

Asset Management
Multi Asset

Commodities an underappreciated asset class

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March 14, 2019

Why (not) invest in commodities?

Common misconceptions:

Traditional Beta does not perform

Negative roll yields

Peak oil demand

Inflation is gone

Diverse investment objectives

Speculators drive prices higher



Solutions and opportunities:

Enhanced Beta solutions

**Active management +
risk premium investing**

**Take advantage of underinvestment and
supply shocks**

Benefit from trend and cyclical growth

Wide range of product offers

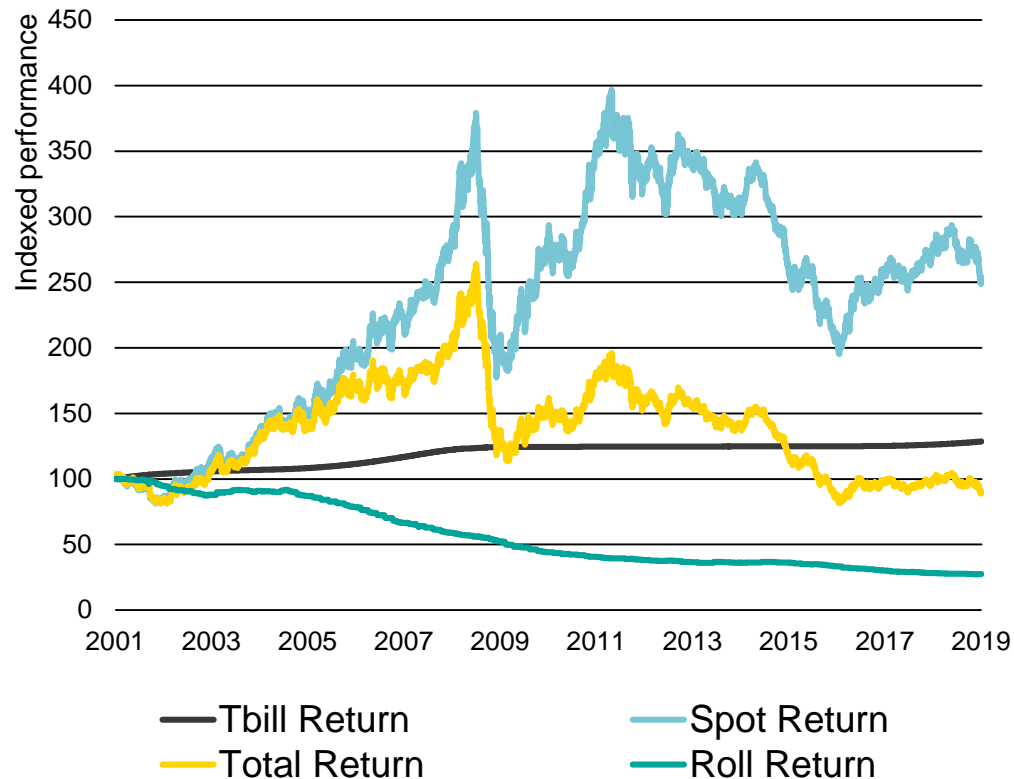
Incorporation of ESG policy



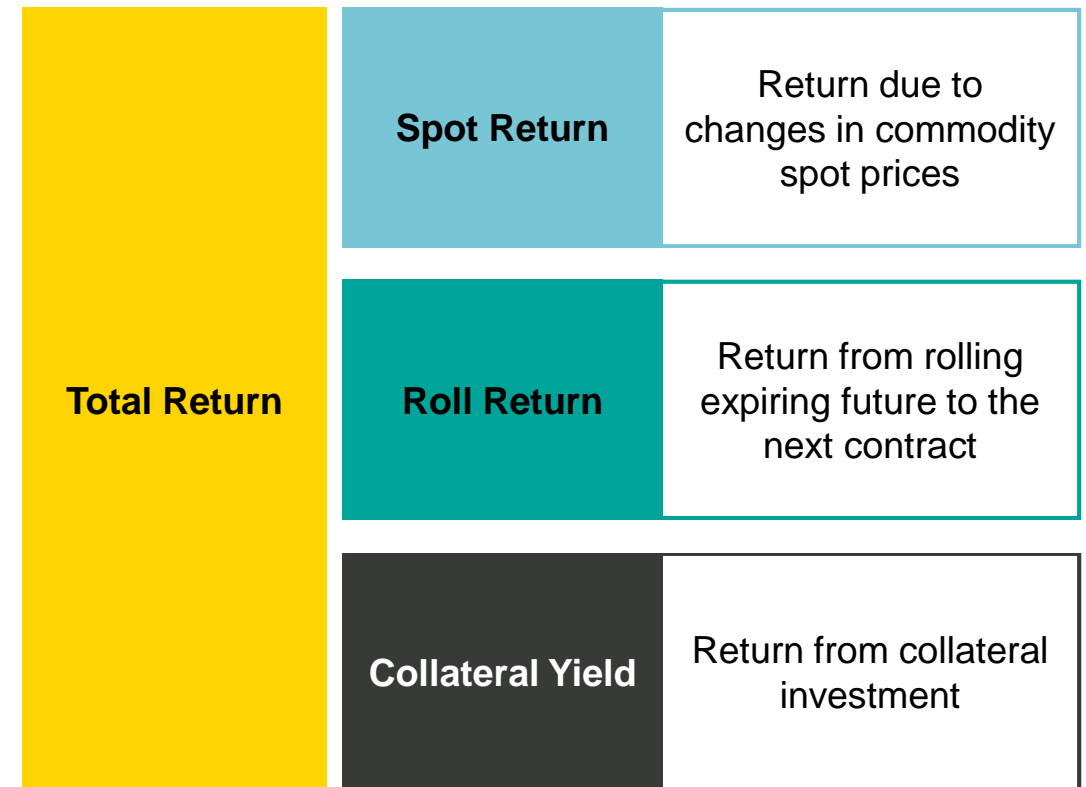
Traditional Beta does not perform

Traditional Beta does not perform

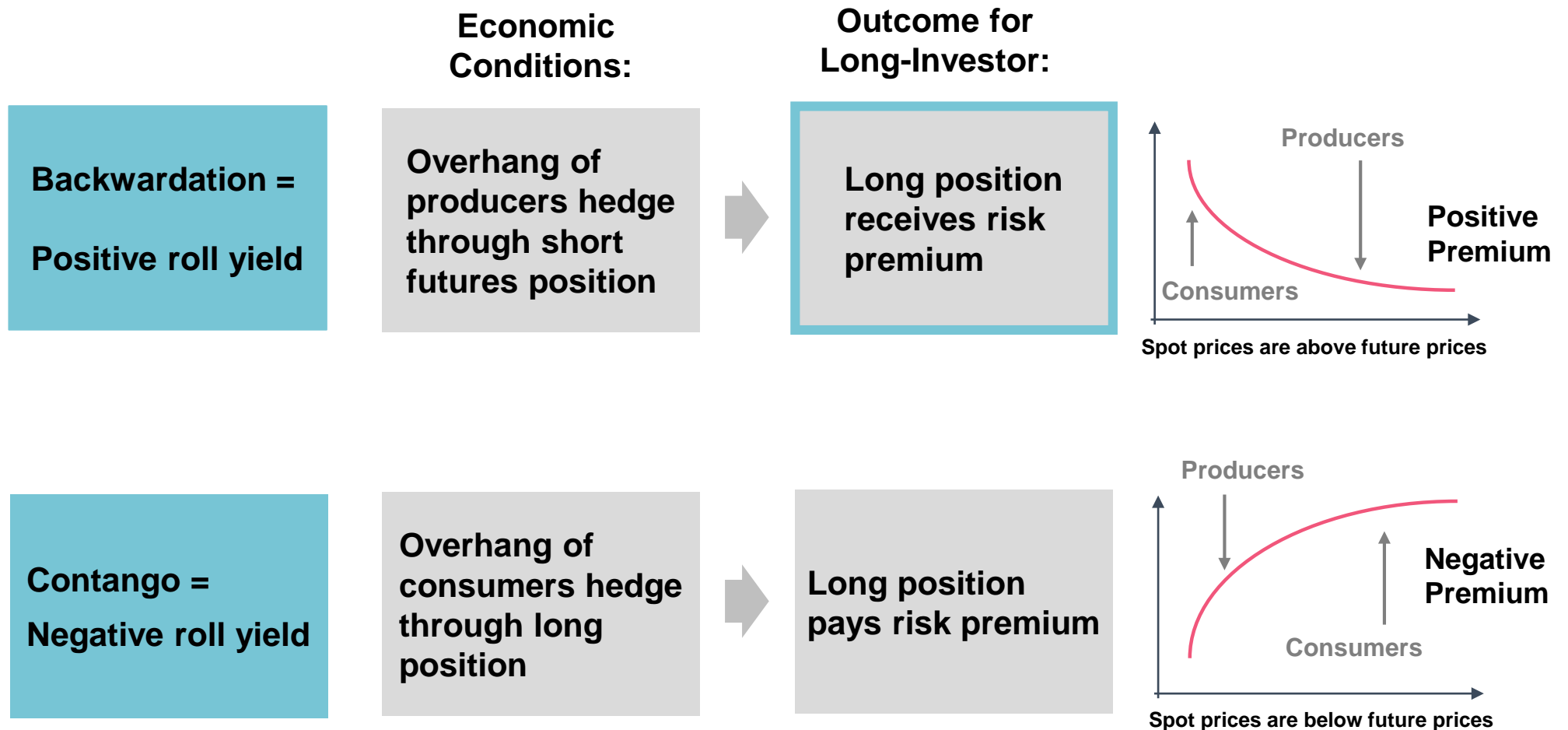
Traditional commodities indices lag due to negative roll returns



Return components for investment into commodities

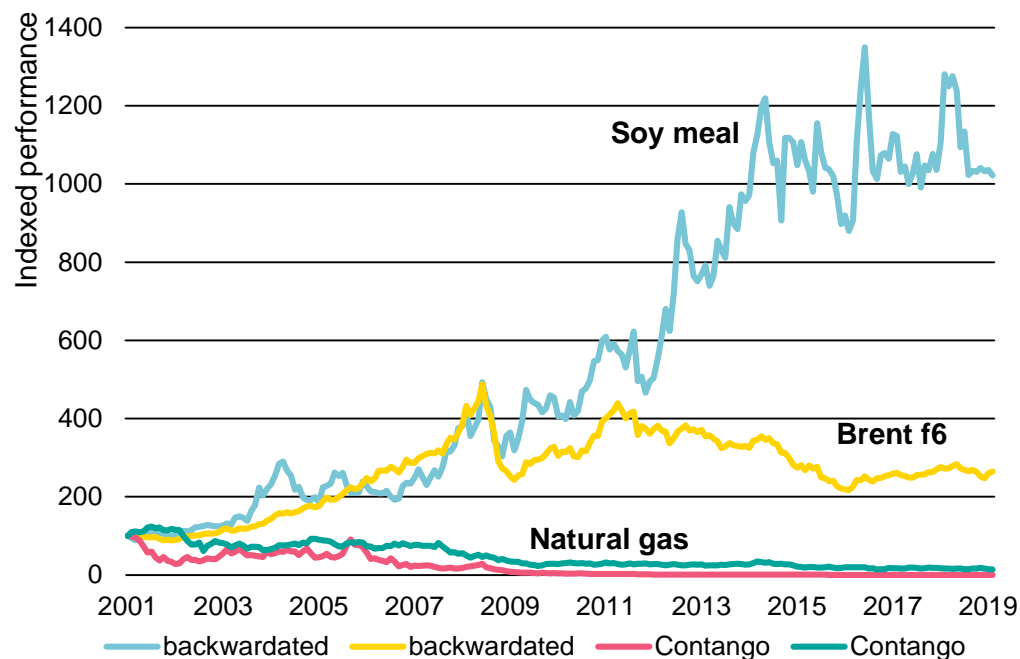


Roll return: how does the roll mechanism work?



