

Session 2: Strategic implications

2024 Frontier Advisors Annual Conference

Chair:



Shahana Mukherjee

Senior Consultant,
Frontier Advisors

Presenters:



Chris Trevillyan

Director of Investment
Strategy, Frontier Advisors



Hussein Allidina

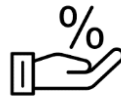
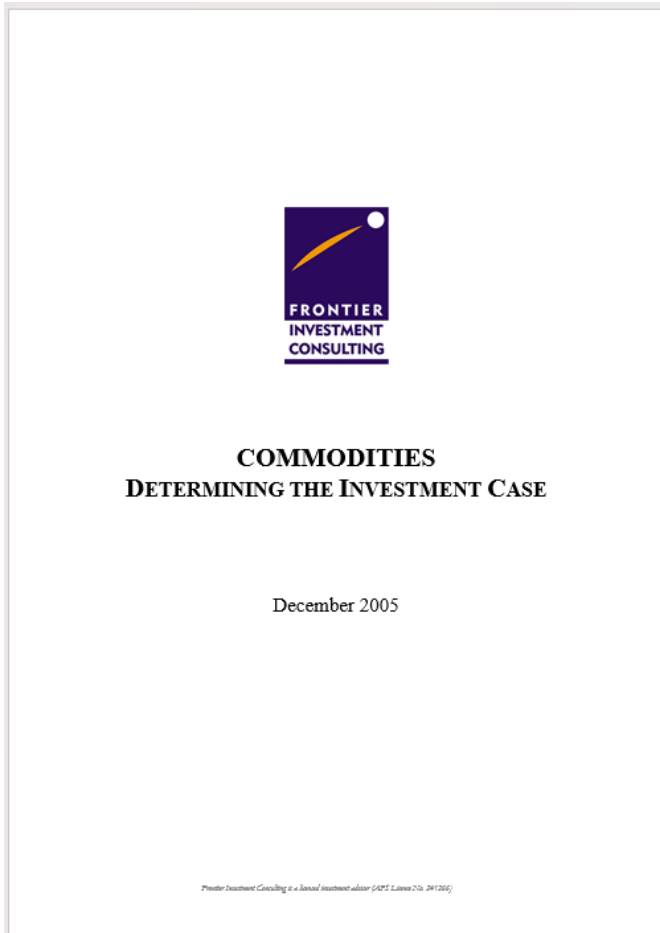
Managing Director,
Head of Commodities,
TD Asset Management



Jennifer Wu

Managing Director – Global
Head of Sustainable Investing,
JP Morgan Asset Management

Commodities futures



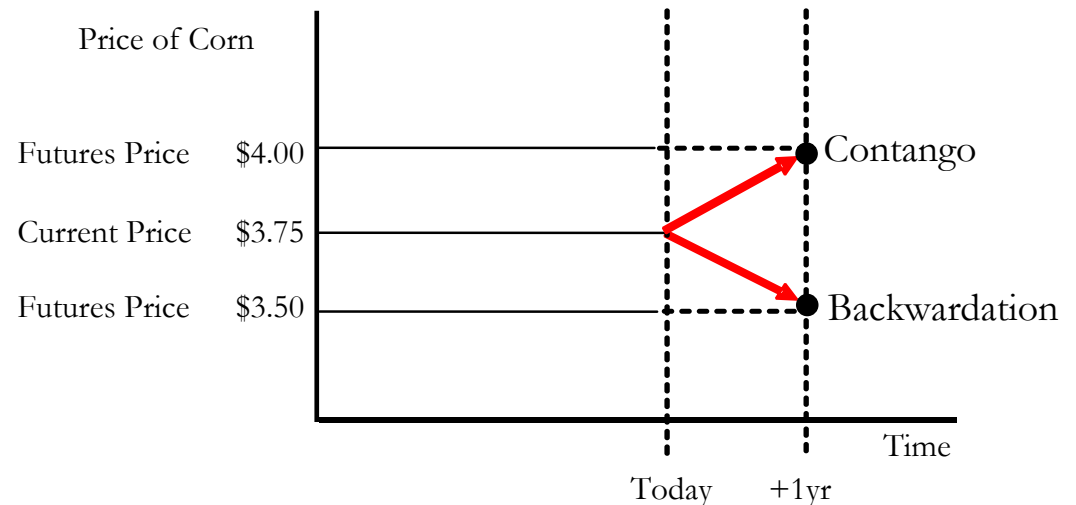
Collateral yield is the return on assets held as collateral (usually fixed income securities).



Spot return is the return generated from movements in the spot price of commodities.



Roll yield or **insurance premium** is earned by future holders for taking the risk off the commodity producer.



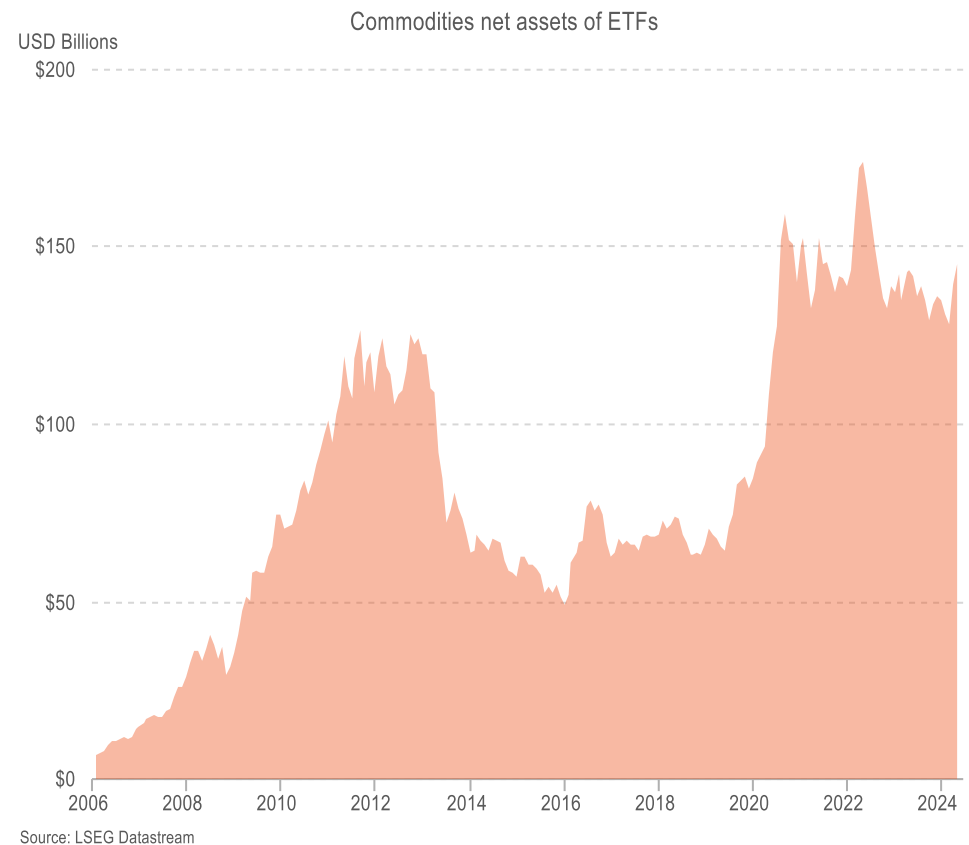
Institutional investors impact roll yield?

