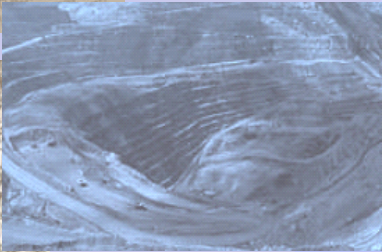
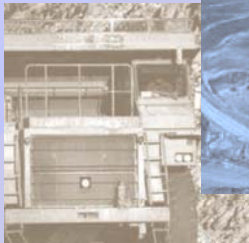




Sitting on Top of a Mountain

Presentation to
PortfolioConstruction Conference
2008



Building wealth
.....through Australia's emerging resource producers

Scaling New Peaks



- Commodity prices
- Industry profitability
- Equity values

Image courtesy of www.ianrobertsonphotography.com

Building wealth

..... through Australia's emerging resource producers

Aims & Motivations

Primary aim

To analyse what happens to equity prices when commodity prices fall

Motivation

Do we quit resources if prices fall?

How strong is the connection?

- what are the risks of not holding resource stocks through the cycle

Methodology

Construct as long a history as possible to maximise the number of cycles we are able to study and from which we can draw inferences about prospective conditions

Building wealth

..... through Australia's emerging resource producers

Methodology

1. Derive commodity price series

- an index of wholesale prices of metal and metal products compiled by the U.S. Bureau of Labor Statistics (BLS), monthly, January 1890 to December 1951
- an index of nonferrous metal prices prepared by the BLS, monthly, January 1926 to May 2008
- the International Monetary Fund metal price index, monthly, January 1960 to May 2008.

2. Derive equity price series

- the All Mining index produced by the Sydney stock exchange and the ASX, August 1936 to July
- the All Resources share price index produced by the ASX, December 1979 to April 2000
- the S&P/ASX 200 resources index produced by Standard and Poor's from ASX price data, since April 2000

3. Compare timing of returns from two series

Building wealth

..... through Australia's emerging resource producers

Background Research

Gary Gorton and K. Geert Rouwenhorst: “Facts and Fantasies about Commodity Futures”

- the share price performance of commodity producers is more likely to adopt the characteristics of the relevant equity market than the qualities of the markets of the underlying commodities which they produce

Frank Finn and Timo Koivurinne: “The Ex Ante Efficiency of Australian Stock Market Benchmarks” (Aust. Journal of Management, 2000)

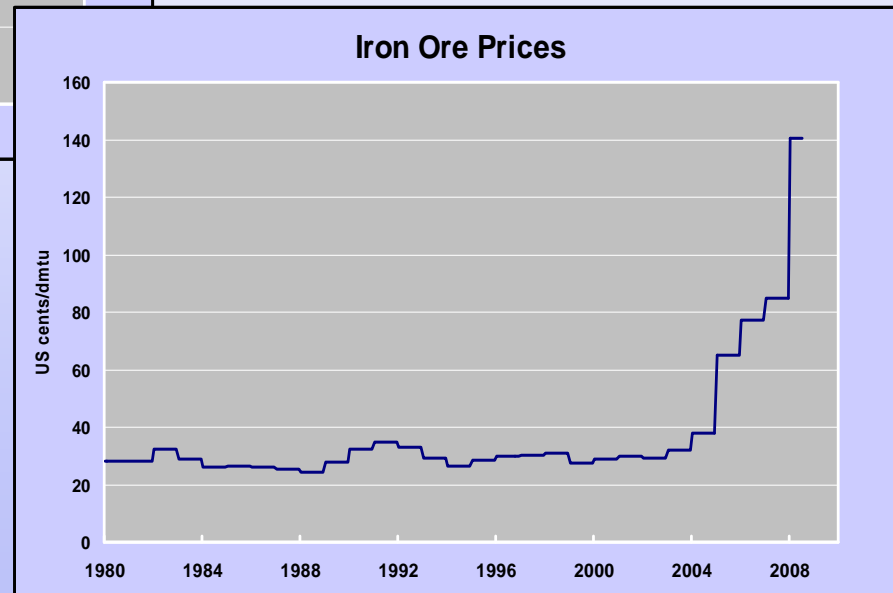
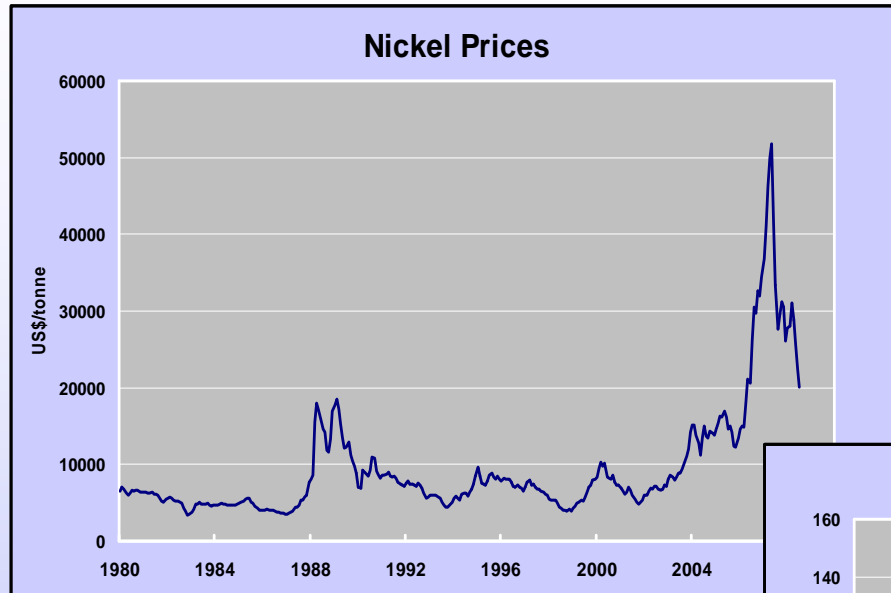
- combining their results with those of Ball and Brown (1980), mining/resource sector indices have demonstrated inferior performance in mean-variance space for almost 40 years, 1958–1996

R. Ball and P. Brown: “Risk and Return From Equity Investments in the Australian Mining Industry” (Aust. Journal of Management, 1980)

