

Client: t1ps Investment Management  
Source: MandateWire  
Journalist: Lisa Botter  
Date: 11/05/2011

---

## Schemes unshaken by commodities correction

By Lisa Botter | Published: 11 May 2011

### **Seasoned investors see the recent plunge in commodities markets as just a "long overdue" blip which does not signal the end of an upward trend in prices**

Institutional investors are seemingly unfazed by the commodities fall in early May. Many are riding out the fluctuations or taking advantage of depressed prices by making further tactical allocation decisions, MandateWire has found.

The commodities "bubble" seems to have burst as the price of oil fell below the \$100 (€70) mark, marking the start of the largest exodus from the sector in two years.

The reason for the fall is still up for debate and has ranged from strengthening of the US dollar to monetary tightening in China to the death of Osama Bin Laden. The latter seems unlikely but no matter the reason Bloomberg estimates that the commodity fall knocked \$99bn of value off the market.

"This was a long overdue correction and the commodity markets will keep going up," says Mark Hewlett, partner at Anello Asset Management and former head of commodities at Cornhill Capital. He described the fall as an earthquake that resulted from built up of pressure due to the tremendous number of long positions on commodities. It was by no means a bubble, he asserts.

Hewlett believes that the correction was the result of an illiquid market due to a shortened trading week between the UK's two consecutive long bank holiday weekends at the end of April.

One of the biggest losers was silver which experienced a 30 per cent fall. Investors piled into the precious metal allowing it to hit a near record high of almost \$50 a week before the correction. Indeed, in MandateWire's Deal Flow report for the first quarter of 2011, Urs Schüpbach, head of pension fund for the CHF165m (£111.07m, €131m) Personalvorsorgestiftung des Schweizerischen Baumeisterverbandes SBV admitted that it was looking at increasing its precious metal investments.

Tom Winnifrith, senior fund manager, t1ps Investment Management, believes that the metals sell off was just a blip and not the end of a trend.

“In terms of base metals the super cycle remains intact. China, India and the other growth economies will consume more zinc, copper, iron ore in the next two decades than the whole world did in the last 50 years as industrialisation and infrastructure spend accelerates. And there is no clear capacity ready to meet this demand,” says Winnifrith, who also manages the SF t1ps Smaller Companies Gold Fund.

The fall came as a shock to some. However, it was revealed that Goldman Sachs began unwinding its commodity positions in early April 2011.

The correction happened just weeks after commodities trading giant Glencore announced its intentions to float on the London Stock Exchange. Expected to be the largest IPO in London at \$61bn, it will make paper billionaires out of most of the company’s executives, including chief executive Ivan Glasenberg who is expected to be worth \$10bn. For many, the Glencore flotation will mark the top of the commodities boom.

Hewlett believes that the announcement of the IPO and the commodities correction were just a coincidence. However, he concedes that it could have been a concerted effort by fund managers (whom he was not willing to name) that had not been awarded mandates by the commodities giant.

Although inflows back into the asset class began just days after the fall the damage had been done, Clive Capital, the world’s largest commodity hedge fund, lost £400m (€456m) as a result of the correction.

This, however, has not deterred fund managers, Tom Greetham, portfolio manager and asset allocation director in the Investment Solutions Group at Fidelity Investment Managers is still overweight in commodities and is not planning on divesting any time soon. He believes that commodities are a good portfolio diversifier and are still providing strong returns.

The fall will likely scare off investors but Hewlett recommends commodities to long-term investors. For many such investors these fluctuations will not change their strategy towards the asset class.

The Royal County of Berkshire Pension Fund is taking this approach. The £1bn scheme has an allocation of 9.2 per cent to commodities. As a long-term investor, the scheme is not planning any changes to its allocation, fund manager Nick Green told MandateWire.

Warning that the commodities market is not for the fainthearted due to its inherent volatility, Hewlett adds that the asset class has proven to be a great investment in the past and that this is expected to continue.

“Recent weakness is merely a minor correction in a fundamental uptrend and should be used as an opportunity to increase exposure to both precious metals and to the underlying equities associated with them,” says Winnifrith.

One fund that has done just that is Etera Mutual Pensions Insurance Company.

The €5.2bn (£4.7bn) scheme allocated €33m to commodities in early 2008. The Finnish scheme has a commodities allocation of 0.8 per cent managed by Schroders Investment Management and State Street Global Advisors.

“Our approach is more tactical where we try to exploit emerging opportunities. For example, we had bought some energy hedges before the heavy sell off of week 18 and benefited during the course of the correction. Most probably we will keep our tactical stance in commodities, where we try to seek long and short opportunities,” says Marko Mikama, portfolio manager for alternatives at Etera.

The asset class, however, is only moderately popular with schemes. Indeed, the Swedish AP funds are forbidden from investing in commodities which is likely due to their volatile and risky nature, says Mats Andersson, chief executive officer of AP4. These funds can only invest up to 5 per cent in unlisted assets.

Executives at the AP funds are lobbying the Swedish government to change this law. Hans Fahlin, chief investment officer of AP2, argued in an interview with nrpn that commodities would create a good portfolio diversifier.

Kerstin Hessius, chief executive of AP3, believes that the ban is putting undue pressure on funds to rely on equity markets to achieve a higher return. The Swedish Parliament’s Pension Group has promised to review the rules this year and it was yet unclear whether the correction will play into their decision.