
Clive Burstow	Vice President/Portfolio Manager	< 1 yr
Tom Holl	Associate/Portfolio Manager	5 yrs

MANAGER BACKGROUND

While GMI is managed locally by Bell Asset Management (BAM), investment management is undertaken entirely by BlackRock. Given that BAM's role is more administrative, Zenith has focussed on the BNR team and related entities for this review.

BlackRock was established in 1988, and listed on the New York Stock Exchange in 1999. The Firm's largest shareholder is Bank of America, which acquired its major indirect interest through its takeover of Merrill Lynch in January 2009. As of 28 February 2010, BlackRock's ownership structure was split as follows: Bank of America (34%); PNC Financial Services Group (24.3%); Barclays Plc (19.7%); BlackRock employees and public shareholders (22%).

Since inception BlackRock has grown rapidly and is currently the largest asset manager in the world, with US\$3.15 trillion in funds under management (FUM) as at 30 June 2010 across equity, fixed income, real estate, liquidity, alternatives, and asset allocation/balanced strategies for institutional and retail clients. This position was attained after the acquisition of Barclays Global Investors (BGI) in late 2009. The BGI acquisition followed BlackRock's merger with Merrill Lynch Investment Management (MLIM) in 2006, which provided the firm with a strengthened capability in global equities.

BlackRock's recent acquisition and subsequent integration of BGI into the business has resulted in staff turnover occurring in some business units. Zenith however believes that BlackRock's support for this vehicle continues to be strong. The investment capabilities added to BlackRock from the BGI acquisition have no overlap with this strategy and its resourcing and as such there have been no resultant changes. Furthermore, the Firm has continued to be profitable, with the investment team not under significant budgetary pressures.

The BNR division is based in London and has managed natural resources mandates since 1992 (Mercury Asset Management then Merrill Lynch Investment Managers).

Currently the team runs 10 investment mandates and manages in excess of US\$34bn in assets. The BNR division cover three sectors, Mining/Gold, Agriculture and Energy/New Energy. Given the long term presence and track record of the BNR team Zenith feels this creates a competitive advantage in terms of access to company management and site visits.

Investment Team

The Blackrock Natural Resources team has 16 individuals across the 3 sectors, with 9 Portfolio Managers. Four of the PM's are devoted to Mining/Gold with the remainder covering Agriculture and Energy (2 and 3 PM's respectively). The BNR team has 2 Joint Chief Investment Officers in Evy Hambro and Robin Batchelor however Hambro takes the lead on the Mining/Gold sectors. BNR believes that the joint approach has worked well due to the ability of the 2 CIO's to load share while acting as fund managers in their own right with joint oversight.

Hambro is a significantly experienced individual having run the London based BlackRock Global Funds – World Mining Fund since its inception in 1997 and spent his entire career in the analysis of metals and mining. Richard Davis (Managing Director/Portfolio Manager) provides a very solid backup for Hambro having been a trained geologist prior to joining the BNR team in 1994. The 3 other PM's, Catherine Raw, Clive Burstow and Tom Holl also provide a good depth of experience, with both Burstow and Raw possessing significant technical experience in geological/mining related fields and equities analysis experience.

The BNR core team has been very stable with an average of ten years working with each other. While the formal departure of previous BNR head Graham Birch in early 2010 looked like it might have been cause for concern, the succession process appears to have been fairly transparent and given that Hambro and Birch had worked closely together since 1994 and the team retains significant depth, Zenith has not seen this as a material issue.

The team structure is fairly flat with a strong emphasis on leveraging the collective talent in the individuals and a collegiate approach focusing on a peer review process. The sub-sector teams (within Mining/Agriculture/Energy) are not broken up along regional or commodity lines, rather all senior PM's are required to have detailed knowledge of all the companies in the portfolios.

Given the high level of technical ability in the team, with 6 of the 9 PM's having key backgrounds in fields intrinsically related to mining (geology, geophysics or engineering), this creates a strong fundamental advantage in assessing company prospects. Zenith believes that on the ground site visits matched with the experience in geology is critical to be able to assess viability. We note that all the BNR team are strongly

encouraged to think like fund managers and not just stock pickers in order to facilitate the thought process of how individual stocks interact in a portfolio. Zenith sees this as a positive on a number of different levels, not the least of which is developing skill sets useful to succession planning endeavours.