Building wealth

..... through Australia's emerging resource producers

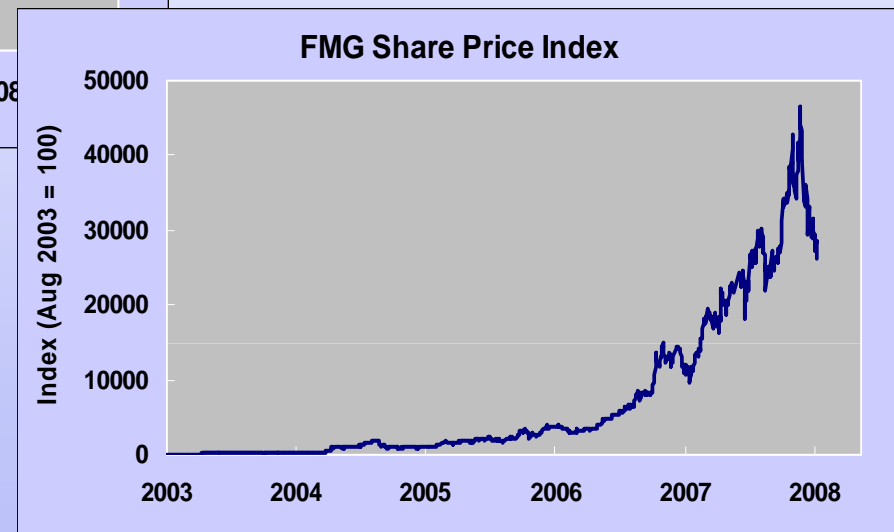
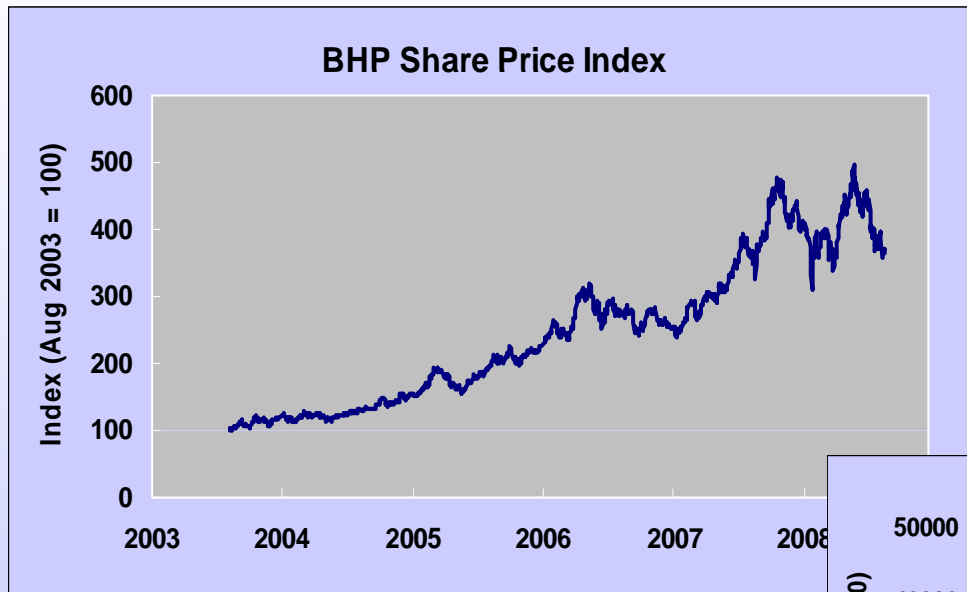
Simplifications - commodity prices



Building wealth

..... through Australia's emerging resource producers

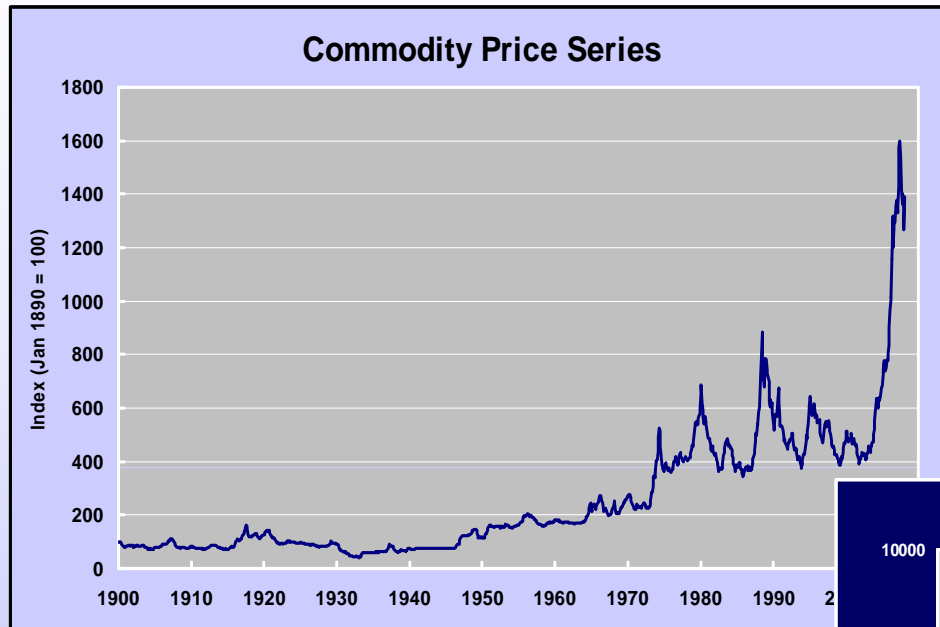
Simplifications - equity prices



Building wealth

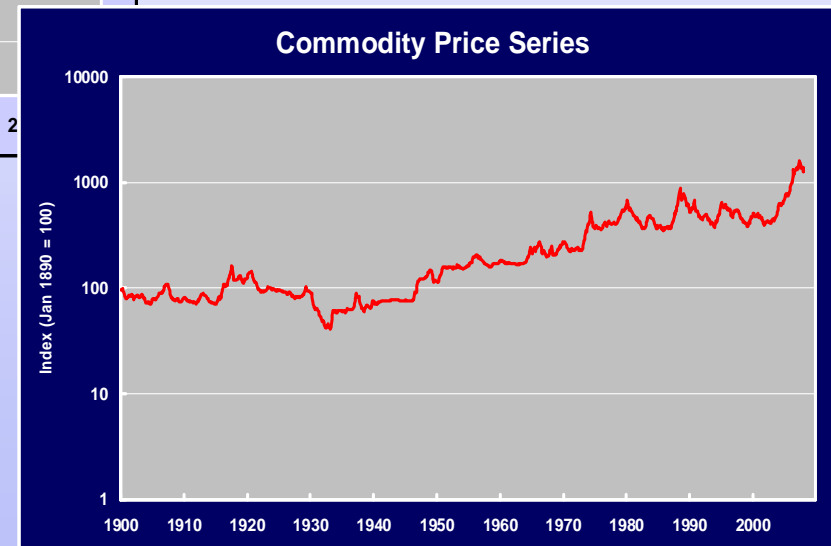
..... through Australia's emerging resource producers