“The roll yield appears to be in a declining trend over time”

Frontier Investment Consulting, ‘Commodities Determining the Investment Case’, 2005

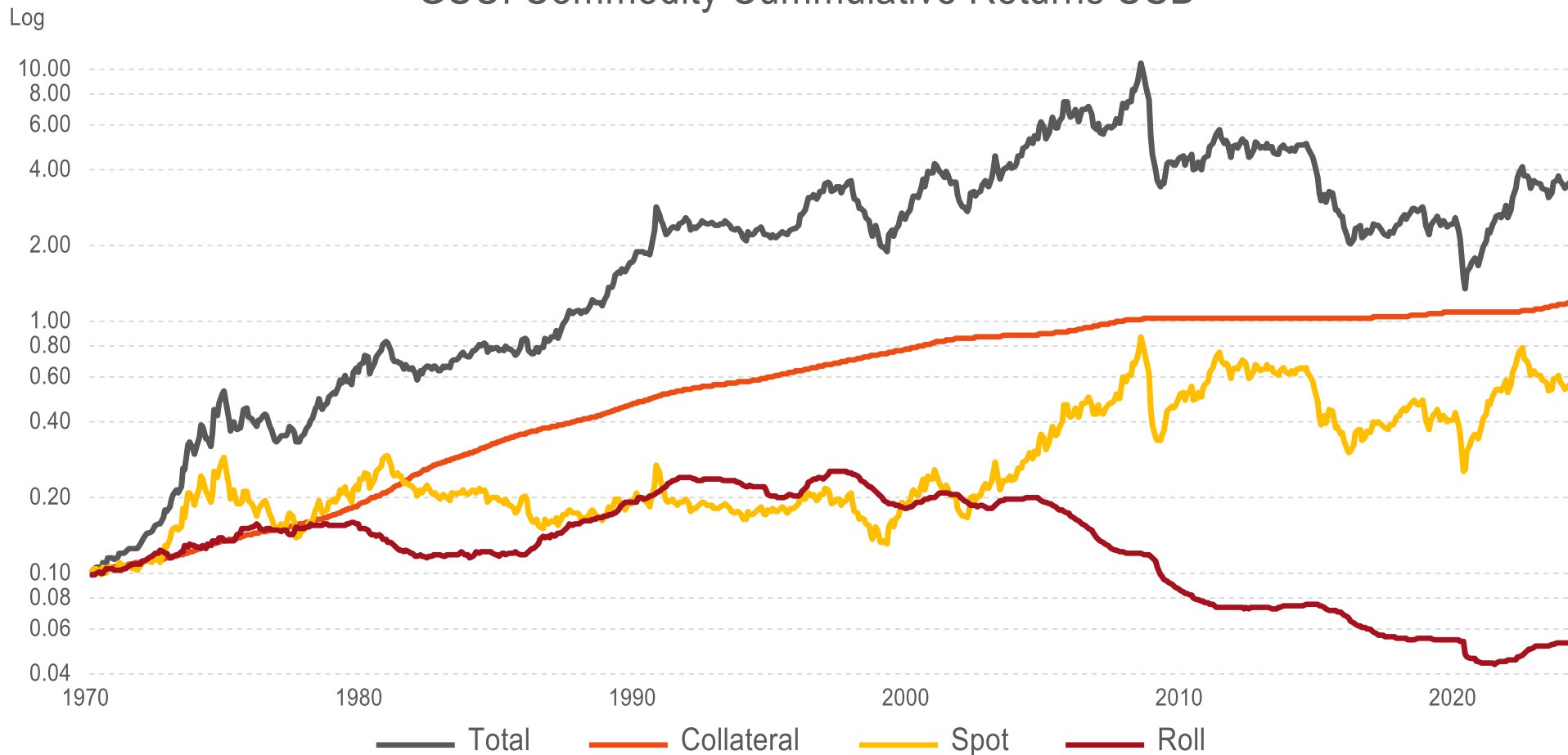
“Insurance premium is likely to decrease as the finite pool of investor demand is distributed across more insurance-providing speculators.”

Frontier Investment Consulting, ‘Commodities Determining the Investment Case’, 2005



