

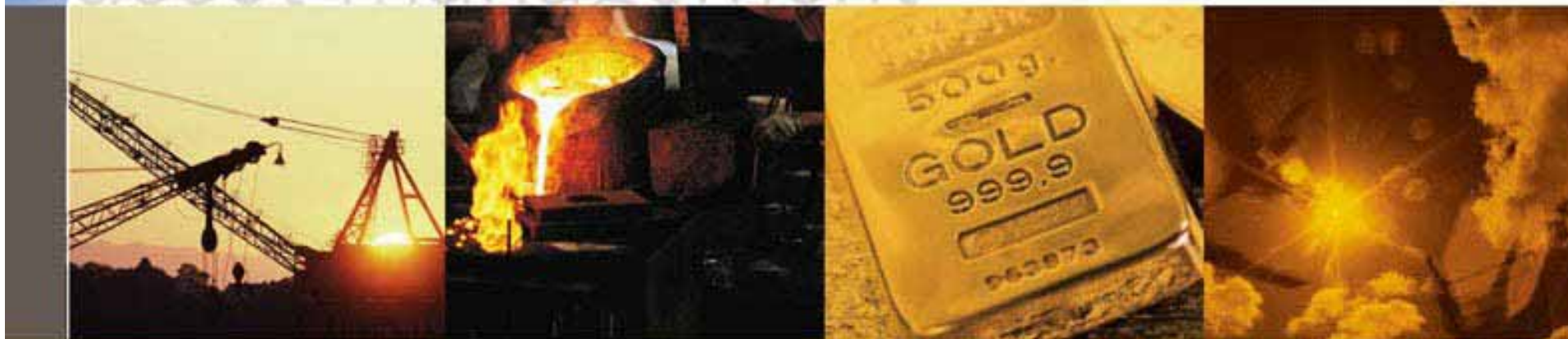


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5th Annual PortfolioConstruction Conference

23 – 24 August 2006 | AJC Convention Centre, Randwick, Sydney

Pillars for building better
quality investor portfolios...



Global commodities

- capturing the boom without the bust

Brett Dobeson, Associate Director

PortfolioConstruction Conference 2006

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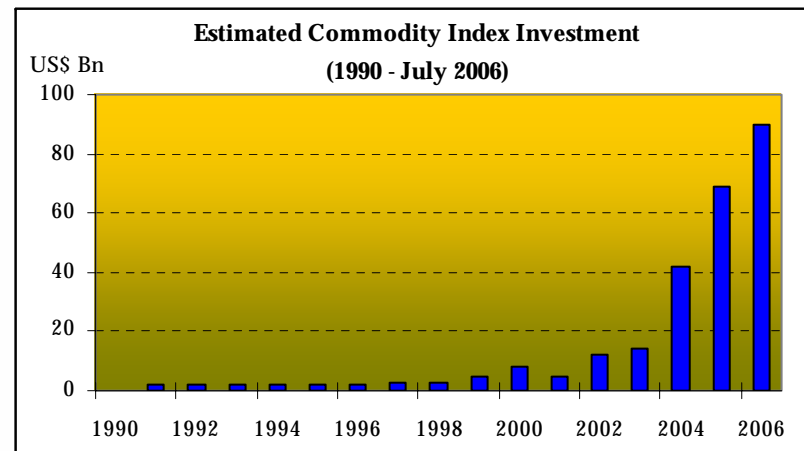
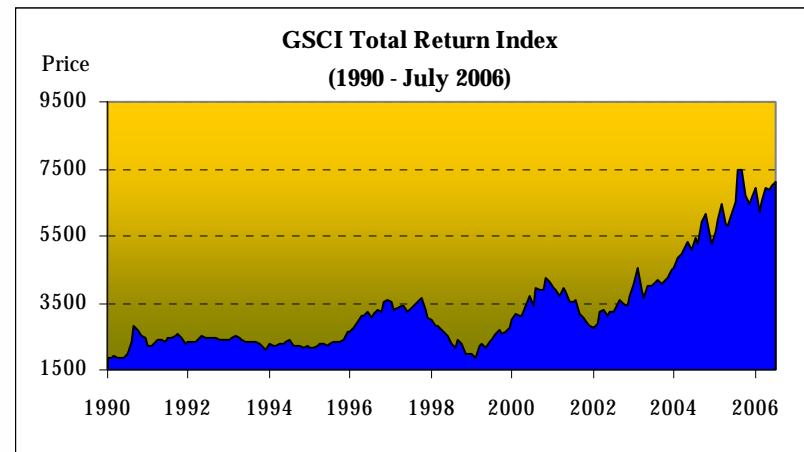
Contents

