



Commodities? Absolutely!!!

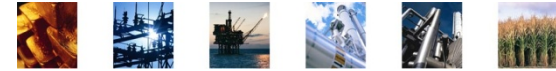
Intelligent Exposure? You Bet!!!

Presentation to PortfolioConstruction Conference 2008

Presenter: Justin Hyde

Director, Barclays Capital





Agenda

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1. Commodity Market Flows

- Investor Flows and Attitudes
- Drivers of Investment Flows
- “Bubblemania”?

2. What are the benefits of investing in Commodities?

- Diversification
- Portfolio Theory and the Efficient Frontier
- Drivers of Diversification

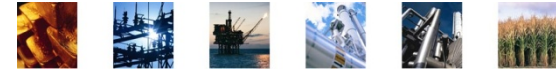
3. Commodity Market Update

- Oil – Diesel Drives
- Gold – They think it is all over
- Agriculture – Fields of Gold
- Other Commodities

4. Intelligent Investment – Absolutely!

- CORALS Commodities Fund

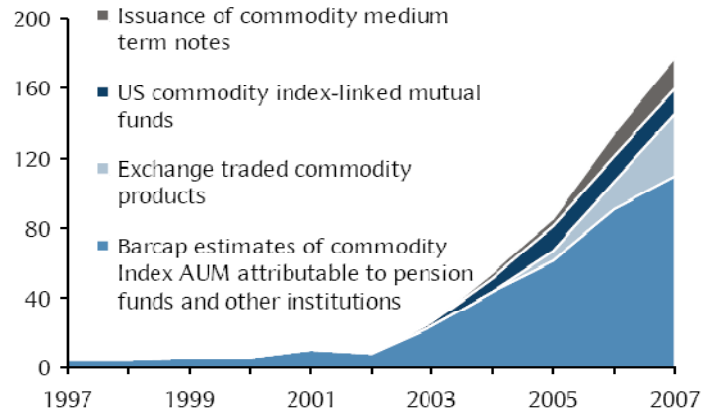
5. Disclaimers



Investor Flows and Attitudes

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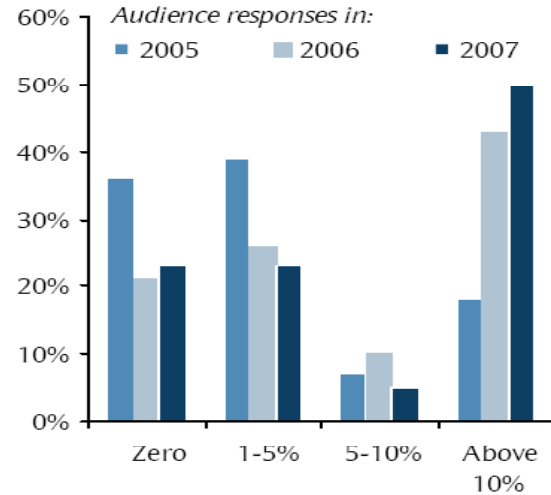
Commodity Investments assets under management (\$bn)



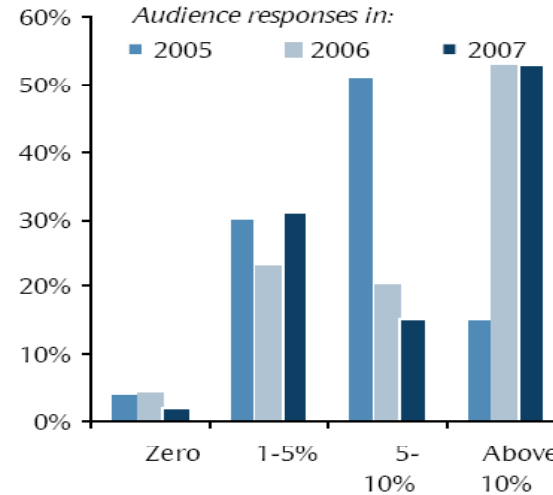
- ▶ Growth of investor flows has been substantial
- ▶ Estimated > US \$180 bill invested in Commodities
- ▶ Our surveys¹ suggest growth will accelerate
- ▶ Investors have gained confidence in the asset class

Source: Bloomberg, ETF Securities, MTN-I, Barclays Capital

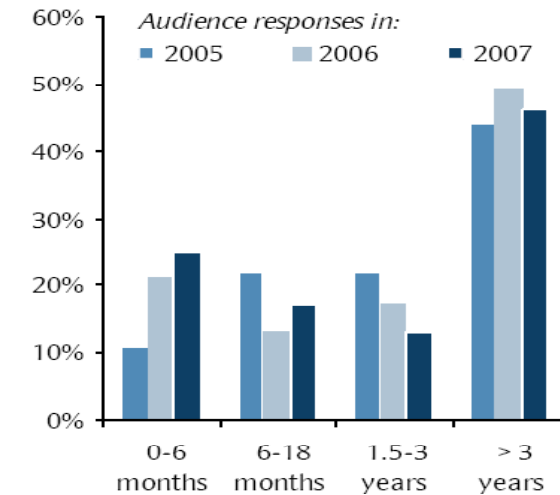
What percentage of your portfolio is allocated to commodities?



What percentage will be allocated over the next three years?

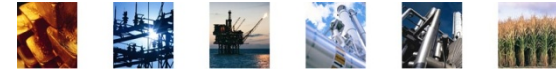


How long would you expect to hold your commodity exposure?



Source: Barclays Capital

¹ The results shown in the figures above are from audience surveys at Barclays Capitals annual Commodity Investor Conferences held in Barcelona and New York.