Commodities futures return sources

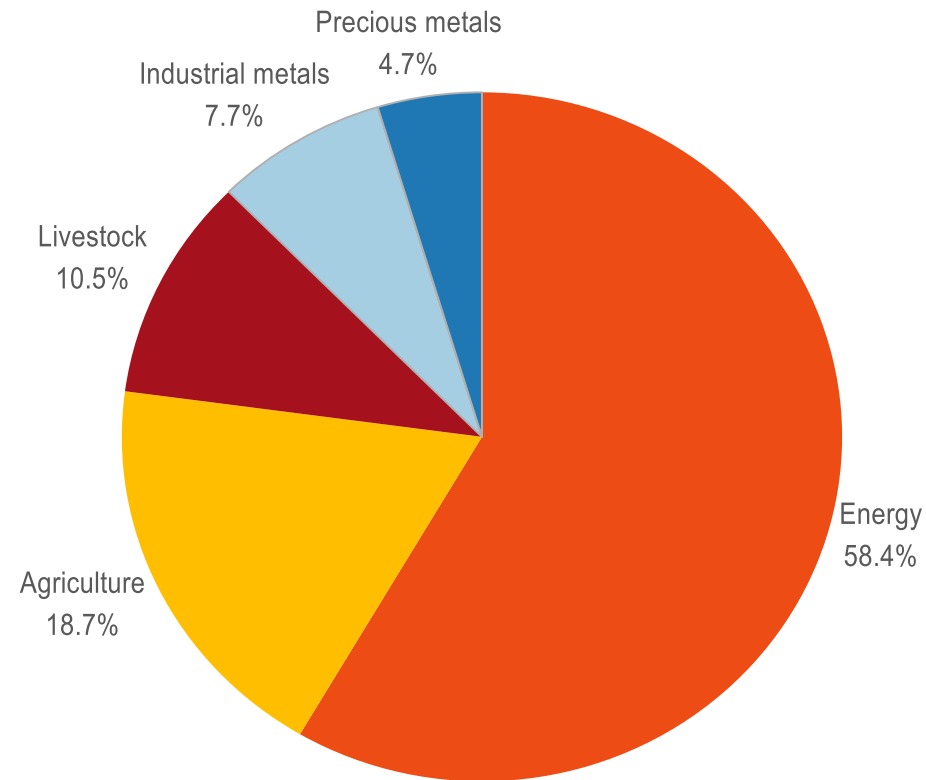
GSCI Commodity Cumulative Returns USD



Source: LSEG Datastream

Commodities futures index weightings

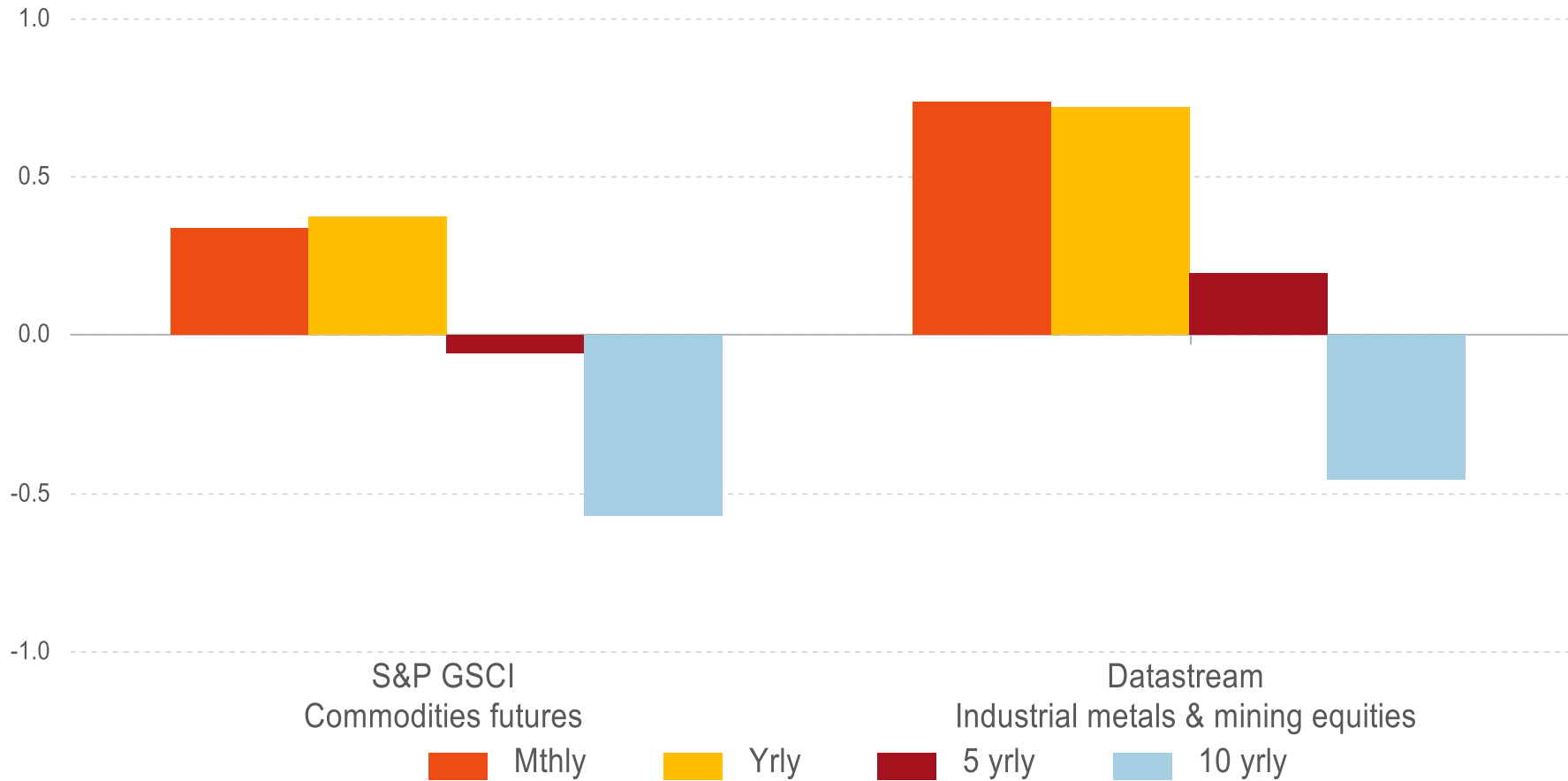
S&P GSCI commodity weightings



Source: LSEG Datastream

MSCI World versus commodities correlations

Correlations MSCI World vs commodities 2000 to 2024

