

Investing in the commodity asset class

The Institute of Actuaries Investment Conference

5 April 2011



Out of the Ordinary™
Investec
Asset Management

Commodities: a distinct asset class

- Returns are largely independent of equity and bond returns
- Significant breadth of investment instruments
- Opportunities exist in both commodities and resource equities
- We believe we are in a 25 year bull market in commodities
- Multiple demand drivers

What are the different commodities?

Broad commodity universe; however not all accessible via commodity futures

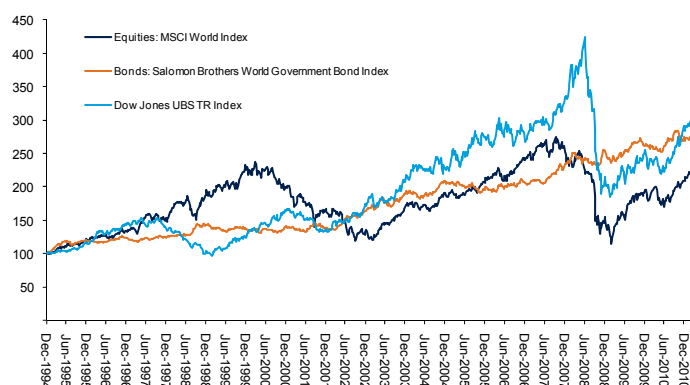
Energy	Precious metals	Base and Bulk metals	Agriculture and Softs
<ul style="list-style-type: none"> Crude oil Natural gas Refiners Oil services and equipment Alternative Energy (bio fuels, wind, solar, tidal) Electricity (utilities) Thermal Coal Nuclear 	<ul style="list-style-type: none"> Gold Silver Platinum Palladium Rhodium Diamonds 	<ul style="list-style-type: none"> Copper Aluminium Zinc Nickel Lead Tin Iron Ore Coking Coal Steel Metals and Mining Equipment 	<ul style="list-style-type: none"> Agriculture (corn, wheat, soybeans, sugar, cotton, coffee, cocoa) Fertiliser (potash, phosphates, nitrogen) Livestock (beef, pork, poultry) Dairy Water Paper and Pulp Timber Mineral sands

Source: Barclays Capital and Investec Asset Management, February 2011; all figures are estimates.

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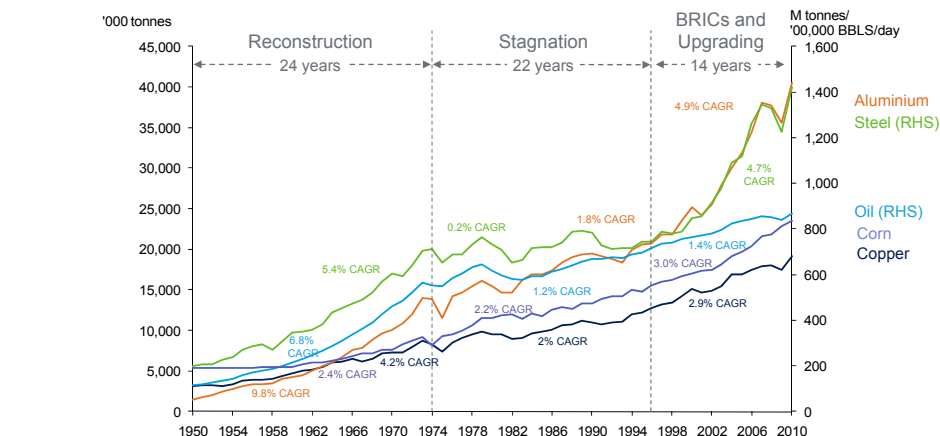
The bull market so far...



Source: Bloomberg
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Demand growth is the key driver



- Multiple demand drivers:
 - repair / renewal of developed world infrastructure
 - urbanisation / industrialisation of emerging markets
 - environmental demands

Source: CRU, BP, BH, USDA

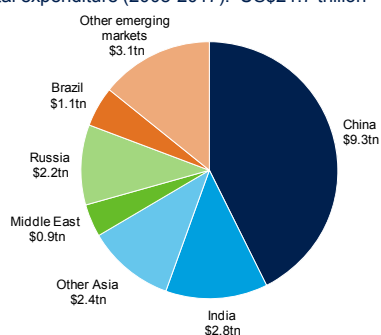
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Emerging market commodity demand is driven by infrastructure investment...