- Commodity boom – Set to continue?
- Commodities as an asset class
- Passive commodity investment strategies (beta)
- Active commodity investment strategies (alpha)
- Avoiding the commodity bust

Commodity boom set to continue?

Key drivers

- The China story
- Supply constraints
- Global economy
- Geo-political risk
- Investment demand



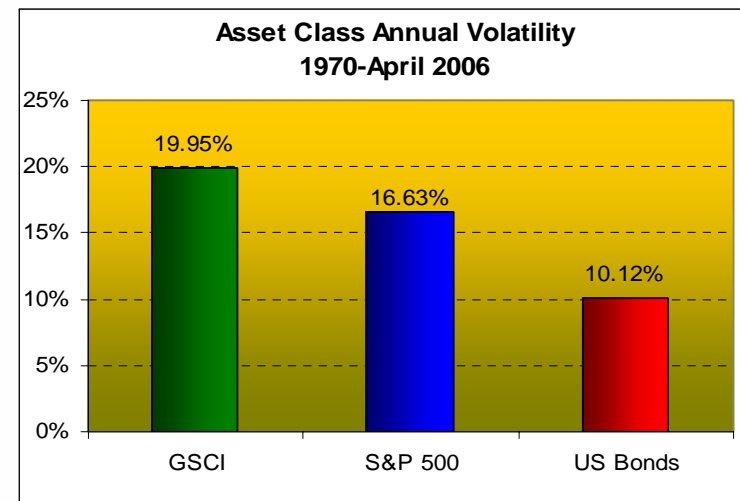
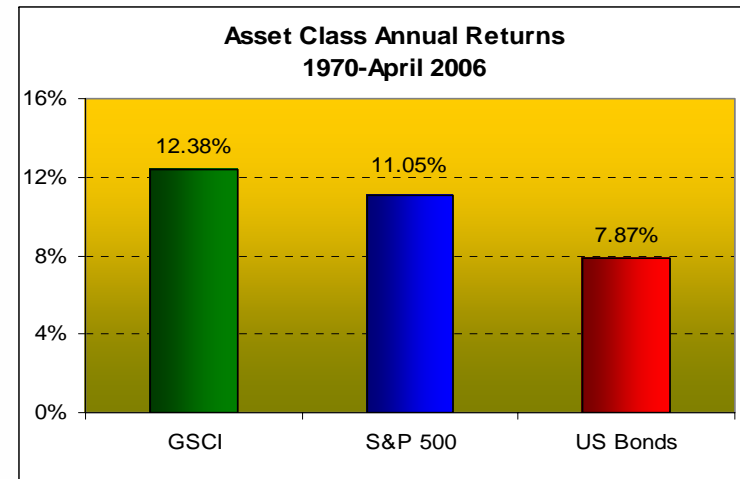
Source: GoldLink, Bloomberg, Goldman Sachs