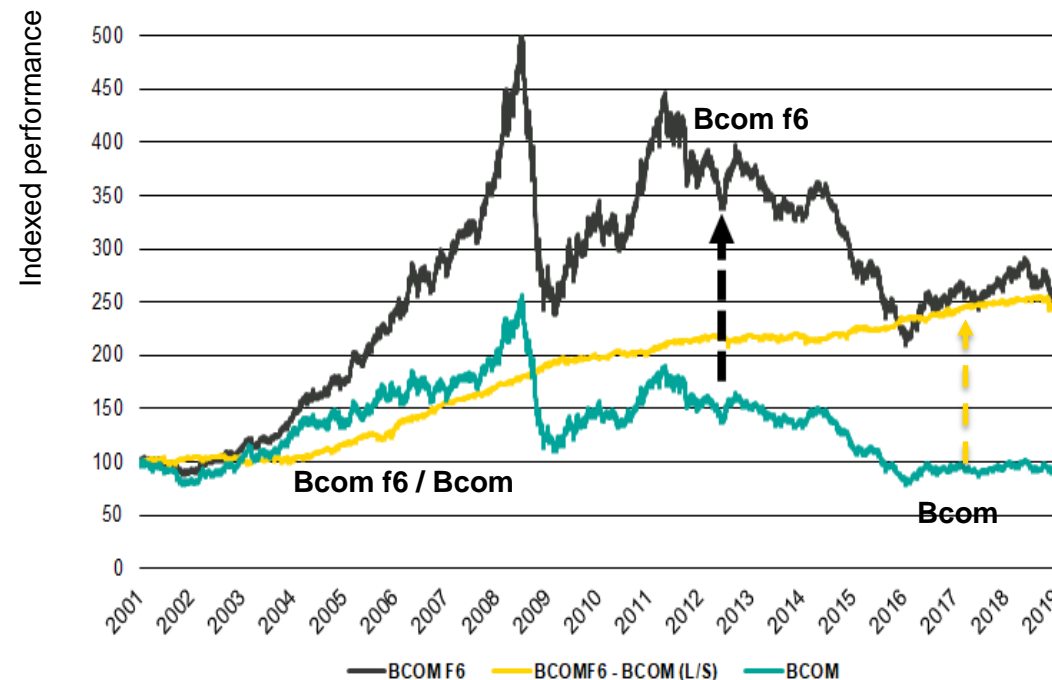
We advise an enhanced beta approach (or long short)

See the effect of backwardation vs contango



- Clear differentiation in total performance for commodities that are in structural contango (natural gas, lean hogs) vs structural backwardation (soy meal, Brent f6)

Long only investors should shift on the curve



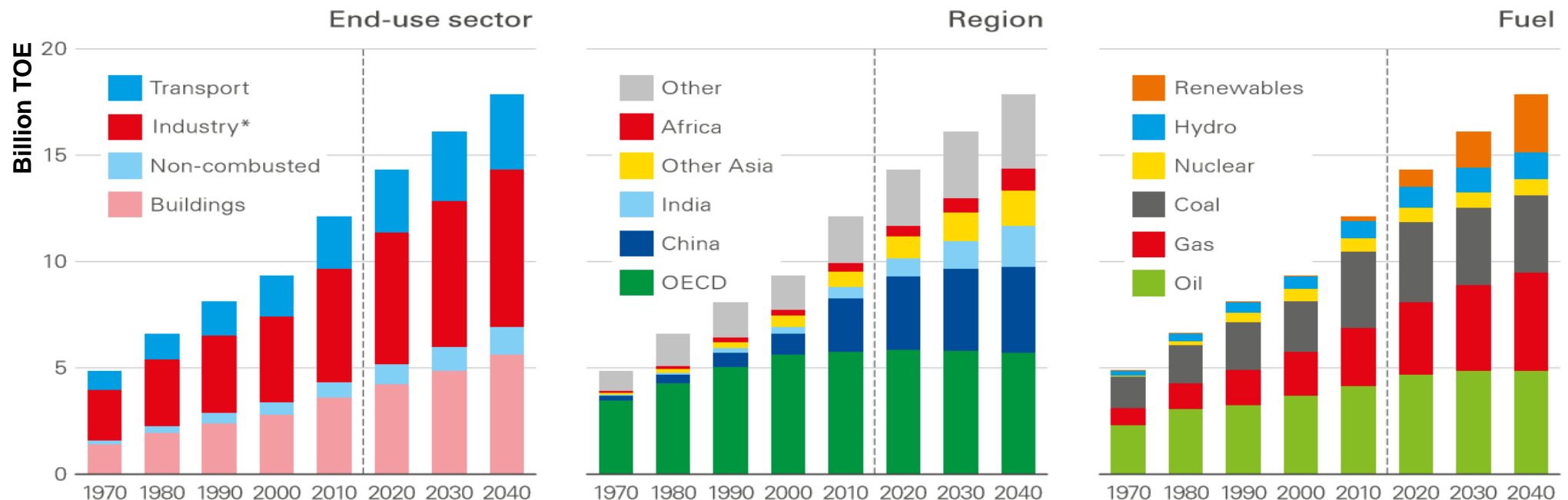
- Shifting from BCOM to longer dated futures (like BCOMF6) increased returns and lowered volatility
- A long /short curve position delivered a Sharpe equal to 1.4



Peak oil / peak metals demand is far away

Peak demand for oil?

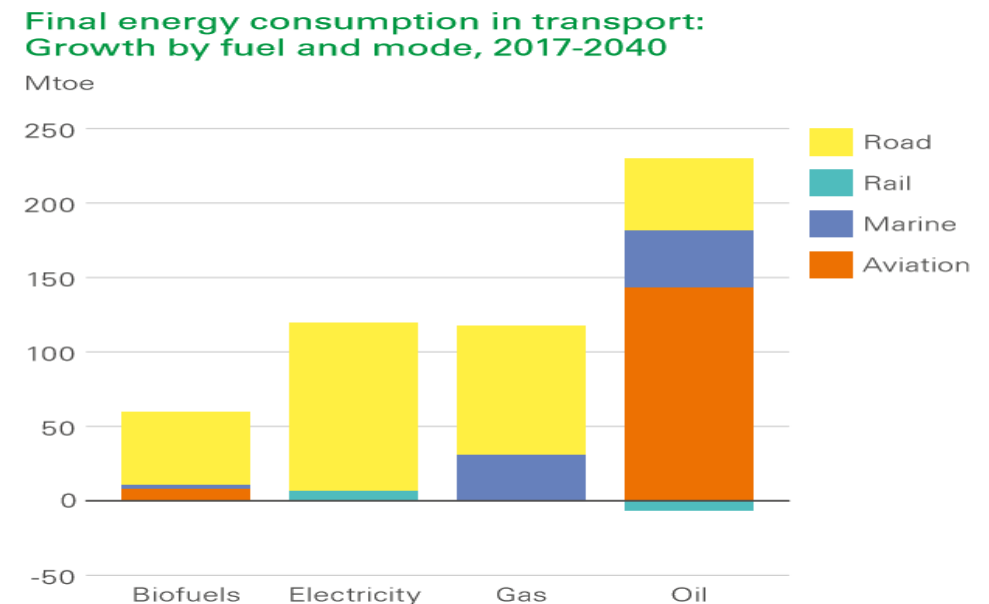
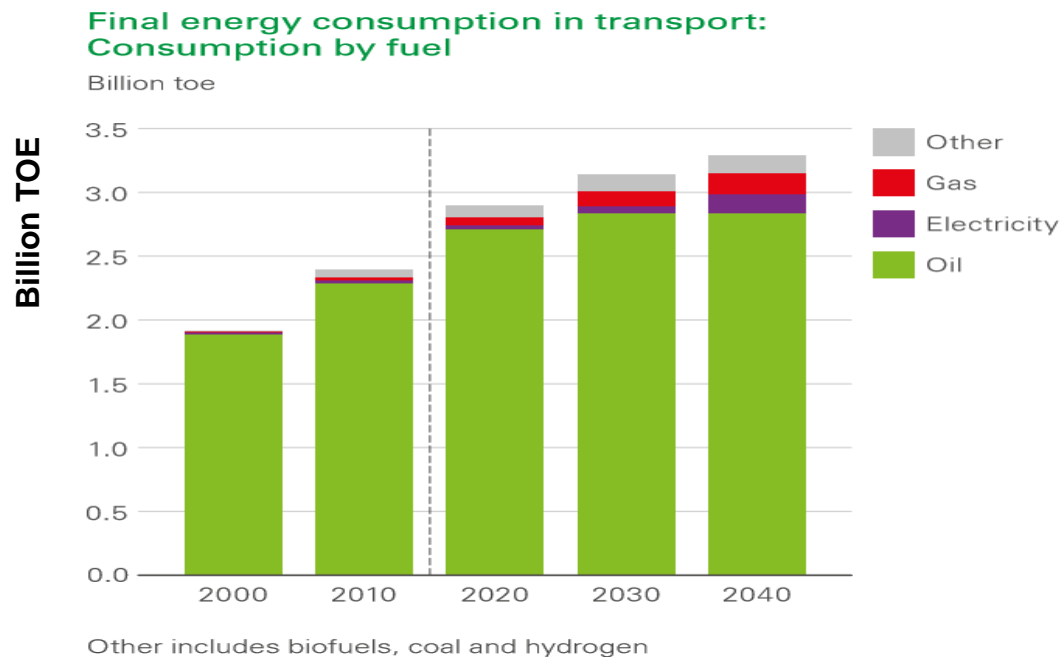
Growth in primary energy demand



- Strong future growth in energy consumption is function of :
 - High base of consumers in emerging economies
 - Demographics
 - Rising middle class
- Excludes oil demand from the petro-chemical industry (biggest driver oil demand 2030 – 2040)

Peak demand for oil?

