Commodities 2013

Part 2: Outlook for funds and exchange traded products

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Oil-based energy shines as supply tightens

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Commodity funds: Glimmer of light following tough 2012

By James Williams

Commodity hedge funds have been in the doldrums somewhat, as the macroeconomic climate continues to make life difficult for managers. Performance, in effect, just hasn’t stacked up, leading to some institutional investors heading for the exit. As the Financial Times reported on 6 February 2013, industry executives estimate that overall AUM in the commodity hedge fund sector has fallen “by at least 20 per cent in the past year, and perhaps by more than a third.”

Stalwarts of the industry, such as Michael Coleman’s Singapore-based Merchant Commodity fund, had, by last summer, lost two thirds of its AUM over a bruising 18-month period, but vowed to press on. Others last year chose not to, most notably high-profile natural gas trader John Arnold who closed the Centaurus Energy Master Fund to “pursue other interests”, wrote Bloomberg.

Looking at historical returns in the Newedge Commodity Trading Index, between December 2002 and December 2005 returns averaged 28.03 per cent. Between December 2006 and December 2009 that figure dropped to 10.8 per cent. More worryingly, between December 2010 and December 2012, the average is just 1.3 per cent.

Nevertheless, there have been plenty of managers who have managed to keep their heads down and deliver solid, if not spectacular returns.

“As last year was a tricky one. Quite a few of the big well-known commodity funds had a tough time. We ended 2012 up 4.3 per cent but we think we can improve on last year’s performance significantly going forward,” comments Jaakko Ahmaa, who co-manages the Galena Energy Fund with Mark Heath in Geneva.

Galena Asset Management is part of Trafigura, the multinational commodity trading firm and third largest oil and metals trader after Vitol and Glencore, but operates completely independently. The firm runs eight different funds with an aggregate AUM of approximately USD2.4billion. The Galena Energy Fund currently runs USD220million in assets.

Within the energy complex, the S&P GSCI Brent Crude Index has delivered 1-year annualised returns of 7.40 per cent. By comparison, the S&P GSCI Unleaded Gasoline Index has returned 29.71 per cent.
For asset managers, knowing when and where to build positions across the energy complex is crucial. Galena does this by taking a purely fundamental approach. It is, says Ahmala, "the edge that we believe we have over the competition. Whether it be volatility, flat price, refining margins, how we express those fundamental views depends on where we see the most compelling opportunities at any given time."

Adds Heath: "Ours is not a high-octane investment strategy. It’s a co-ordinated approach that aims to achieve double-digit returns in a controlled way. The underlying theme to the trades that we put on the book boils down to the fundamental view of how the hydrocarbon planet looks in terms of supply and demand. We’ll either be skewed towards looking at long products versus crude, or short products versus crude. Those themes will tend to underlie the book over a period of months rather than days."

The fund trades a number of energy futures and swap/options and over the long-term holds a market neutral position. If a constructive fundamental view emerges in the short term it will adjust the book to a net long or net short position accordingly, but the approach taken by Galena is measured, controlled. It’s not looking to shoot out the lights, performance-wise.

David Donora is the co-manager of the Threadneedle Enhanced Commodities Fund alongside Nicolas Robin, an actively managed long-only fund with around USD1.1 billion in AUM. Compared to many of its hedge fund counterparts, and indeed the DJUBSCI Index against which it is benchmarked, the fund delivered strong results for 2012, returning xxxx per cent. Since it launched in June 2010, TECF has generated cumulative net returns of 30.79 per cent, compared to 13.79 per cent for the benchmark.

Unlike the Galena Energy Fund, TECR invests across the entire commodities complex. Through November the portfolio held 9.37 per cent in Brent crude oil relative to 1.51 per cent in crude oil. It remained bearish on the US oil physical markets given that crude oil production in North America increased by 800,000 barrels a day in 2012, but continued backwardation in the Brent curve supported the WTI/Brent carry trade.

Donora says the fund continues to be positive on the energy complex, confirming: “Our current view is that we will stay underweight natural gas against gasoline, and if the economic conditions are favourable 2013 might allow for some increase in the price rationing for crude oil.” That the average price for Brent crude was USD111 in 2011 and USD112 in 2012 suggests that prices are already high; for them to go higher, evidential global economic growth would be necessary.