Commodities as an asset class

Why Commodities

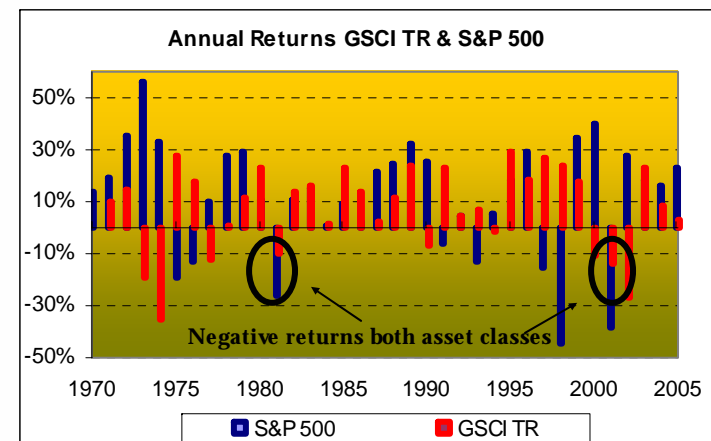
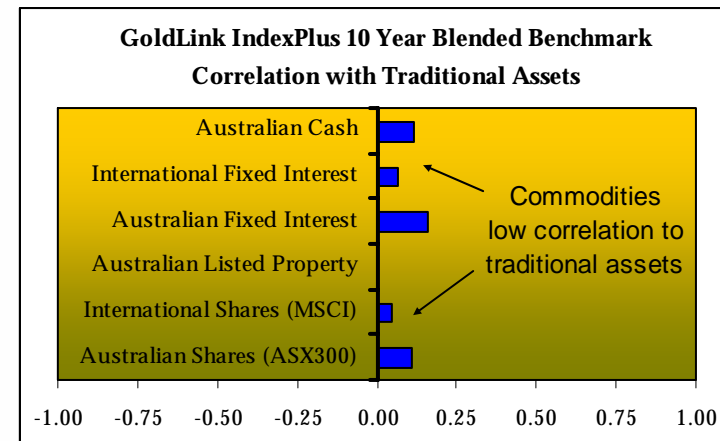
- Excess returns
- Equity like volatility
- Low correlation to traditional assets
- Hedge against inflation and event risk

Source: GoldLink, Bloomberg, Goldman Sachs



Low correlation

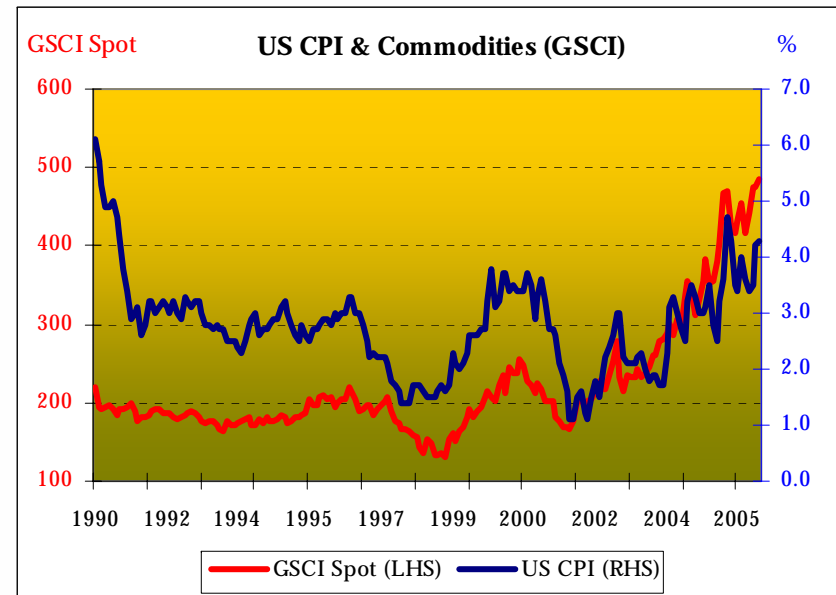
- Low correlation to traditional assets
- Portfolio diversification
- GSCI and S&P 500 rarely generate a negative return in the same year



Source: DJAIG, GSCI, Bloomberg & GoldLink– Monthly total return return data

Commodities as a hedge

- Commodities strong correlation to inflation
- Traditional assets negative correlation to inflation
- Commodities as a hedge against event risk



