Content

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Date	Time	Venue	Topic
16 Apr	12.30pm – 1.30pm	Raffles City Tower Level 6	Market Outlook for Commodities Investments By Schroders + RSP Investment strategy
20 Apr	7.00pm – 8.00pm	Raffles City Tower Level 6	Asia Market Outlook by Henderson + RSP Investment strategy
24 Apr	7.00pm – 8.00pm	Raffles City Tower Level 6	Market Outlook with Analyst + RSP Investment strategy

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1st April 2009

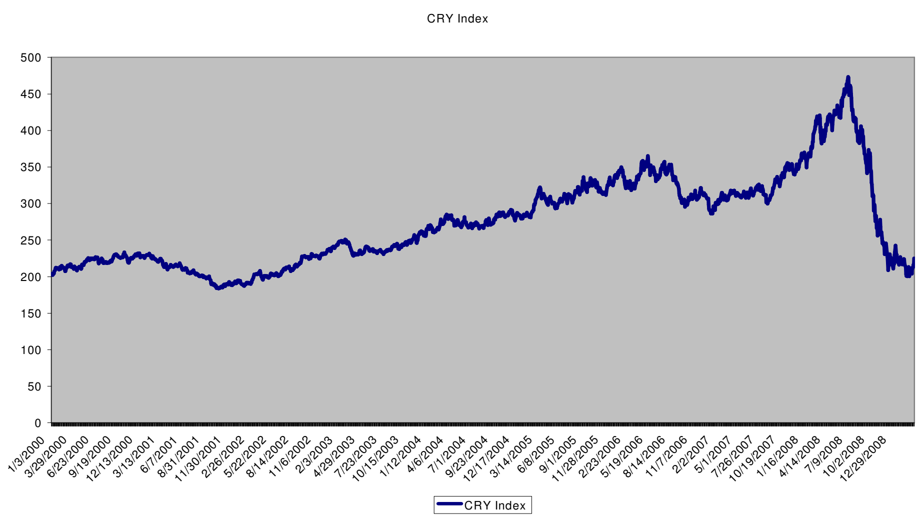
Fund in Focus: Schroder AS Commodity Fund

Commodities – Time to re-examine this asset class

A global boom in the cost of commodities entered its sixth year with no end in sight in the beginning of 2008. Wheat and soybean rose as much as 70 percent in 2008. Futures prices of crude oil, gold, silver, corn and coffee were all at or near record high last year.

However, as major economic powers sink into recession, concerns over the sustainability of demand drove commodities sharply lower. Indeed, the Commodity Research Bureau (CRB) index, which provides an overview of commodity prices, declined by approximately 52 percent from the peak and is standing at 220.4 as of 31st March 2009. This level was last seen in Nov 2002. The index reached a peak of 473.52 points on 2nd July 2008.

Figure 1: CRB Index



Source: Bloomberg, Phillip Securities Research

The recent abrupt decline reflects a classic response of commodities to slowing global growth (Table 1).

Table 1: Commodity price changes during global downturns[1]
(Peak to trough changes in percent, based on dollar price)

Peak	Dec 1973	Feb 1980	Aug 1981	Nov 1990	Dec 2000
Trough	Jun 1975	Sep 1980	Sep 1982	Jun 1993	Jan 2002
Crude Oil (IMF APSP)[2]	117.2	-10.5	-1.8	-47.9	-37.0
Metals	-5.4	-25.6	-14.9	-34.7	-15.4
Agricultural Materials	-19.2	-12.9	-2.1	14.0	-13.5

1. Downturns identified on the basis of global industrial production using business cycle dating methods
2. APSP = average petroleum spot price
Source: IMF

Given that commodities have recently edged forward, it's a good time to re-examine this asset class.

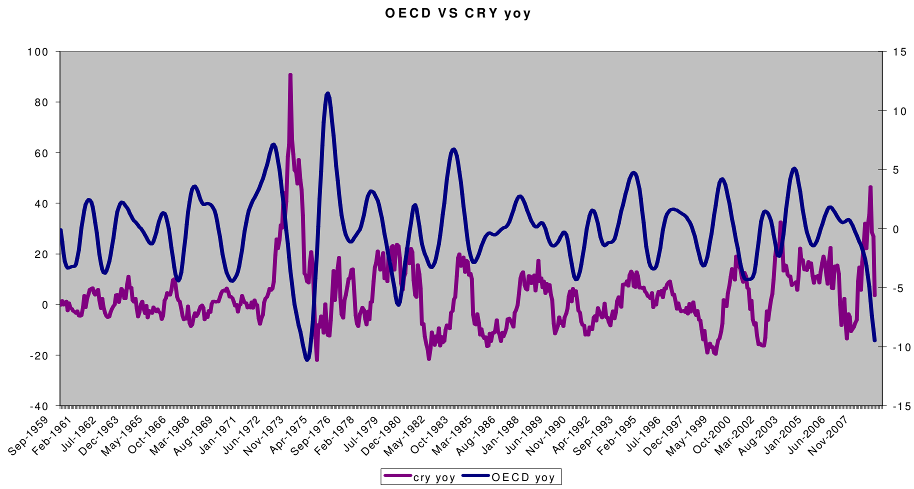
Fundamental – Demand or Supply?