Given the central location of the team, communication is frequent and fluid. Formally, the team meets 3 times a week to discuss market movements, themes and corporate actions along with a monthly meeting to review micro risks across all sectors as well as review portfolio positions. Monthly meetings are chaired by Hambro and Batchelor in their capacities as joint CIO. The team also has access to the wider resources of BlackRock in terms of their Credit teams etc which provide additional robustness when assessing companies.

Given the low turnover strategy and the experience of the senior team members, the current team size looks reasonably robust. Zenith notes that there tends to be a fairly high level of commonality across the global mining portfolios run by the team (of which the GMI portfolio is one) however individual mandates steer performance. BNR attempts to keep mandates fairly similar to reduce excess workload. Given the number of mandates already run by the team, Zenith is wary that any additional funds launched or excessive growth may potentially begin to constrain effectiveness unless the team is scaled up commensurately. We note that BlackRock has increased team resources over the past four years as FUM has increased and that they are currently looking for another mining analyst to aid any constraints.

Zenith believes the remuneration structure in place supports this team based culture, as bonuses are predominately weighted to performance. Furthermore, with a significant portion of remuneration paid in the form of restricted stock that is vested for three years from the award date, the team is likely to remain highly stable moving forward.

INVESTMENT PROCESS

The BNR philosophy relevant to GMI is driven on a value basis, focusing on those companies which offer the best exposure to commodities with an acceptable risk level and a strong company track record. While they seek companies with growth potential (organic and exploration) there is generally an avoidance of pure exploration plays. The team also limits their exposure to companies who undertake excessive leverage or complex hedging.

The portfolio is measured against, but not restricted by a benchmark and stock selection is essentially a best ideas process assessing opportunities across the whole sector. The portfolio is style neutral and invests across the market capitalisation range giving the team the flexibility to generate value through valuation based research and their deep technical skills.

The portfolio is generally focused on growth opportunities where assets have long life reserves, low capex requirements and the companies have strong balance sheets. The portfolio limits exposure to blue sky companies unless for example it is a joint venture with a high conviction partner.

In Zenith's view, the investment process is well articulated and documented and operates within a disciplined framework which should ensure its consistency and repeatability over time (as has been exhibited by their other mandates in the sector). The underlying investment approach also has key features including:

- The team looks to understand the direction of commodity prices rather than seek to forecast them and seeks out high quality companies through bottom up stock selection;
- Diversification across commodity types is also seen as a way to reduce risk as commodities rarely reach their highs and lows simultaneously;
- The BNR team spends a considerable length of time visiting companies and their key assets. This is a core aspect of the process and a significant competitive advantage when coupled with the teams deep technical background in mining and geology related fields.

SECURITY SELECTION

The BNR mandate for GMI is quite wide, encompassing all mining companies on a global basis, totaling around 1,000 stocks. The investment process is based on a combination of a fundamental bottom-up approach with a top-down qualitative macro overlay. The generation of the top-down macro view is vital to the investment process where the team seek to identify trends in commodity price direction rather than speculate on commodity prices.

The team view of the supply and demand situation of each commodity and thus commodity price direction is the starting point of the analysis process. This information is sourced externally and overlaid with BNR's own internal observations based on their long running experience. The team then looks for those commodities with the greatest potential for supply side squeezes to occur. This approach is logical in our view as supply tends to be easier to predict than demand given the long lead time in opening up new resource deposits. The team takes a 3-5 year view on commodity direction which is reviewed constantly in response to daily events. Zenith notes that the conviction on commodity price direction is not always an absolute. BNR believes that if a good enough story appears in a company with good growth prospects, they don't need to be as bullish of commodity price momentum. However actions in such instances appear constrained.

Having derived a position on the commodity for the macro overlay the team then seeks to identify the best companies in each commodity. The team applies rigorous company research and derives valuations for each company. Given that mines are wasting assets, the team uses their strong technical backgrounds to ensure company valuations take into account the quality of ore reserves. Combined with pricing assumptions, this allows the team to construct cashflow models for each mine. Companies that are determined to have sufficient quality in this area are then subjected to further analysis on company level issues, particularly conviction in management.

Company modeling tends to be broken up between single and diversified metal producers. For single producers DCF models are created in-house and resulting valuations compared to the prevailing market. For larger more diversified producers with multiple assets, additional input from sell side analyst research is also used as part of the process although Zenith notes that companies still have to meet BNR's own buy criteria.

Fundamental company analysis also includes face-to-face company meetings as an integral part of the process, with the team conducting around 200 meetings annually. While BNR has indicated that they may take on some small stock positions prior to meeting management and undertaking site visits, such instances are rare. Zenith believes that there is a strong value add in the team's ability to go out and 'kick the tyres' in the field which enables deeper insight of a company's ability to execute strategies and grow.