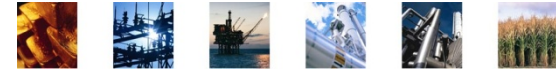
What is driving the investment flow?

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- Returns from commodities have been attractive over the last 5 years
- Recently commodity market has given back some gains, but even on a short term basis continue to outperform other asset classes
- We see recent moves as merely a correction within a continuing long term bull cycle

Relative Performance of Global Commodity Indices (as at 28 May 2008)

	Year to date Change in Index	Last 12 months	Last 5 years (ann.)	Last 10 years (ann.)
<i>Commodity Indices</i>				
S&P GSCI™ TR	32.6%	71.4%	19.6%	14.9%
DJ-AIG Composite Index TR	18.6%	31.1%	16.3%	12.3%
Deutsche Bank DBLCI TR	30.2%	80.0%	28.0%	22.0%
Rogers International Index	20.7%	53.0%	22.6%	n/a
<i>Bond, Equity and Hedge Fund Indices</i>				
JPM Govt. Bond Index TR	1.5%	9.7%	3.5%	5.8%
S&P 500 Composite Index TR	-4.5%	-7.3%	9.1%	3.9%
CSFB/Tremont Hedge Fund Index	-0.24%	5.2%	10.5%	8.3%

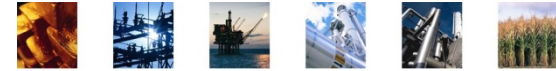


Commodities investments : no “bubble”

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- Claims that investors are creating a “bubble” in commodity markets are still widespread
- Available data on “non-commercial” activity in commodity markets does not support this view
- Our estimates suggest that index-related long positions are large in relation to open interest in some agricultural markets, but much smaller in base metals.

Market	Index weighting	AUM (\$bn)	Value of futures & options market volume (\$bn, Monthly)	Share of index in Volume
Corn	4.0%	5.0	23.3	21.5%
Cotton	1.4%	1.8	15.8	11.1%
Wheat CBOT	3.8%	4.8	45.0	10.6%
Wheat (KBCT)	0.6%	0.8	15.8	4.7%
Sugar	1.8%	2.3	48.0	4.7%
Natural Gas	8.9%	11.1	242.4	4.6%
Nickel	2.0%	2.5	61.0	4.1%
WTI - Crude	28.7%	35.9	1050.4	3.4%
Zinc	1.8%	2.3	80.1	2.8%
Brent Crude	9.1%	11.4	517.0	2.2%
Aluminium	4.6%	5.8	295.7	1.9%
Copper	4.9%	6.1	442.0	1.4%
Gold	3.6%	4.5	375.0	1.2%



Benefit of Commodity Investing? Diversification...

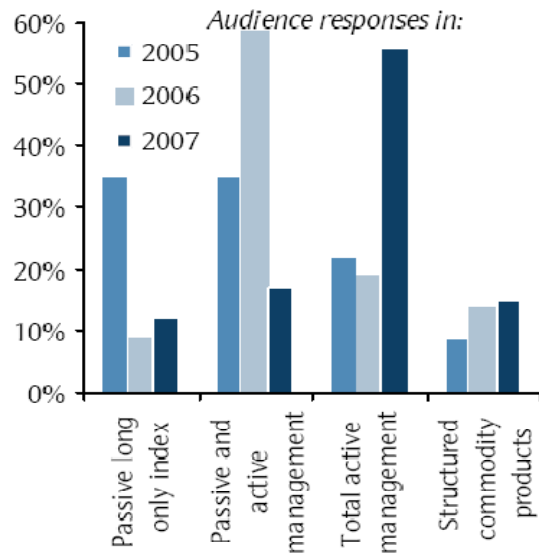
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- Diversification continues to be the key driver of commodity investments
- Correlation benefits at highest through periods of financial market weakness
- Absolute return has become more important
- Commodities as an Inflation hedge and the USD weakness are still relevant

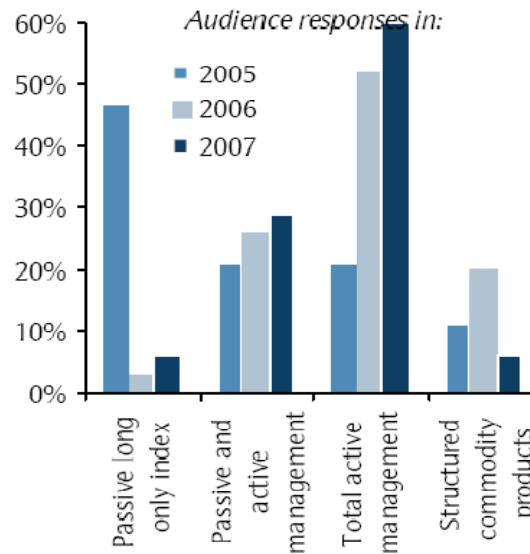
Correlation 1970–2007	S&P GSCI TR (commodities)	S&P 500TR (Equities)	JPM US (Bonds)	US 3m T bill (Cash)
S&P GSCI TR	100%	-28%	-9%	-1%
S&P 500TR		100%	25%	-1%
JPM US GB			100%	-4%
Cash				100%