According to the firm’s December newsletter, its natural gas/gasoline was a key performer for the fund in November. The overweight position in gasoline provided 33 basis points of outperformance relative to the index thanks to on-going refining tightness in the US Northeast, while its underweight position in natural gas earned 53 basis points on the back of warmer weather forecasts for November and December.

While crude oil has little spare capacity, other commodities such as grains - wheat and corn - are far more readily capable of reacting to supply constraints. Yes, the US suffered record droughts last year causing corn prices to spike at USD8.49/bushel on 10 August, and according to the US Department of Agriculture’s (USDA) forecasts released last month, corn inventories in the country will fall to 602 million bushels by the end of the current season – the lowest in 17 years.

But places like Australia and South America are increasing acreage, applying fertilizers and manifestly increasing production with Donora noting: “It is possible that in the next 60 days we’ll see record crops in South America. Right now, our position in grains is pretty neutral because there’s a lot of volatility and the price action is highly weather dependant. This is not an area where we have strong conviction within the portfolio. The one crop we’re watching closely in the US right now is the wheat crop, particularly in Oklahoma, Kansas and Texas where there are still extreme drought conditions and the wheat crop is under considerable risk.”

The oil product markets were some of the most interesting in 2012 says Ahmala and lay at the core of the strategy. Ultimately it was where the fund derived most of its returns and was helped “by the fact that we have an understanding across all parts of..."
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“Brent/WTI crude was a key contributor to performance in 2011 as well as 2012. Another significant position for 2012 was an underweight in natural gas versus a maximum overweight in gasoline. We also held a maximum overweight position in gas oil: across the energy sector that was our most significant contributor to outperformance last year,” confirms David Donora, who co-manages the Enhanced Commodities Fund at Threadneedle with Nicholas Robin.

The long-only fund trades between 20 and 25 commodities. Each position, be it underweight or overweight, has an upper limit of 7 per cent of the fund’s portfolio.

Not only does the strategy now have north of USD1billion in assets (USD1.1billion to be precise), in both the enhanced fund and a US version of the strategy, but it’s also doing what it says on the tin. The term “enhanced” relates to the fund’s objective of outperforming the Dow Jones UBSCI benchmark by some “3 to 6 per cent”, says Donora, confirming that in 2011 “we came in slightly higher than 12 per cent and last year we came in at 5 per cent”.

“Commodity markets are always changing. In order to generate meaningful outperformance you can’t be rules-based, model-driven; you might be able to do it short-term but you have to change with the market. The best commodity traders in the world are always evolving their models. As a discretionary team we are always developing with these markets,” says Donora, who made a point of building a commodities team at Threadneedle with significant experience.

“Nicholas Robin is someone who not only has commodity experience but also commodity index experience. Across the team we have a lot of commodity experience and that’s really what drives what we do.”

Energy and grains make up the biggest part of the portfolio in percentage terms. Donora explains that knowing what weight to put on the curve is critical for generating outperformance: “For some commodities we want to be closer to the spot than the index (near the front of the curve) while in other commodities we might want to be further back along the curve. Throughout the year, in many cases we will move the location of our weight to different places on the curve in order to capture more outperformance relative to the benchmark.

“Our investment process is to identify significant overweight and underweight positions within the portfolio, as well as proactive curve positioning.”

Energy contributed around 5 per cent of outperformance in the fund last year and remains the team’s biggest conviction position; in particular Donora says they expect to remain bullish on oil-based energy in 2013. This is due to little spare capacity in crude. It remains a supply-constrained market.

“Let’s say the price of crude oil went up by 50 per cent - that doesn’t change your ability to increase production meaningfully by the end of 2013. Demand is largely coming from growing emerging market countries. If we have reasonably strong global economic growth in 2013 that will increase demand for crude and the only way it’s going to be able to ration that demand is through higher prices.

“If the world is in a better economic place by end-2013 then it’s possible we might see 5 to 10 per cent higher crude oil prices.”

By comparison, if the price of natural gas went up to USD5/million BTUs, given the technology and speed to bring gas to market in the US a 5 to 10 per cent increase in production would be possible within six months to a year.

“Our current view is we will stay underweight natural gas against gasoline,” says Donora.
the barrel. We didn’t really avoid anything within the energy complex per se. We saw opportunities in coal, natural gas. We are comfortable trading in multiple sectors.”

Heath stresses, however, that they’ve avoided trading the Brent/WTI spread. “Rather, we tend to trade more aggressively the individual spreads of both contracts because then you’re effectively trading like for like.”