BNR does not seek to actively trade the portfolio but focuses on investing for the long term in companies that they understand, and that they believe can add value. While not a focus of the portfolio, GMI will take the opportunity to take positions in company bonds (or other unlisted securities) in a high margin environment. There is no hard limit on portfolio exposure to bonds however given they are a long only equities manager they would not want to go above 12%-15% as this would distort the portfolio beta. They will also look at company debt if the equity has sufficient quality.

While BNR's assessment process is driven by company valuations with a macro commodities overlay, the lack of formal guidelines on scoring of stocks and mandates which tends to be a peer trait in equities analysis means that the whole process appears less structured than some of their competitors. That said, this process has been developed and operated by the team for an extended period (over 10 years) and BNR's results tend to speak for themselves. Based on this Zenith places a high level of conviction in the BNR teams' talents.

PORTFOLIO CONSTRUCTION

Portfolio construction tends to be qualitative in nature for the GMI portfolio. Although company valuations take a dominant role, BNR do not undertake a formal approach to stock selection or weightings in the portfolio. The portfolio is relatively concentrated and has tended to vary between 40-80 stocks of the strongest investment ideas put forward by the team and constructed without regard to Index constituents. The concentrated nature of the portfolio is somewhat of a concern from a risk perspective, particularly given that there are no constraints around commodity or country exposure although there is a limitation on 10% of a company on company exposure. However, the process is such that portfolio construction is intended to ensure that multiple sources of risk including currency exposure, liquidity, sovereign risk and exposure to developing markets, are managed. Country and sector exposure however is a function of stock selection.

BNR tends to construct the portfolio around the large scale, stable producers for the core part of the portfolio (beta) and add smaller producers for alpha generation. The team generally considers that the top 10 core holdings will always make up in excess of 50% of the portfolio. Position size within the portfolio is governed by manager conviction and risk. New positions are given a small weighting (although no hard guidelines) and being a long only manager positions are initiated with a view to being held for 3+ years and are increased gradually according to company growth.

While portfolio turnover is generally expected to be low and company positions are taken with a longer term view, BNR acknowledges that should short term volatility around commodity prices offer opportunities to reap additional gains they will seek to take advantage of it. This is however only undertaken on a controlled basis. Yearly average portfolio turnover has been 22% which is within the teams expectations given the investment horizon.

Although there is no real mandate on stock selection within the mining sector, BNR have stated that they may if deemed attractive enough, take a stake in mining infrastructure companies. However admits that such a move would have to be very compelling and that the team is generally focused only on actual mining operations.

While stock purchases are predominantly based on analyst conviction, stocks will be sold on valuation concerns such that if stocks reach their valuations they will be sold regardless of the quality of the company. While the team also uses a company's prospects as part of their sell discipline, valuation is the key aspect.

While the BNR team can make use of derivatives under the mandate, they tend not to. They can however make use of gearing, up to 20% of book value (currently around

7%). Gearing is used tactically, if valuations get very cheap the team may take the opportunity to increase exposure but they are very conscious of the volatility it brings and gearing has never been above 10% in the portfolio. BNR does not utilise currency hedging for the portfolio however this is taken into account on a qualitative basis through the analysts' views on individual stocks exposure to FX movements.

Overall Zenith believes that the portfolio construction process is appropriate, using analyst conviction, detailed valuation and a macro overlay designed to illuminate direction in commodity prices rather than price forecasting which allows the team to tilt the portfolio based on any commodity supply imbalances.

RISK MANAGEMENT

The GMI portfolio in itself has few risk constraints given the openness of the mandate. This throws additional emphasis on what other risk management processes are in place. While risk management occurs as part of the stock selection approach which selects only those thoroughly researched stocks which have strong valuations and strong thematic drivers on commodity prices, the main risk management tool is BlackRock's internal risk management system. BlackRock Solutions (BRS) provides integrated, automated transaction processing and risk management, supplying PM's detailed information for investment decisions.

BlackRock's Risk & Qualitative Analysis Group (RQA) partners with all portfolio managers across the greater organisation to ensure that risks are consistent with individual mandates, current investment themes and client constraints. RQA acts to enhance the portfolio management process and adds additional oversight. The RQA team members have specialised knowledge of each type of portfolio operated by BlackRock and communicates on a proactive basis with the PM's to aid portfolio positioning.