Source: GoldLink, Bloomberg

Passive Commodity Investing (Beta)

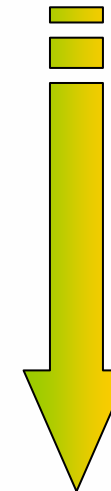
Passive Investment Alternatives

- Exchange Traded Funds (ETFs)
- Commodity related equities
- Structured notes
- Commodity indices

Retail



Institutional



Commodity Indices

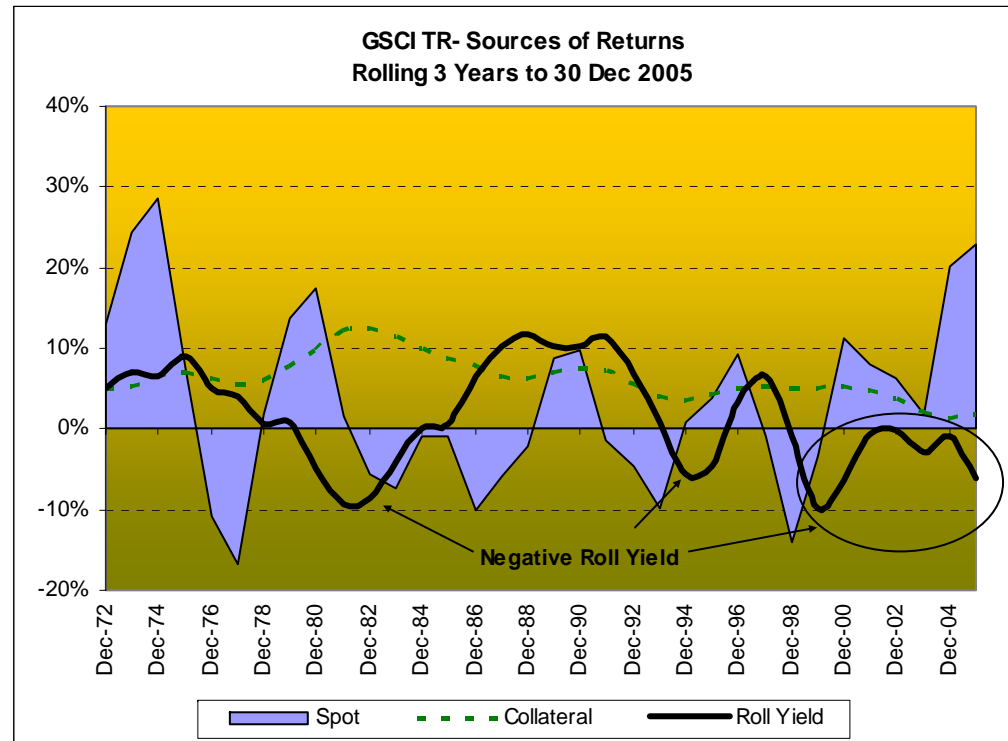
- Estimated US\$90 billion
- Passive long only investment
- Broad commodity exposure (beta)
- Not all commodity indices are created equal

Commodity Index Approximate Weighting						
	GSCI	DJ-AIG	CRB	RICI	DBC	GoldLink Blended
Components	24	19	19	35	6	25
Energy	75%	28%	39%	44%	55%	51%
Industrial Metals	10%	25%	13%	14%	10%	18%
Precious Metals	2%	10%	7%	7%	10%	6%
Agriculture	10%	26%	34%	32%	25%	18%
Livestock	3%	8%	7%	3%	0%	6%
Vegetable Oil	0%	3%	0%	0%	0%	1%