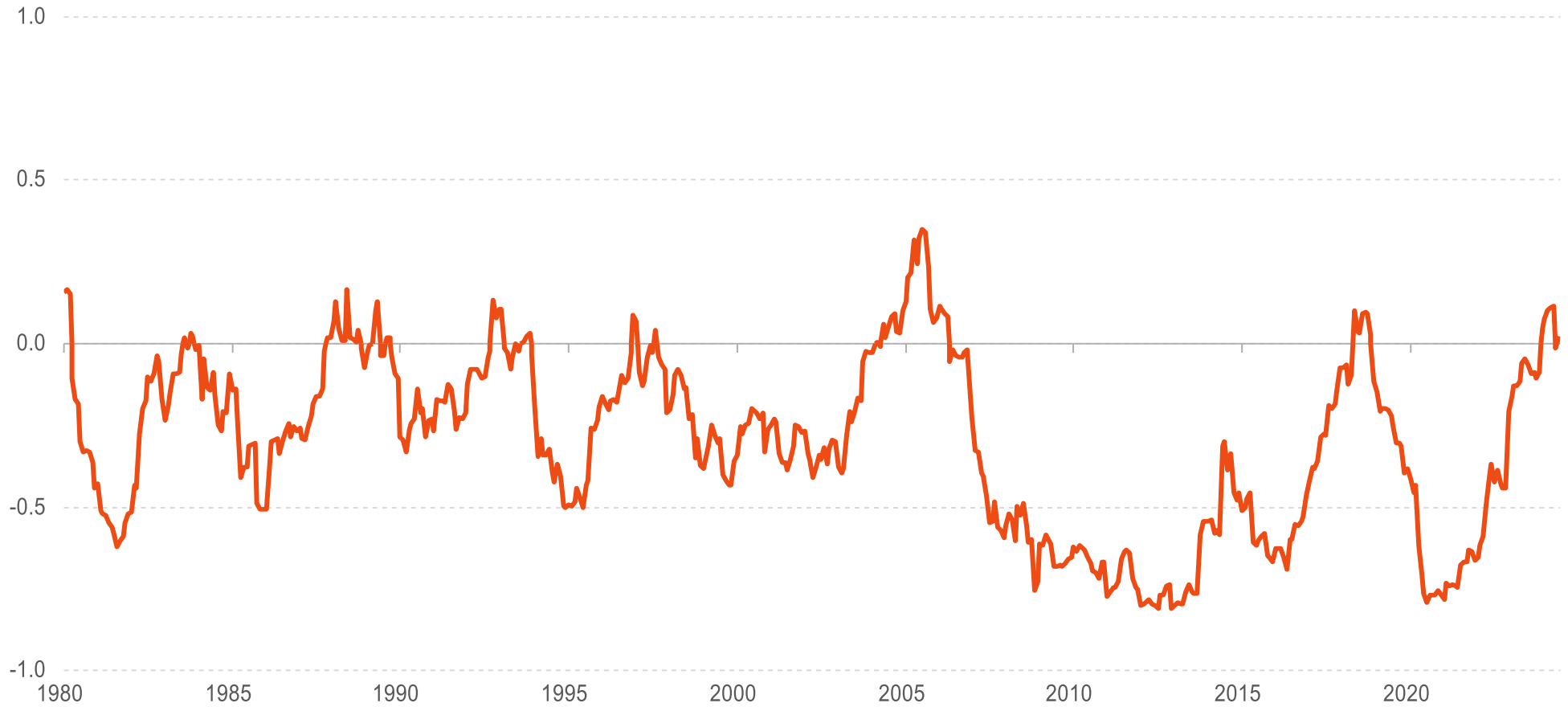


Source: LSEG Datastream

USD versus commodities correlations



USD vs GSCI Commodities correlation (monthly 2yr rolling)

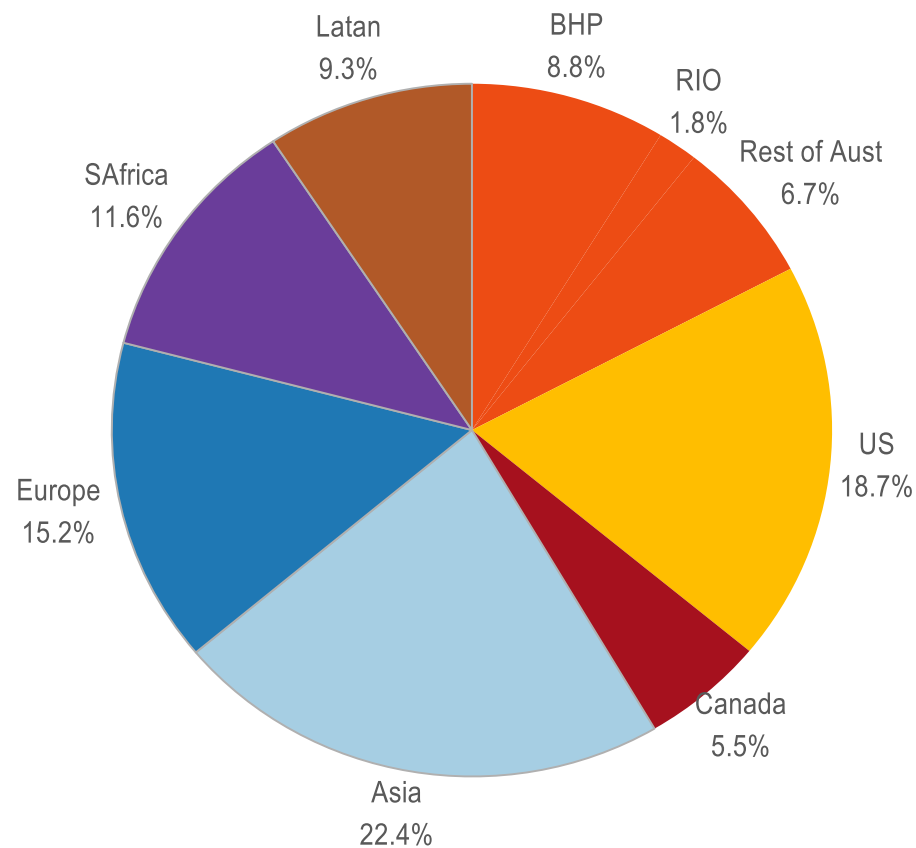


Source: LSEG Datastream



Industrial metals and mining equities

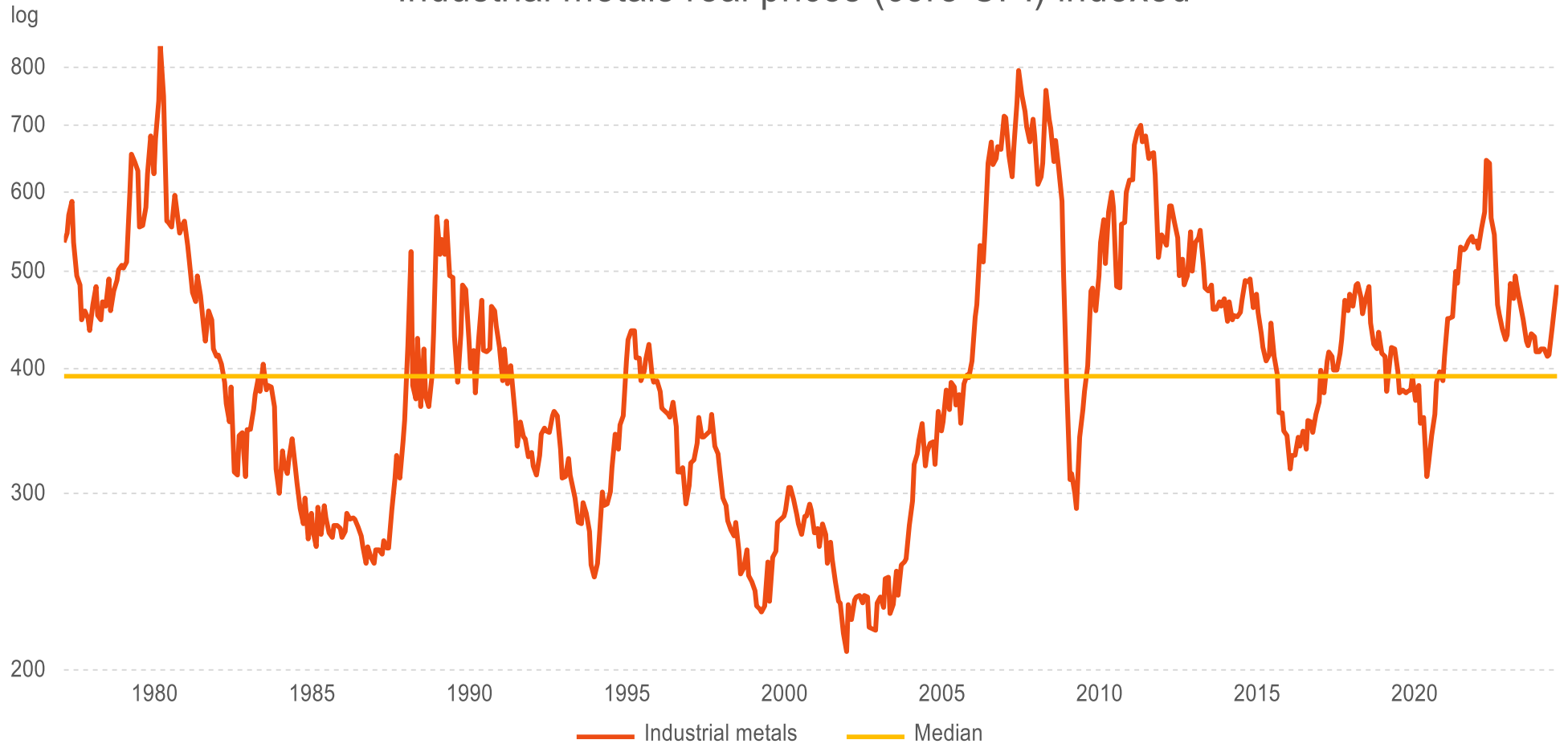
Industrial metals & mining equities index country allocation



