

MEDIA RELEASE

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Long term investors do not need to bet on commodity prices, says First State's Head of Global Resources

Investment decisions based primarily on a directional view of commodity prices introduce unnecessary risks into a global resource equity portfolio, according to Joanne Warner, Head of Global Resources at First State Investments. Warner manages the **First State Global Resources Fund**, which is rated 'AA' by both Standard & Poor's and OBSR. The fund aims to achieve long-term capital growth through investing in equities of resources and energy companies globally.

Warner comments:

'Commodity prices are notoriously volatile and trying to time that market is a risky and thankless task. Instead, we employ a conservative approach better suited for long-term investors by focusing on some of the world class, low cost global resources companies that, in our view, are well placed to benefit from positive long-term trends in the sector.'

Warner says that this way of investing involves a lot of groundwork but she believes it pays off:

'Apart from financial expertise, this approach requires a high level of technical knowledge in a number of disciplines related to global resources, including geology, metallurgy, physics and chemistry. For example, when we analyse a mining company we examine the geology of each site, as well as the likelihood of discovering new mineral deposits there in the future. We form a view about the long-term value of the stock by considering that assessment against existing planning, extraction methods and development plans for the mine. By way of example, our decision to invest in Detour Gold Corporation of Ontario was largely based on the attractive geology of its mining site and good infrastructure in its vicinity. The company's share price has since tripled and currently it is one of the best performing holdings in our portfolio.'

First State's Global Resources team selects stocks by employing a 'bottom-up' investment approach and regards its first-hand knowledge of companies as a strategic advantage. Since

the launch of the **First State Global Resources Fund** in 1997 the team has made over 950 visits to mines and sites in over 60 countries. These visits help to identify and assess specific risks associated with companies and to decide whether a particular stock deserves either a premium or discount to its valuation. A view of future company performance is formed through stress testing using different commodity price and currency scenarios.

Warner says that in every company her team looks for the potential to deliver long-term growth. In many cases, it will depend on the ability of the company to capture opportunities arising from growing demand for commodities and improving efficiency in their production:

‘The demand for commodities is driven mostly by demographic trends, industrialisation and rising income levels in emerging markets. Urbanisation is forecast to remain a strong driver behind infrastructure development, which in turn will continue to support global demand for hard commodities. One such area is copper. Although at historically high prices, cost inflation continues to drive up long-term price assumptions due to declining average copper grades and supplies lagging behind demand.’

The **First State Global Resources Fund** invests in **Antofagasta**, a Chilean-based copper miner; **Freeport McMoRan Copper & Gold (FCX)**, a US miner whose assets include the world’s largest copper and gold mine in terms of recoverable reserves; **Sandfire Resources**, a stock which saw a rapid rise to prominence following the discovery of the DeGrussa copper-gold deposit last year; and **Citadel Resources**, an Australian miner with projects in the Arabian Shield.

Warner believes that the mining sector will become a focus for merger and acquisitions activity in the coming months:

‘Not only have mining companies come through the economic crisis relatively unscathed but they have also recapitalised their balance sheets and are now generating strong free cash flows. This puts them in a good position to acquire assets, many of which remain relatively undervalued in our view. This is one of a number of positive themes which we believe will bear fruit for long-term investors in global resources.’

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Notes to editors:**About First State Investments**

First State Investments provides specialist asset management services to wholesale and institutional investors across a diverse range of asset classes, including Asia Pacific and global emerging market equities, global equities, property securities, infrastructure and global natural resources. First State has more than 190 staff in London and Edinburgh and provides a range of specialist investment products to investors. First State is part of Colonial First State Global Asset Management, the consolidated asset management business of the Commonwealth Bank of Australia. Colonial First State Global Asset Management is Australia's largest fund manager. It employs investment professionals in Sydney, London, Edinburgh, Hong Kong, Singapore and Jakarta. Colonial First State Global Asset Management is a signatory to the United Nations' Principles for Responsible Investment, a voluntary program which encourages best practice in environmental, social and corporate governance issues.

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