Source: GoldLink, Bloomberg, Goldman Sachs, DJ-AIG, Deutsche Bank

Index Return Sources

- Spot
- Collateral Return
- Roll Yield



Source: GoldLink, Bloomberg

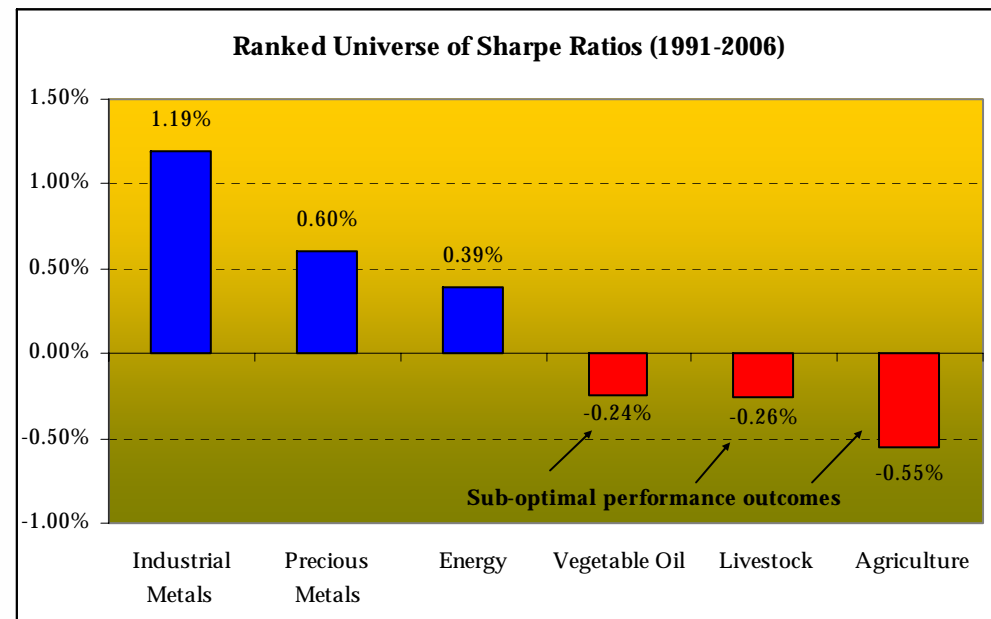
Active Commodity Investing (Alpha)

Active Investment (Alpha)

- Exploit commodity market inefficiencies
- Tactical tilting of sub-sector weightings
- Roll yield
- Collateral enhancement
- Downside risk protection

Index Tactical Tilts

- Avoid sub-optimal performance outcomes
- Tactical tilts generate superior risk adjusted returns
- Energy exposure may reduce portfolio volatility

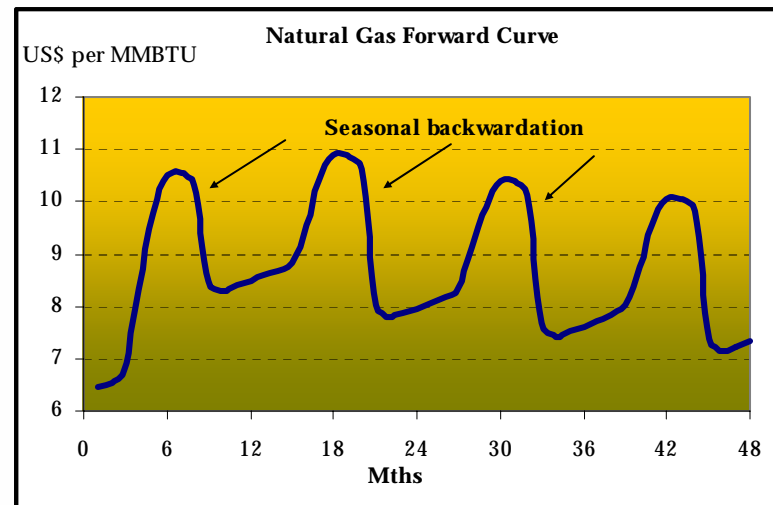
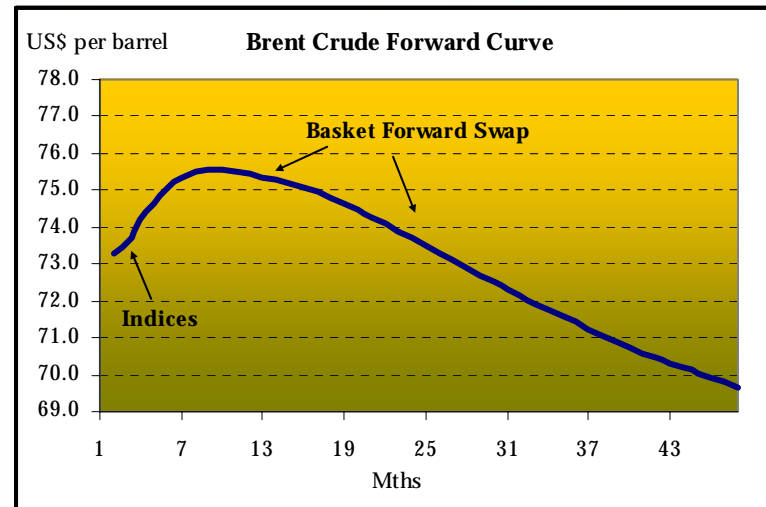