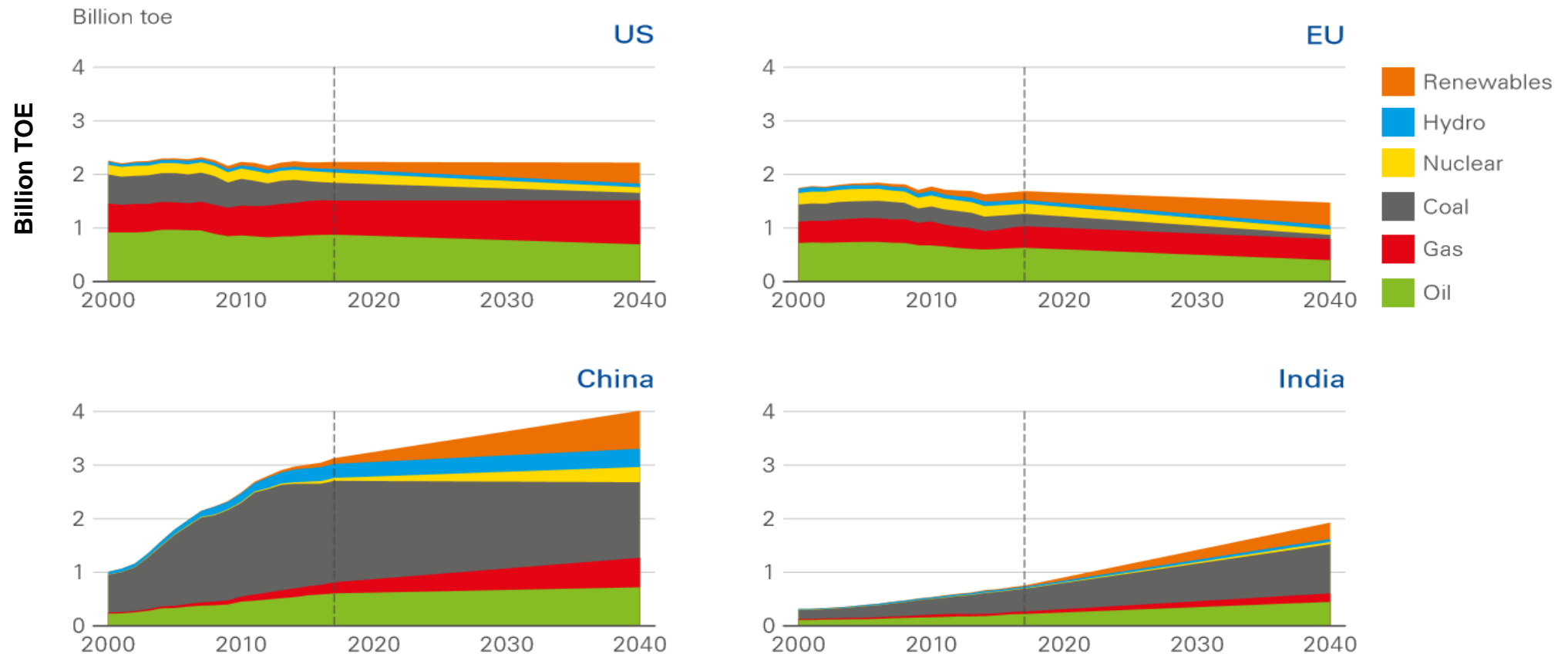
Growth in energy demand for transport



- Transport demand continues to be dominated by oil, despite increasing use of gas, electricity and biofuels

Peak demand for petrol?

Primary energy consumption by region and by fuel



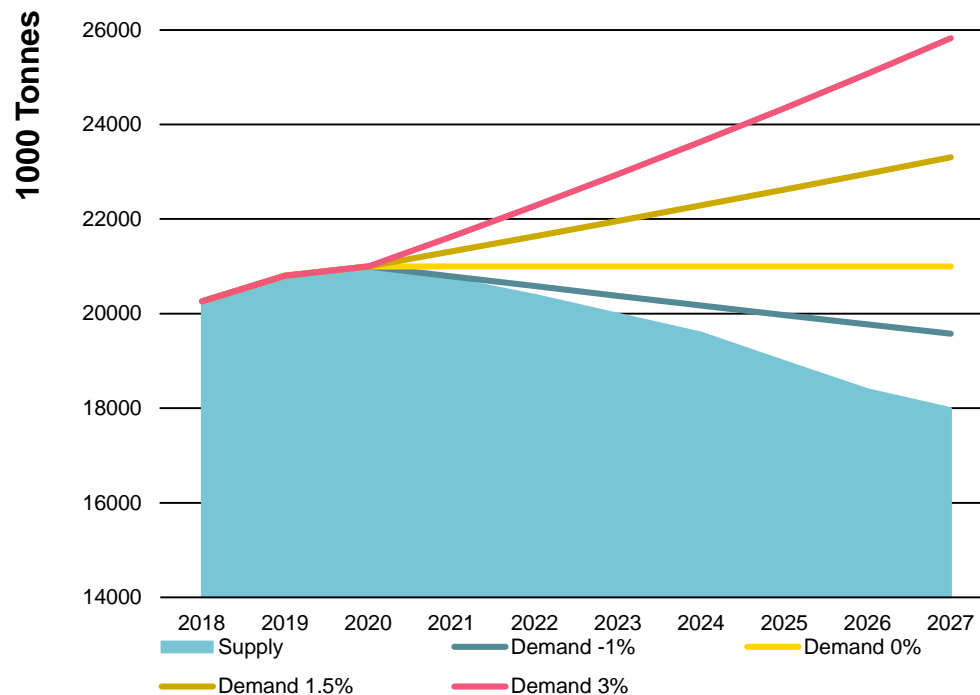
- Energy consumption driven by China, India and US
- Different adjustment speeds introduce opportunities for active management

Source: BP Energy Outlook 2019

Note: 1 billion TOE = 6.8 billion barrels of oil equivalent = 19 million barrels per day equivalent

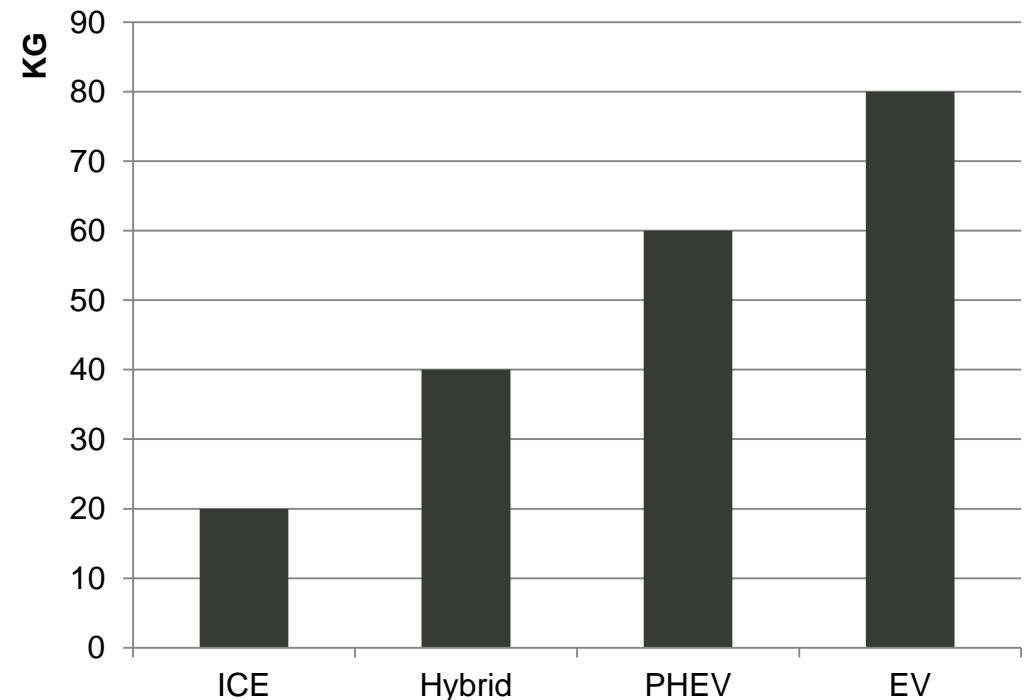
Peak demand for metals?