Source: Bloomberg & Barclays Capital as of December 31st, 2007

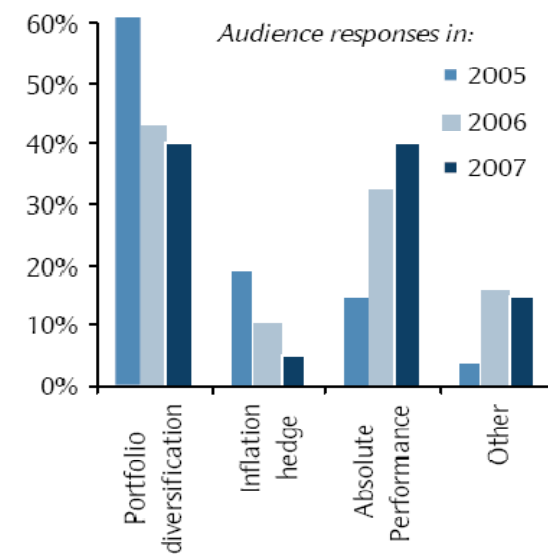
How are you currently investing in commodities?

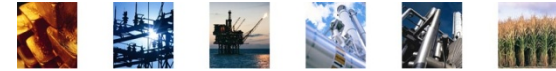


How do you expect to invest in commodities over next 3 years?



What is the most attractive aspect of investing in commodities?





What is driving this diversification benefit ?

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- ▶ Individual commodities are driven by distinctly different demand and supply characteristics
- ▶ Diversification cannot be achieved by participating in the Crude Oil or Gold markets alone

Correlation Analysis among individual commodities (31 December 1999 to 31 July 2008)

	Silver	Gasoline	Heating Oil	Crude Oil	Natural Gas	Copper	Wheat	Soybeans
Silver ¹	1.00							
Gasoline ²	0.07	1.00						
Heating Oil ³	0.08	0.82	1.00					
Crude Oil ⁴	0.15	0.83	0.87	1.00				
Natural Gas ⁵	0.04	0.46	0.58	0.40	1.00			
Copper ⁶	0.37	0.18	0.15	0.16	0.10	1.00		
Wheat ⁷	0.14	-0.04	-0.02	0.01	0.06	0.12	1.00	
Soybeans ⁸	0.14	-0.07	0.01	0.01	0.10	0.05	0.40	1.00

¹ SLVL Comdty

² RIEHXB Index

³ HO1 Comdty

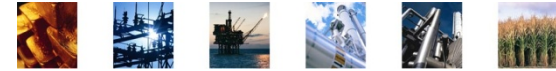
⁴ CL1 Comdty

⁵ NG1 Comdty

⁶ LOCADY Comdty

⁷ RIEHW Index

⁸ RIEHS Index



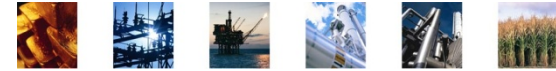
What is driving this diversification benefit ?

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- ▶ It is a fallacy that having commodity linked equities such as BHP and RIO in your portfolio provides the commodity diversification benefit in your portfolio
- ▶ Why? Commodity linked companies tend to have higher correlation to equity markets rather than commodity prices

Correlation Analysis between Asset Classes and Commodities (January 2000 to July 2008)

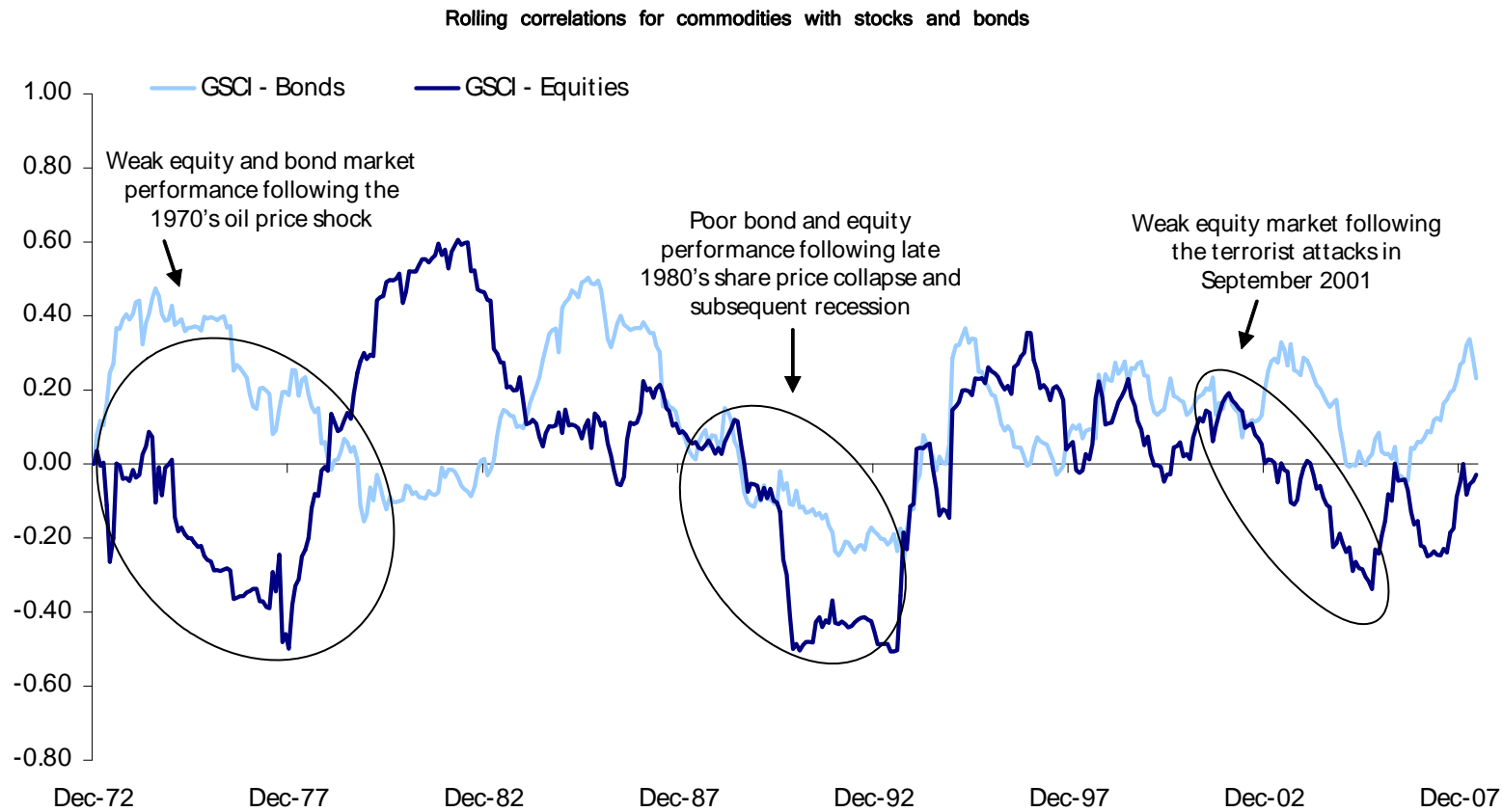
	BHP	Rio Tinto	S&P 500	S&P/ASX 200	Citigroup Australian Broad Index	GSCI Total Return Index (USD)
BHP	1.00					
Rio Tinto	0.68	1.00				
S&P 500	0.38	0.32	1.00			
ASX 200	0.59	0.43	0.67	1.00		
Citigroup Australian Broad Bond Index	-0.32	-0.22	-0.37	-0.29	1.00	
GSCI Total Return Index (USD)	0.27	0.14	-0.06	0.04	-0.01	1.00