\$US 22 trillion is expected to be spent on EM infrastructure by 2017

Total expenditure (2008-2017): US\$21.7 trillion



Chinese infrastructure needs: more than 20 million people urbanised annually

- 97 additional airports to be built by 2020 – average of 8 per year
- 1,300 GW new generating capacity by 2030 – average 59 GW per year
- 17,000km of expressways by 2020 – average of 1,400km per year
- 300,000 rural roads between 2006-2010 – annual average of 25,000km
- \$300bn investment by 2011 to expand the railway network
- >\$1 trillion IT investment in China, India and Brazil forecast by 2014

China's annual infrastructure build is similar to sum of the UK's total installed capacity: electricity 60 GW peak demand and rail 16,545km

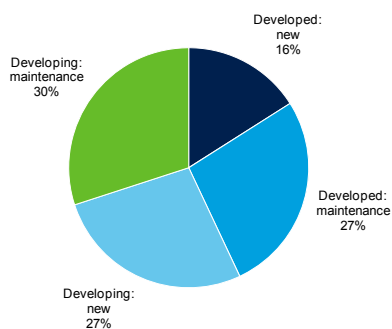
Source: Morgan Stanley, The Economist, Xstrata Plc.

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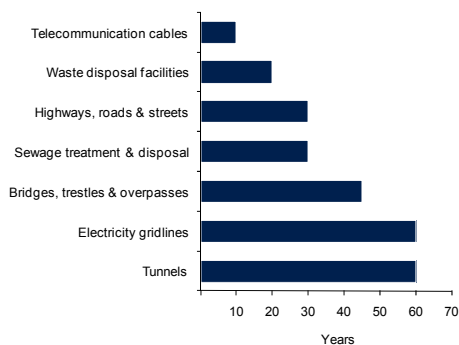
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...but remember developed markets too!

Global infrastructure investment composition



Life of infrastructure assets before maintenance requirement



Developed world infrastructure will nearly match developing world

For example: US spending \$50 billion on 'clean' technology (which includes copper-intensive investment in a smart grid and renewable power generation), \$8bn on construction of high-speed railways, and \$1.3bn on maintenance of aging Amtrak

Source: World Bank, Macquarie, Xstrata Plc.

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Commodities perform differently over time

Index	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2011
Crude Oil	122.7%	50.7%	-25.4%	58.3%	27.5%	44.8%	21.2%	-17.0%	47.4%	-55.5%	7.2%	-0.1%	1.0%
Natural Gas	-4.3%	325.3%	-81.1%	39.1%	15.2%	-38.3%	49.1%	-73.7%	-20.0%	-35.8%	-55.4%	-40.2%	-9.2%
Gold	1.4%	-5.3%	2.5%	24.5%	19.0%	4.8%	17.5%	21.7%	29.9%	3.9%	22.9%	28.7%	-0.9%
Silver	11.2%	-13.8%	-2.0%	4.2%	23.3%	14.0%	29.1%	44.6%	14.1%	-25.4%	47.6%	81.8%	9.3%
Copper	22.2%	-2.9%	-20.1%	1.6%	45.7%	53.9%	73.9%	54.1%	12.0%	-52.2%	135.8%	29.7%	2.8%
Zinc	31.9%	-13.3%	-27.7%	-9.9%	23.6%	16.5%	51.2%	136.7%	-40.8%	-51.1%	98.1%	-8.7%	2.1%
Aluminium	28.7%	-3.2%	-14.1%	-3.1%	20.0%	21.8%	18.7%	23.9%	-15.7%	-40.1%	33.7%	5.7%	4.4%
Sugar	-20.4%	73.3%	-15.5%	34.7%	-19.8%	24.2%	49.2%	-25.5%	-10.8%	-19.9%	86.3%	24.0%	-2.5%
Soybeans	-16.5%	5.3%	-14.6%	41.0%	54.8%	-13.4%	7.9%	3.2%	61.5%	-21.2%	22.9%	34.9%	-3.5%
Wheat	-26.5%	-9.8%	-13.8%	2.5%	5.0%	-29.3%	-5.9%	25.9%	59.2%	-38.5%	-26.0%	21.2%	-0.7%
Corn	-16.8%	-5.0%	-25.5%	-2.5%	-2.7%	-28.4%	-15.7%	46.8%	2.2%	-21.9%	-10.1%	30.7%	14.4%

Top performing commodity
Worst performing commodity

Source: Bloomberg and IAM using S&P GSCI USD historical returns, as at 28.02.11.