Copper current base case supply vs demand



- Mining capex peaked in 2012 implying industrial metals supply peak around 2020
- Unless we start to see a large contraction in demand prices need to be high enough to trigger more capex

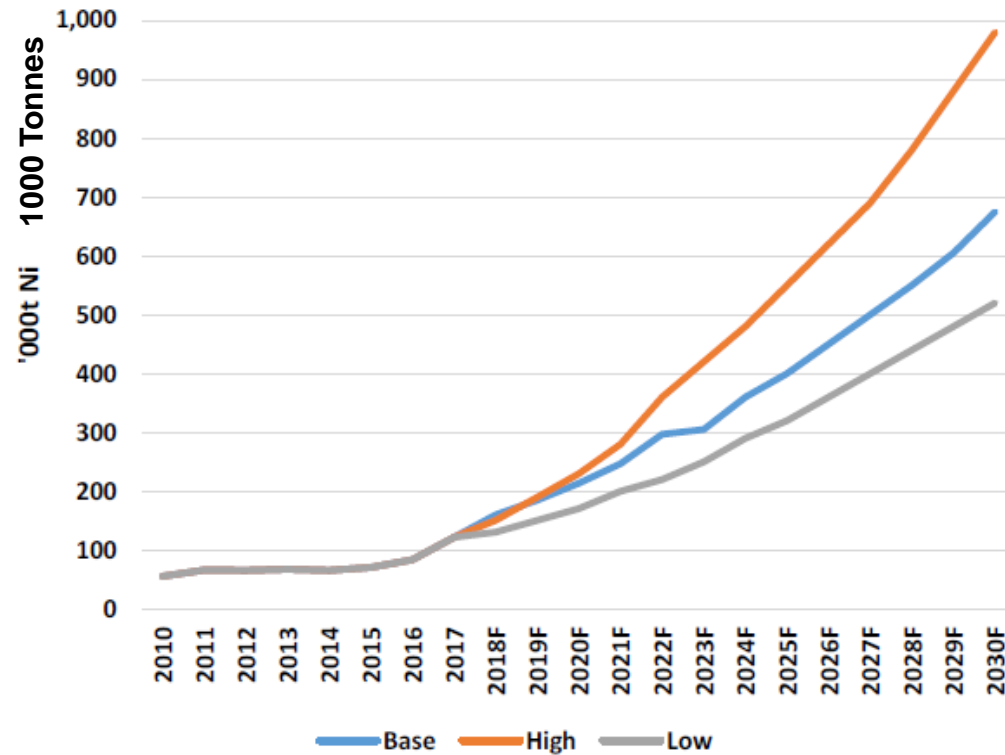
Copper intensity – kg per passenger vehicle



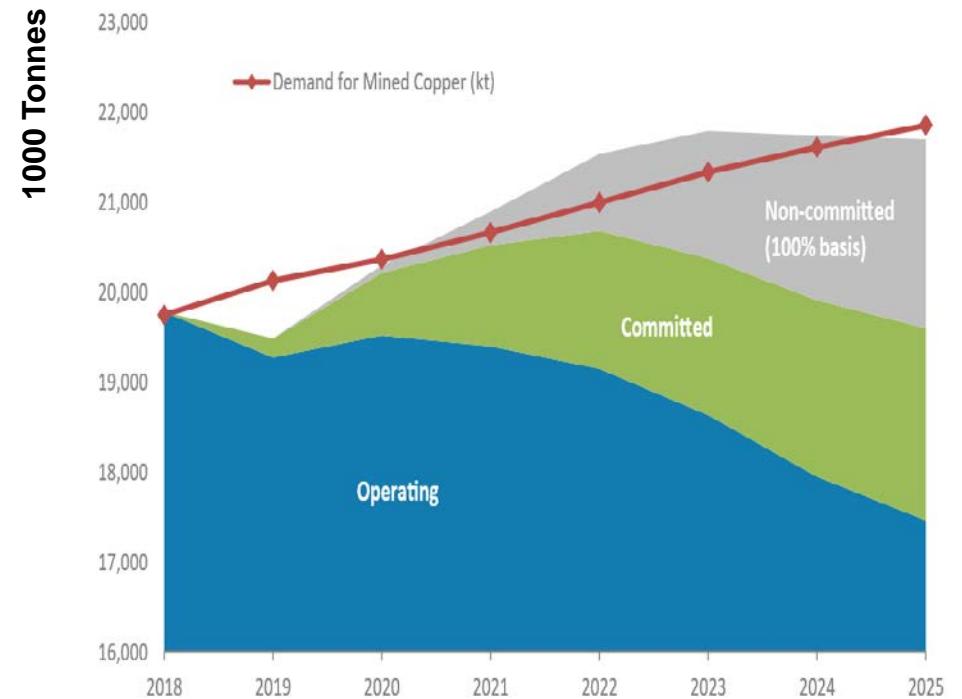
- Technology shift to electrical vehicles will have a large impact on industrial metal demand
- Particularly positive for nickel, aluminum and copper demand

Peak demand for metals?

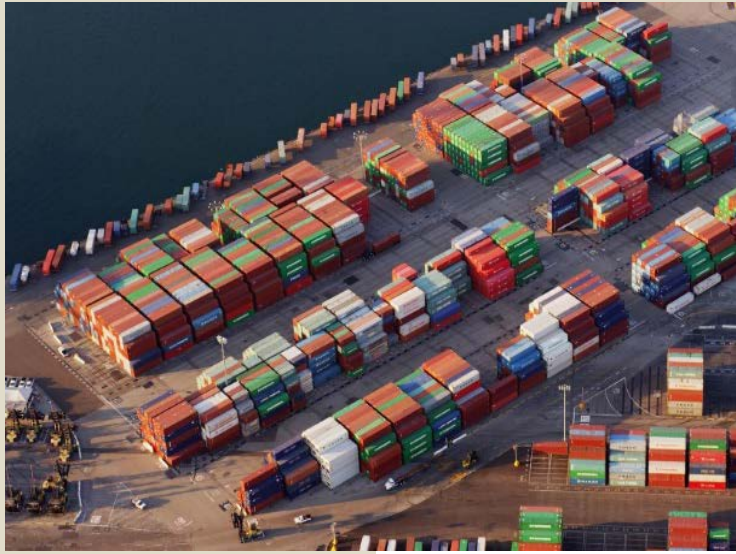
Nickel usage in batteries to grow strongly



Copper mine supply dips, leading to deficits



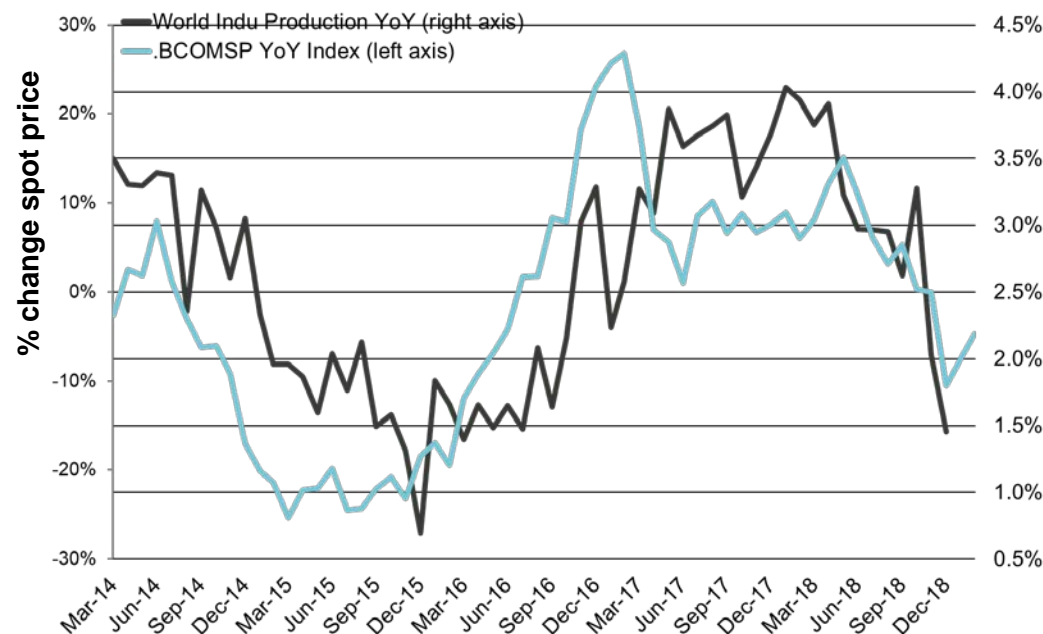
- Electric vehicles stimulate copper and nickel demand



Macro-economic cycle still supportive for commodities

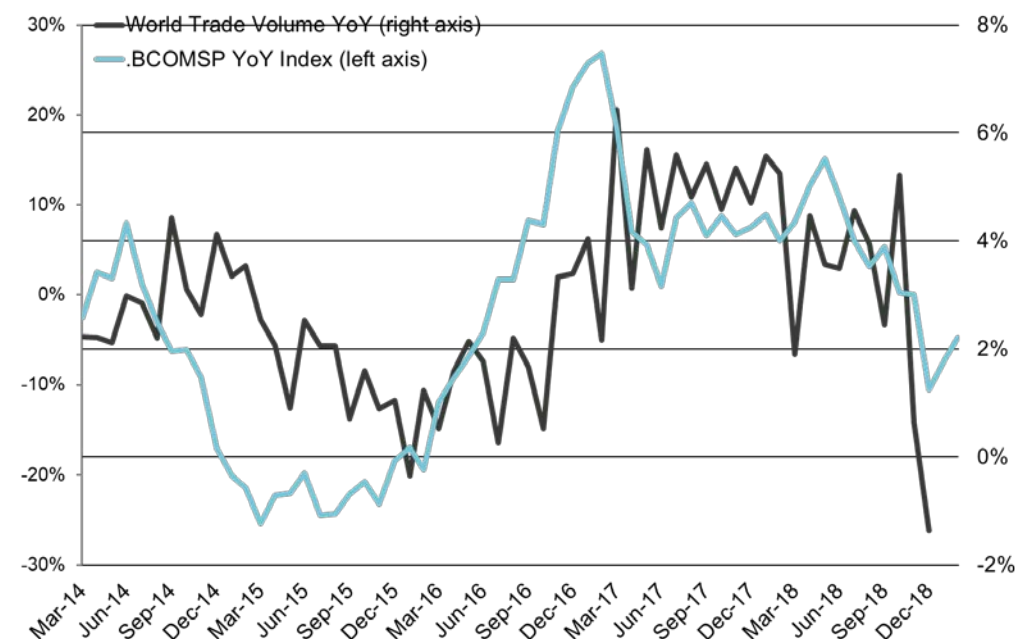
Late cycle growth normally adds to a positive tone for commodities...