“Looking at 2013, we’re constructive towards the energy complex. In a macroeconomic environment where year-on-year both the Chinese and US economies look better we’re generally positive from a refined products perspective.”

One innovative fund that launched this year is the Diapason Relative Value Petroleum Industry Fund. Essentially an arbitrage fund, it trades the spreads between commodity contracts – that is crude oil and refined products – by looking at the microeconomics of a refinery, rather than just looking at fundamental price. The team uses a proprietary model to track the relationship between crude and refined products, and trades on any arbitrage opportunities that arise.

Edouard Mouton, head of quantitative research at Swiss-based Diapason Commodities Management, explains: “The strategy aims to provide absolute returns by anticipating the rational and predictable behaviour of refiners. By looking in detail at the way refiners manage their industrial assets on a daily basis we are able to understand the price relationship between refinery inputs and outputs and to implement arbitrage position based on their behaviour.

“Based on any divergence from what should be the theoretical relationship between crude and refined products our model generates long and/or short positions on refinery margins.”

The strategy is barrel-neutral (or quantity neutral) when building positions between the input and output of a refinery - that is, between crude oil and refined products. By mimicking the behaviour of an oil refinery this is one of the first funds of its kind.

Currently, the strategy invests in six futures contracts: “ICE Brent Crude Oil, ICE Gasoil, NYMEX RBOB Gasoline, NYMEX Heating Oil, DME Oman Crude Oil, and NYMEX WTI Crude Oil.

“The investment process will consider the refinery profitability of the major hubs in the world where markets prices are determined and take positions based on the analysis of those economics,” says Mouton, adding that based on past figures “we would expect the fund to deliver 10 per cent net annualised returns”. The three major refining hubs tracked by the model are the US Gulf Coast, Singapore, and North Western Europe.

This is a distinct strategy, and one that stands out from the way most energy-focused commodity funds currently operate. And the early signs are that investors are intrigued by the opportunity to earn a new source of return. As Mouton confirms: “People understand the fund’s value-add and the innovation behind it. We’ve received good feedback from private banks, family office and FoHFs.”

As for precious metals, Threadneedle’s Donora confirms that whilst the gold market might continue to be interesting in 2013 the fund remains market weight in precious metals relative to the benchmark. The fund’s biggest overweight position is in oil-based energy as well as a significant overweight position in lead and nickel.

“We’ve got a market weight position in aluminium and zinc. Currently, in base metals we’re underweight. Around 4 per cent of the fund is overweight in lead, and 3 per cent in nickel. We look at fundamentals as well as market structure and a few technical factors such as seasonality when looking at individual commodities. Take aluminium for example: that’s a basic fundamental story where China has improved its production capabilities significantly in the last few years, and are able to ramp up production if there were a price signal. So there’s no supply constraint,” says Donora.

Contrast that to lead, however, which is more supply-constrained. It’s environmentally challenging, relies a lot on recycling. Factor in that car numbers are increasing globally, and there’s more of a demand dynamic at play.

Since June 2012, the lead spot price has increased from USD0.8/lb to USD1.0902/lb at the time of writing.

“In general commodity markets are supply-constrained. If we do have a pick up in global growth we will see tighter commodity markets, which will result in higher commodity prices. We see that as the key driver of commodities in 2013,” notes Donora.
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Interview with Stefan Garcia

“I’ve been speaking with a lot of our big investors and most are holding their current gold position, which they’ve been building up for the last five or six years, but in addition they might start looking for opportunities in platinum and palladium” explains Stefan Garcia, managing director at Source, a leading European ETP provider with over US$13.5 billion in total assets.

Over the last three years gold has accounted for 80 per cent of total net inflows into commodity ETPs in Europe. In 2012, precious metals accounted for USD7.8 billion of those inflows, of which USD7.1 billion went into gold, says Garcia.

Last year, the Source Physical Gold P-ETC became one of the world’s largest physical gold ETPs with over USD4 billion in total assets. It turned over USD7.6 billion, making it the second most traded ETP on the London Stock Exchange and “added over USD1.6 billion in net new assets (compared to USD1.2 billion in 2011). That made it the top ETP in Europe by net new assets across all asset classes,” confirms Garcia.

With EU countries still sluggish, Garcia notes that even though the prospects for US economic recovery look promising, there are still “strong strategic reasons to hold gold in your portfolio”.