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...and generally show low correlations with other asset classes

- There is a low historical correlation between different commodities
- Commodities historically are lowly correlated with most equity indices

10 yrs to 31.12.2010	Crude Oil	Copper	Gold	Wheat	SPGSCI TR Index	DJUBS TR Index	S&P 500	MSCI World Index	MSCI World Materials Index	MSCI World Energy Index
Crude Oil	1.00	0.32	0.27	0.22	0.89	0.75	0.18	0.25	0.31	0.47
Copper		1.00	0.32	0.21	0.43	0.58	0.25	0.40	0.51	0.43
Gold			1.00	0.16	0.33	0.45	-0.03	0.09	0.29	0.21
Wheat				1.00	0.33	0.44	0.13	0.19	0.21	0.22
SPGSCI Commodities Index					1.00	0.91	0.22	0.33	0.40	0.54
DJUBS Commodities Index						1.00	0.24	0.37	0.48	0.55
S&P 500							1.00	0.89	0.62	0.69
MSCI World Index								1.00	0.85	0.80
MSCI World Materials Index									1.00	0.76
MSCI World Energy Index										1.00

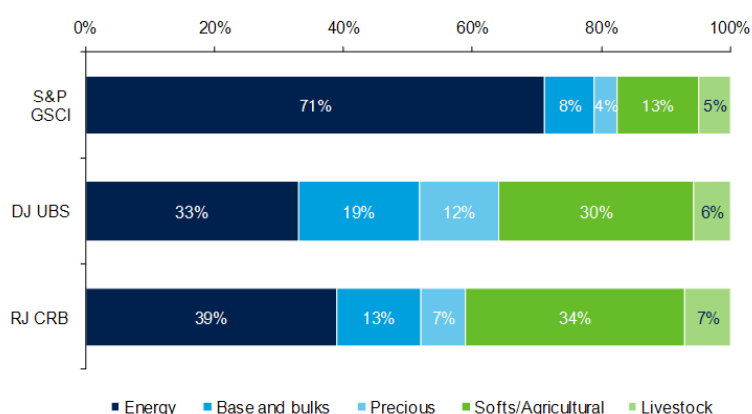
Source: Bloomberg. Weekly correlations.

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A comparison of commodity indices

Commodity index composition



Disparate index construction with strong sector bets requires knowledge from buyer

Note: Standard & Poor's Goldman Sachs Commodity Index (S&P GSCI) (Jan 2010 weights), Dow-Jones UBS Commodity Index (DJ-UBS) (Jan 2010 revision weights), Reuters/Jefferies Commodity Research Bureau (RJ-CRB) Index (weights from last revision 2005).

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Active commodity and resource equity investing

Commodities and resources: Expanding the opportunity set

Commodity plus Resource Equity							
Energy		Precious Metals		Base and Bulk Metals		Softs	
Commodity	Equity	Commodity	Equity	Commodity	Equity	Commodity	Equity
Oil	Oil companies	Gold	Gold	Aluminium	Aluminium	Wheat	Wheat
Natural Gas	Gas companies	Silver	Silver	Copper	Copper	Soybeans	Soybeans
	E & Ps	Platinum	Platinum	Nickel	Nickel	Corn	Corn
	Oil services	Palladium	Palladium	Zinc	Zinc	Sugar	Sugar
	Refiners		Diamonds	Lead	Lead	Livestock	Livestock
	Alternative Energy			Tin	Tin		Agriculture Equip
	Thermal Coal				Steel		Fertiliser
					Iron Ore		Seeds
Uranium	Uranium				Met Coal		Pesticides
					Manganese		
					Ferrochrome		

Price drivers



Green font: no direct exposure to underlying commodity available; have to allocate through resource equity

Blue font: most liquid commodities futures contracts

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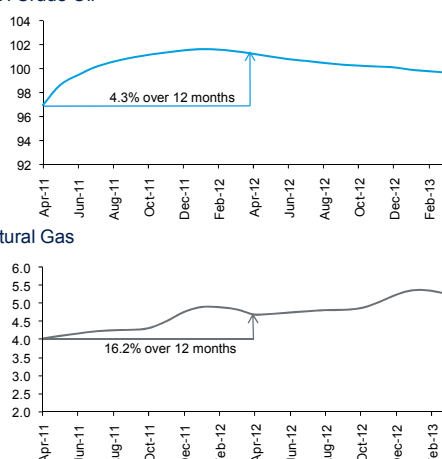
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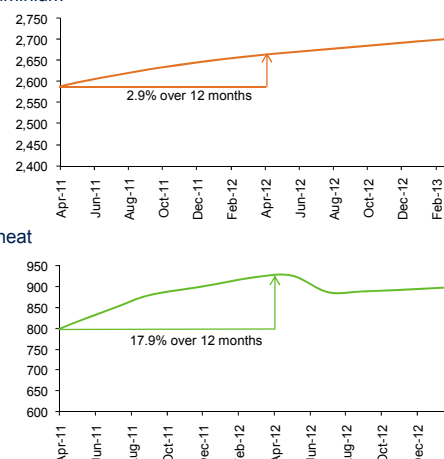
A commodities-only strategy is limiting