World industrial prod. vs commodity returns



- Commodity (spot) returns reflect the recent weakness industrial production

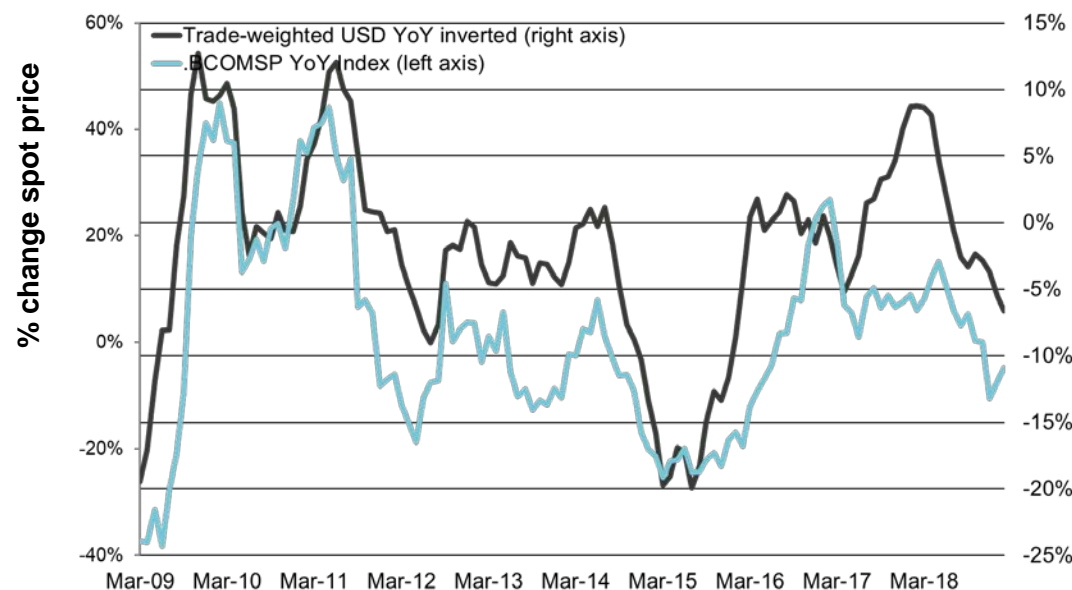
World trade and commodity returns



- Commodity (spot) returns reflect the recent weakness in world trade

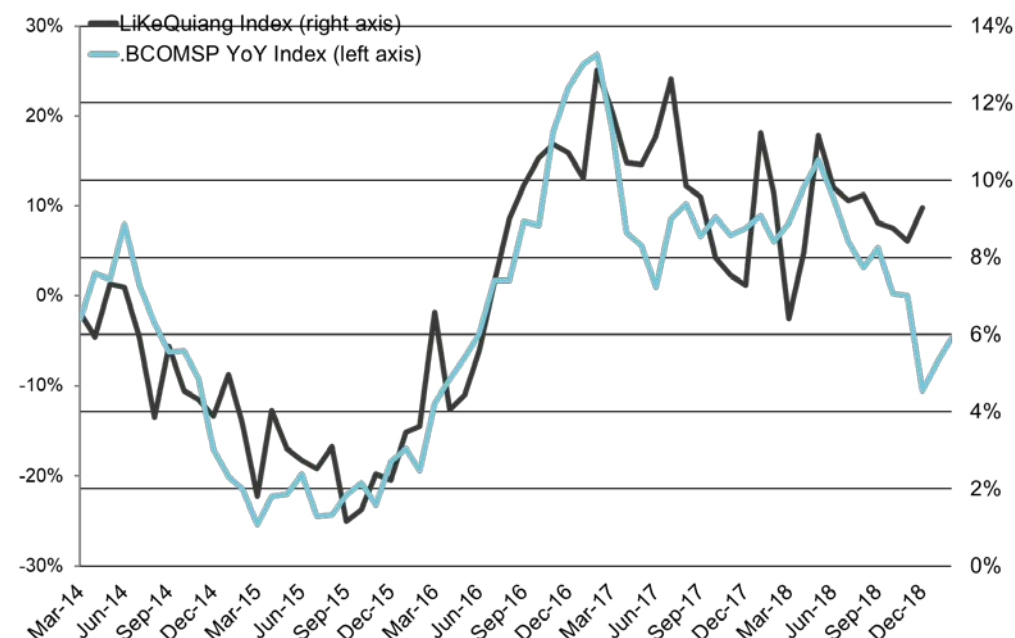
... while USD strength / Chinese cooling do not cap spot returns

Trade-weighted USD vs spot returns



- USD weakness supports commodity (spot) returns
- US Federal Reserve shifted to a more 'dovish' tone, this supported commodity prices in 2019

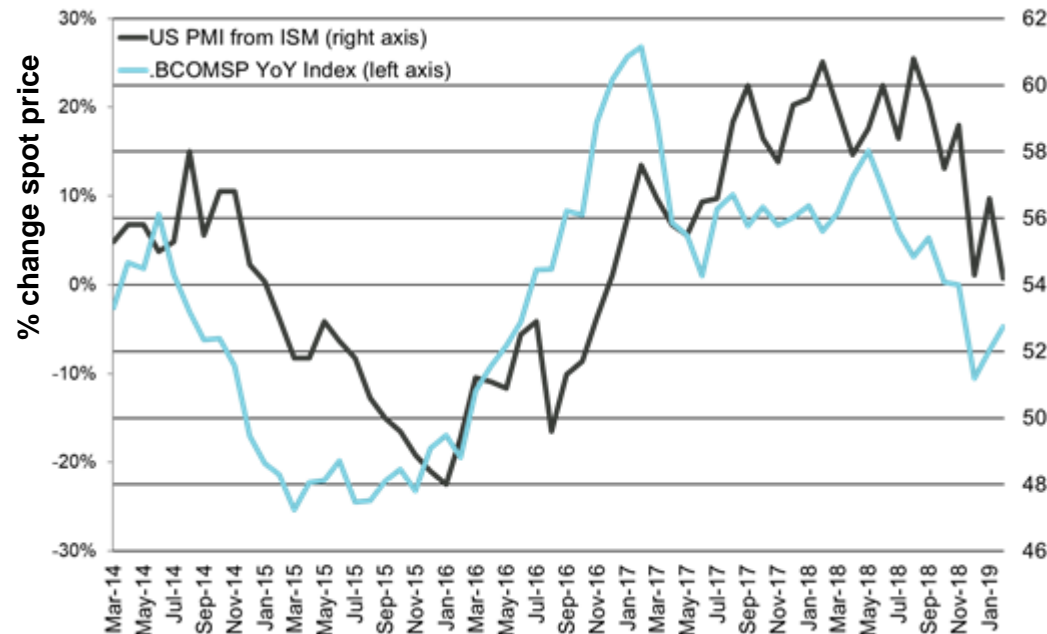
Chinese (old) economy is strongly rebounding



- LiKeQiang index (proxy for Chinese industrial activity)
- Controlled cooling in Chinese industrial activity supports high(er) commodity spot returns

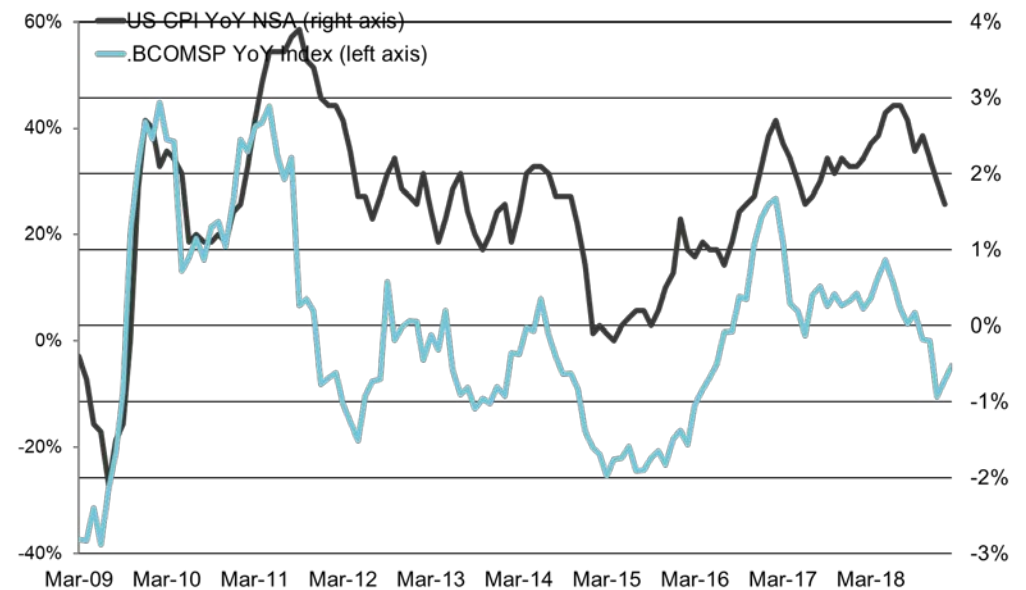
US economy still shows solid growth

US PMI vs commodity returns



- US PMIs indicate further strength ahead for commodities spot returns

US inflation vs commodity returns

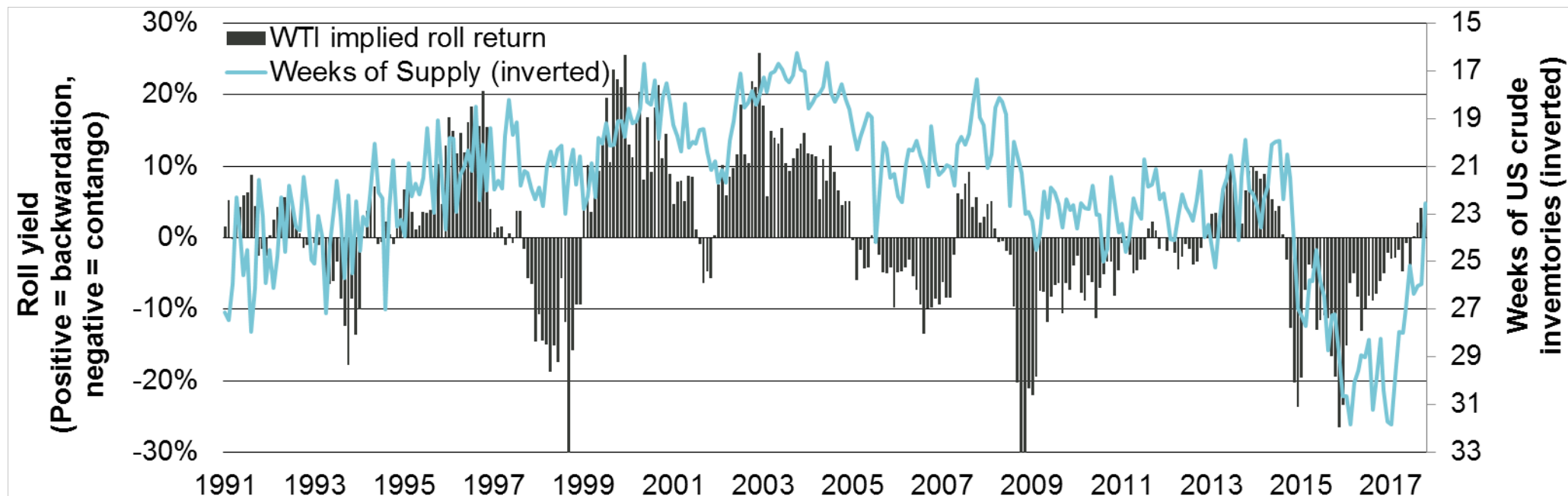


- US inflationary pressures strongly linked with Commodity (spot) returns
- Commodities are a strong hedge for rising bond yields and a rise in (un)expected inflation

