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First State Global Resources (the "Fund")

Review and outlook

The resources market has performed negatively over the past month, with inflationary fears, volatile commodity prices and higher interest rates leading to volatility. Despite this, strong global economic growth remains, providing support for the resources sector.

The continued increase of interest rates by the US Federal Reserve to keep inflation in check has affected global markets adversely. Other central banks also remain vigilant on inflation, leading to fears that official interest rates may be pushed higher.

Global inflationary pressures are being caused by strong synchronised global economic growth with the International Monetary Fund (IMF) recently upgrading its outlook for world growth. The IMF expects world growth to maintain its above average pace in 2006 and 2007.

Positive factors supporting the market include continued strong demand for commodities from emerging markets such as China. This should see higher prices negotiated. Analysts are revising upwards prices for commodities in general to reflect demand and supply constraints within the industry. Supply disruptions, low inventory levels and strong global demand should see sustained high commodity prices. Companies that can receive higher prices and increase volumes will benefit the most.

We need to note however that further increases in interest rates than need be by the US Federal Reserve may lead to US economic growth slowing and impacting on global economic conditions. This would have a negative impact on the global resources sector. In addition, speculative pressures on commodity prices may be outweighing fundamentals currently.

While we are generally positive about the outlook for global resources, given recent volatility across the sector, it is important that the Fund maintain its investment philosophy, looking for low cost producers with quality assets and strong management which are growing their production volumes.

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