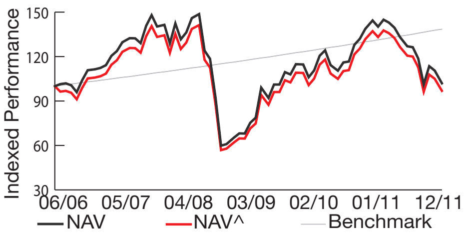


# United Global Resources Fund

In December 2011, the Net Asset Value("NAV") of the United Global Resources Fund (the "Fund") decreased by 7.88%[1] in Singapore Dollar terms, compared to its benchmark (absolute return benchmark of 6% per annum) which increased by 0.48%[2]. This compares to a gain of 0.4%[3] for the MSCI World Energy Index, a decline of 1.6%[2] for the broad-based Reuters Jefferies Commodity Index, and a decline of 6.8%[2] for the HSBC Global Mining Index, in Singapore Dollar terms.

**Performance**

29th May 06 To 30th December 11, Performance Based in Singapore Dollar.




*The above chart reflects performance from the first month end of the Fund. ^5% sales charge applied.

| Perf | NAV | NAV^ | BM |
|---|---|---|---|
| 1 month | -7.88% | -12.49% | 0.48% |
| 3 months | 0.52% | -4.51% | 1.46% |
| 6 months | -19.77% | -23.78% | 2.96% |
| 1 year | -29.45% | -32.98% | 5.98% |
| 3 years | 16.04% | 14.07% | 6.00% |
| 5 years | -1.78% | -2.78% | 6.00% |
| Since Incept | 0.33% | -0.59% | 6.00% |

**Source: Lipper, a Thomson Reuters Company • Performance as at 30 Dec 11, SGD basis, with dividends and distributions reinvested, if any.**
**• Performance figures for 1 mth till 1 yr show the % change, while those exceeding 1 yr show the average annual compounded return.**

Benchmark (BM) : The Performance of the Fund will be measured against an absolute return benchmark of 6% per annum

## Performance Attribution

December 2011 began with optimism that European leaders would finally agree on an effective solution at the Brussels summit. However, this early rally lost momentum as investors became concerned about the lengthy approval process required to approve steps towards any European fiscal integration. From the Fund's perspective, the important factors impacting performance were: 1) negative correlation of commodities to the US Dollar; 2) potential quantitative easing by the European Central Bank (ECB); and 3) the sharp drop in the physical gold price.

- **Negative correlation of commodities to US Dollar**. The European summit in Brussels on 8-9 December 2011 failed to calm fears of disorderly pricing in key European sovereign debt markets or a potential unwinding of the Euro currency. As a result, the Euro declined for a second successive month, falling from EURUSD 1.34 to EURUSD 1.29 (-3.6% month-on-month ("mom"))[3]. By contrast, the US Dollar index strengthened from 78.4 to 80.2 (+2.3% mom)[3] as the US currency benefited from the "risk-off" stance of investors. This stance has a negative impact on commodity-related equities, as shown by the -0.88[3] correlation between the US Dollar index and the HSBC Global Mining Index since the start of November 2011. Stabilization of the Euro currency is becoming an important step towards supporting commodity prices.

- **ECB undertaking quantitative easing?** A potentially important event came with the 20 December 2011 disclosure that the ECB injected Euro489bn[3] into the European banking system via its 3-year long-term repo operation (LTRO). The money was lent at the ECB's benchmark rate of 1.0%[3], essentially guaranteeing banks a positive return. Whilst most of this initial facility has gone to immediate liquidity needs, the ECB announced plans for a second LTRO in February 2012. It is expected that increasing amounts of LTRO proceeds will be invested in Euro zone sovereign debt, helping to reduce European sovereign debt yields. This will be supportive for the Euro currency, and leading indirectly to a recovery in commodity prices.

[1] Source: Lipper, Performance from 1 December 2011 to 30 December 2011 in SGD terms, on a NAV Basis, with dividends and distributions reinvested (if any).
[2] Source: Lipper, Performance from 1 December 2011 to 30 December 2011 in SGD terms
[3] Source: Bloomberg, 6 January 2012



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- **Sharp correction in the gold price.** Physical gold price was also negatively correlated with the US Dollar in December, with gold viewed as a commodity rather than as a store of monetary value. Physical gold started December at US$1,746/oz[3] and, with the exception of a brief mid-month rally, declined throughout the month to close at US$1,564/oz[3]. Despite this performance, the fourth quarter 2011 average gold price finished at US$1,682/oz[3], just 1.4% below the average price of US$1,706/oz for the third quarter of 2011[3]. This means that investors should see a strong reporting season when gold companies' financial results are released from early February 2012 onwards. Although the Fund's near-term performance has been impacted by our weighting in gold equities, we remain confident that current negative real interest rates provide solid support for gold-related assets.

The fall in the physical gold price was matched by the reduction in COMEX gold long positions to 716 tonnes (-16.1% mom)[3] during December, with long positions falling to their lowest level since April 2009. This decline may also be related to continued uncertainty over the MF Global bankruptcy, which has undermined confidence in the commodity futures markets. There was also a marginal fall in aggregate Gold ETF holdings to 2,403 tonnes (-1.1% mom)[3].

West Texas Intermediate crude oil prices started December at US$100.36/barrel[3] and despite a sharp mid-month correction managed to finish the month virtually unchanged at US$98.83/barrel (-1.5% mom)[3]. Brent crude oil prices traded in an almost identical manner, closing at US$107.38/barrel (-2.4% mom)[3]. The strong performance of crude oil prices relative to other commodities is an indication of continuing geopolitical concerns, with attention turning to a potential blockage of the Straits of Hormuz. The Fund maintains positions in Exploration & Production companies and in oil majors that offer high dividend yields.

## Outlook and Strategy

Resource-based companies now trade at recession-level valuations. They are inexpensive in the event of a policy-led recovery in the global economy, particularly if current low interest rates and accommodative monetary policy produce higher inflation and rising commodity prices.

The Fund will selectively add to its bulk commodity and energy exposures to benefit from these conditions. There remains a chance of deflation through a possible Euro zone contraction and the threat of falling asset prices to the global banking system.

The Fund expects to maintain an overweight position in precious metals based on our belief that gold-related assets can perform well in both inflationary and deflationary environments.



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