While the risk management systems are somewhat more removed from the BNR team than we would normally see owing to the size, scale and requirements of the wider organisation, Zenith believes that the system is appropriate to the needs of the organisation and appears to have performed as intended. We believe however that the greatest risk management tool relevant to GMI's portfolio is the level of research and analysis conducted by the BNR team.

RISKS OF THE INVESTMENT

There are a number of risks that investors need to be aware of when investing in GMI, primarily: market risk; and stock specific risk. Market risk relates to the inherent volatility of equity markets, which can have a direct and significant impact on portfolio performance as well as GMI's share price and is largely outside the control of the Manager. In terms of stock specific risk, each individual

company is subject to specific risks including business risk, management risk and operational risk, which can all impact on the company's shares.

Risks specific to GMI are as follows:

- Investors should be aware that due to the concentrated nature and relatively benchmark unaware portfolio, GMI's return profile may vary significantly from both the benchmark and peer funds;
- Commodity prices are driven by supply and demand, which although primarily influenced by global economic activity, can also be affected by natural disasters, embargoes, new technology and political factors including taxation and government regulation. Additionally, as commodity markets can be highly volatile and prone to irrational exuberance we would expect the GMI portfolio may underperform in strong bull markets given the value bias;
- Given GMI is unhedged returns may be affected by movements in the AUD against other currencies. In general, unhedged portfolios tend to underperform hedged portfolios when the AUD is appreciating, and vice versa. Currency volatility has been at unprecedented levels in recent years and this remains a key risk to portfolio performance although the effects tend to be evened out over the longer term;
- Emerging market exposures are not viewed separately to developed market exposure, rather the Manager assesses the quality of each company on its individual merits. Accordingly, there is no explicit constraint on emerging market exposures within the portfolio;
- In Zenith's view key person risk is successfully managed with the BNR team through the team based, collegiate approach to selecting stocks and portfolio construction. However, the departure of Hambro or any of the other key members of the team would be a loss; and
- GMI is inherently subject to Investment Manager risk. Currently the BNR team is retained under a management agreement between signatories BlackRock, GMI and BAM. The current agreement runs until 2014 with one year extensions and while Zenith does not expect that BlackRock will not continue to execute agreements to remain as the Investment Manager of GMI in the future, should for any reason the agreements not be renewed or terminated, this would constitute a significant issue.

APPLICATIONS OF THE INVESTMENT

The portfolio construction process adopted by BNR is a high conviction, benchmark unaware approach that should appeal to investors searching for a specialist active international shares manager in a vehicle that is liquid and transparent. BNR's style 'neutral' investment process means that the GMI portfolio should be well suited to delivering outperformance throughout the market cycle (i.e. in both rising and falling market environments). However Zenith acknowledges that BNR's strict quality and valuation criteria around stock selection may struggle to keep pace in momentum driven bull markets.

Although Zenith believes that the Fund provides a solid exposure to the international resources sector, we are cognisant that the portfolio is concentrated by stock numbers and that sector and regional exposures are not formally or tightly constrained. As a result we believe that GMI is best used as part of a blended international equities portfolio and that it would blend well with other style-neutral, value and/or growth orientated international equities products.

Traditionally within unlisted managed funds, a specialist focus on the resources sector provides a historically low correlation to the other major asset classes which provides appeal in portfolio construction. In addition, the resources focus of GMI offers strong exposure to the expected ongoing demand from developing nations, particularly China and the potential returns afforded by being invested in this sector. However given that as a LIC GMI is listed in its own right, investors must be cognisant that GMI's own trading patterns may mask the effectiveness of this approach. Investors should also take into account whether or not the volatility associated with LIC share prices is appropriate to their needs as opposed to utilising unlisted managed funds specialising in global mining.

FEES

Annual management fees for GMI are 1.25% pa of the quarter end market value of the fund. The structure of the fund performance fee of 15% has been recently re-negotiated with the Manager and Investment Manager although the quantum of the fee itself has not changed. Under the current structure performance fees are payable for each period ending 30 June where:



- the return on the portfolio exceeds the HSBC Global Mining Capital Index (A\$); and
- any underperformance versus the benchmark that has been brought forward from prior years has been made up (i.e. a high watermark).

Management and performance fees are split between BlackRock and BAM (management fees - 80/20, performance fees - 87.5/12.5). Zenith is of the opinion

that while the fees are reasonable compared to specialist international equities funds focusing on resource stocks (particularly when considered on a look through basis), the fees are at the high end of the scale when taken in the context of the LIC universe. Given the nature of LICs, investors must also take into account brokerage costs incurred in addition to management fees.