Energy Markets: bottom up analysis

March 14, 2019

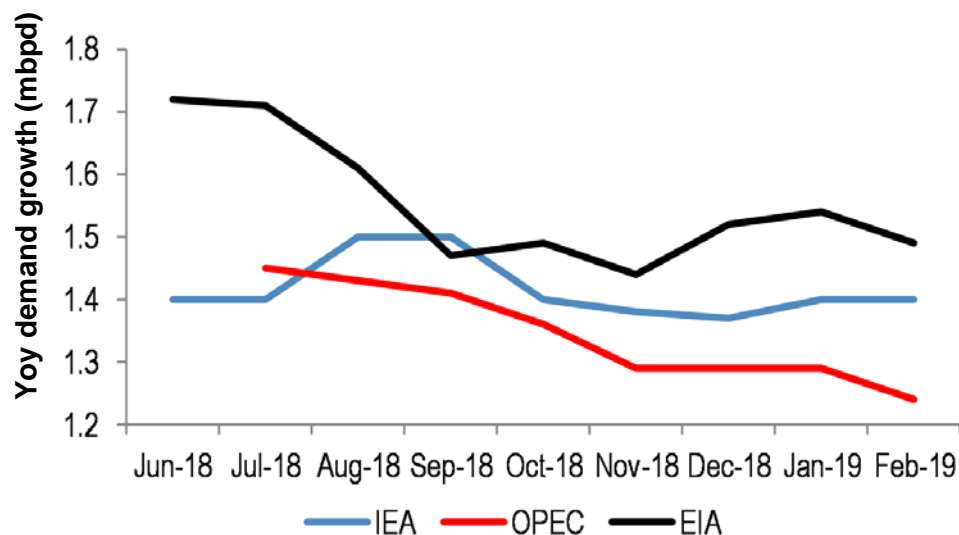
Oil surpluses are correcting rapidly and created backwardated curve structures



- Crude inventories are a dominant (cyclical) driver for long term roll returns
- Inventories are adjusted for steady growing demand (days of supplies)
- The glut in global petroleum inventories has been corrected, and explains backwardated curves for heating oil, gasoil, gasoline, Brent

Energy Markets

Global oil demand expected to grow



- Global crude demand has grown by roughly +1.4 mbpd yoy since 2014
- Energy agencies foresee strong continuation in demand growth in 2019

... while supply is not responding

	Feb-19	Jan-19	Nov-18	Sep-18	Nov-18	Chg to Capacity	
					Nov-18		
Algeria	1,030	1,050	1070	1050	1,070	-40	1,150
Angola	1,440	1,450	1490	1530	1,490	-50	1,710
Equador	530	520	520	540	520	10	555
Gabon	200	210	180	170	180	20	220
Iran	2,650	2,740	3040	3430	3,040	-390	4,000
Iraq	4,620	4,690	4570	4660	4,570	50	4,700
Kuwait	2,690	2,750	2800	2800	2,800	-110	3,000
Libya	900	900	1110	1050	1,110	-210	1,200
Nigeria	1,760	1,790	1760	1800	1,760	0	1,900
Qatar			610	610	610		
Saudi Arabia	10,100	10,200	11070	10530	11,070	-970	11,500
UAE	3,070	3,090	3270	3040	3,270	-200	3,400
Venezuela	1,070	1,230	1230	1260	1,230	-160	1,440
Total OPEC	30,500	31,060	33150	32900	33,150	-2,650	35,255
Russia		11,393	11430	11419	11,430	-37	
Kazakhstan		1,903	1906	1796	1,906	-3	
Azerbaijan		704	733	704	733	-29	
North Sea		2,679	2744	2457	2,744	-65	
US		12,074	11861	11375	11,861	213	
Canada		4,218	4375	4042	4,375	-157	
Mexico		1,695	1697	1808	1,697	-2	
Brazil		2,810	2567	2486	2,567	243	
China		3,700	3790	3703	3,790	-90	
Total Non-OPEC		49,407	49407	48013	49,407	0	

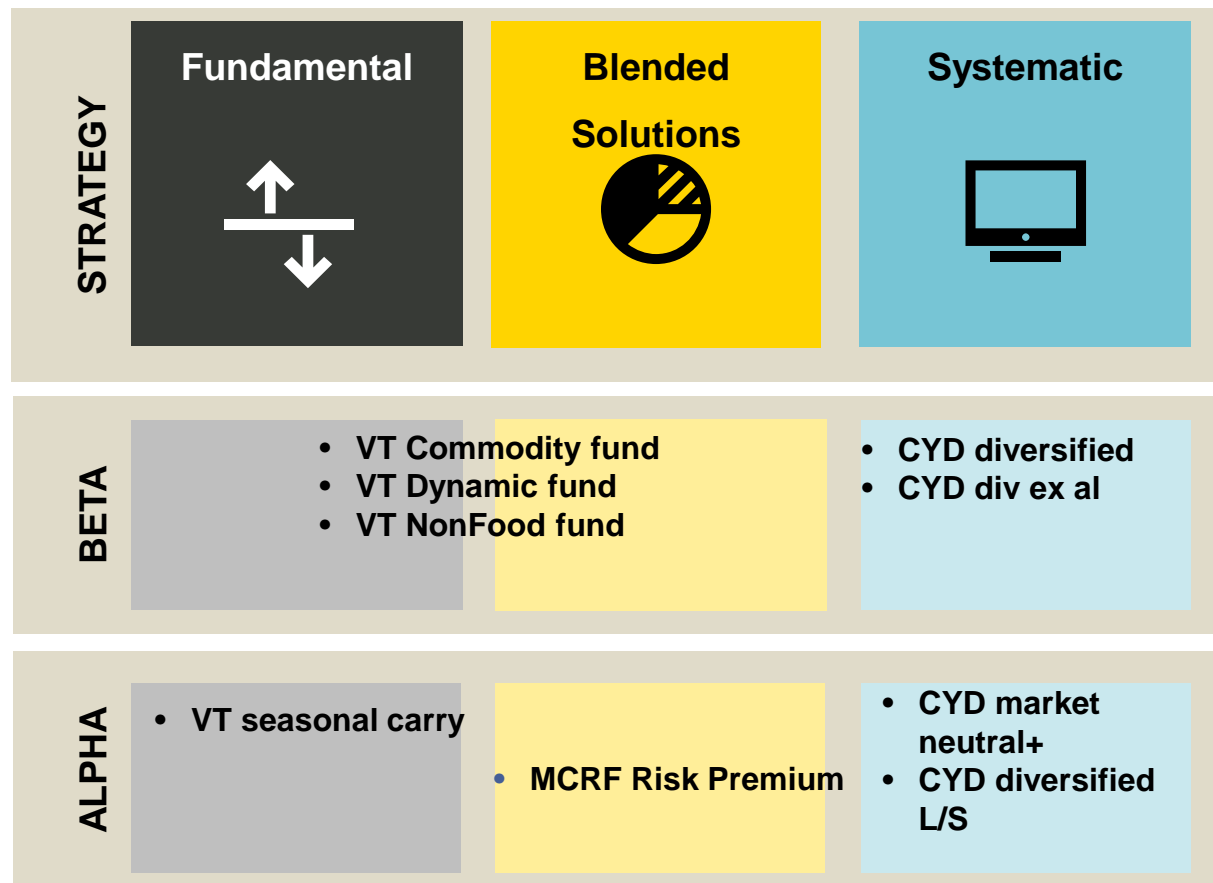
- Table shows monthly oil production data (kbpd)
- Growth in US shale offset by supply losses



We offer fundamental, quantitative & blended solutions

Vontobel Vescore Commodities

We offer a wide range of products to meet our customer needs



- Active commodity manager since 2008
- 4 fundamental traders & analyst and 2 systematic traders
- Combined AUM of USD 1.1 bn
- Five listed funds
- Managed accounts
- Advisory mandates

Vontobel Fund – Commodity

Net annualized Performance overview

Fund characteristics

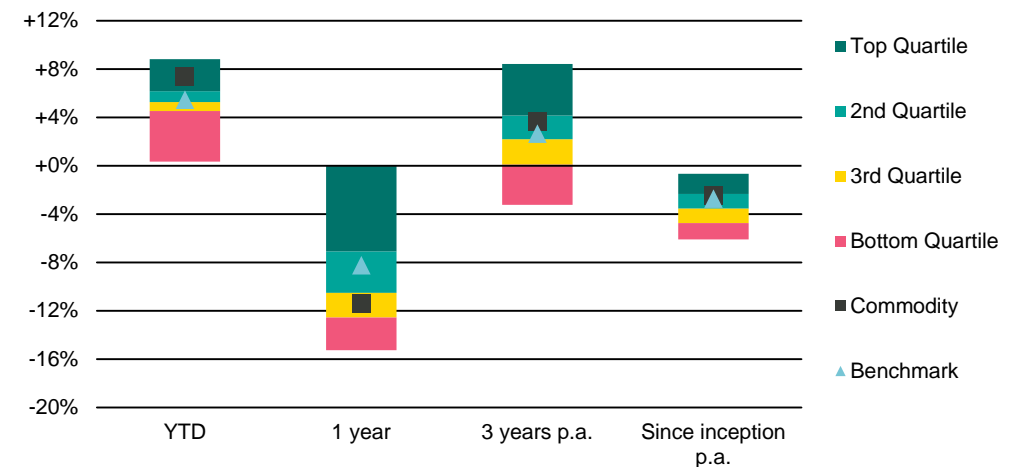
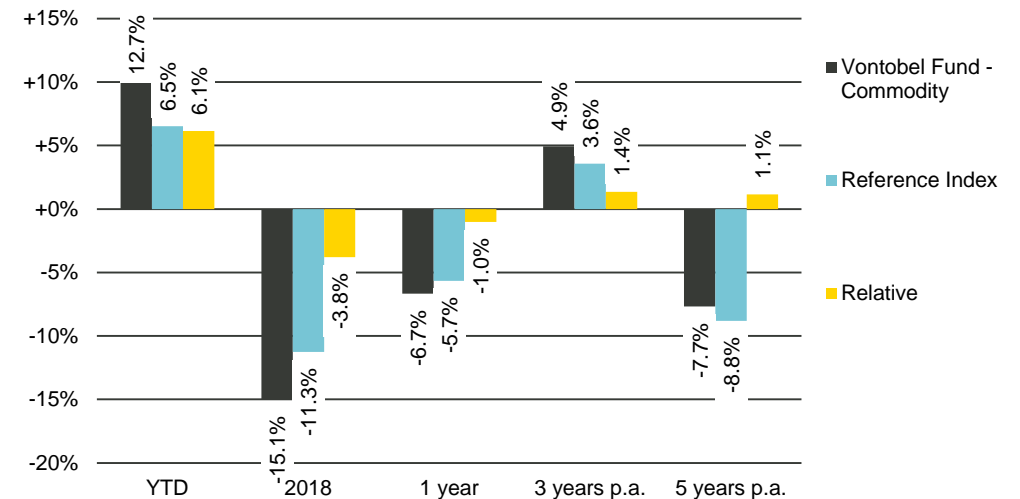
Fund	Discretionary managed long-biased commodity fund, that utilizes a structured investment process based on fundamental research combined with quantitative screening. Investment universe covers 35 commodities. Michel Salden has been the lead portfolio manager since July 2014. (LU0415415800)
Reference Index	Bloomberg Commodity Total Return Index
Currency	USD
Time Period*	7.1.2009–28.2.2019

