

# Investec Enhanced Natural Resources Fund

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Out of the Ordinary™

 **Investec**  
Asset Management

# Investec Enhanced Natural Resources Fund

## Key facts

- An enhanced structure through the use of full UCITS III investment powers, enables the Fund to take both long and short positions, thereby allowing for better risk adjusted return potential
- Growing demand for commodities, driven by urbanisation of developing economies, as well as the repair and upgrading of infrastructure in the developed world, will provide many investment opportunities
- Exposure to a broad range of commodities including metals and mining, energy, softs, as well as services to these industries.
- A benchmark unconstrained fund, focusing on a total return approach
- Investec Asset Management holds 17 years' experience investing in commodities and resources, with the experienced Global Commodities and Resources team currently managing over \$2.5 billion in resources.

## The Fund

The Investec Enhanced Natural Resources Fund aims to achieve long-term capital growth, primarily through investment in a globally diversified portfolio of resource equities and commodity securities. The Fund has full UCITS III powers, enabling it to trade both long and short positions, as well as allowing for the use of a range of derivative instruments. The Fund can invest across the entire spectrum of resource equities, including metals, mining, energy, soft commodities, agriculture and related industries, enabling investors to access exposure to a wide range of opportunities through one fund.

While the Fund is likely to be largely equity-based, it also has the option of investing in commodity securities, enabling the investor to gain commodities exposure without taking physical delivery of a commodity or trading of futures. Through commodity securities investors are exposed to commodity price risk rather than equity market risk which can provide diversification and lower volatility as there is low correlation historically between the two asset classes. In addition, the Fund will, at times, use efficient portfolio management (EPM) techniques to lower volatility and help to protect against sharp market downturns. This will be done through buying options or futures on resource indices or bespoke baskets of equities, where the correlation to the equity portion of the fund is above 90%.

A key factor when analysing and valuing resource equities is the price of the underlying commodity and we thus form our own view on the direction of commodity prices. This is done by looking at the fundamentals of each individual commodity, and analysing supply, demand and inventory changes to forecast prices over the short and long term. These views, combined with in-depth research of selected resource equities, allow us to determine the sectors and companies which we believe will provide the best returns for the risk taken.

## The case for investing in commodities

Higher levels of investment in infrastructure are required not only for rapidly developing countries but also for developed countries.

Many investors will be aware of the huge infrastructure spending by the BRIC (Brazil, Russia, India and China) countries and the GCC (Gulf Coast Countries). China and India's urban populations are projected to grow by over 200 million people in each country over the next twenty years. Not only are resources required to build the cities, but as their wealth grows, these populations will consume more resources in the form of transportation and consumer durables. This includes cars, appliances and the energy and resources required to build and run them. The simple fact that China and India have the largest populations globally, with a combined 2.5 billion people, means that their development will have a much greater and longer lasting effect on demand for resources.

## After two decades of neglect, Western infrastructure is ripe for renewal

Demand for resources to repair and upgrade infrastructure in the developed economies of Europe, North America and Japan has also increased in recent years. This follows two decades of under-investment as governments privatised much of their infrastructure. Power black-outs, bridge collapses and congested transport networks have highlighted the urgent need for investment in the developed world. Moreover, there is a need for new infrastructure to support the development of alternative energy sources and to combat climate change. Building wind farms, ethanol plants, solar farms and the associated infrastructure requires resources along with the actual fertiliser and crops consumed to produce biofuels.

While approximately \$2.5 trillion is set to be invested in infrastructure in the BRIC countries and low income countries over the next five years, the amount estimated to be invested in the Organisation for Economic Co-Operation and Development (OECD) countries over the same period is similar at approximately \$2 trillion.

