



Commodities, Currencies, and your Global MultiCap Investment | Q3 2010

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For investors in Global MultiCap (GMC), your percentage of holdings in stocks of companies in commodity businesses is greater than most investors who buy exclusively US listed stocks. Your ownership of non-US dollar denominated equities has provided some cushion as the US dollar has weakened. We discuss both how global equity portfolios and GMC specifically are positioned during this unusual period.

Commodity prices, particularly precious metals, are moving sharply higher this quarter. Many strategists (and salesmen) are promoting direct investment in commodities in response to continued monetary stimulus of the US Federal Reserve and projected large deficits resulting from actions during the liquidity crisis of 2008. Slow growth and loose monetary policy in the United States appear to be primary reasons that the dollar has achieved new lows relative to the Japanese Yen and several other benchmark currencies.

Before we discuss the wisdom of purchasing commodities, realize that as a GMC investor, your risk profile is different than that of a purely domestic investor.

While the United States is a commodity rich country with a sizable listing of publicly traded companies related to commodities, there are far greater concentrations in other countries. From South Africa to Canada, Australia and Brazil, the influence of commodity pricing on international markets is, in aggregate, greater than in our home market.

In the table below, we estimate the commodity exposure of the S&P 500 Index relative to the broad MSCI All Country World Index and the GMC portfolio:

Industry Weights - Commodity Linked Industries*

	<u>S&P 500 Index</u>	<u>MSCI AC World Index**</u>	<u>LMCG - GMC***</u>
<i>Non-Energy Commodities</i>	3.5%	8.6%	7.7%
<i>Energy Related Commodities</i>	9.2%	9.6%	7.3%
<i>Total Commodities</i>	12.7%	18.2%	15.0%

**includes Oil, Gas & Consumable Fuels, Chemicals, Construction Materials, Metals & Mining, Paper & Forest Products*

*** MSCI AC World Index includes emerging markets in addition to developed non-US markets*

****GMC Rep. Account*

Source: Factset

In the category of “non-energy commodities”, the difference is striking. Global investors tend to have over 40% more exposure to companies that operate directly in commodity industries. The exposure is particularly large in non-energy commodity industries. While there are other more precise ways to measure commodity exposure in an equity portfolio, the conclusions are generally the same: for better or worse, global equity portfolios are more sensitive to commodity price swings.

And recently, the swing has helped, as this chart of one of the broad-based commodity indexes (the GS Commodity Index Future) shows:



Source: Factset

Gold has been a particularly strong commodity this year. A recently-developed product—the gold-based exchange-traded fund (ETF)—has boosted interest appreciably by making it convenient to invest in an asset attempting to mimic gold’s price fluctuation. The most successful such product is State Street Global Advisors “GLD” ETF:



Source: Factset

What do you need to know about the commodities issue?

1. Since early June, performance of the S&P 500 Index and the MSCI AC World Index has benefitted by approximately 1% from the natural overweight to commodities.
2. Gold could be a legitimate hedge for a particular disaster scenario. Should investors worldwide lose faith in the ability of governments to manage their money supply in a sound and prudent manner, a return to gold as the foundation of money is a possible, albeit desperate, alternative. Current World Bank President Robert Zoellick gave some credibility to this discussion over the past weekend, suggesting the use of gold price as a “reference” for a new currency mechanism.

More cynically, gold and silver are the latest in a line of hot investment “products” being sold by exploiting investor fears of this unlikely scenario.

3. Investing in commodity related equities is different than investing directly in commodities. Equities and the underlying companies tend to have a fair value for their businesses and hence have a floor value. They pay dividends. They will tend to benefit, but not keep up, with upward moves in commodity prices. And they will also fall, but not likely as much, when commodity prices fall. Gold had a dramatic (near 80%) decline from peak to trough in the early 1980s as investors regained confidence in global economic recovery.
4. Lee Munder Capital Group managers do not speculate on commodity prices.

The Link to Currency

Earlier this year, there was a crisis of confidence in the Euro as smaller members of the Euro zone managed through their own debt crises. Since June, the US dollar has slid sharply against all world currencies as US GDP growth lagged world growth. Owning shares of stock denominated in currencies other than the US dollar has been beneficial to global investors during this period, contributing over 10% to non-US returns since early June. This explains the fact that from May 31, 2010 until November 9, 2010, the non-US stock indexes have outperformed the US stock indexes by over 11% (MSCI-US is up 12.7% while the MSCI All Country ex-USA is up 23.8% since May 31).

Source: Factset

As the G-20 meeting convenes in South Korea this week, the issues related to currency and trade policy will be of high importance—and the commodity and currency markets will become important barometers of the success or failure of the summit.

While we expect to see more financial market volatility before year end, global strategies like GMC have shown their value in providing some cushion to 2010’s market stresses. While we do not engage in gold, silver and commodity speculation, we believe our investors should be aware of the particular commodity and currency exposures present in your GMC investment.

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