Rolling 12-month net returns (in %)

	Fund - I	Reference Index
01.03.2018-28.02.2019	-6.68	-5.67
01.03.2017-28.02.2018	4.55	1.58
01.03.2016-28.02.2017	18.39	15.95
01.03.2015-29.02.2016	-23.22	-26.50
01.03.2014-28.02.2015	-24.35	-22.77



Net return (in %)

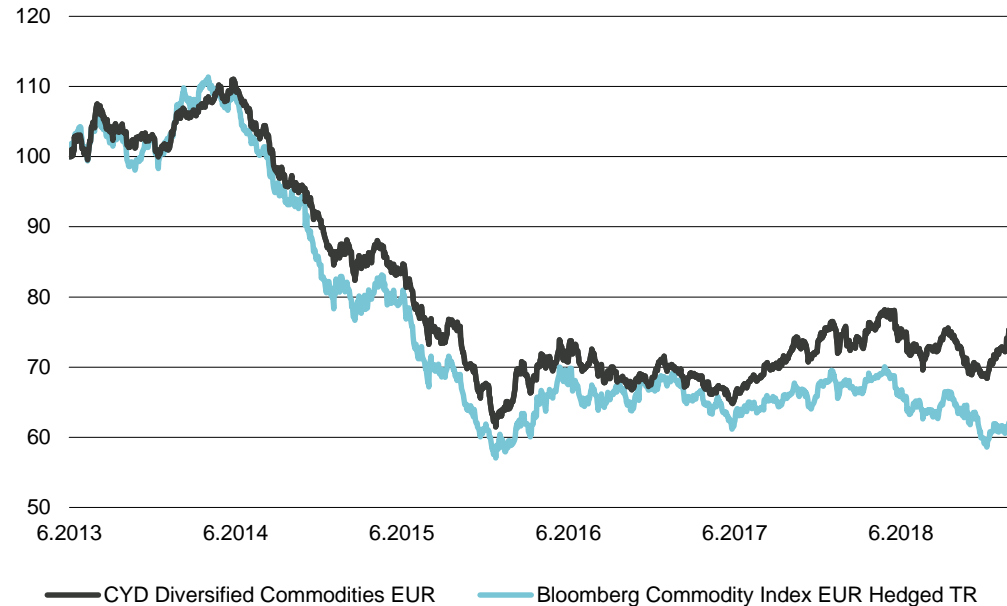


Past performance is not a guide to current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in rates of exchange between currencies.

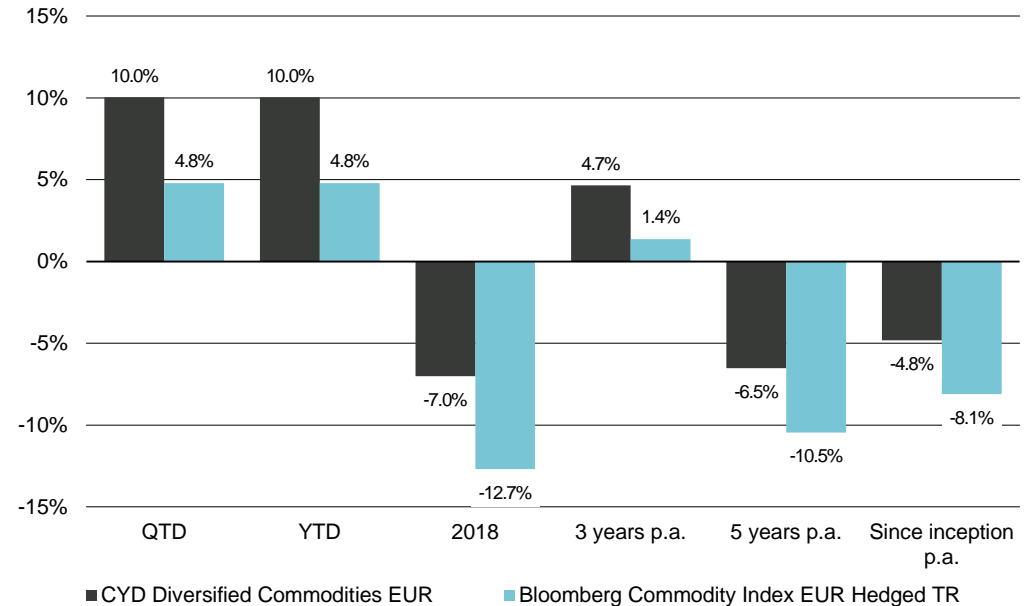
Source: Feri, Vontobel Asset Management, Morningstar Direct (as of 28.2.2019).

Commodities – Active Commodities CYD Diversified Commodities EUR

Indexed performance (net)



Net performance (%)



Description	CYD Diversified Commodities
Reference Index	Bloomberg Commodity Index EUR Hedged TR
Currency	EUR
Inception	28.6.2013
Period	28.6.2013–28.2.2019

Key Figures (3 Years)	Fund	Reference Index
Volatility p.a.	9.18%	9.66%
Max. Drawdown	12.49%	16.35%
Information Ratio	0.47	

Period	01.03.2018-28.02.2019	01.03.2017-28.02.2018	01.03.2016-28.02.2017	01.03.2015-29.02.2016	01.03.2014-28.02.2015
CYD Diversified Commodities EUR	1.81%	7.29%	4.91%	-25.12%	-16.88%

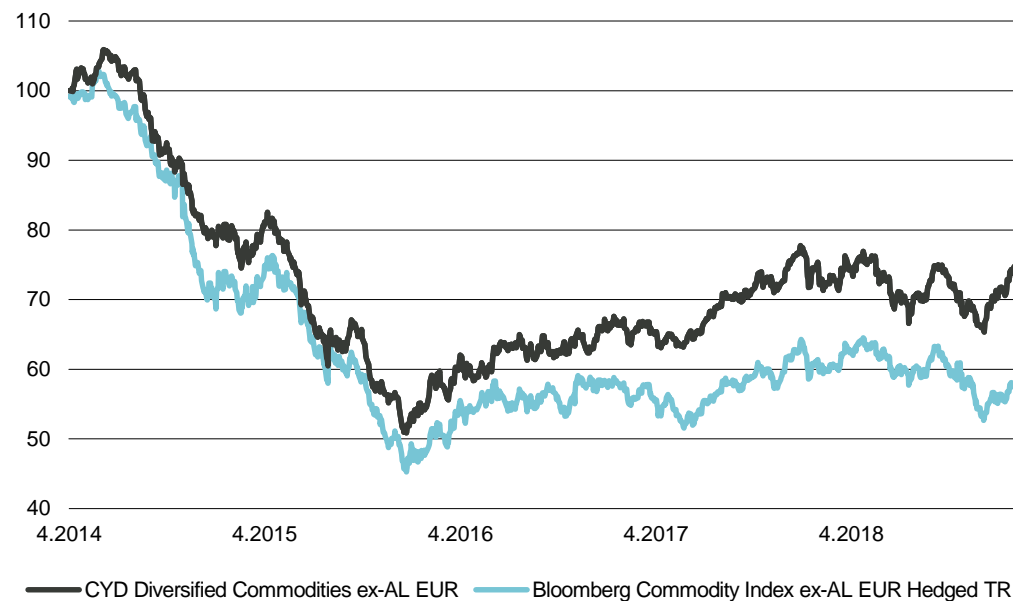
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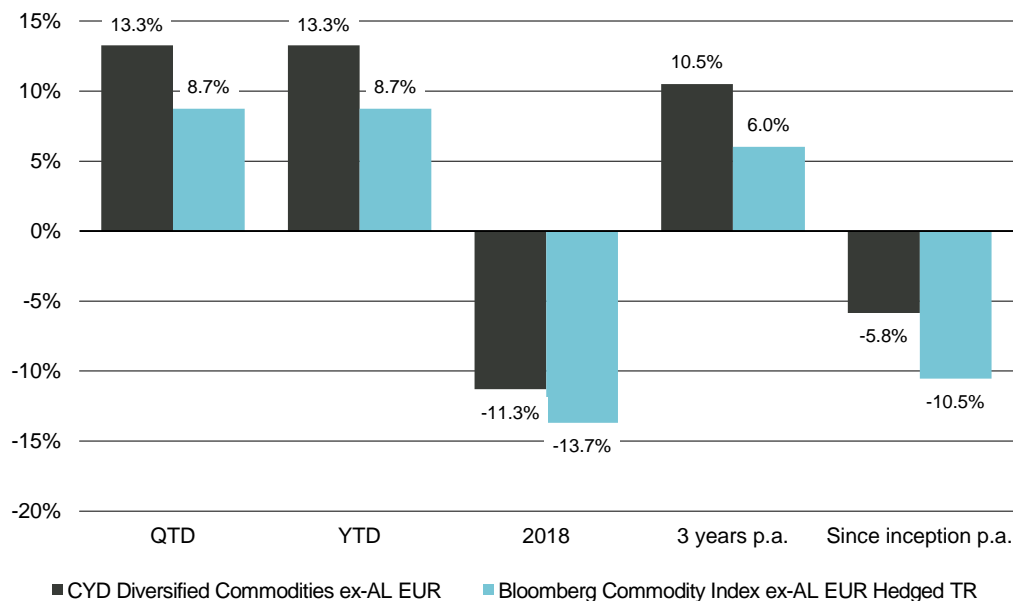
Commodities – Active Commodities

CYD Diversified Commodities ex-AL EUR

Indexed performance (net)



Net performance (%)



Description	CYD Diversified Commodities ex-AL
Reference Index	Bloomberg Commodity Index ex-AL EUR Hedged TR
Currency	EUR
Inception	30.4.2014
Period	30.4.2014–28.02.2019