Source: LSEG Datastream

Industrial metals prices

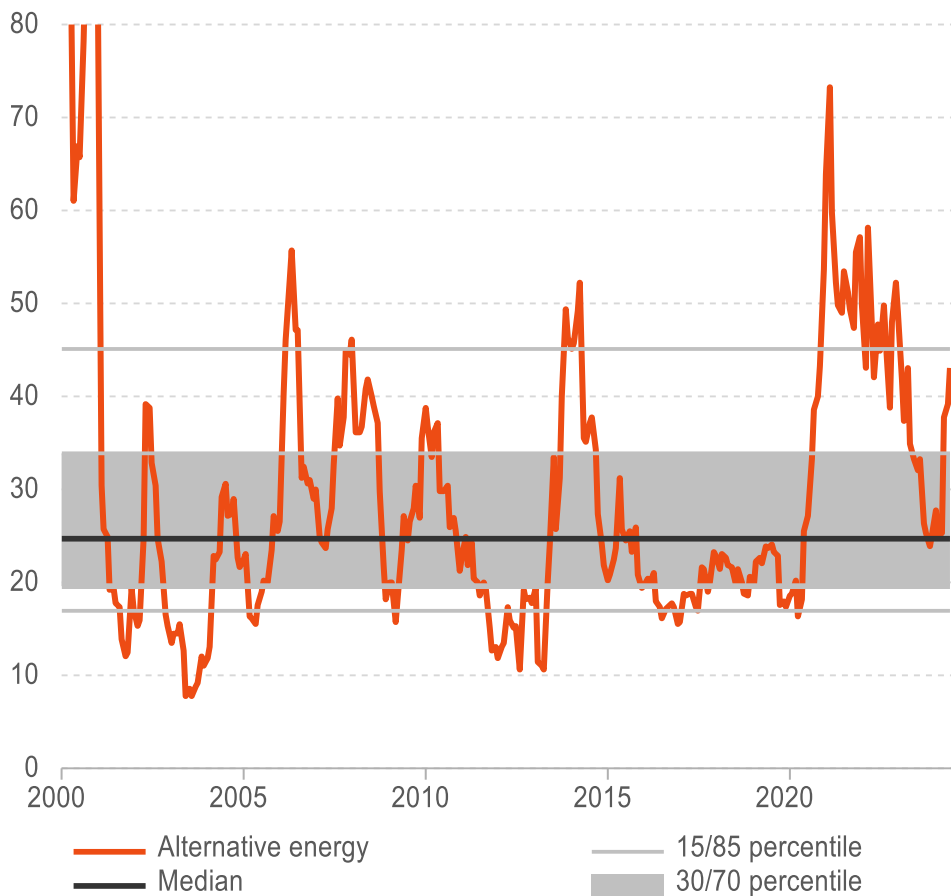
Industrial metals real prices (core CPI) indexed



Source: LSEG Datastream

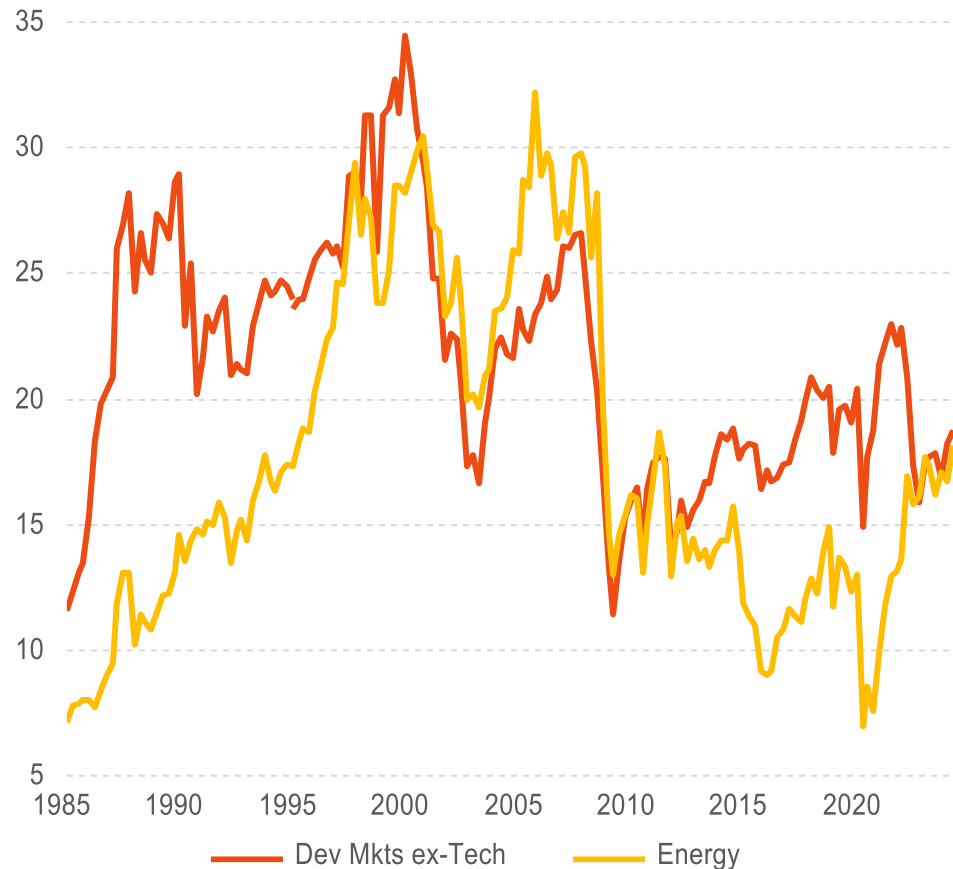
Alternative energy versus fossil fuel equities