Commodity Price Index



Rolling 12 Months Return Analysis

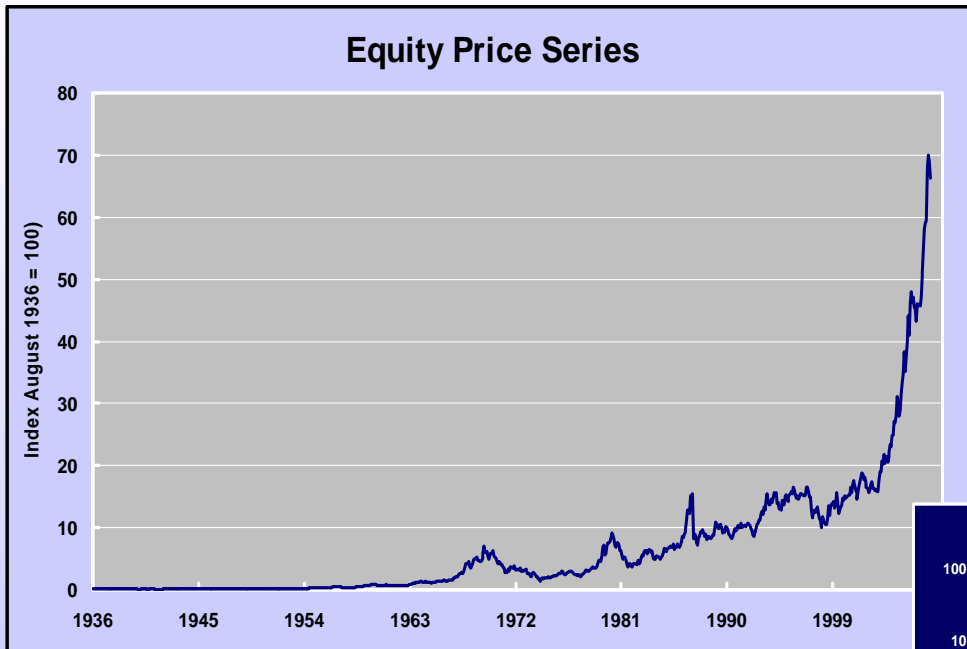
Mean	3.94%
Standard deviation	19.13%
Median	0.28%
Kurtosis	2.29
Skewness	1.22



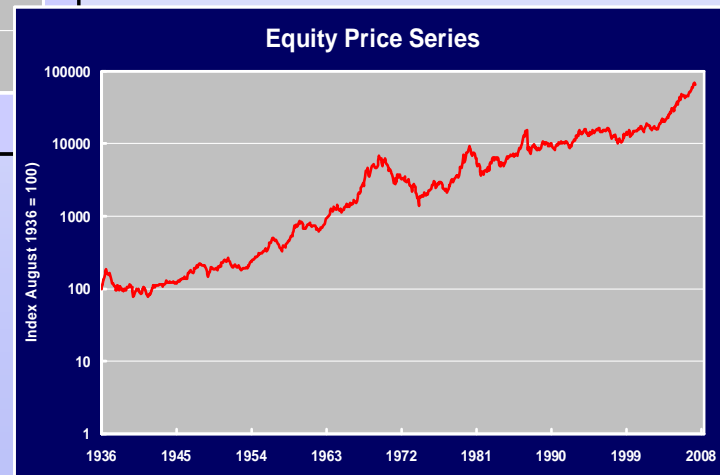
Building wealth

..... through Australia's emerging resource producers

Equity Price Index



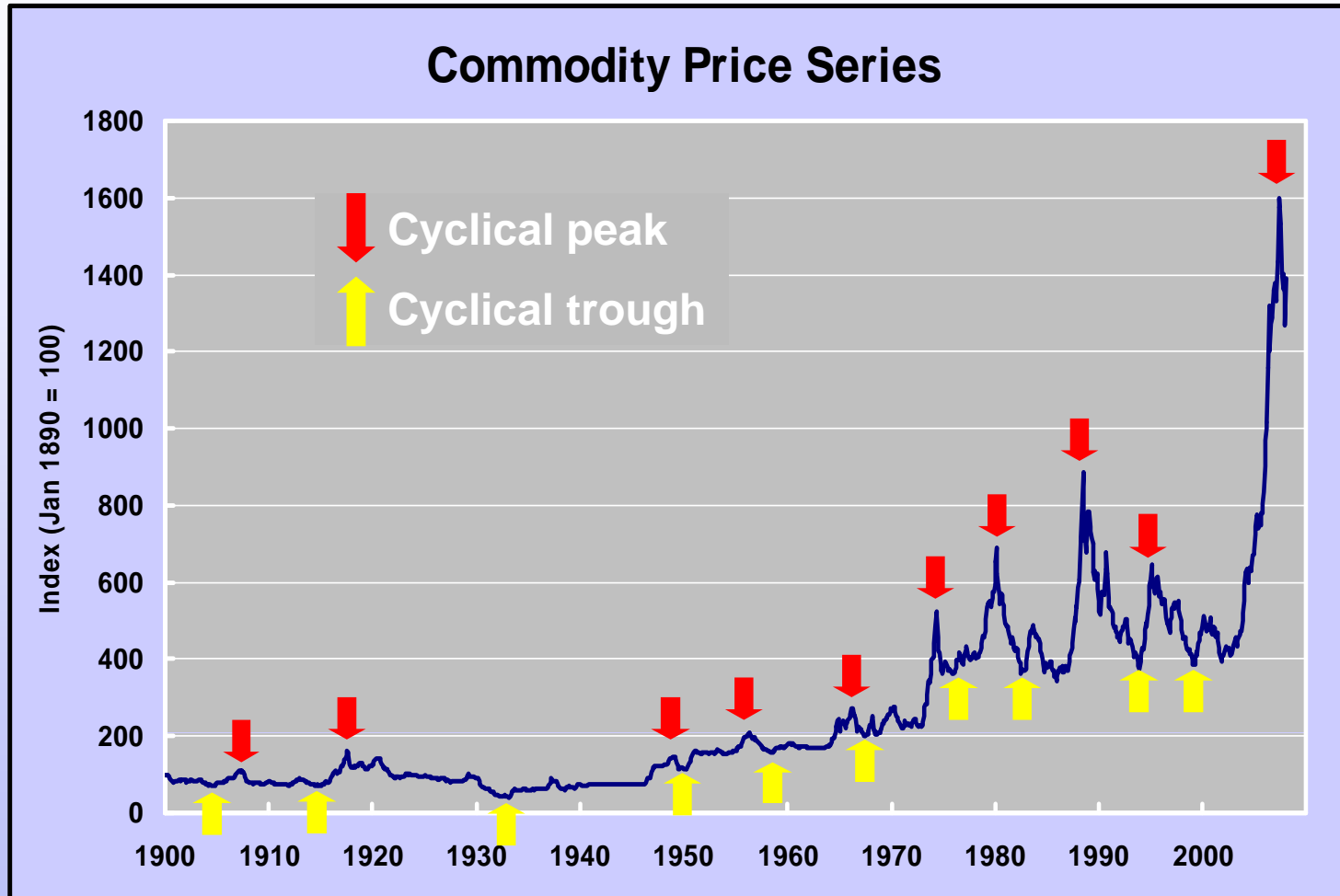
Rolling 12 Months Return Analysis	
Mean	12.51%
Standard deviation	29.01%
Median	9.17%
Kurtosis	1.13
Skewness	0.74