It is crucial to question if commodities are fundamentally driven by demand or supply. We would think that it is mainly the former. This can be illustrated with figure 2.

In figure 2, we showed the relationship between OECD composite leading indicator (CLI) and the CRB index. It is shown that commodities fall (rise) as the OECD CLI declines (increase).

This happens because OECD CLI provides early signals of future economic activity level and thus signals the level of demand for commodities. For instance, when the indicator declines, it would imply that activities will be slowing and hence there will be lesser demand for raw materials.

Figure 2: OECD (CLI) Vs CRY Y-O-Y



Source: OECD, Bloomberg, Phillip Securities Research

Supply – It is true to a large extent that supply too can dictate commodity prices. This is so as supply can be disrupted by depletion of arable land and oil mines, geo-political tension, adverse weather conditions and etc. However, we would argue that these are long term disruptions and should not dictate the near term trend of stable supply. In other words, in the short run, there is sufficient supply to meet demand. The same cannot be said for the long run.

Table 2 shows global supply and demand for various commodities. It is depicted that production is greater than consumption for most of the commodities.

Table 2: Global Supply & Demand Balance

Commodity	Production	Consumption
Corn (1000 Metric Tons)	738315	723616
Wheat (1000 Metric Tons)	664125	600202
Soybean (1000 Metric Tons)	233532	230331

Source: Bloomberg. As of 1st April 2009

Therefore, given that supply is relatively stable in the short run, we would argue that the prime driver of higher commodity prices is demand.

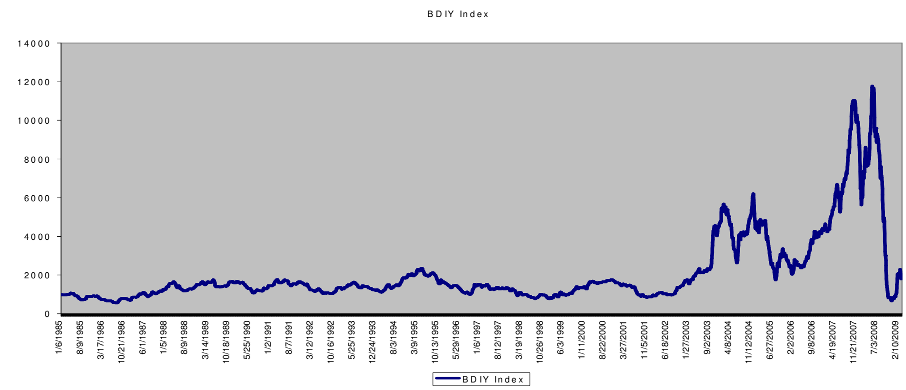
Why Now?

Right at the beginning of this report, we mentioned that commodities have been driven sharply lower as there were concerns over the sustainability of demand given that major economies are in recession. Also, we argued that demand is the prime driver of higher commodity prices. Therefore, for commodities to pick up once again, a necessary pre-condition is that activities must pick up once again. Only with activities, then will demand be generated.

There are indicators that suggest that activities might be picking up again. Firstly, we saw the Baltic Dry Index edging higher in recent weeks. The index hit a bottom of 663 points in Dec 2008 and has since recovered by approximately 170 percent to stand at 1795 points as of 19th March. However, it is still 84 percent below the peak of 11793 points.

The Baltic Dry Index gives an assessment of the price of moving major raw materials by sea. The higher the index, the greater the demand for shipping services and hence the costlier it is to ship products. Therefore, when the Baltic Dry Index moves higher, it will mean that there are more activities going on in the economy.

Figure 3: Baltic Dry Index



Source: Bloomberg, Phillip Securities Research

If the index continues to move higher, it will be a signal that activities are picking up and that bodes well for commodities.

The second indicator that suggests that activities might be improving is the ISM Manufacturing Index. This index measures the level of manufacturing activities in the States. When it signals an expansion in the manufacturing sector, it will imply that activity levels are high and this will in turn bode well for commodities. This is so as US is a major consumer for several commodities.

Historically, readings of 50 percent or above are associated with an expanding manufacturing sector and health GDP growth overall.

In March, the purchasing manufacturer index (PMI) continued to edge slightly higher for the third month. The index stood at 36.3 percent, which is 0.5 percentage point higher than the 35.8 percent reported in February and meaningfully above December's low of 32.9. Although there is a slight improvement in data, the manufacturing sector continues to contract for the 14th month as the reading came in below 50 percent.