Author: **Dugald Higgins**

Senior Investment Analyst

 (03) 9642 3320
 dugald.higgins@zenithpartners.com.au

SCOPE & APPROACH

Zenith Investment Partners (Zenith) was engaged by Global Mining Investments Limited to undertake this Product Assessment using a methodology which is comprehensive and objective, for a fixed fee established and paid prior to its commencement. Zenith has no vested interest in the success or otherwise of this offer. Zenith advises that in the compilation of this Product Assessment, full due diligence on this offer has not been conducted. Investors are strongly advised to consult the relevant offer document(s), conduct their own inquiries and receive professional advice from a licensed financial advisor. This Product Assessment was not prepared to form any part of any offer document. It should be noted that Zenith has not sought any legal advice when reviewing the products legal structure or any material agreements.

DISCLAIMER: Zenith Investment Research Pty Ltd (“Zenith”) provides general financial product advice in accordance with its Australian Financial Services Licence (No. 226872). This report is prepared exclusively for financial advisors and clients of Zenith. The report contains recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Zenith strongly recommends that an investor should, before acting, obtain a copy of the relevant offer document and consider it carefully. Each client should assess either personally or with the assistance of a licensed financial adviser whether the Zenith rating is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report. No part of this report is to be construed as a solicitation to buy or sell any investment. The performance of the investment in this report is not a representation as to future performance or likely return. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. Zenith usually receives a fee for assessing the fund manager and product(s) described in this document against accepted criteria considered comprehensive and objective.

ANALYST CERTIFICATION & DISCLOSURE: Analyst remuneration is not linked to the rating outcome. Analysts do not hold the products under review, unless disclosed. Any interests held must be disclosed and insufficiently material to compromise the rating. The Analyst certifies that the views expressed in the Product Assessment accurately reflect their personal, professional opinion about the financial product to which this Product Assessment refers.

RATINGS METHODOLOGY: The Zenith Product Assessment process utilises a proprietary research model developed specifically for the assessment of Listed Investment Companies (LICs). Zenith analyses a wide range of specific factors of an investment and undertake in-depth meetings with all management entities involved to derive its opinion. Methodologies involve a comprehensive, multi-dimensional selection process through rigorous qualitative and quantitative analysis. As a dedicated provider of managed funds research, Zenith is completely objective in its selection process. This process allows Zenith to identify those investment managers and products which represent “best of breed” in the industry.

Each Fund rated under the Zenith Product Assessment is scored as follows;

Rating	Score
Highly Recommended	=/> 80%
Recommended	70% - 79%
Approved	55% - 69%
Not Approved	<55%

HIGHLY RECOMMENDED: Only a small number of Funds achieve a Highly Recommended rating. These products represent Zenith’s high conviction of the ability of the investment to achieve it’s goals over the timeframe and high conviction in the abilities of management to achieve these goals and effectively manage internal and external risk factors.

RECOMMENDED: Recommended products are deemed strong investments within their respective asset class. These products represent Zenith’s strong conviction of the ability of the investment to achieve it’s goals over the timeframe and strong conviction in the abilities of management to achieve these goals and effectively manage internal and external risk factors.

APPROVED: Approved products are deemed above investment grade investments within their respective asset class. Approved candidates meet the necessary criteria to be eligible for assessment and sufficient potential to achieve its goals, however weakness in one or more key areas creates sufficient uncertainty in investment outcomes to prevent the product attaining a higher rating.

NOT APPROVED: The large majority of those managers/products rated “Not Approved” do not pass the initial quantitative and qualitative risk filters and as such are deemed non-investment grade. A smaller percentage of managers are also culled following the interview process, which involves face-to-face meetings with key personnel.

REDEEM: A redeem rating will be placed on a product where there has been a significant event that Zenith believes strongly adversely impacts the product to such an extent that investors are advised to redeem (withdraw) their investment in the product.

WARNING: This report and rating is designed to provide general advice only and is based solely on consideration of the investment merits of the financial product. Investment ratings do not take into account the personal circumstances, needs or objectives of any particular person and should not be used in isolation. Any investment rating, regardless of score, does not mean that a particular investment product may be suitable for any individual. Zenith strongly advises that ratings are used in consultation with professional, licensed financial advice. The rating is subject to change without notice and Zenith assumes no obligation to update this document following publication.