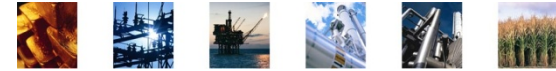


Commodity diversification works when you most need it

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- ▶ Commodities demonstrate the lowest correlation when equity / bond markets are distressed

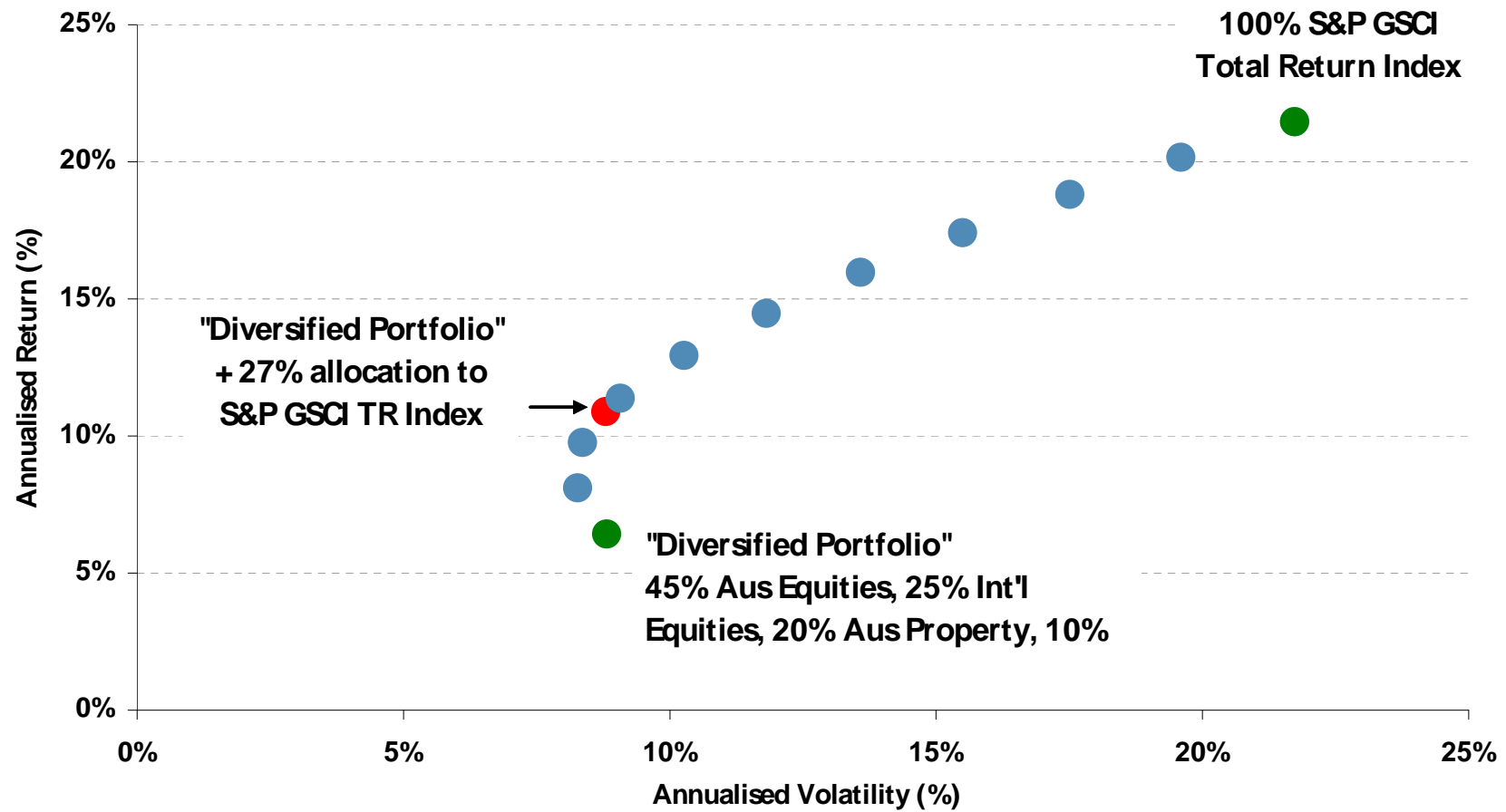


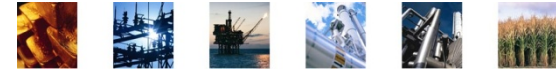


Additional benefit? Efficient Portfolios...

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- ▶ Adding a diverse commodity exposure to a traditional portfolio will (a) Reduce Risk; (b) Increase overall returns; and (c) Improve Sharpe ratios

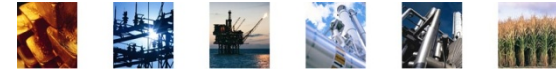




Commodity Market Update

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- Barclays Capital Commodities Research (*The Commodity Refiner, Summer 2008: Bubblemania*) **remains positive** for the commodity sector as a whole
 - ▶ Commodities have remained robust through the year, more recently pullback in prices is deemed a short term correction within the long term bull cycle
 - ▶ Added financial market volatility has flowed through into commodity markets, but fundamentals remain strong
 - ▶ Most notable change in market has been the divergent performances between the various commodity groups
 - ▶ Where to from here?...should the tone be set by our views on the mature industrialised nations, or should emerging markets be the primary focus?
 - ▶ Economic cycle remains important determinant of the future of commodity prices
 - ▶ Long term structural shifts in the balance of control over resources and economic power would appear to be providing commodity markets with substantial resilience...."A power shift"