Table 3: ISM Manufacturing Index

Month	PMI		Month	PMI
Mar 2009	36.3		Sep 2008	43.4
Feb 2009	35.8		Aug 2008	49.3
Jan 2009	35.6		Jul 2008	49.5
Dec 2008	32.9		Jun 2008	49.5
Nov 2008	36.6		May 2008	49.3
Oct 2008	38.7		Apr 208	48.6

Source: Institute for supply management

Although there was no growth in the various industries, it is worth noting that the readings of most sub indices have either improved or declined at a slower pace. For instance, readings of new orders grew 8.1 percentage points to stand at 41.2 percent in March. Production index also improved. It registered 36.4 percent in March, an increase of 0.1 percentage point from February's reading of 36.3 percent. ISM's Employment index picked up as well. This index registered 28.1 percent, which is 2 percentage points higher than the 26.1 percent in the previous month.

Though the numbers are still below the necessary level, they have nonetheless improved for three consecutive months. A further improvement in the index will signal that activities are picking up and the economy is recovering gradually. Once again, such conditions will augur well for commodities.

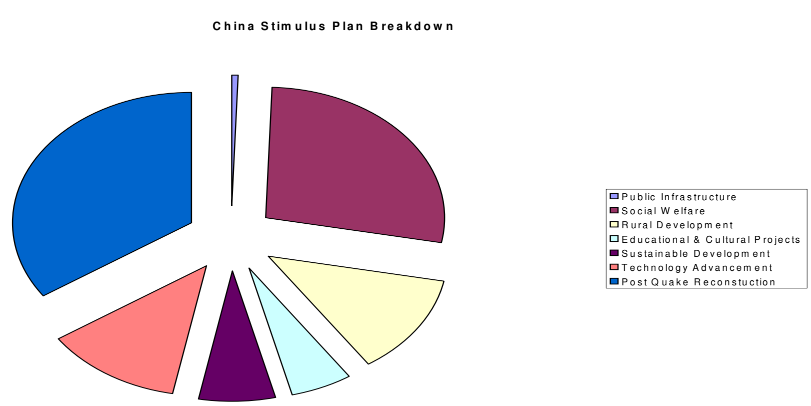
Table 4: Manufacturing at a glance January 2009

Index	Series Index Mar	Series Index Feb	% pt chg	Direction	Trend* (Mths)
PMI	36.3	35.8	+0.5	Contract	14
New Orders	41.2	33.1	+8.1	Contract	16
Production	36.4	36.3	+0.1	Contract	7
Employment	28.1	26.1	+2.0	Contract	8
Supplier Deliveries	43.6	46.7	-3.1	Faster	6
Inventories	32.2	37.0	-4.8	Contract	35
Customers' Inventories	54.0	51.0	+3.0	Too High	8
Prices	31.0	29.0	+2.0	Decrease	6
Backlog of orders	35.5	31.0	+4.5	Contract	11
Exports	39.0	37.5	+1.5	Contract	6
Imports	33.0	32.0	+1.0	Contract	14
Overall Economy				Contract	6
Manufacturing Sector				Contract	14

Source: Institute for supply management

Other than the above that suggest that activity levels might be increasing, economic stimulus packages (fiscal policies) initiated by the various governments will also boost demand for commodities. China for instance has pledged 4 trillion Yuan to boost the domestic economy. Figure 4 shows the breakdown of the stimulus package.

Figure 4: Breakdown of 4 trillion Yuan stimulus package

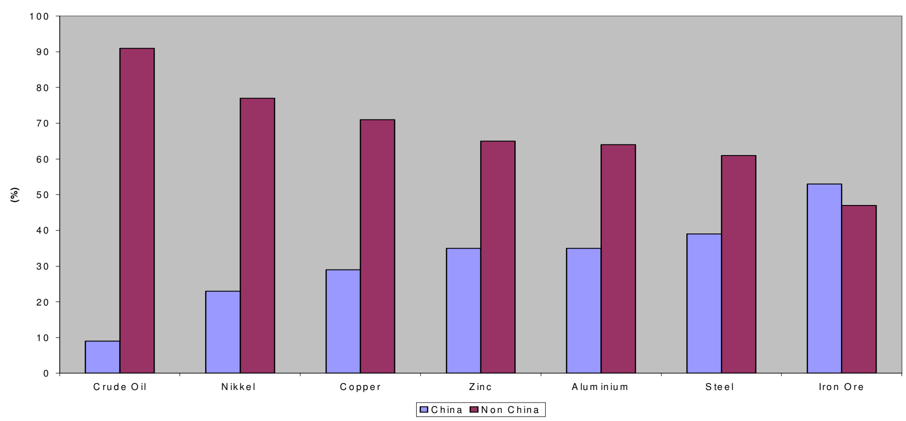


Source: The Economic Observer Online. "China's Stimulus Package: A Breakdown of Spending" 2009-03-07. http://www.eeo.com.cn/ens/finance_investment/2009/03/07/131626.shtml

As shown in figure 4, more than 50 percent of the budget (25 percent to post quake reconstruction and 38 percent to public infrastructure) goes into developing the country's infrastructure.

