

FEB'S
HOT TOPIC
Commodities

RIDING THE SUPER-CYCLE

Commodity investment has become increasingly mainstream over the past year. Gold has hit the headlines but flows into other commodity funds have also been strong. Performance has been impressive too. Returns from commodities were second only to equities in 2009 according to comparative Dow Jones indices. Industrial metals performed particularly well. Over ten years commodities were the best performing asset class, up 263% as measured by the DJ-UBSCI F3 All Commodities Index, as well as being less volatile than equities. However, there have been times in the past when commodity investment was fashionable, only for investors to drift away again. This time it appears to be different. There has been a growing trend among discretionary managers and advisers to treat commodities as a separate asset class with a valuable role as a portfolio diversifier.

THE ETF EFFECT

Over the past five years, assets held in commodity funds in Europe have mushroomed. After falling back in 2008, they increased sharply in 2009 as world markets recovered. Fund sales also rose to record levels in 2009. Assets held in commodity and raw material/energy equity funds now stand 800% higher than in 2004 at over €60bn. This growth has been fuelled by a tripling in the number of funds available to over 430. Many of the new additions since 2006 have been exchange traded funds (ETFs). Unlike traditional mutual funds which tend to be diversified across different types of commodities, ETFs allow investors to take a more focused approach. Apart from gold ETFs, other top sellers in 2009 were ETFS Natural Gas and ETFS Agriculture. ETFs also allow investors to short commodities.

WHERE THE SWISS LEAD...

As a nation, the Swiss proved the keenest commodity investors in 2009. At a local level, they preferred commodities funds to any other type of fund last year. Gold and silver ETFs led the field. However, the largest European flows were into funds sold by cross border groups operating from offshore centres like Luxembourg. These funds are also bought in Switzerland. The Germans were enthusiastic investors too. In fact all the main European markets reported positive sales of commodity and raw materials funds last year. Ironically, the one place where there were outflows was commodity-rich Russia itself.

IN BRIEF

Economic recovery and demand from China and other emerging markets is expected to underpin commodity prices this year.

Opinion is divided over an on-going commodity super-cycle but metals, including copper, should produce attractive good returns in 2010 says Merrill Lynch.

Timber is a commodity to watch say some fund managers.

Further increases in gold and precious metal prices in 2010 are forecast by bankers and traders canvassed by the London Bullion Market.

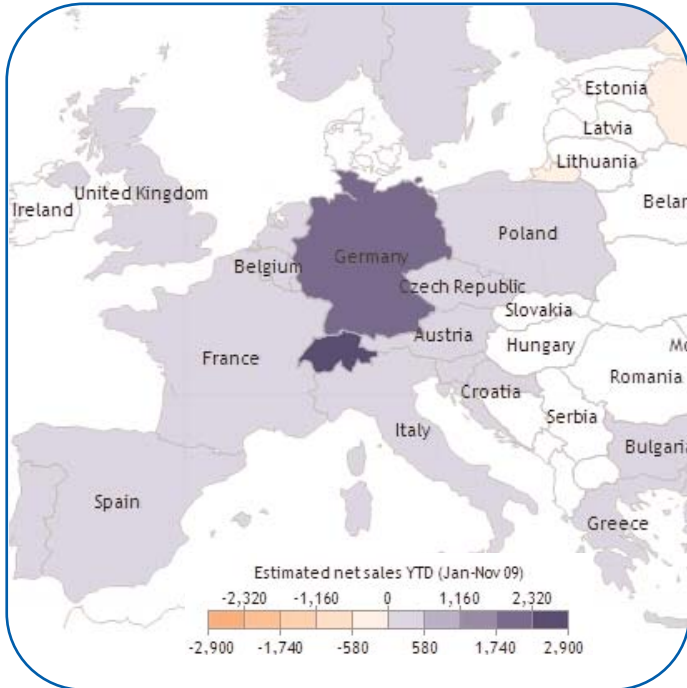
Attention is turning to agricultural commodities, due to growing food demand.