Building wealth

..... through Australia's emerging resource producers

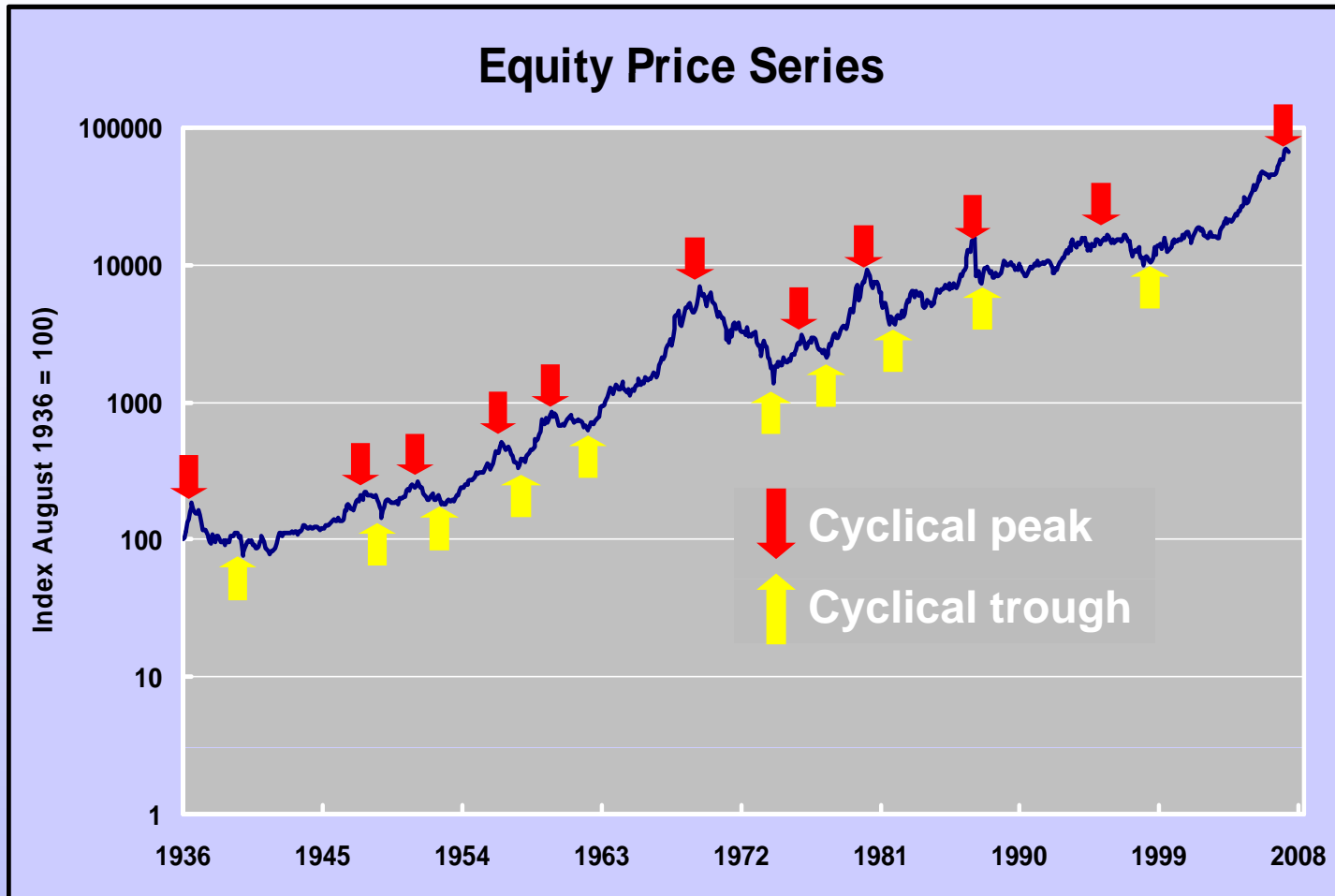
Commodity Price Cycles - Timing



Building wealth

..... through Australia's emerging resource producers

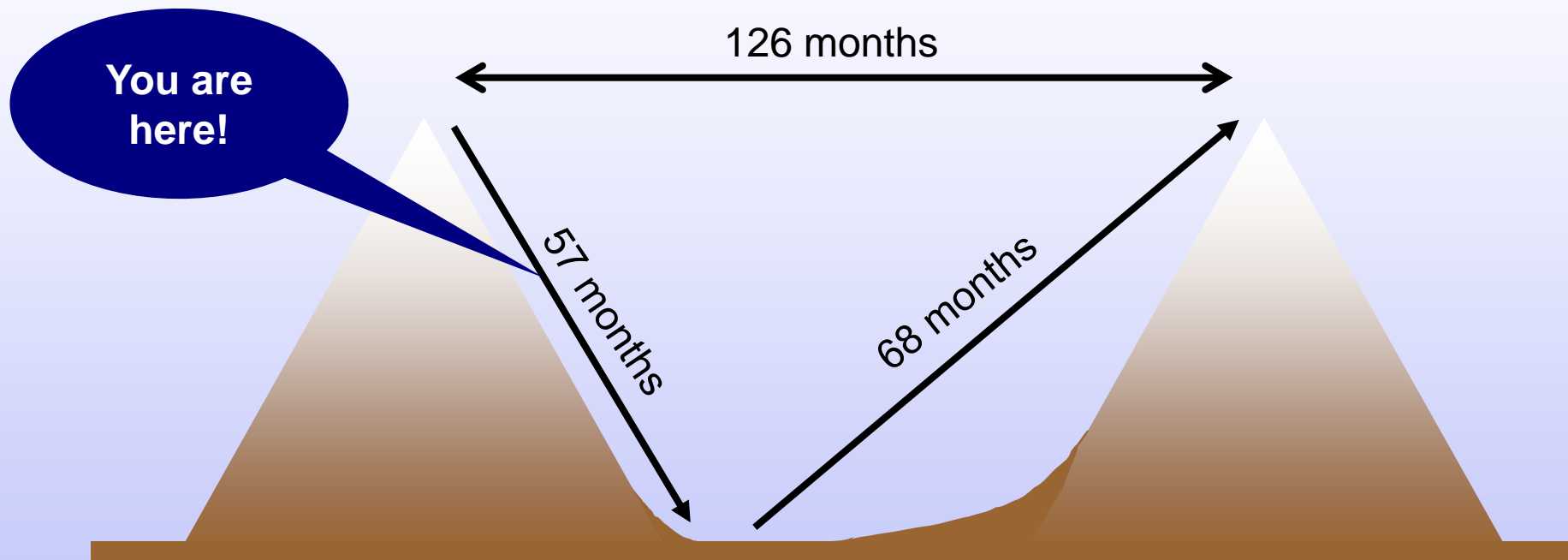
Equity Price Cycles - Timing



Building wealth