“In January last year, we had outflows of USD75-100 million because some of our larger investors rotated more into equities. Then things changed, because of the continuing sovereign debt crisis in Europe, and over the next six months we saw a reversal and half way through 2012 we were up USD500-600 million. By the end of the year, net new inflows had reached USD1.6 billion.”

“So far, in Jan 2013, we’re up USD50-60 million which is modest, but everybody’s been getting excited again about equities. I think the next three months are going to dictate which way things will go this year,” says Garcia.

Source currently offers investors four physical products: gold, silver, platinum, and palladium. In many ways, the reason for the popularity of its gold ETP is that it represents an evolution of the industry. The first gold product was listed in London in 2004, offering investors an innovative new way to access the gold market. But over the years, as people have become more familiar with ETPs, they’ve focused more on performance and, crucially, cost. If they can save 10 basis points on annual fees, they’re going to switch. This cost issue has proved the primary catalyst behind growth in the Source Physical Gold P-ETC.

“We saw existing holders of competitor physical gold ETPs switching to ours because it was cheaper: 0.29 per cent annual fee. Some competitor products are still priced at 40 basis points. Once the product had reached a critical mass of USD1 billion in assets investors were comfortable investing USD50-100 million.

“Investors now know there are cheaper products out there that do the same thing, yet trade with tighter spreads and offer good liquidity. We’ve got multiple market makers, spreads have gone down to 4 or 5 basis points intraday whereas some of the other, smaller products are trading at 10 or 15 basis point spreads,” observes Garcia.

MJ Lytle, management committee member at Source, likens these additional factors to a snowball effect: “Tighter trading spreads, support from market makers, more Authorised Participants (APs): they all work together. We now have seven APs that can create and redeem the product and we’re in the process of adding another four.”
In recent years, it has become increasingly important to consider different investment ideas. Commodities such as copper can provide additional portfolio diversification benefits, as they typically exhibit different risk and return characteristics to other asset classes.

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Investors should hedge risks

Interview with Nicholas Brooks

“I would argue that some of the higher beta sectors will perform best in the near-term: within commodities, those that we like best are those with a tight supply/demand balance and that can benefit from a pick-up in US and Chinese growth. Platinum, palladium, copper, and to a lesser degree crude oil, could all benefit this year,” suggests Nicholas Brooks, head of research and investment strategy at ETF Securities.

With both the US and Chinese economies expected to grow over the coming months, there is cautious optimism to believe that the global economy should see a stronger recovery than last year. That’s a view that Brooks and his team take, although he is quick to caveat the point by admitting that significant market risks still remain: “The European economies will likely lag in 2013 but historically if you see two of the key drivers of global growth picking up, it often feeds through to other parts of the world economy and ultimately Europe will benefit from that. But their immediate structural issues remain severe.

“Another key factor supporting cyclical assets is that interest rates will likely remain low in 2013. Although growth is picking up, there are still a lot of vulnerabilities in the global financial system, meaning central banks will maintain low interest rates and continue with quantitative easing.”

If, therefore, the US and China continue to lead the way economically, and interest rates are kept low, this would create a fairly positive scenario for cyclical assets such as broad equities, broad commodities, and high yield credit, according to Brooks. With platinum, palladium and copper, not to mention crude oil and silver, all geared in to stronger economic activity, the potential for upward price support is well placed.

Copper, in particular, is a good barometer of industrial activity: stronger economies make for stronger demand and price. This was evidenced last month, with ETFS Copper and ETFS Physical Copper attracting USD85million and USD31million in net inflows respectively: the largest inflows for any single commodity.

However, this is only half the story: “The number one market risk in 2013 will be European sovereign risk. Spain could be the next sovereign risk event; with unemployment at 26 per cent the likelihood of them hitting their fiscal targets is quite low. That’s a risk that investors have to be prepared for because if it does happen, it will hit cyclical assets,” says Brooks, who adds that the other significant risk is if the US debt ceiling is not properly dealt with and results in another downgrade.

Investors should therefore hedge their positions accordingly to protect against these tail risks says Brooks.

“In this environment investors should continue to hold gold. The upside might be limited in an environment of accelerating growth, but if something goes wrong in Europe, or with the US fiscal cliff, its price could spike sharply.

“Secondly, investors should hedge their risk positions by going long oil, in particular the shorter end of the Brent curve. We have a Brent 1-month tracking ETP, for example, which tracks the front-month Brent contract. If anything goes wrong in the Middle East you’ll see a sharp reaction in the front-month, making it a useful tail-risk hedge.”