Key Figures (3 Years)	Fund	Reference Index
Volatility p.a.	12.29%	12.78%
Max. Drawdown	15.91%	18.35%
Information Ratio	0.47	

Period	01.03.2018-28.02.2019	01.03.2017-28.02.2018	01.03.2016-28.02.2017	01.03.2015-29.02.2016
CYD Diversified Commodities ex-AL	1.63%	10.07%	20.64%	-31.31%

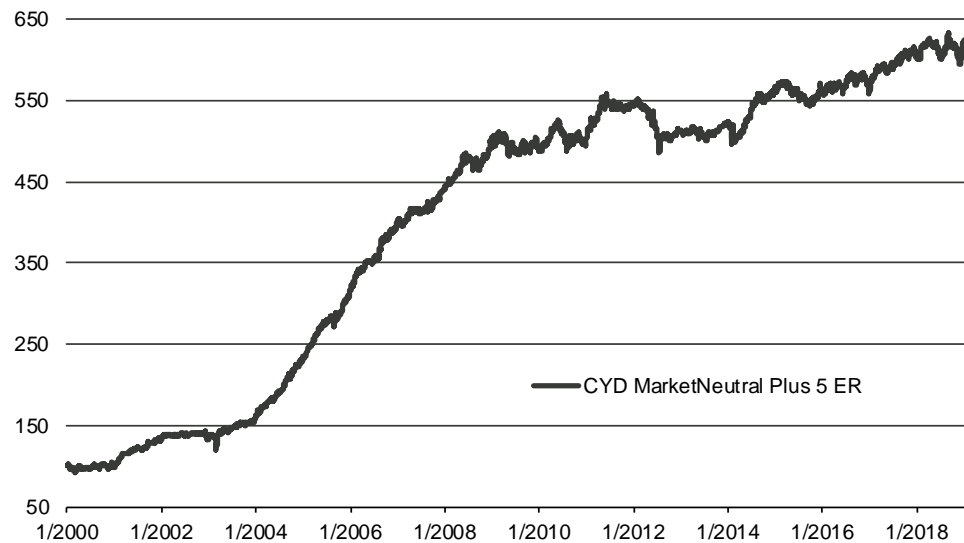
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Commodities – Active Commodities

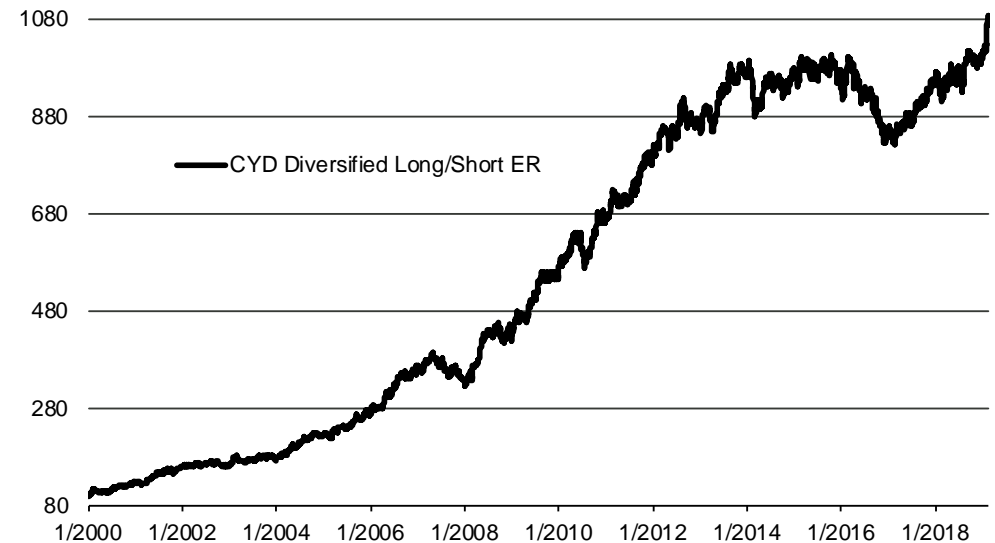
Commodities – Long Short CYD strategies

Indexed performance



- Systematic, diversified commodity index
- Market neutral on single commodities, no directional exposure
- Liquidity premium on commodity future markets that is created by index investors of traditional commodity indices

Indexed performance



- Systematic, diversified commodity index
- Market neutral on the overall commodity market, possible directional exposure on single commodities
- Roll return as premium on commodity future markets

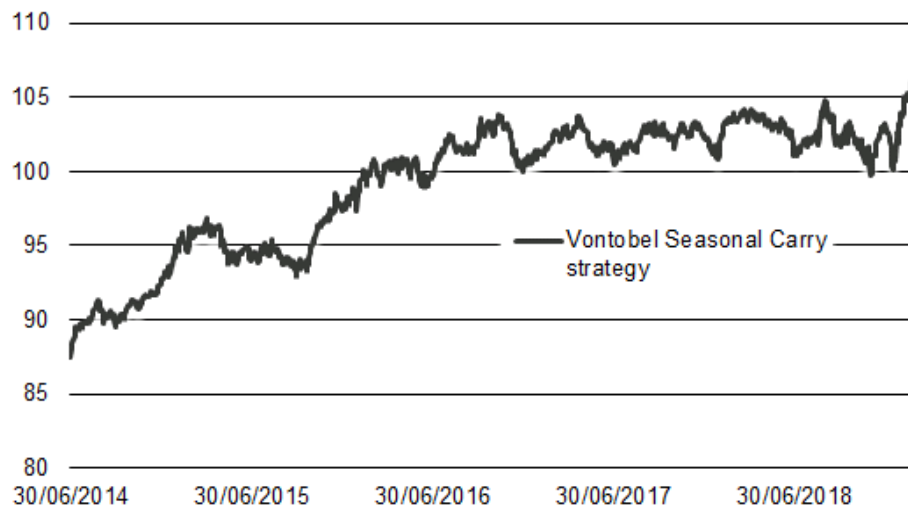
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Commodities – Active Commodities

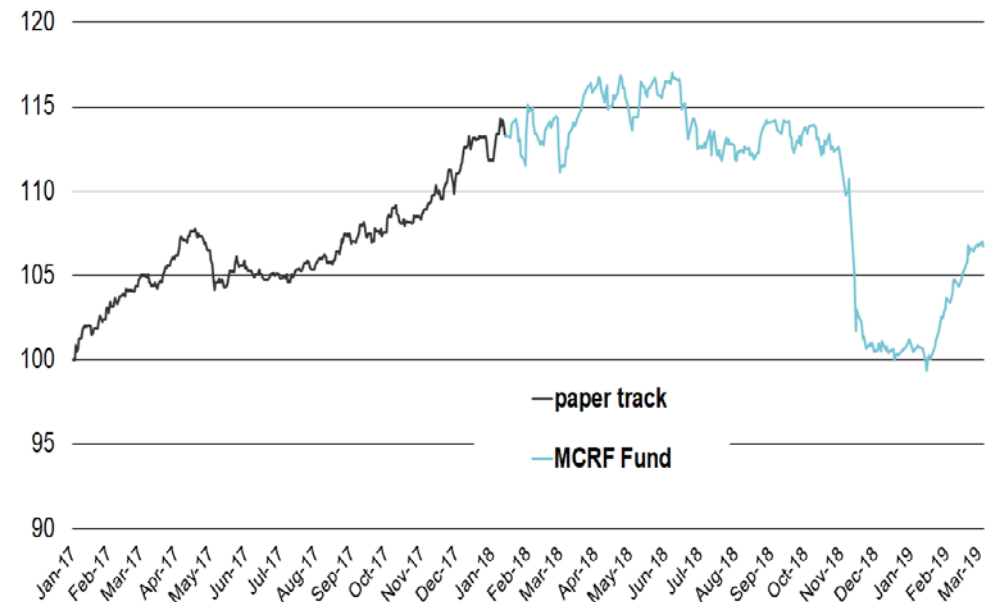
Commodities – Long Short VT & advisory strategies

Indexed Performance



- Systematic, diversified commodity index
- Market neutral on single commodities, no directional exposure
- Curve premium on commodity future markets that see structural contango

Performance MCRF



- Managed Commodities Risk Premia Fund (MCRF)
- Tactical allocation to commodities risk premia
- Paper track record starting in 2017, live 2018

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ESG is an important input

ESG in commodities

Futures only:

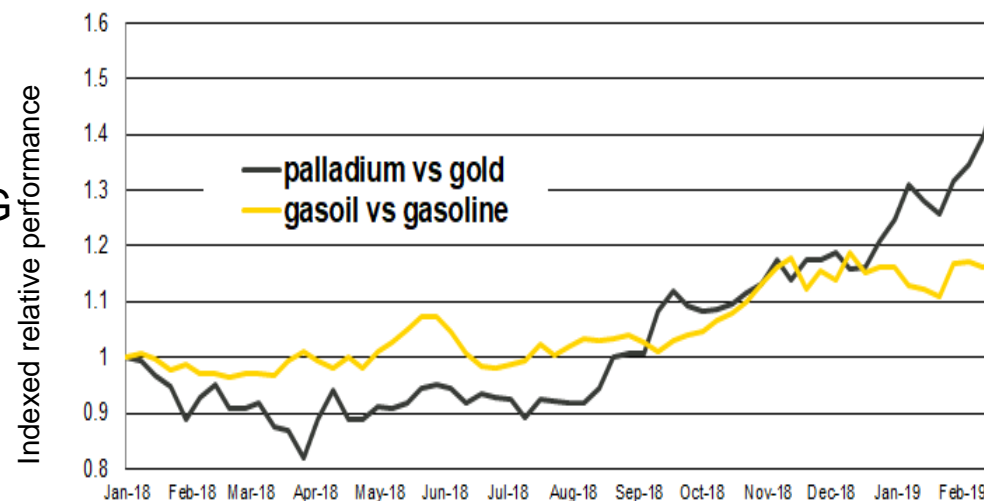
- No direct involvement with company management

Therefore:

- Monitoring for shifts in supply demand driven by ESG factors
- Our universe will shift in line with new and ESG suitable commodities (palladium, natural gas)
- Active discussion with index providers to include these new commodities
- Participating UNPRI work group ESG Commodities

- Anticipating supply / demand shifts driven by ESG factors contributes to active performance.
 - Palladium favored over gold (emissions standards)
 - Gasoil favored over gasoline (emission standards)
- Market neutral investing

Examples of successful RV trades



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