World alternative energy price/earnings (P/E)



Source: LSEG Datastream

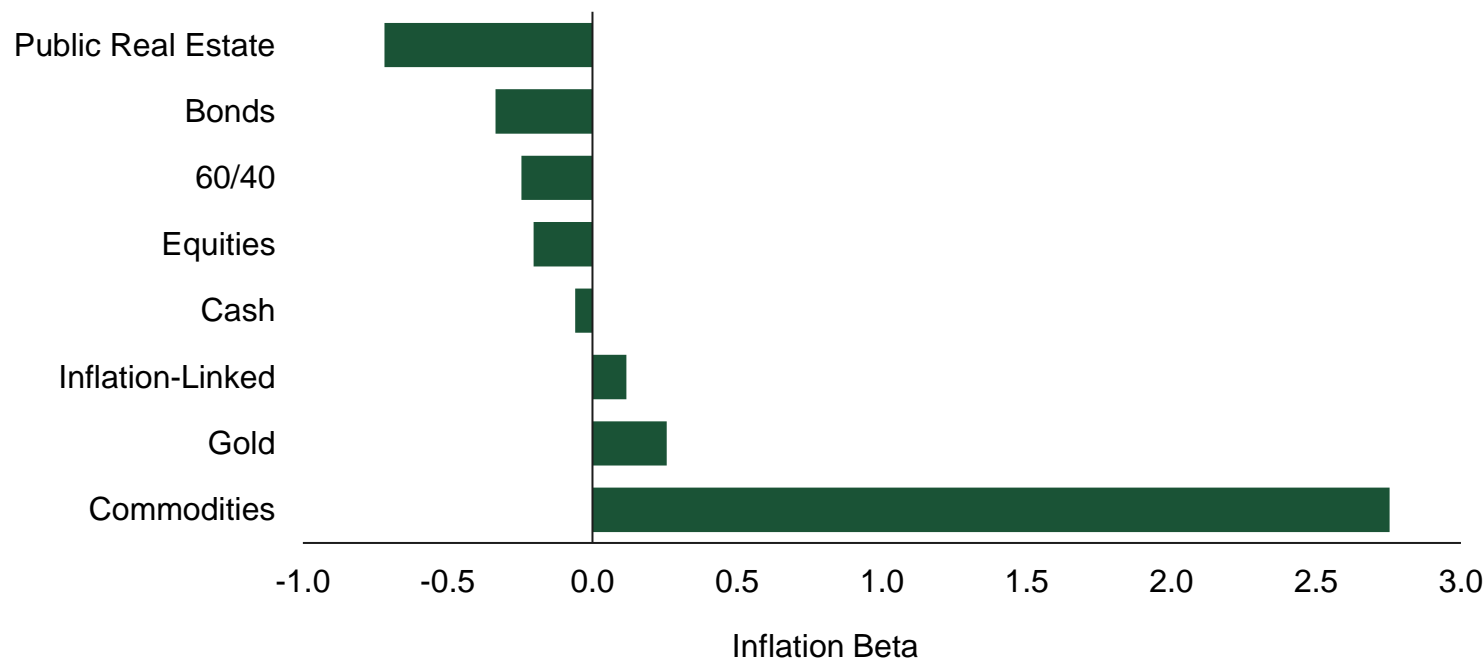
Cyclically adjusted P/E (CAPE)



Source: LSEG Datastream

Commodities exhibit high beta/correlation to inflation

Beta to change in inflation

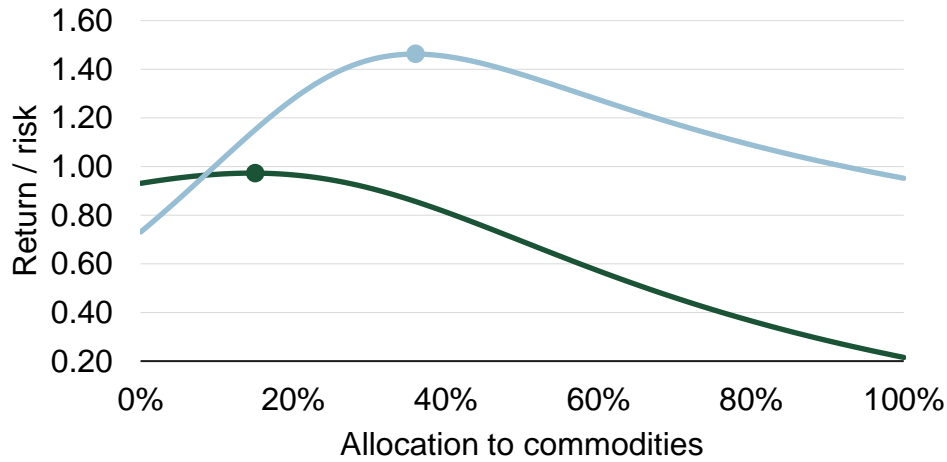


Source: Bloomberg, FRED, MSCI, TDAM. Data from Jan-1978 to Mar-2024. Equities are represented by 50% S&P/ASX 300 Index , 25% MSCI World ex Australia Index (Unhedged), and 25% MSCI World ex Australia Index (Hedged to AUD). Bonds are represented by 40% Bloomberg AusBond Composite 0+ Yr Index , 40% Bloomberg Global Agg Index (Hedged to AUD), and 20% Bloomberg Australia Bank Bill Index . Commodities are represented by the Bloomberg Commodity Index (AUD). Gold is represented by the Gold Spot in AUD. Public Real Estate is represented by 50% S&P/ASX 300 A-REIT Index, 25% FTSE EPRA NAREIT Developed ex Australia Rental Index , and 25% FTSE EPRA NAREIT Developed ex Australia Rental Index (Hedged to AUD). Cash is represented by the Bloomberg Australian Bank Bill Index. Inflation linked is represented by the Bloomberg AusBond Infl Govt 0+ Yr Index. Inflation is represented by the Australian CPI. The 60/40 portfolio is comprised of 60% equities and 40% bonds and is rebalanced quarterly. Inflation beta is calculated by regressing quarterly asset returns on quarterly changes in seasonally-adjusted YoY inflation