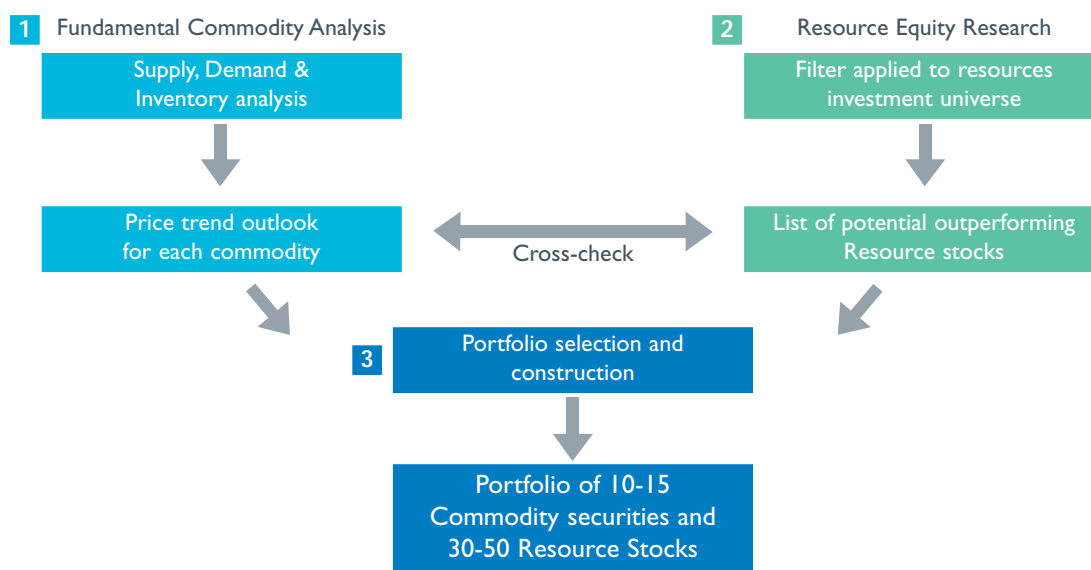


## Investment process

Our investment process involves a two-pronged approach in which we analyse both fundamentals of the underlying commodities and the resource equities.

This process has three stages:

1. Fundamental commodity analysis
2. Resource equity research
3. Portfolio selection and construction



### I. Fundamental Commodity Analysis

Our commodity analysis process takes a fundamental approach, analysing supply, demand and inventories for 40-60 different commodity securities in the energy, precious metals, base metals and agriculture sectors. For the major commodities we look at supply forecasts for each producing asset or project, in order to build up a view of supply growth or decline. We then forecast demand for each commodity by country or region, analysing industrial production forecasts, changes to the intensity of major end users and trade flows.

We can then calculate the forecast surplus/deficit for each commodity and assess the impact this will have on prices, taking into account available inventories (reported and unreported). The result is our own forecast for price trends over the next two years as well as the long term. We can then compare this forecast to consensus views in order to understand where we should position our portfolio relative to the market.

The team's experience and knowledge of where to access the best, or most up to date information, and how to interpret incomplete data series, is critical to this process.

### 2. Resource Equity Research

In order to analyse the large number of resource equities in the sector, we start by using a quantitative filter to identify shares which merit further in-depth research. The filter is applied to approximately 800 stocks worldwide, focusing on five key investment characteristics which we believe drive share prices of resource companies over time: **Asset Quality, Capital Management, Valuation, Earnings Estimates, and Momentum.**

Our quantitative filter screens companies on these five investment characteristics on a purely objective basis, giving us a ranking of resource companies on a monthly basis. This allows us to identify possible companies to invest in both on their absolute ranking and, just as importantly, on their change in rank.

### Detailed Fundamental Equity Research

The team then follows up the most interesting equity ideas generated by the filtering process, by performing fundamental analysis on them in order to identify the best investment opportunities, in our opinion, which will form part of the portfolio.

The best ideas are then debated amongst the team at regular investment meetings and cross-checked with our commodity views. This is to determine which ideas we think will make the best investments and what level of conviction will determine the weighting within the portfolio.

### 3. Portfolio Selection and Construction

The commodity and resource equity ideas, which we consider to be our best selections, are used to construct portfolios in line with the risk constraints.

Capital is allocated on a low, medium or strong conviction basis to the investment idea as detailed below:

Conviction Level	Typical Position Size
Low conviction	1 – 2%
Medium conviction	2 – 5%
Strong conviction	5 – 10%

Maximum of 10% of the NAV of the Fund may be invested in any one security

Maximum of 10% of the NAV of the Fund may be invested in the securities of any one issuer

### Investment Restrictions

The Investec Enhanced Natural Resources Fund is run on an unconstrained basis with performance monitored against the benchmark.