The two oldest commodity funds are Aberdeen Global Energy and JPMorgan Natural Resources.

HOT TOPICS



European map of fund sales (YTD) (€m)



Top 10 markets in November 2009 (€m)

Fund market	# funds	Assets Nov 09	YTD gth %
International	215	42,328.8	98.3%
Switzerland	31	7,569.4	127.6%
Germany	44	6,839.5	100.6%
United Kingdom	12	2,602.7	142.5%
France	32	1,345.7	62.7%
Italy	8	667.0	47.1%
Belgium	10	395.6	73.9%
Norway	2	316.4	100.6%
Netherlands	3	258.3	68.8%
Austria	7	214.3	55.0%
Rest	92	823	106.1%
Total	456	63,360.8	101.1%

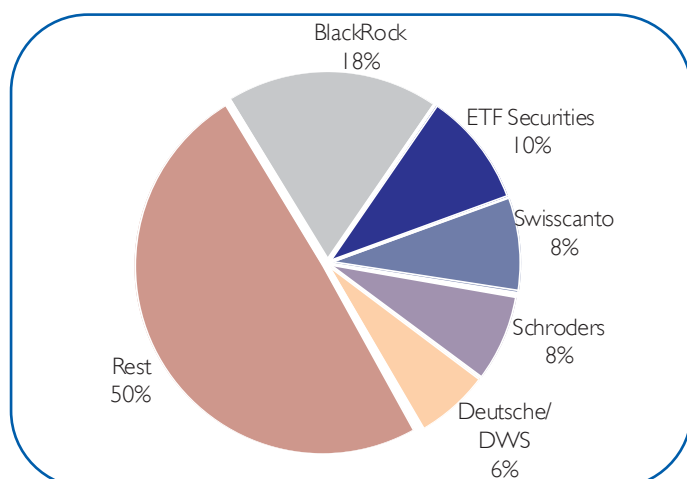
Top 5 groups by assets in November 09 (€m)

Master Groups	Nat	Assets
BlackRock	US	2,291.2
Schroders	UK	2,129.6
Deutsche/DWS	DE	1,776.7
Swisscanto	CH	1,577.3
GAM	CH	1,304.8
Rest		9,084.1
Total		18,163.8

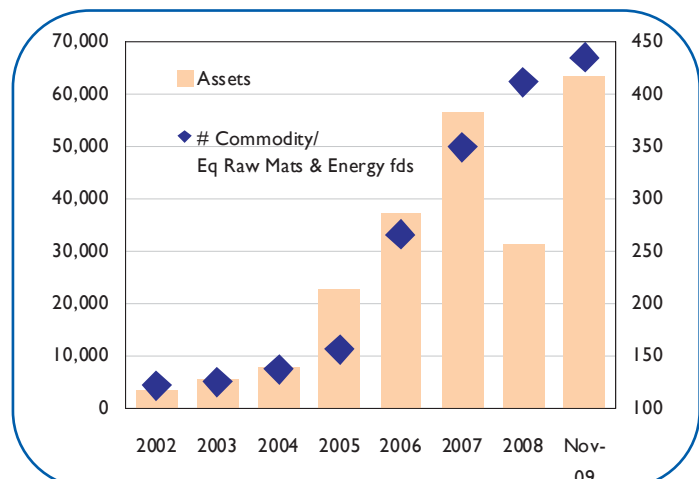
Top 5 funds by YTD sales (€m)

Fund	Dom	Sales
Schroder Alternative Solutions-Commodity	LX	1,955.7
BlackRock Global Fund- World Mining	LX	1,681.2
Julius Baer Precious Metals - Physical Gold	CH	1,230.3
ZKB Gold ETF	CH	1,168.8
Xmtch II (CH) on Gold	CH	856.2
Rest		11,271.6
Total		18,163.8

Top 5 groups by YTD sales (€m)



Evolution of assets and number of funds (€m)



Notes: Sales are estimated net sales. Year-to-Date is the period Jan-Nov 09. Sectors included in this analysis are Raw Material & Energy equity and Commodity.