High cost of rolling futures contracts still exist

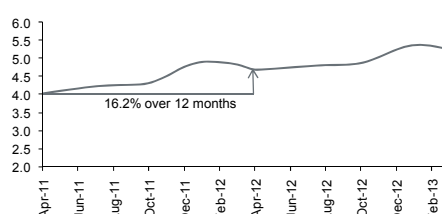
WTI Crude Oil



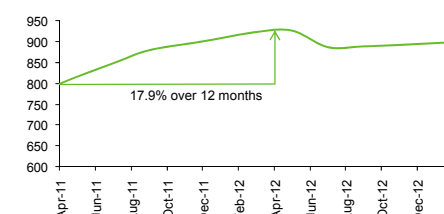
Aluminium



Natural Gas



Wheat



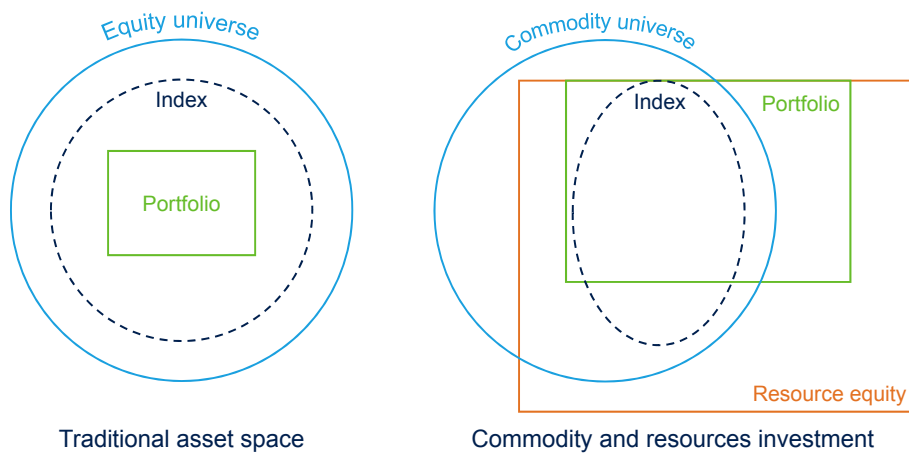
Source: Investec Asset Management
As at 28 February 2011.

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Constructing an active portfolio



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Commodities & Resource equities Summary views

The shorter-term case
for commodities

At a glance – Commodity and Resource equity views over next 3-6 months

	Commodity	Equity		Commodity	Equity		Commodity	Equity		Commodity	Equity
Energy	➡	➡	Precious Metals	➡	⬆	Base and Bulk Metals	➡	➡	Aggs and Softs	➡	➡
Crude Oil	➡	➡	Gold	➡	⬆	Copper	➡	➡	Corn	➡	➡
Natural Gas	⬆	⬆	Silver	➡	➡	Aluminium	➡	➡	Soybean	➡	➡
Refiners	➡	➡	Platinum	➡	➡	Zinc	➡	➡	Wheat	➡	➡
Oil services	➡	➡	Palladium	➡	➡	Nickel	➡	➡	Sugar	➡	➡
Alternative Energy	n/a	➡	Diamonds	➡	➡	Iron Ore	➡	➡	Fertilizer	➡	➡
Thermal Coal	➡	➡				Coking Coal	⬆	➡	Cotton	➡	n/a
Uranium	➡	➡				Steel	➡	➡	Livestock	➡	➡

➡ Neutral ⬆ Strongly up ⬆ Sharply down ➡ Trending up ➡ Trending down

Views expressed for a resource equity sector are subjective and are for the sector as a whole. Investec will have different views for different stocks within that sector. As at February 2011

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Active commodity and resource equity investing

Key points to remember

- We believe the 25 year bull market in commodities is real
- The journey will not be smooth as demand differs, so maintain your exposure and lower your volatility
- Ensure your manager makes use of the widest investment opportunity set
- Commodities / Resource equities do not all move in the same direction
- Know when to play the underlying commodity or the resource equity
- Liquidity is a real concern to ensure entry and exit at market prices
- Short exposure can generate additional returns and dampen volatility

Targeting alpha generation with diversification

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Thank you



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