..... through Australia's emerging resource producers

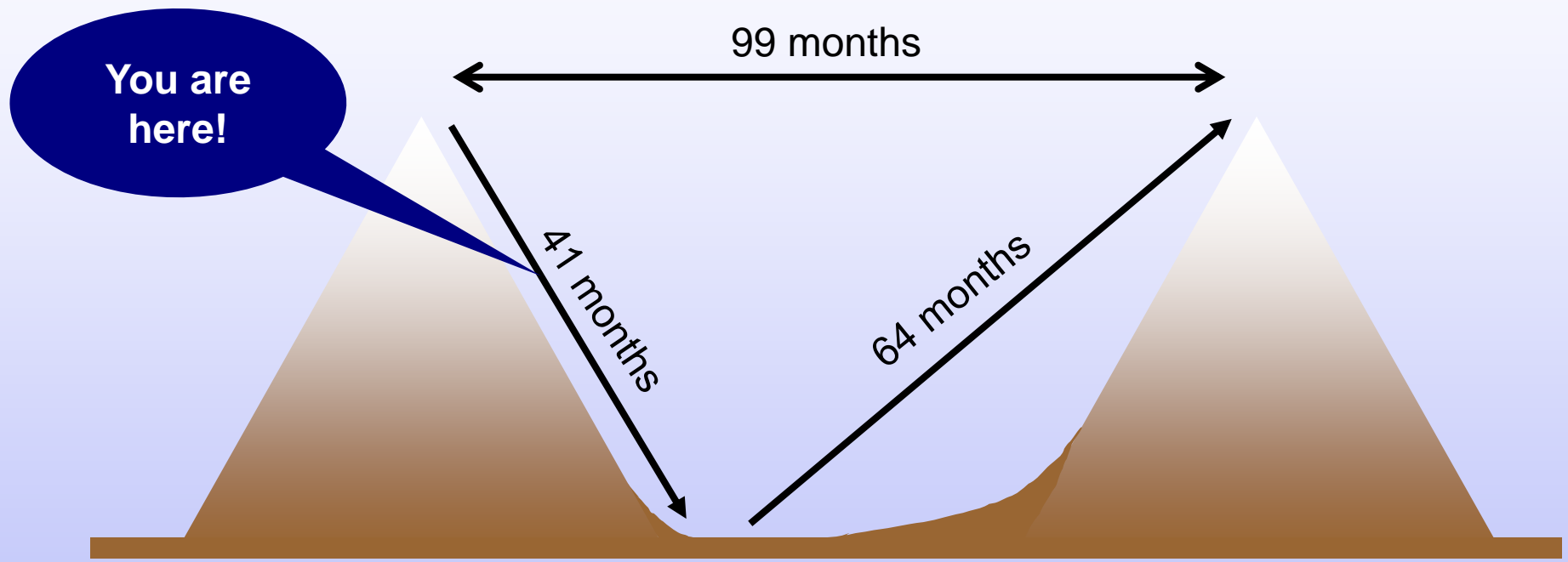
Scaling the *Average* Commodity Price Peak



Building wealth

..... through Australia's emerging resource producers

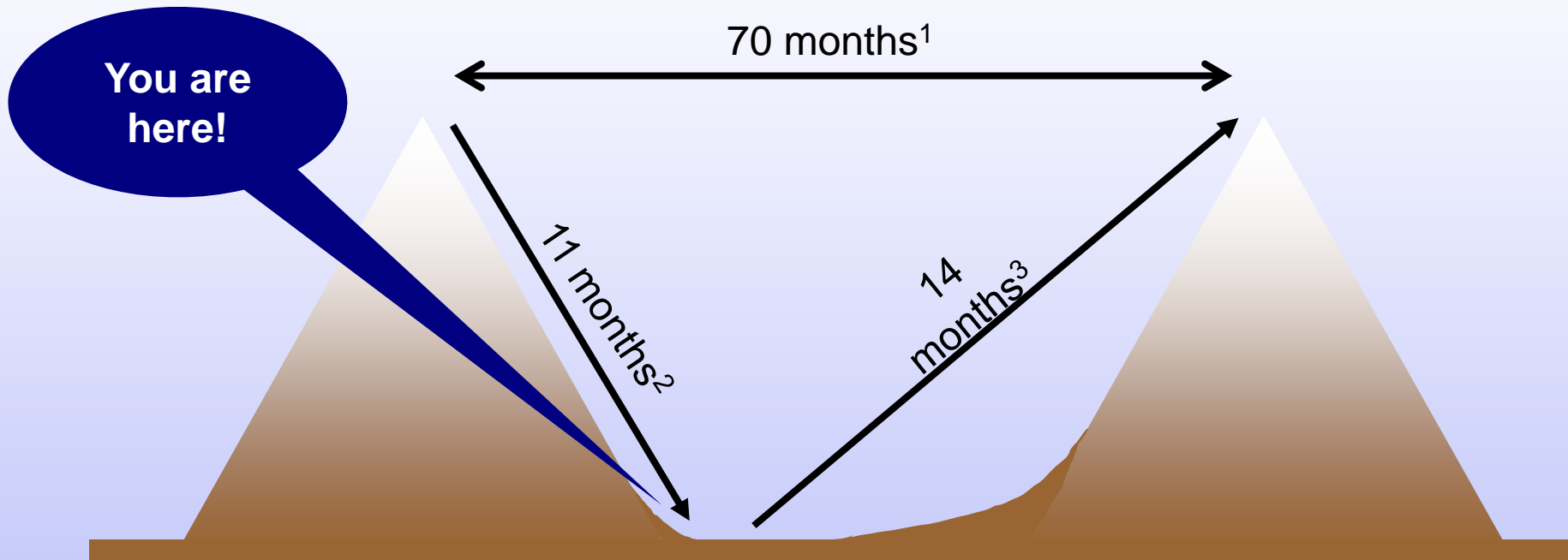
Scaling the More Recent Commodity Price Peaks*