Allocating to commodities is additive

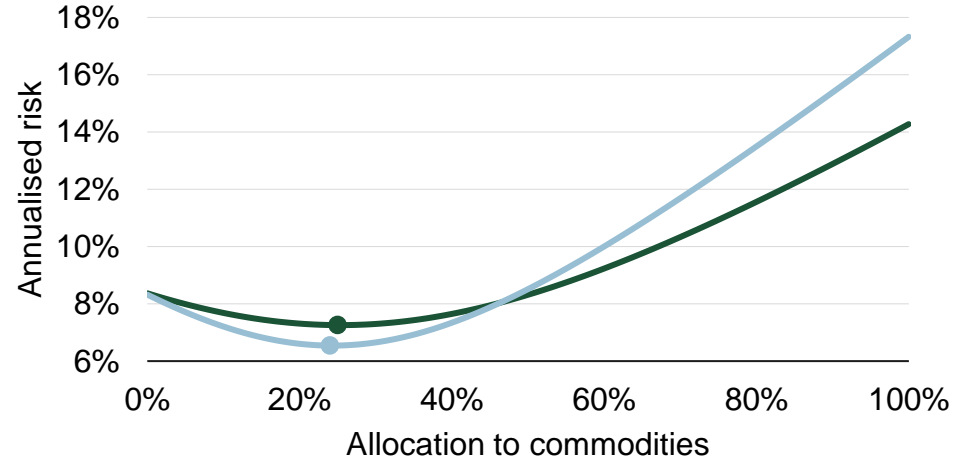
Adding 5% to commodities within a Balanced Portfolio adds to return and lowers volatility

60/40 versus commodities



— Full Sample — 2021 to 2024

60/40 versus commodities

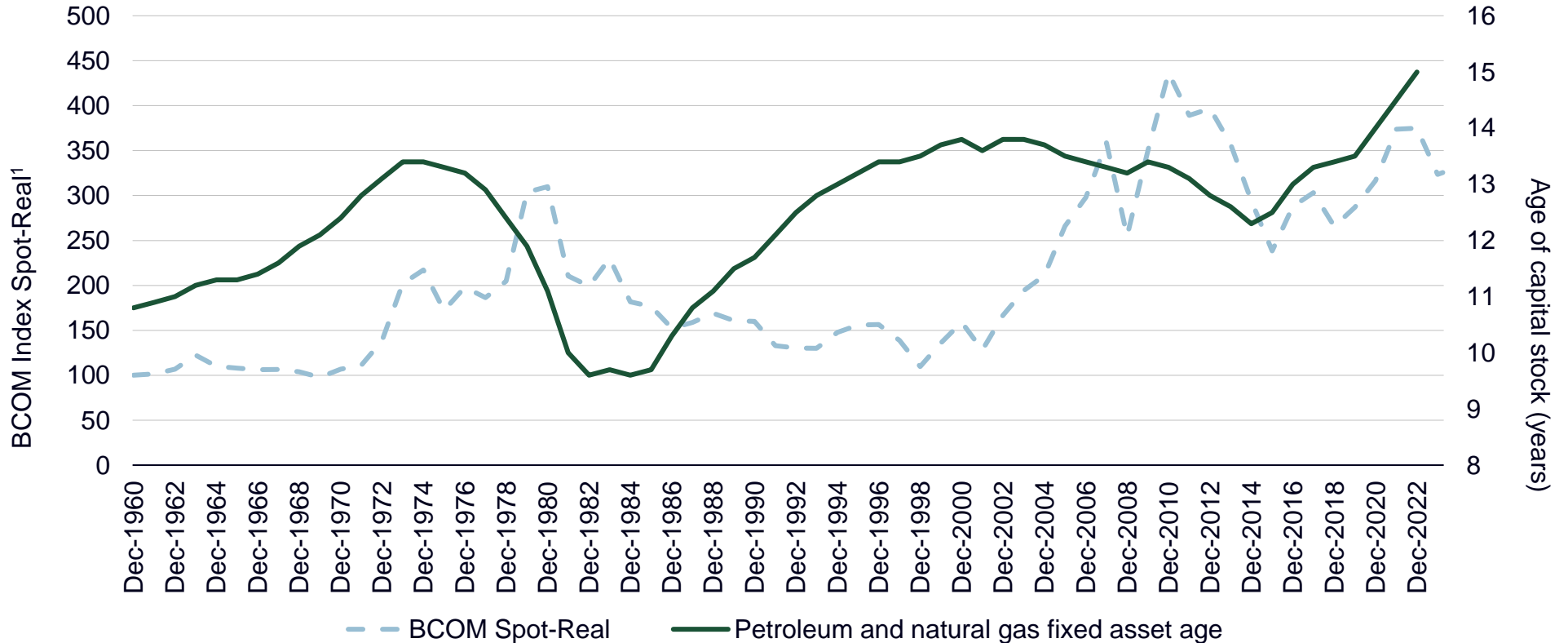


— Full Sample — 2021 to 2024

Source: Bloomberg, MSCI, TDAM. Data from Jan-1978 to Apr-2024. Equities are represented by 50% S&P/ASX 300 Index , 25% MSCI World ex Australia Index (Unhedged), and 25% MSCI World ex Australia Index (Hedged to AUD). Bonds are represented by 40% Bloomberg AusBond Composite 0+ Yr Index , 40% Bloomberg Global Agg Index (Hedged to AUD), and 20% Bloomberg Australia Bank Bill Index . Commodities are represented by the Bloomberg Commodity Index (AUD). The risk-free rate used for the calculation of the Sharpe ratio is represented by the Bloomberg Australian Bank Bill Index. The markers represent the optimal allocation to commodities. Each portfolio is rebalanced quarterly with no transaction cost. The allocation to commodities is sourced pro rata from equities and bonds. The 60/40 portfolio is comprised of 60% equities and 40% bonds and is rebalanced quarterly. Constant volatility portfolios are scaled to match the volatility level of the 60/40 over the same period. Inflation beta is calculated by regressing quarterly asset returns on quarterly changes in seasonally-adjusted YoY inflation.