 - ▶ Barclays believe that speculative money is not supporting higher prices in recent years, despite prolific claims that commodities are a bubble (Bubblemania)

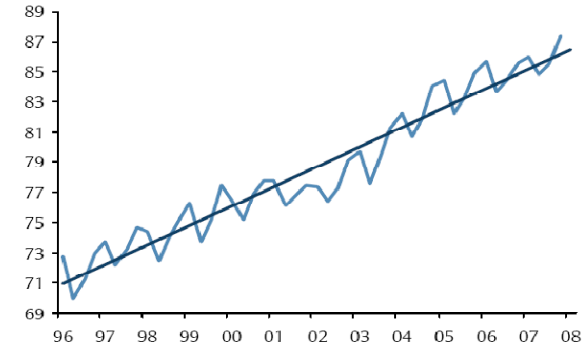


Oil: Diesel Drives – Demand

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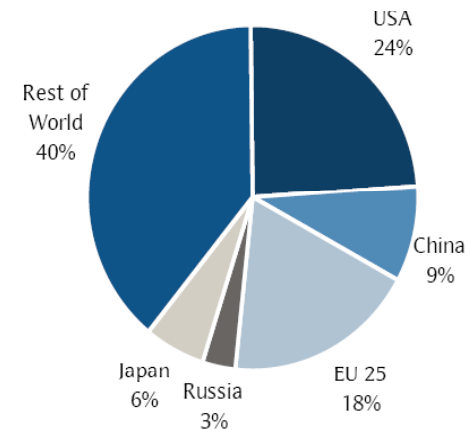
- Barclays current forecast average price for Oil (WTI) in 2008
US\$116.90 / bbl
- We have been through a relatively long period of stable fundamentals in Oil market dynamics
 - ▶ Oil demand growth in previous years has been heavily centred around China, India and Middle East demand
 - ▶ Despite expected economic slowdown in the China economy to 8%, Chinese demand growth is expected to accelerate through 2008 and into 2009
 - Expected reduction of Oil shortages
 - Follow on effects of dislocations in the power sector
 - Majority of demand for Diesel
 - Truck Movements
 - Rail movements – coal transport to power stations
 - Diesel generators – unreliability of power supply
 - ▶ Expect OECD demand to remain weak, but losing its ability to be a significant price driver

Quarterly Global Oil Demand

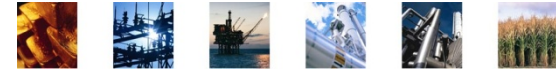


Source: Barclays Capital

Shares of energy consumption



Source: BP Statistical Review of World Energy, 2007



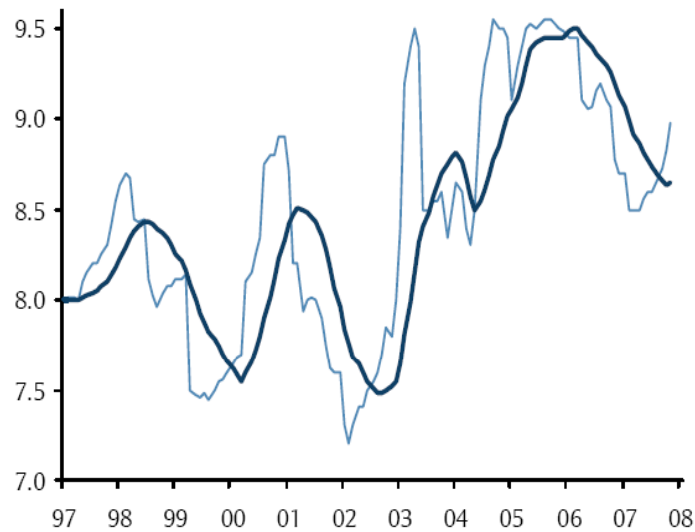
Oil: Diesel Drives – Supply

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- ▶ OPEC policy likely to remain cautious – supply growth has been non-existent in last 3 years
- ▶ Non – OPEC supply to disappoint again
 - Non FSU supply growth has fallen in the last three years, and continues to fall into 2008
 - FSU growth has been consistent but low
- ▶ Geopolitical factors are still a concern and pose upside risks from supply shocks