* Over the five cycles since April 1974

Building wealth
..... through Australia's emerging resource producers

Scaling the *Easiest* Commodity Price Peaks

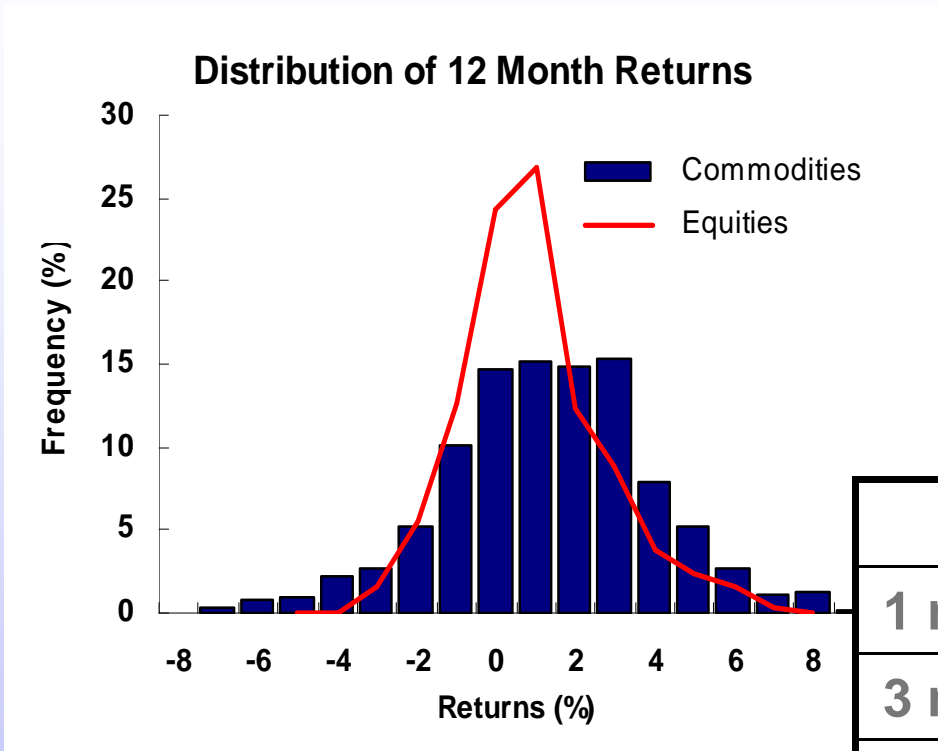


1. Apr 1974 – Feb 1980
2. Apr 1966 – Mar 1967
3. Nov 1993 – Jan 1995

Building wealth

..... through Australia's emerging resource producers

Commodity & Equity Return Correlations



	1937 to 2007
1 month	0.17
3 months	0.24
12 months	0.24
36 months	0.21

Building wealth
..... through Australia's emerging resource producers

Commodity & Equity Return Correlations

	Same direction?
1 month	61%
3 months	64%
12 months	64%
36 months	60%

	Commodities fell & equities rose?
1 month	44%
3 months	46%
12 months	49%
36 months	67%

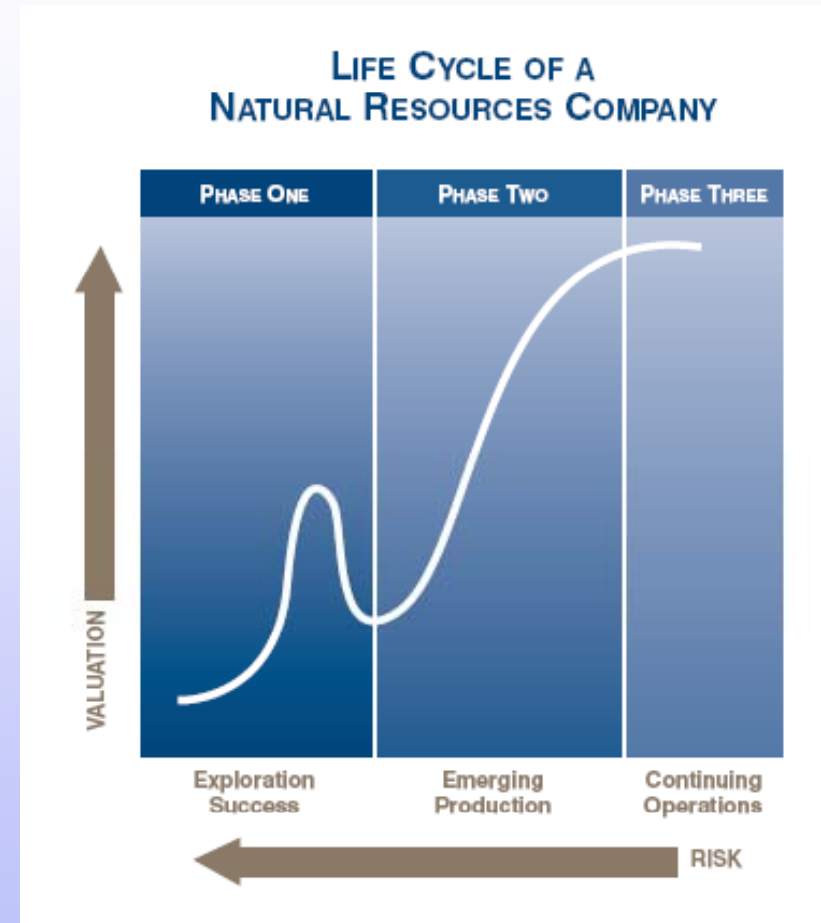
What influences these results?

Building wealth

..... through Australia's emerging resource producers

Three Resource Sector Value Drivers

- ❑ Exploration Success
- ❑ Growth through new projects
- ❑ Higher commodity prices