Source: GoldLink, Bloomberg, Goldman Sachs, DJ-AIG

Index Roll Yield Enhancement

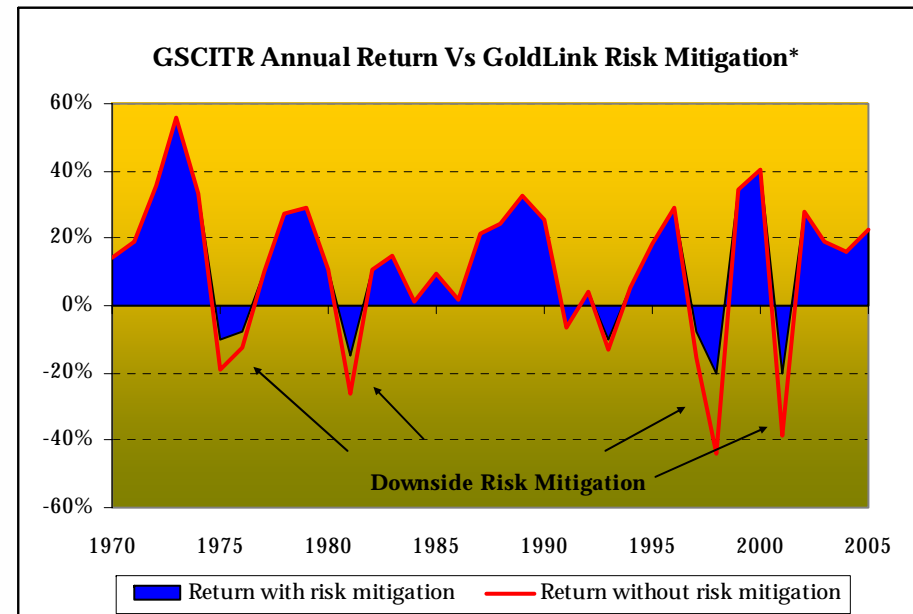
- Alternative roll dates
- Roll less frequently
- Seasonality
- Exploit backwardation

Source: GoldLink, Bloomberg



Avoiding the Bust

- Volatile asset class
- Passive strategies offer no downside protection
- Tactical tilts to reduce overweight exposure
- Option strategies designed to reduce volatility
- GoldLink Enhanced Commodity IndexPlus Fund



Source: GoldLink, Bloomberg

Summary

- Commodities offer portfolio risk return benefits
- Inefficient commodity markets offer alpha opportunities
- Active management may exploit limitations of passive long only commodity investing
- Option strategies to avoid the bust

Gizmo time

Which session are you in?

6. Tyndall

7. AMP Capital Investors

8. Schroders

9. Nicholas Applegate/Allianz
Global Investors

10. Challenger Financial Services

Gizmo time

Please rate the overall quality of this session...

1. awful
2. Poor
3. Mediocre
4. Good
5. Very good
6. Great!



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