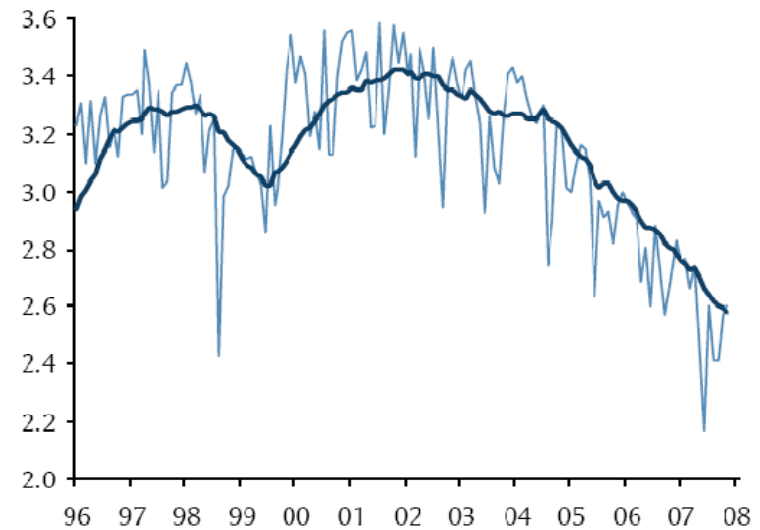


Saudi Arabian output and 12 month average

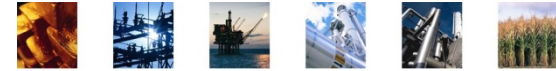


Source: Middle East Economic Survey

Norwegian oil production (mb/d)



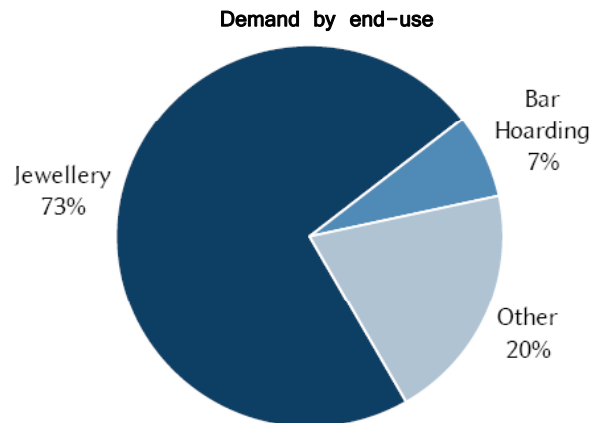
Source: Norwegian Petroleum Directorate



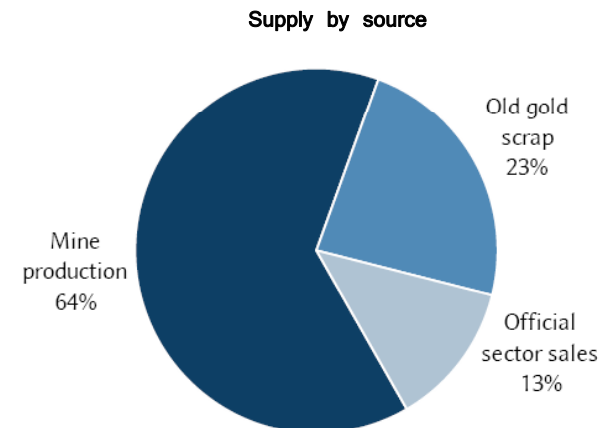
Gold – They think it is all over

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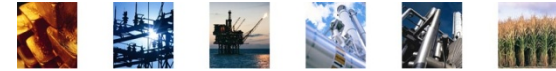
- ▶ Gold price is up over 100% over the last 3 years. Prices poised potentially for a seventh straight year of average price increases
- ▶ Barclays maintains a 2008 average price forecast of US \$891/oz, but fundamentals have weakened in recent months
- ▶ Influential factors
 - Further expected Fed rate cuts unlikely
 - Growing economy concerns
 - Credit market woes to continue?
 - Weakening USD has floored for the time being
 - Geopolitical tensions
- ▶ Speculative positions have reached all time highs earlier this year, but ETF inflows have slowed with recent consolidation in the market