Building wealth

..... through Australia's emerging resource producers

The Impact of Commodity Prices

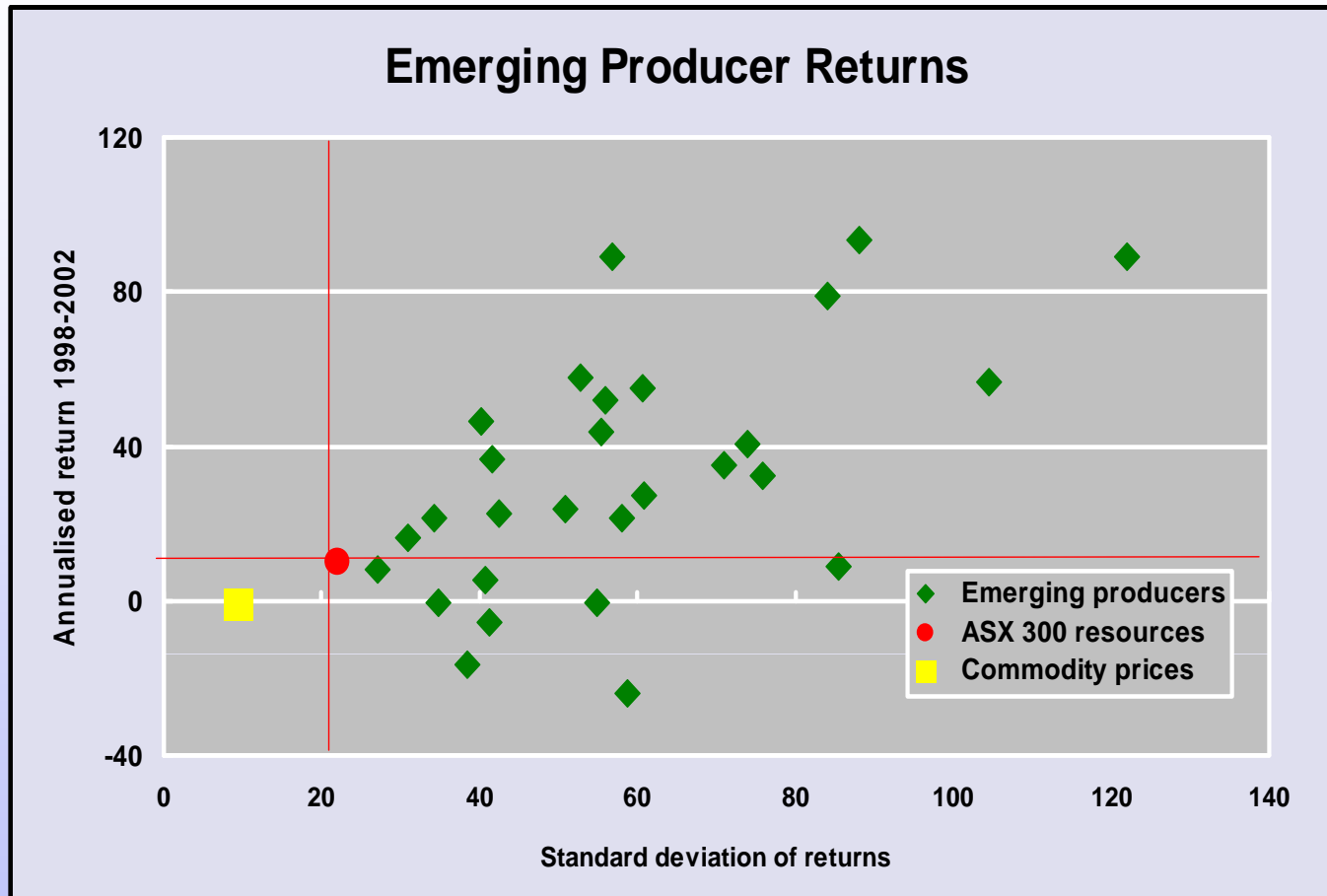
BHP Billiton Sources of Profit Growth

<u>US\$million</u>	2007/08	2006/07	2005/06
Prior year EBIT	20,067	15,277	9,921
Price impact	+6,559	+6,122	+6,215
Volume impact			
- organic	208	+218	-80
- purchased	-	-	+1,140
- development	+1,620	+368	-
Cost impact	-3,252	-1,695	-1,930
Other	-902	-223	-149
Latest year EBIT	24,282	20,067	15,277

Building wealth

..... through Australia's emerging resource producers

Growth in the Trough of a Cycle



*Emerging producers based on model portfolio of stocks prepared by E.I.M. Capital Managers
Stock details available on request*

Building wealth

..... through Australia's emerging resource producers

Our Current Commodity Exposure

- We are in a cyclical downswing
 - equity prices mostly (~60%) follow commodity prices
 - equity prices will “probably” fall in the cyclical downswing
 - there is a significant (~40%) chance they will not
 - there is a loosening relationship between commodity prices and equity values over longer investment horizons
 - there are risks in tying equity investment decisions to a commodity price view

- Timing differences
 - e.g. nickel and iron ore
 - suggest a need for commodity diversification

Building wealth

..... through Australia's emerging resource producers

Implications for Portfolio Construction

- ❑ Maintain resource exposure
- ❑ Look for strong organic growth profiles
- ❑ Minimise commodity price earnings sensitivity
- ❑ Find low cost operations
 - can it survive the trough of a cycle?
- ❑ Find long life operations
 - can it last more than one cycle?
- ❑ Ensure execution ability
 - can the people develop the asset?
- ❑ Assess access to capital
 - is it a bankable project?
- ❑ Worry about commodity exposure
 - the last factor!

Building wealth

..... through Australia's emerging resource producers



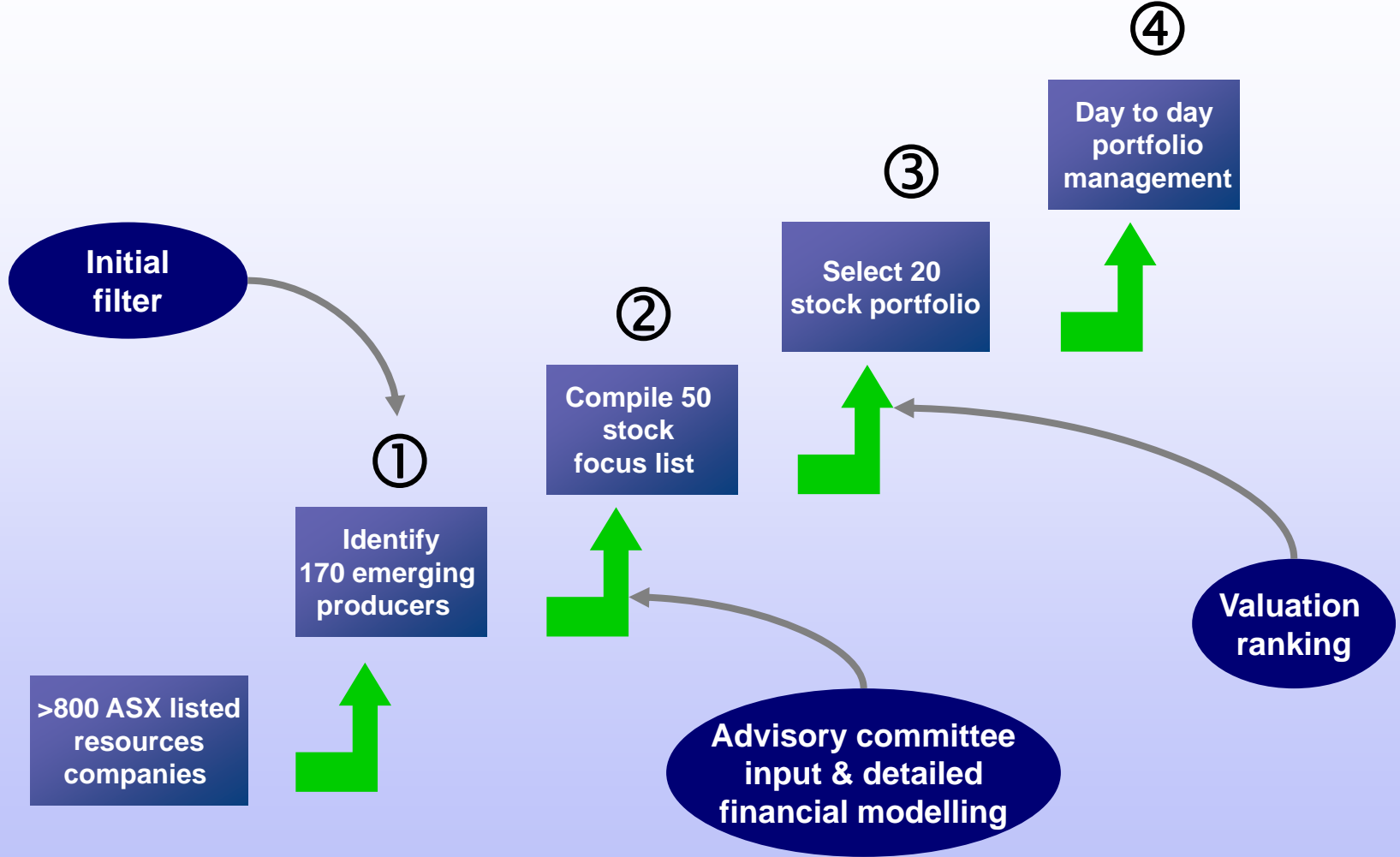
Sitting on Top of a Mountain

Questions and Answers



Building wealth
.....through Australia's emerging resource producers

The E.I.M. Investment Process



Building wealth
..... through Australia's emerging resource producers

EIM Capital M

Emerging Resou
Company Share

ARSN 118 630 541

Product Disclosure

Dated 19 March 2007
Investment Manager:
EIM Capital Managers Pty Ltd
ABN 28 101 508 632
AFS LICENCE NUMBER 261989

