

## Commodities in May 2009

|                       | Measure for             | 1 Month | 3 Months | 6 Months | 1 Year  |
|-----------------------|-------------------------|---------|----------|----------|---------|
| Oil                   | Energy                  | 22.21%  | 36.49%   | 14.57%   | -41.88% |
| Copper                | Metals                  | 3.49%   | 29.67%   | 25.98%   | -33.32% |
| Aluminum              | Metals                  | -7.07%  | -0.97%   | -23.37%  | -45.64% |
|                       |                         |         |          |          |         |
| Gold                  | Precious Metals         | 2.43%   | -4.27%   | 12.56%   | 23.29%  |
| Silver                | Precious Metals         | 15.88%  | 10.53%   | 43.71%   | 4.08%   |
|                       |                         |         |          |          |         |
| Baltic Dry Index      | Basic Materials         | 97.18%  | 75.93%   | 388.67%  | -69.46% |
| Jim Roger Metal index | Metals                  | 3.20%   | 9.64%    | 8.21%    | -21.85% |
| S&P Goldman Index     | Index with skew for oil | 4.12%   | 9.39%    | 16.08%   | 28.33%  |

Source: Bloomberg, Currency is in INR. Data is as on 29<sup>th</sup> May 2009

## Market impact

The month of May'09 saw many commodity prices increase with oil moving closer to 22%. Copper has also increased in the past few months. Aluminum has been a worry because of capacity concern.

Baltic Dry Index, an index for transportation, is taken as a proxy for demand in basic materials. The index went up 97% in May'09 and is up 388% from its lows.

In general, increase in commodity prices has helped the increase in prices of the companies that produce such commodities. A snapshot of the top 10 holding companies of the underline funds in which the scheme invests is given below:-

|              | Type               | 1 Month | 3 Months | 6 Months | 1 Year  |
|--------------|--------------------|---------|----------|----------|---------|
| BHP Billiton | Diversified metals | 9.56%   | 38.43%   | 22.62%   | -29.70% |
| Rio Tinto    | Diversified metals | 7.14%   | 61.27%   | 72.00%   | -57.84% |
| BP           | Energy             | 7.15%   | 18.25%   | -4.18%   | -23.38% |
| VALE         | Diversified metals | 11.48%  | 34.38%   | 46.57%   | -44.90% |
| Exxon Mobil  | Energy             | -4.81%  | -5.90%   | -18.63%  | -12.79% |
| ENI          | Energy             | 4.83%   | 10.03%   | 0.56%    | -33.92% |
| Xstrata      | Diversified metals | 19.64%  | 80.21%   | 28.27%   | -72.38% |
| Marathon Oil | Energy             | -1.84%  | 26.22%   | 14.52%   | -30.76% |
| Chevron      | Energy             | -7.30%  | 1.17%    | -20.65%  | -24.94% |
| Cameco       | Energy             | 13.37%  | 71.52%   | 44.68%   | -24.61% |

Source: Bloomberg, Holdings are as of Apr 09. Currency is in INR. Prices are as on 29<sup>th</sup> May 2009

## Why commodity prices have gone up?

The increases in commodity prices have been in line with rebound in global equities. This can primarily be attributed to increase appetite for risky assets due to hope of an economic recovery and reduction in the risk premium.

The stimulus packages implemented by various governments around the world and fall in interest rates helped in allaying the fears of global gloom and doom predicted post collapse of Lehman in Sep 08.

There are indications that some of these measures are working. E.g. increase in capital investments and credit off take in China; home sales and jobless claims showing a reducing pace of contraction in the United States etc.

## The outlook of commodities

We believe that commodity demand is strongly linked to world economic growth. The last few months of slowdown economic deterioration suggests that we might have already entered the stabilization phase but it might be still early. Economic data expected over the course of the year could provide more evidence to support the argument.

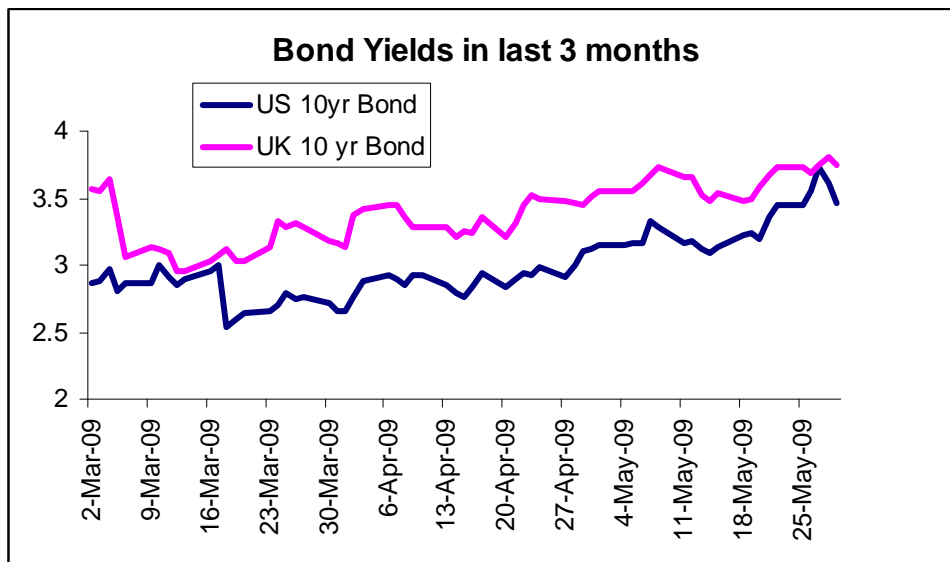
2003 to 2007 saw secular trend in higher commodity prices wherein even high cost producers of commodities had decent margins. In this period, the seasoned and large players also invested in new projects to meet increasing demand. However, price fall in 2008 has been so severe that it has made high cost producer's business and new projects unviable. This has cut the marginal and future supply from the market. As the demand increases, we believe that supply would not be able to match it in the shorter period of time and would result in higher commodity prices.