Source: GFMS, Barclays Capital



Source: GFMS, Barclays Capital



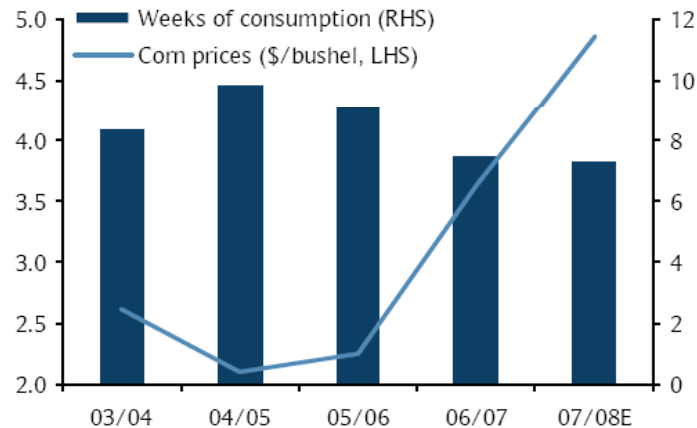
Agriculture – Fields of Gold

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- ▶ Seen some spectacular rallies in the **grains** off the back of summer weather concerns, followed by significant price pullbacks once those concerns passed
- ▶ Continue to view the **grains** complex with upside bias as inventories have become critically low with positive demand from food, fuel and feed sectors
- ▶ More moderate on **wheat**, as we expect supply issues to be partly resolved through increased acreage and improved global yields
- ▶ Rising demand for ethanol and from China is driving demand for **corn**. Together with reducing acreage, we are bullish on corn prices
- ▶ **Soybean**: increased bio-fuel demand and lower global production

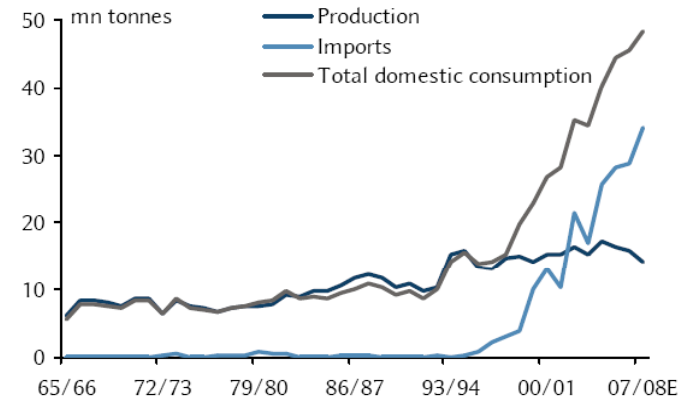


Weeks of consumption versus prices

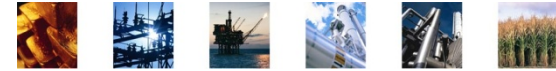


Note: 2007/08 prices are to 23 May 2008
Source: USDA, EcoWin, Barclays Capital

Rising demand amid falling output increases China's reliance on soybean imports



Source: USDA, Barclays Capital



Other Commodities

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▶ Base Metals

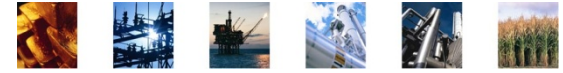
- At most risk from global economic slowdown
- Continued supply disruption, rising production costs, and low inventories suggest med-term price prospects are still very good
- Strong demand continues from emerging markets
- Barclays Commodities Research likes aluminium, tin and copper offering best fundamental prospects
- Nickel and Zinc are expected to underperform



▶ Platinum

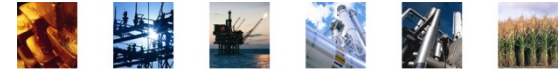
- Looking to outperform
- Historically low inventory levels
- Supply disruption - hindered by power outages





Questions & Answers

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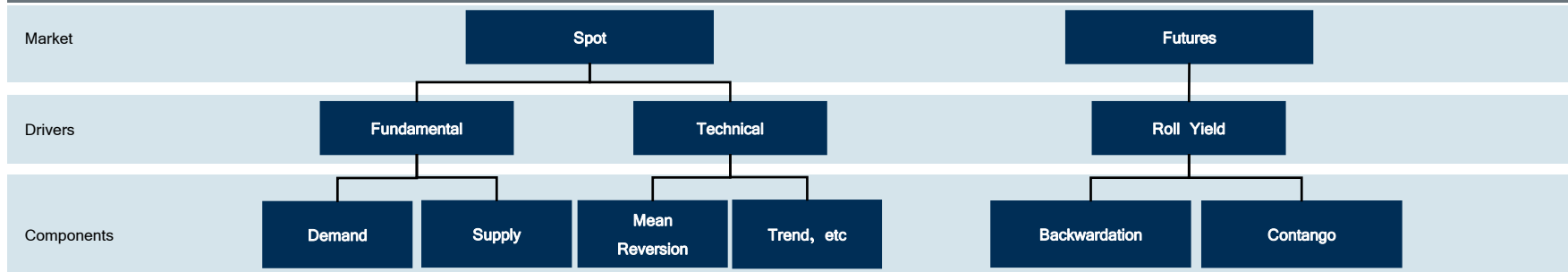