#### Risk Controls

Average number of holdings	30-50 stocks and 10-15 commodity securities
Super-sector Weights	Maximum of 80% in Energy or Metals & Mining and 60% Softs and Other Commodities sector
Sub-sector Weights	Maximum of 20% in any one Commodity or resource type
Country Weights	Maximum of 50% in securities listed in any one country
Market Capitalisation	Minimum \$100 million
Benchmark	50% MSCI World Materials and 50% MSCI Energy

### Understanding the risk environment

The investment strategy has a long bias and could be expected to perform well during periods of rising commodity and resource equity prices. There can be significant timing differences between moves in resource equities and the underlying commodity prices, so there is the possibility of loss if the timing acts against us. However, the Fund also has the option of short exposure which, as well as allowing for better risk adjusted return potential, also offers some downside protection.

Whilst we believe that, in the long term, demand for commodities will remain robust, business cycles will cause declines in demand for short term periods that may affect the performance of the fund. In addition, the performance of this Fund would be vulnerable should there be a longer term global recession or a major sustained slowdown in the growth of BRIC countries, which could cause a sharp decline in demand for commodities. A possible trigger for a sustained slowdown could be a rise in protectionism by governments which would jeopardise free trade.

### Experience and expertise

The combination of our experienced team and disciplined investment process enables us to select commodities and resource companies which we believe should produce outperformance. The team's wide range of experience and knowledge across a broad spectrum of the commodities and resources sector enables us to view investment ideas from all angles in order to determine the most attractive ideas for the portfolio.

Our roots in Africa have given us expertise in frontier markets and specifically skills in investing in commodities, while our established presence in London provides us with market access for global investing. Investec Asset Management has over 17 years' experience in managing natural resource and commodity assets

Investec Asset Management currently manages exposure to resource equities in general equity portfolios as well as its successful range of commodities and resources funds. Total assets under management in resources managed directly by the Global Commodities and Resources team are approximately US\$2.5 billion, with strong performance track records. They are supported by dealers, risk and quantitative staff.



“Our modern approach through the implementation of full UCITS III investment powers enables the Fund to take both long and short positions, allowing for better risk adjusted. We invest across the entire universe of resource equities and underlying commodities, including metals, mining, energy, softs and agriculture, in essence, offering investors exposure to the widest range of opportunities with enhanced risk adjusted return potential.”

**Bradley George, Co-Portfolio Manager**



**George Cheveley, Co-Portfolio Manager**

## The Team

The Investec Enhanced Natural Resources Fund is co-managed by Bradley George and George Cheveley. However, we operate a team based approach and all members of the Global Commodities and Resources team have input into portfolio construction through their sector responsibilities, with Bradley and George responsible for deciding the final portfolio composition.

Bradley joined Investec Asset Management as head of the Global Commodities and Resources team in 2006. He has worked within the commodities and resources sector since 1996, holding positions in commodities structuring as well as investment banking advisory in natural resources. He has managed the successful Global Commodities & Resources Fund since its inception in February 2007.

George joined Investec Asset Management in 2007 as the Metals and Mining specialist in the Global Commodities and Resources team. He has worked in the commodities industry since 1990, with extensive experience working in and consulting to the steel and base metal mining industries.

The Investec Enhanced Natural Resources Fund Managers are supported by the additional members of the Global Commodities and Resources team, based in both London and South Africa.



## About Investec

Investec Asset Management is a specialist investment manager, providing a premier range of portfolio management services and products to institutional and individual investors. Established in 1991, the firm has been built from start-up into an international business managing in excess of US \$64 billion\* on behalf of third party clients. We have grown from domestic roots in the UK and Southern Africa to a position where we proudly serve a growing international client base from the Americas, Europe, Asia, Australia, the Middle East and Africa. We employ 100 investment professionals.

The firm seeks to create a profitable partnership between clients, shareholders and employees, aiming to exceed expectations for both client service and performance.

Investec Asset Management is an independently managed subsidiary of Investec Group.

\*As at 30 September 2007.

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Telephone calls may be recorded to confirm your instructions.

**UK**  
Investec Asset Management  
2 Gresham Street  
London EC2V 7QP

**Further information:**

UK: +44 (0)20 7597 1800  
If calling within the UK: 0800 389 2299  
broker@investecmail.com

[www.investecassetmanagement.com](http://www.investecassetmanagement.com)