China accounts for a third of the world's demand for industrial metals. Therefore, development in the country's infrastructure will generate greater demand for industrial metals.

Figure 5: Demand for Metals



Source: Deutsche Bank

From the factors shown above, it suggests that economic activities are gradually picking up. This will portend well for commodities. Demand will only be generated with a pick up in economic activities. However, for commodities rally to sustain there must be a self sustaining recovery in the economy.

Conclusion

Economic data has improved slightly in recent months, although it is still below normal levels. Global equity markets have also improved. MSCI world gained as much as 7 percent in March. Commodity markets have been quick to participate in this re-pricing. As we believe that various governments will continue to implement fiscal measures so as to lead their economy out of recession, commodities are poised to benefit.

However, there is still a need to see more convincing signs of an upturn in global economic growth in order for the commodities rally to sustain. In other words, there must be a self sustaining recovery. As such, should leading economic indicators turn bearish once again, commodities will likewise follow suit.

The commodities most at risk of reversing are copper and gasoline. This is so as they are the best performing commodity year-to-date. Copper has gained as much as 33 percent since the beginning of this year.

Figure 6: Best and Worst Performing Commodity Contracts

Source: Bloomberg

Fund in Focus

There are six funds on our platform that are invested in commodities. They include BNP Paribas Agriculture Fund, DWS Noor Precious Metal Fund, First State Global Resources, Schroder AS Commodity fund, Schroder AS Gold and Metal Fund as well as UOB United Commodity Plus fund.

Among these funds, we prefer Schroder AS commodity fund. We like this fund as it is exposed to all three forms of commodities (Agriculture, Metals and Energy). Commodity is after all a risky asset class and hence it is necessary to minimize risk by diversifying within the asset group.

With respect to performance, although it did not outperform funds such as First State Global resources and DWS Noor Precious Metal fund, it has a lesser maximum drawdown relative to its peers. Maximum drawdown indicates the maximum loss for the fund.

Table 5: Funds Maximum Drawdown

Fund	Maximum Drawdown
BNP Paribas Agriculture Fund	N.A
DWS Noor Precious Metal Fund	66.05
First State Global Resources Fund	69.01
Schroder AS Commodity Fund	52.31
Schroder AS Gold and Metals A Acc	N.A.
UOB United Commodities Plus Fund	N.A

Source: Bloomberg

Appendix

Fund	Asset Allocation/ Top Holdings	Performance	
		YTD (%)	1 Year (%)
BNP Paribas Agriculture Fund	DJ AIG Agriculture Sub-Index 40% S&P GSCI Agriculture & Livestock Enhanced 25% DCI Agriculture Enhanced 35%	(4.26)	--
DWS Noor Precious Metal Fund	Newmont Mining Corp 9.63% Kinross Gold Corp 9.63% Goldcorp Inc. New 9.58% Barrick Gold Corp 9.31% Lihir Gold Ltd 5.30% Eldorado Gold Corp 5.18% Newcrest Mining 4.85% Agnico Eagle Mines Ltd 4.68% Lamgold Corp 4.43% Red Back Mining Inc 4.23%	18.55	(24.81)
First State Global Resources	Vale 8.6% Rio Tinto 8.1% BHP Billiton Plc 7.3% Exxon Mobil Corp Lihir Gold 3.9% Antofagasta Plc 3.8% Petrobas 3.6% China Shenhua Energy Co Ltd 3.6% Goldcorp Inc 3.3% Legacy Energy 3.1%	15.86	(47.73)
Schroder AS Commodity Fund	Crude Oil 17.2% Gold 8.0% Sugar 6.2% Gasoline 4.4% Copper 3.8%	1.00	(38.56)
Schroder AS Gold and Metals A Acc	Gold 42.9% Copper 12.1% Silver 8.6% Lead 8.2% Zinc 8.2%	10.62	--
UOB United Commodities Plus Fund	Korea Dev Bank FRN 20/10/2009 Shinsegae 6.125% 27/06/2011 Korea Railroad 5.375% 15/05/2013 Singapore Telecoms 6.375% 01/12/2011 Hutchison Whampoa 6.5% 13/02/2013	11.16	--

Figures in brackets are negative.

Performance as of 1st April 2008.

Source: Bloomberg

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