CORALS Commodities Fund

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CORALS Investment Process

Step 1 - Determining the Forecast

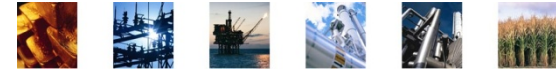


Step 2 - Forecast Validation



Step 3 - Optimization Model

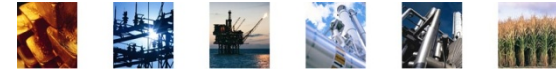




CORALS Commodities Fund

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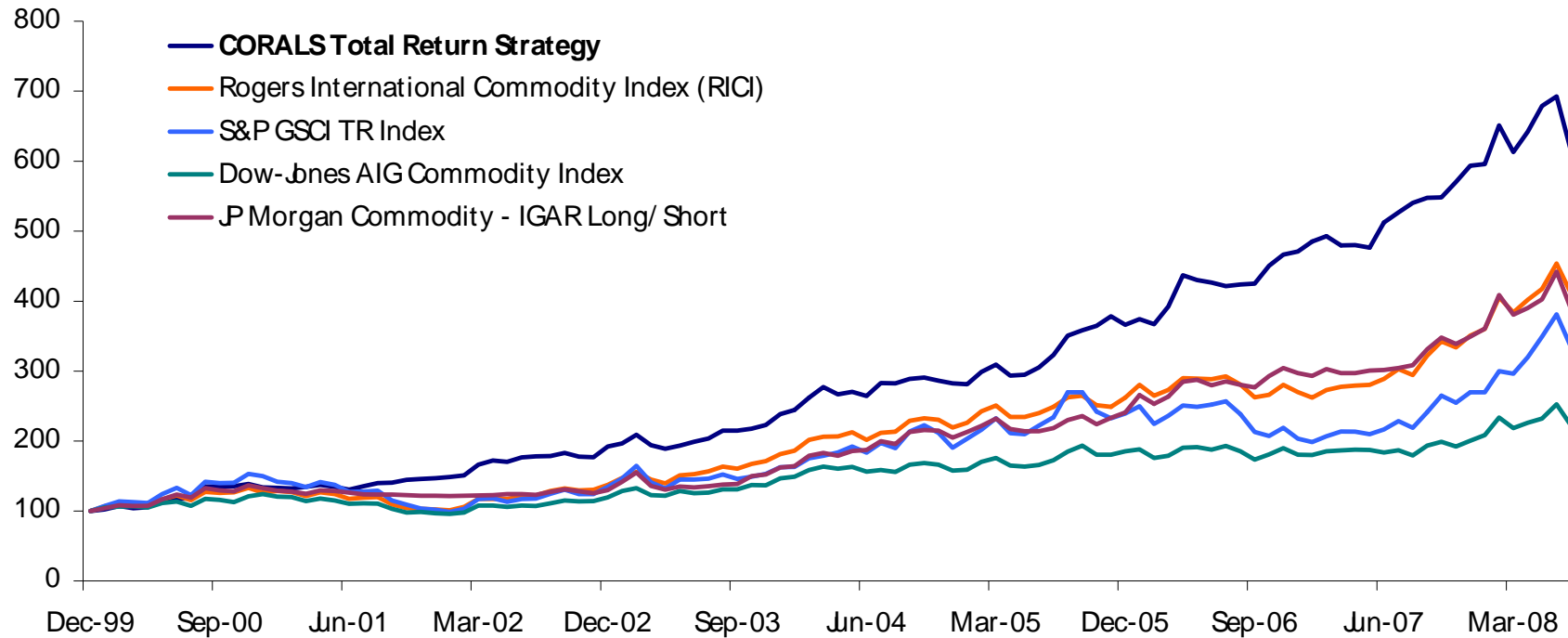
Criteria and Constraints	Underlying Assets			
	Commodities	Sector	Max Short	Max Long
<ul style="list-style-type: none"> ▪ The underlying commodities are selected based on liquidity and diversification ▪ The minimum and maximum weights per commodity ensure diversification ▪ The strategy is always invested in all the 12 commodities either in long or short positions ▪ Maximum allocation to any sector is capped at 50% ▪ Total market exposure is capped at 100% ▪ The index invests in the underlying commodities using the S&P GSCI single commodity indices 	Aluminium	Industrial Metals	-10%	20%
	Copper	Industrial Metals	-10%	20%
	Total Industrial Metals		-20%	40%
	Silver	Precious Metals	-10%	20%
	Gold	Precious Metals	-10%	20%
	Total Precious Metals		-20%	40%
	Heating Oil	Energy	-10%	20%
	Crude Oil	Energy	-10%	20%
	Natural Gas	Energy	-10%	20%
	Gas Oil	Energy	-10%	20%
	Gasoline	Energy	-10%	20%
	Total Energy		-50%	50%
	Wheat	Agriculture	-10%	20%
	Soybean	Agriculture	-10%	20%
	Corn	Agriculture	-10%	20%
	Total Agriculture		-30%	50%



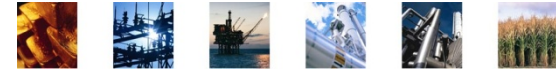
Convincing Performance

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Performance of the USD CORALS Index™ compared to benchmark commodity indices (Jan 2000 to Jul 2008)



	CORALS Total Return Strategy	Rogers International Commodity Index	S&P GSCI	Dow Jones-AIG Commodity Index	JP Morgan Commodity - IGAR Long/Short
Annualised Total Return	23.56%	17.90%	15.10%	9.75%	17.15
Annualised Volatility	13.44%	15.83%	22.35%	15.13%	15.40%
Sharpe Ratio	1.49	0.90	0.52	0.41	0.88



The CORALS (USD) Index TM Disclaimer

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Let's start thinking about...

This session was:

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

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Time's Up!

Let's start thinking about...

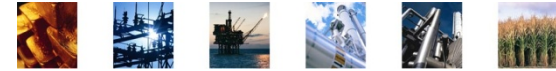
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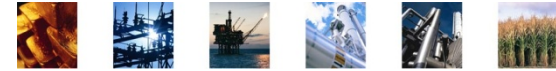
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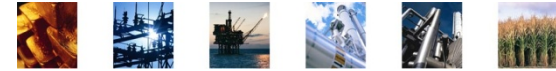
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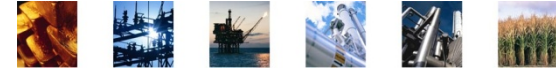
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