All commodity prices get quoted in dollars. So, an increase in dollar viz a viz other currencies would put a downward pressure on commodity prices while a depreciation of dollar would put an upward pressure. 2008 saw appreciation of dollar viz a viz most of the world currencies and fall in commodity prices. In 2009, we have seen dollar depreciating and higher commodity prices. Though there is no alternative as yet to US dollar as the reserve currency, higher government debt in the USA could put a ceiling on dollar appreciation in the future.

2008 slowdown has been one of the worst since great depression. The governments and the central banks around the world took unprecedented steps to avert the slowdown. One of the measures taken has been massive increase in liquidity by printing money. This liquidity needs to be taken out of the system at an appropriate time to avoid inflation. There is belief that the central banks would be late in this and could result in hyper inflation at some point of time. In such a scenario, the value of real assets (commodities, real estate etc) would increase in currency terms. The increase in yields of long term US and UK bonds is indicating higher expected inflation.

INR Yields rose sharply across the board in May largely on account of:

1. Global theme of faster economic recovery based on better than expected economic numbers
2. Government increasing May borrowing numbers
3. Government expected to front load borrowing in the first half and borrow more in June
4. Global rise in yields leading to a perception of much earlier reversal and unwinding of liquidity by central banks to reign in inflationary expectations
5. Broad theme of real account money shifting from fixed income to riskier assets.



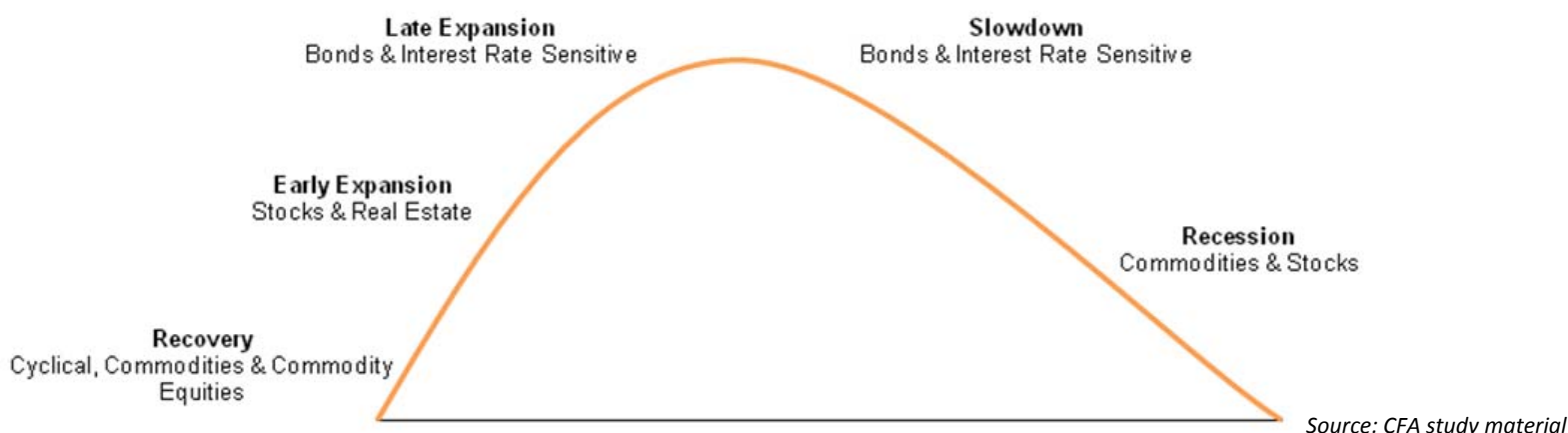
Source: Bloomberg

All the points made above except the last one, assume that the world growth would resume. In case this does not and US faces a multiyear slowdown, similar to Japan post the property bubble bust, commodity prices may not increase and could fall severely.