Responsible Entity and Issuer:
Officium Capital Ltd
ABN 13 108 747 637
AFS LICENCE NUMBER 275101



EMERGING RESOURCE PRODUCERS
Equity Portfolio



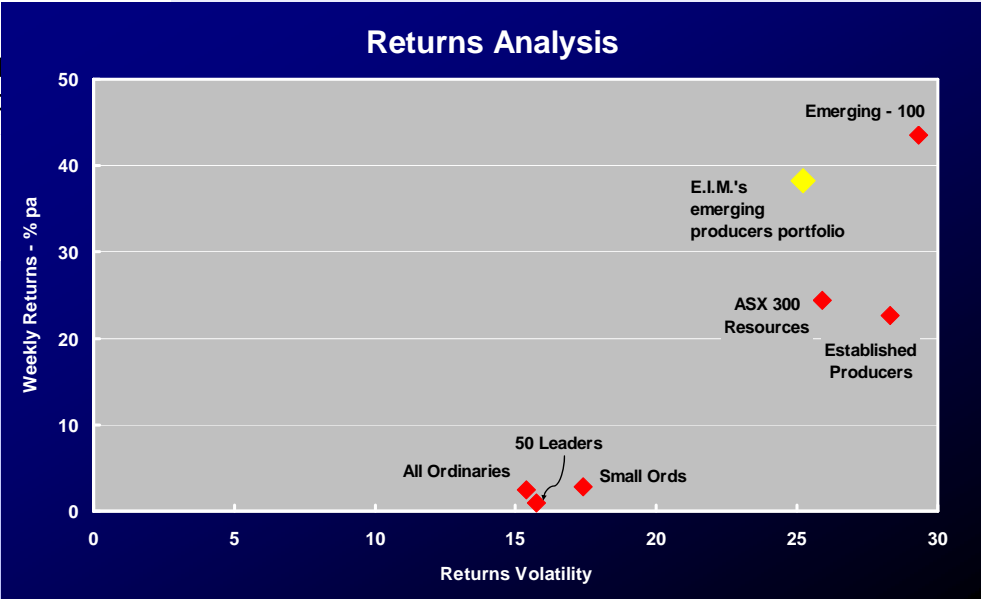
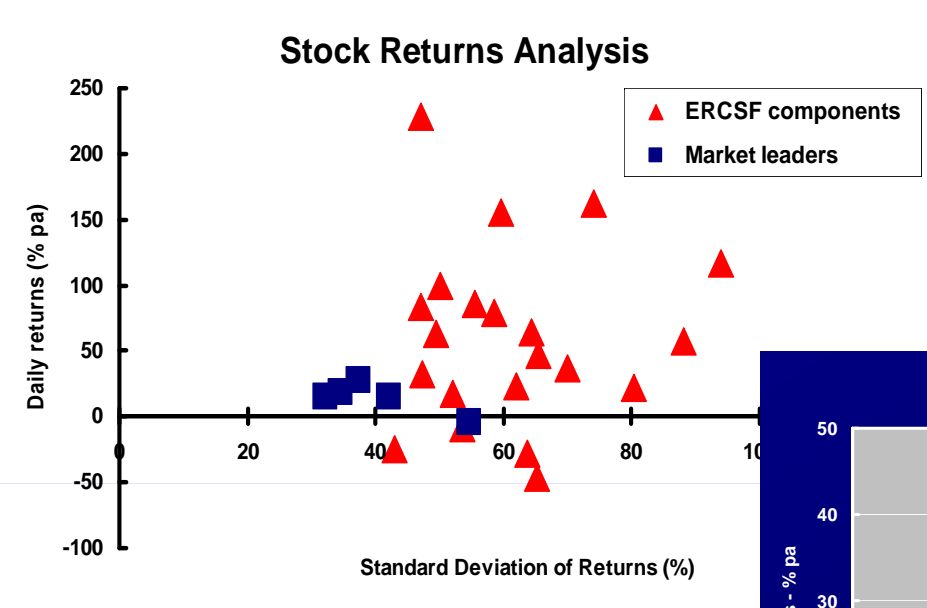
*Building wealth
through Australia's emerging resource producers*



Investment Manager
E.I.M. Capital Managers Pty Ltd
ABN 28 101 508 632
AFS Licence Number 261989

Managed Account Operator
Investment Administration Services Pty Limited
ABN 86 109 199 108
AFS Licence Number 264316

Containing Sector Volatility – A Key Feature



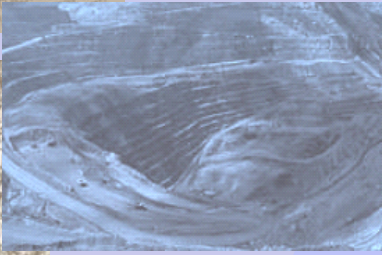
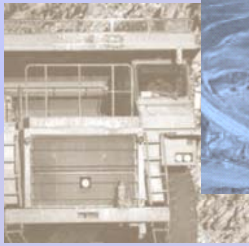
Data to end June 2008

Building wealth
 through Australia's emerging resource producers



Sitting on Top of a Mountain

Presentation to
PortfolioConstruction Conference
August 2008



Building wealth
.....through Australia's emerging resource producers

Let's start thinking about...

This session was:

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

Gizmos brought to you by



CONFERENCE



Time's Up!

Let's start thinking about...

This session was:

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

Gizmos brought to you by



CONFERENCE

Disclaimer

Although the statements of fact in this communication have been added from and are based upon sources that E.I.M. Capital Managers Pty Ltd (ABN 28 101 508 632) believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates in this communication constitute judgments by E.I.M. Capital Managers Pty Ltd as of the date of this communication and are subject to change without notice.

No references to past investment performance should be taken to indicate anything about future performance.

This communication is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of a security. This communication does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors should obtain individual financial advice based on their own particular circumstances before making an investment decision on the basis of any information contained in this communication.

For further information:

John Robertson: 03 9500 9786 or john.robertson@eimcapital.com.au

November 2, 2008

Building wealth

..... through Australia's emerging resource producers