This is already happening. Whilst ETFS recorded outflows of USD30million for WTI crude last month, its Brent 1-month ETC (OILB) attracted USD23.5million of inflows.

“A third potential hedge is to hold volatility. The volatility ETP that we run with Merrill Lynch Bank of America (ETFX-BofAML IVSTOXX ETF) allows investors to guard against the potential debt problems in Europe and the US.”
Precious metal ETPs dominate net inflows in Europe

By James Williams

Last year net new assets into commodity ETPs were USD23.1 billion, up from USD15.1 billion the year before according to the London-based exchange traded funds consulting firm ETFGI.

The vast majority of those inflows went into precious metals, taking in a whopping USD20.3 billion, with broad-based commodities taking in USD2.8 billion and energy around USD1.1 billion.

Within Europe, the story was much the same. Of the USD8.9 billion in net new inflows into commodity ETPs (up from USD6.4 billion in 2011), USD7.8 billion went into precious metals. The top five commodity products in Europe in terms of net inflows were all gold ETPs," confirms Deborah Fuhr, co-founder of ETFGI. One of those was the Source Physical Gold P-ETC (SGLD).

Last year, total turnover of USD7.5 billion made it the second most traded ETP on the London Stock Exchange. With over USD4 billion in total assets it is now among the largest physical gold ETPs in the world, along with ETF Securities Physical Gold ETC (PHAU) and iShares Physical Gold ETC (SGLN). It is also one of the most cost-efficient products with a 0.29 per cent annual fee.

“In general, ETF providers are becoming more competitive on annual fees, trading liquidity etc. The array of physical gold ETPs has expanded rapidly over the past few years,” notes Stefan Garcia, Managing Director at Source.

Although last January saw net outflows of USD75-100 million as investors rotated into equities, sentiment soon changed as the European debt crisis prompted investors to pile back into the safe haven asset. “By the end of the year net inflows had reached USD1.6 billion,” confirms Garcia.

Quite how 2013 will play out is too early to call. Emerging market central banks are continuing to diversify away from US dollars into gold bullion. This could support some further upward price momentum, even with expected US economic growth. Another interesting dynamic that could support further growth in physical gold ETPs is that asset managers are incorporating them into their portfolios to hedge against negative movements in the equity markets.

Adds Garcia: “Some fund managers in large natural resources funds have been using physically-backed ETPs in their holdings for some time. As an active manager they realise they still need to visit...”
Focus on execution and methodology creates winning products

By Martin Kremenstein

Getting the execution right when managing a commodity ETF, irrespective of the underlying index it is tracking, is fundamentally important. It’s something that Martin Kremenstein, CEO and CIO, Deutsche Bank Commodity Services LLC, and his team are fully focused on, particularly given the size of the firm’s flagship commodity ETF: DB Commodity Index Tracking Fund (DBC), which, with USD 7 billion in AUM, makes it the largest broad-based commodities ETF in the world.

“When you’re running a large product versus an index you have to be careful that the fund’s activities don’t start to distort the index. On the execution side, when we’re rolling contracts we work closely with a variety of brokers and traders to make sure we don’t move the market. If we weren’t executing our Optimum Yield methodology correctly the index probably wouldn’t be as effective,” says Kremenstein.

Just as execution needs to be adaptive on a daily basis, so does the underlying index being tracked. Herein lies the second key advantage that DBC has over other commodity products.

When DBC launched in 2006 it began by tracking an index called the Deutsche Bank Liquid Commodity Index Optimum Yield. Optimum Yield is the methodology used for rolling futures contracts, and a key part of DBC’s success.

Initially, the Index held six of the most liquid commodity contracts for each sector. They included WTI crude, heating oil, aluminium, gold, corn and wheat. Back then, most indices – and many of today’s benchmarks such as S&P GSCI, DJUBSCI – were front-month rolling indices. This is good over the short-term for getting spot returns but over the long-term roll yield becomes the biggest driver of returns. Ultimately, says Kremenstein, “these indices don’t take into account the shape of the curve when they roll futures.

“Our index uses an Optimum Yield algorithm. When it’s time to roll the future it looks at the shape of the curve and calculates for the next one month’s worth of futures the contract with the best implied roll yield. The shape of the curve is a big driver of returns so you need to have exposure that adapts to the shape of the curve.