The commodities cycle

We believe we are entering an investment phase

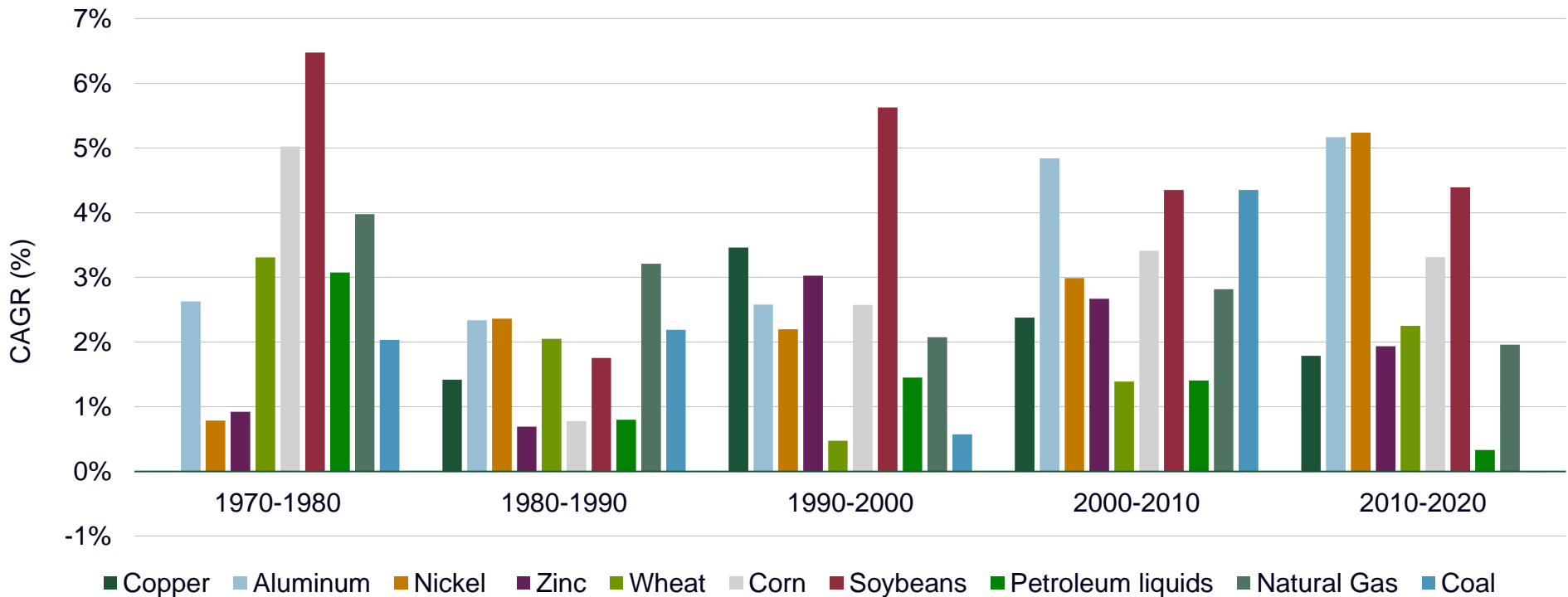


1 Indexed to 100 December 30, 1960. BCOM = Bloomberg Commodity Index.
 Source : TDAM Estimates, Bloomberg Finance L.P., Bureau of Economic Analysis. As of March 29, 2024.

With economic growth comes commodity growth

Compound annual growth rate (CAGR) per decade

CAGR per decade

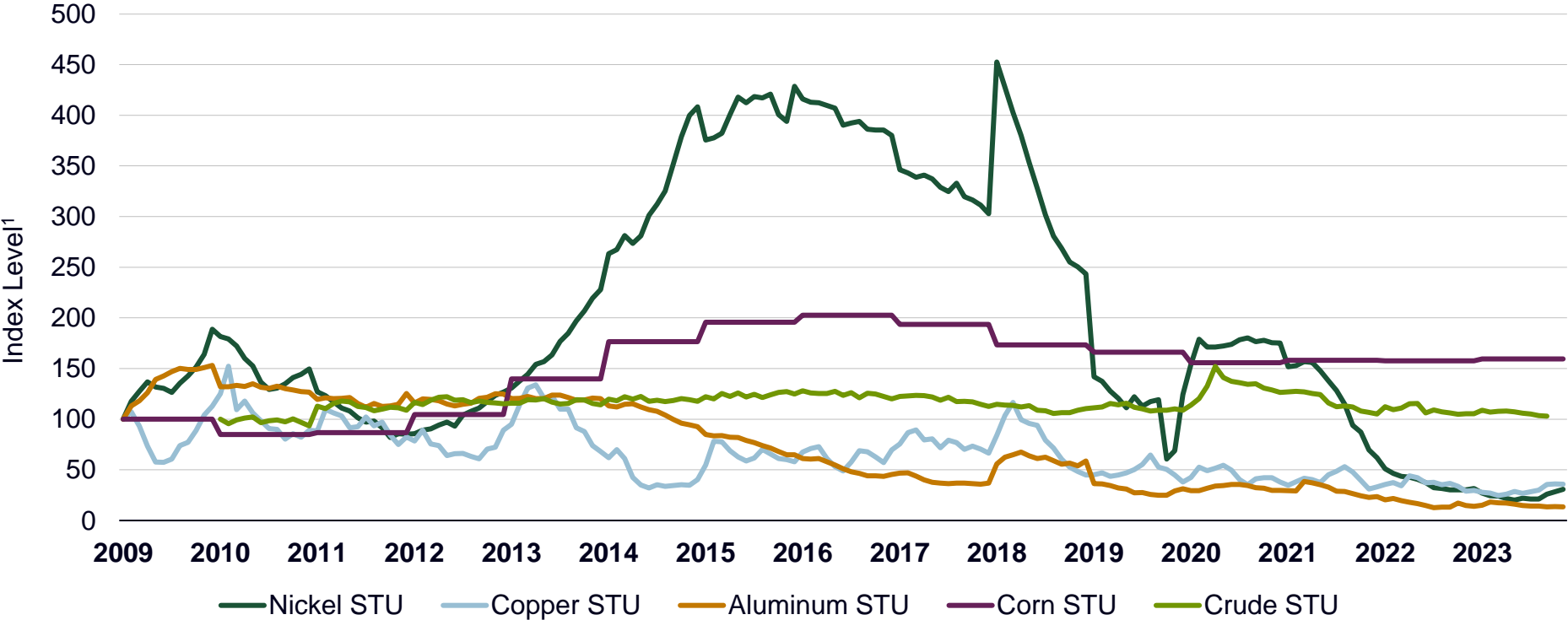


For illustrative purposes only. CAGR = Compound annual growth rate, GDP = Gross Domestic Product.
 Source BP Statistical Review of World Energy 2021., U.S. Department of Agriculture, Bloomberg Finance L.P. As of Dec 31, 2023.

Inventory balances tight.....

...and even more so if adjusted for demand

Stock to use (STU)



¹ Indexed to 100 on January 31, 2009.
Source: Bloomberg Finance L.P. As of November 30, 2023.





Thank you for joining us.

Frontier Advisors 2024 Annual Conference

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