## Why should one invest in commodity equities now?

Historically, commodities and commodity equities are preferred investment instruments in the recovery phase of the business cycle. This is primarily because of supply constraints which takes time to catch up with demand. As we are in the recovery phase, commodity equities make for good investment.

### Stages of business cycles



Further, the investment is a natural hedge against inflation and offers diversification benefit as the correlation is low when compared to Indian equities.

## Why ING OptiMix Global Commodities Fund?

The ING OptiMix Global Commodities Fund is unique in its positioning. It is fund of fund and invests in various 3<sup>rd</sup> party global funds that provide access to commodity producers around the world. We believe that an efficient commodity equity portfolio can be composed only by accessing geographies that are rich in various commodities and companies that produce them.

At present, we have allocation to four funds:

- First State Global Resources Fund,
- Credit Suisse Global Resources Fund,
- Martin Currie Global Resources Fund, and
- J P Morgan Global Resources fund.

These managers invest across the commodity space (metals, basic material, precious metals, energy including oil and gas etc.).

| Industry / Sector              | Allocation |
|--------------------------------|------------|
| Oil, Gas & Consumable Fuels    | 28.3%      |
| Metals & Mining                | 28.0%      |
| Chemicals                      | 4.0%       |
| Electric Utilities             | 3.3%       |
| Energy Equipment & Services    | 3.2%       |
| Paper & Forest Products        | 1.9%       |
| Multi-Utilities                | 1.8%       |
| Machinery                      | 1.4%       |
| Independent Power Producers &  | 1.2%       |
| Commercial Services & Supplies | 1.0%       |

Source: ING IM Internal research. Data is as of 30 Apr 09. First State declares only top 10 holdings

The managers are selected as per the multi manager process of ING. We believe that they are amongst the best of breed in the diversified commodity equity space, have established track record, have been operating in the

The fund has exposure to 30 countries:

| Country      | Allocation |
|--------------|------------|
| USA          | 20.1%      |
| UK           | 18.5%      |
| Canada       | 12.1%      |
| Australia    | 6.1%       |
| Brazil       | 5.7%       |
| Germany      | 3.6%       |
| Italy        | 2.9%       |
| South Africa | 2.6%       |
| Spain        | 2.1%       |
| Others       | 15.6%      |
| Cash         | 10.9%      |
| Total        | 100%       |

Source: ING IM Internal Research. Data is as of 30 Apr 09. First State declares only top 10 holdings

## Performance of ING Optimix Global Commodities Fund (As on 29<sup>th</sup> May'09)

| Date  | Since Inception |
|---|-----------------|
| ING OptiMix Global Commodities Fund-Growth Option | -2.44%          |
| Fund Index  | -12.77%         |

Past performance may or may not be sustained in future

Inception Date is 17<sup>th</sup> Sep'08

Returns for the period less than one year - Absolute.

Benchmark: 40% Dow Jones World Basic Materials Index + 40% Dow Jones World Oil and Gas Index + 20% MSCI AC World in INR terms.



### Arvind Bansal

Vice-President & Head Multi-Manager Investments, ING Investment Management India

INVESTMENTS

[www.ingim.co.in](http://www.ingim.co.in)



Page 4 of 4

**Investment Objective:** ING OptiMix Global Commodities Fund, the primary objective of the Scheme is to achieve long-term capital growth by investing primarily in units of global mutual funds which invest in commodity related securities.

**Statutory Details:** Sponsor: ING Group, Trustee: Board of Trustees of ING Mutual Fund, Investment Manager: ING Investment Management (India) Private Limited. **Risk Factors:** Mutual Funds and securities investment are subject to the market risks, and there is no assurance or guarantee that the objects of the Schemes will be achieved. As with any investment in securities, the NAV of the units issued under the scheme can go up or down depending on the factors and the forces affecting the capital markets. Past performance of the Sponsors/ Mutual Fund or their affiliates does not indicate the future performance of the Scheme. The Sponsors and associates are not responsible or liable for any loss resulting from the operation of the Scheme beyond the initial contribution of Rs. 1 lakh made by them towards setting of the mutual fund. The name of the Scheme do not in any manner indicate either the quality of the Scheme or its future prospects and returns. The Schemes do not guarantee or assure returns. Please read the Scheme Information Document(s) /Statement of Additional Information / Key Information Memorandum carefully before investing. A copy of the Offer Documents / Key Information Memorandum along with the application form can be obtained from the ISCs. Contact Call free no 1800 22 6784. **Important Disclosures:** This note is for information purpose only and does not constitute an offer of investment products nor does it constitute any prediction of likely future movements in rates/prices or any representation that any such future movements will not exceed those shown in any illustration. Professional advice should be obtained before acting on any information herein. IIM, India & ING Mutual Fund (IMF) should not be held responsible or liable for any acts/ deeds done based on the information stated herein. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. IIM, India has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of opinions/in house views incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time. The recipient should take this into account before interpreting the document. This document has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of IIM, India. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither the Mutual Fund, nor the Company/Directors/Trustees or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the