“For example, last June we were rolling out of our July WTI crude oil contract. We looked at the shape of the curve, and it turned out the contract over the next year that had the best implied roll yield was next year’s July contract. The opposite was true for Brent crude. The contract with the best implied roll yield came from the front month, so we rolled front month.

“That methodology has enabled us to outperform both the S&P GSCI and the DJUBSCI for the last seven years now.”

Over a one-year period the Index has returned 4.16 per cent (3.32 per cent for the fund). This compares to 0.08 per cent for S&P GSCI and -1.06 per cent for DJUBSCI.

In 2009 the basket of contracts held in the Index was expanded from six to 14 contracts. Overall weightings remain the same – around 55 per cent for energy, 10 per cent for precious metals, 12.5 per cent for base metals, 22.5 per cent for agriculture but as Kremenstein confirms: “We’ve added Brent crude, RBOB gasoline and natural gas, copper and zinc, silver, as well as soy beans and sugar.”

Last year, DBC attracted a further USD900 million of net new inflows.
mining companies but there’s a benefit to holding the actual commodity itself.”

Other precious metal ETPs that are locking in strong performance include SPGS Platinum ETN EUR, which has returned 11.31 per cent over a 1-year period, while ETF Securities’ Physical Platinum ETC is up 14.34 per cent YTD. “We are starting to see some interest from our larger investors in platinum and palladium. If China picks up it will have the world’s largest auto market in the next few years and while we haven’t seen massive inflows yet, investors understand that strategically it makes sense to diversify into these metals,” says Garcia.

What makes platinum and palladium interesting is that both have tight supply constraints and are forecast to go into deficit this year. Nicholas Brooks, head of research and investment strategy, ETF Securities, believes that platinum and palladium could represent “some of the most interesting commodities in 2013”.

“Around 80 per cent of platinum is produced in South Africa which is having severe labour and power problems at the mines; given that the markets are so tight any indication that there might be further problems on the supply side would support higher prices. Palladium is less concentrated from a supply perspective, around 40% comes out of South Africa, but it is primarily used for automobile catalysts which is basically a great way to play the China, US and India growth story,” says Brooks.

He adds that while interest has undoubtedly picked up in these single commodity ETCs, investors are also increasingly starting to favour the ETFS Physical Precious Metals basket (PHPM), which holds gold, silver, platinum and palladium physically backed by bullion.

“Retail investors in particular, who didn’t want to take a single view, like more of a diversified approach. If you get your call right on palladium, for example, by investing solely in ETFS Physical Palladium (PHPD) you could shoot out the lights performance-wise, whereas by diversifying you reduce the volatility and the potential returns as well.”

This broad-based basket has attracted USD6.9million through January 2013; total assets are USD678million.

One firm that has responded to investor concerns over the complexities of investing in commodities is Legal & General Investment Management, who in January 2012 introduced the LGIM® Commodity Composite Index™. The firm used a sophisticated quantitative and qualitative process to optimize exposure to a selection of best of breed commodity indices by evaluating more than 350 indices from 17 different providers to build an index capable of giving investors simple access to broad-based commodities.

Currently, the index is comprised of four individual indices: Barclays Capital Commodity Index Pure Beta TR; Citi CUBES Index TR; JPMCCI Ex-Front Month Energy Light Index TR, and UBS Bloomberg Constant Maturity Commodity Index.

“These indices are second generation indices that aim to optimise the roll yield and reflect the performance of the underlying commodity assets as best they can,” explains Simon Midgen, index strategist at LGIM. “Commodities is often the smallest allocation to their portfolios but the most complex and this provides a neat solution for them. Assets have grown to USD183million since it launched in January 2012 and we’re pretty pleased with that.”

Indeed, the LGIM Commodity Composite Source ETF, which tracks the index, attracted around 24 per cent of broad commodity ETP net new assets in Europe in 2012.

One of the key reasons for its success is that not only do investors appreciate the expertise of LGIM as the Index sponsor – but the fact that it has been constructed on their back of their concerns, primary among them being exposure to counterparty risk.

“It’s a rules-based index that aims to solve a number of issues that investors face; they want diversified exposure to a number of counterparties not just one, they want exposure to a broad range of commodities in a simple way,” says Midgen. The index provides exposure to 30 underlying commodities over five major sectors, of which energy is the largest constituent sector with 32.7 per cent.

“We take a prudent approach to risk management and we’ve tried to reflect that in the creation of the LGIM® Commodity Composite Index™”. Year-to-date the index is up 2.41 per cent.