International Copper Study Group
George Cheveley – Portfolio Manager

24 April 2013
Agenda

- Commodities as an asset class
- Financial interest in copper
- Copper market outlook
- Conclusion
Copper
Market analysis and outlook
Investing in Commodities
A developing asset class

Institutions have transitioned into more sophisticated active commodities investors

Commodities asset class
- Markets mainly in backwardation – prices rising
- Markets move into contango – prices recover after 2008 sell-off
- Diverse commodity price and spread behaviour

Investment Style
- Long only, passive strategies
- Proliferation of products and strategies
- More active and direct investment in new commodity subclasses

Investment Instruments
- Passive indices, Long only equities and CTA
- ETCs and Structured products
- Physical ETCs, enhanced managed beta and private equity
Investing in Commodities
Monetary volumes

Changes in commodity index-linked investments

- Investors have increased their exposure to enhanced and long short indices
- However, base metals remain a relatively small size of this investment universe

But passive investment remains

Source: Bloomberg, CFTC, Barclays, 2013
Index swaps AUM by strategy and commodity type
Investing in Commodities
Monetary volumes

Copper investment inflow is a small percentage of the market

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</thead>
<tbody>
<tr>
<td>4.5%</td>
<td>10.2</td>
<td>1,276</td>
<td>0.8%</td>
<td>57.5</td>
<td>18%</td>
<td>144</td>
<td>7%</td>
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- ETF penetration into asset classes beyond equities is continuing to increase. ETF’s are perceived to have an edge over total return swaps and index funds in terms of liquidity, transparency and cost.

- As investors become more sophisticated this penetration will increase.

- In March 2013, total copper index AUM amounted to $10.2bn which represented just under 1% of total LME copper futures/option volume, 18% of total open interest and 7% of the physical market size of $144 bn.

Investing in Copper
The Exchange Traded Product

- In addition to the physically backed ETF, ETF Securities also had a (long) ETF, Short ETF and Leveraged ETF, all based on the DJ-UBS Copper Sub-Index, itself based on the futures market
- Currently ETF Securities; physically backed, long, short and leveraged have 1,950 tonnes of copper worth roughly $16 million, a fraction of the 249,025 tonnes of LME warehouse stocks. This peaked at 6,875 tonnes over the March-April 2012 period
- This compares with over 43 million ounces of gold, worth $73 billion, held in the largest gold backed ETF
- Proposed ETFs; JP Morgan Physical Copper Trust to hold ~60,800 tonnes and Blackrock’s iShares Copper Trust to hold ~120,200 tonnes

ETC assets under management by sector ($bn)

Source: Bloomberg, ETP issuer data, Barclays, November 2012

- However, we haven’t seen a period of strong contango since launch, and this backwardation environment favours investment in futures
Investing in Copper
A commodities-only strategy is limiting

- Over the last decade roll yields have been overall positive, meaning total returns have been greater than spot returns
- Lower excess returns and minimal collateral yield have impacted total returns over the past few years post the financial crisis in 2008

<table>
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<tr>
<th>Calendar year</th>
<th>S&amp;P GSCI Copper Spot Return</th>
<th>S&amp;P GSCI Copper Roll Return</th>
<th>S&amp;P GSCI Copper Excess Return</th>
<th>S&amp;P GSCI Copper Collateral Yield</th>
<th>S&amp;P GSCI Copper Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-18.99%</td>
<td>-3.95%</td>
<td>-22.93%</td>
<td>2.79%</td>
<td>-20.15%</td>
</tr>
<tr>
<td>2002</td>
<td>5.30%</td>
<td>-5.31%</td>
<td>-0.01%</td>
<td>1.65%</td>
<td>1.65%</td>
</tr>
<tr>
<td>2003</td>
<td>48.47%</td>
<td>-4.24%</td>
<td>44.24%</td>
<td>1.49%</td>
<td>45.73%</td>
</tr>
<tr>
<td>2004</td>
<td>38.96%</td>
<td>12.85%</td>
<td>51.81%</td>
<td>2.13%</td>
<td>53.94%</td>
</tr>
<tr>
<td>2005</td>
<td>40.15%</td>
<td>28.27%</td>
<td>68.43%</td>
<td>5.46%</td>
<td>73.89%</td>
</tr>
<tr>
<td>2006</td>
<td>40.87%</td>
<td>5.98%</td>
<td>46.86%</td>
<td>7.21%</td>
<td>54.07%</td>
</tr>
<tr>
<td>2007</td>
<td>5.41%</td>
<td>1.68%</td>
<td>7.09%</td>
<td>4.96%</td>
<td>12.04%</td>
</tr>
<tr>
<td>2008</td>
<td>-54.11%</td>
<td>1.15%</td>
<td>-52.96%</td>
<td>0.71%</td>
<td>-52.24%</td>
</tr>
<tr>
<td>2009</td>
<td>140.63%</td>
<td>-5.24%</td>
<td>135.39%</td>
<td>0.38%</td>
<td>135.76%</td>
</tr>
<tr>
<td>2010</td>
<td>30.83%</td>
<td>-1.30%</td>
<td>29.53%</td>
<td>0.18%</td>
<td>29.71%</td>
</tr>
<tr>
<td>2011</td>
<td>-21.09%</td>
<td>-0.46%</td>
<td>-21.56%</td>
<td>0.04%</td>
<td>-21.51%</td>
</tr>
<tr>
<td>2012</td>
<td>4.27%</td>
<td>-0.04%</td>
<td>4.23%</td>
<td>0.09%</td>
<td>4.32%</td>
</tr>
<tr>
<td>2013</td>
<td>-5.00%</td>
<td>-0.34%</td>
<td>-5.35%</td>
<td>0.02%</td>
<td>-5.33%</td>
</tr>
</tbody>
</table>

Source: Investec Asset Management, Bloomberg SPGSIC, SPGSICP and SPGSICCTR
As at 18 April 2013
Investing in Copper
Leverage is key

Equities have outperformed the futures contract in the long term

Source: Bloomberg. The ‘Copper Index’ comprises a basket of 11 copper pure play companies at 18 April 2013
Copper market outlook

Copper price

- Supply disruptions have been fewer year-to-date
- Exchange stocks have risen recently but Chinese bonded stocks have fallen
- Inventories downstream in western supply chains are low...
- ...and in China they have been destocked downstream
- Spot premia have risen recently
- Physical market is soft currently but sentiment improving

Forecast: $7,238/t for 2013

Copper stocks

- Continued strong Chinese and emerging market demand growth
- Infrastructure, construction, autos and durable goods main drivers
- Supply increasing but delays to new projects
- Existing mines facing continued grade declines
- Risk of Government intervention increasing
- Operating and Capex cost inflation exerting upward pressure

Forecast: $6,175/t for 2014 and $6,000/t long-term (real 2013 $)

Source: LME, 18 April 2013
China Fixed Asset Investment and white goods demand are rebounding

YoY changes in Chinese fixed asset investment

White goods sales recovering strongly

Copper consumption Index shows improving demand

Source: Macquarie, CEIC, Morgan Stanley, March 2013
Copper
Supply concerns

- Copper grades have decreased sharply since 1990 increasing the costs of production

Copper cash cost curves from 2004

Copper cash cost curves including actual 2010 curve

Source: BHPB, Brook Hunt, Macquarie, December 2012
Copper
Capital expenditure

Copper incremental cost by mine

Source: Codelco, April 2013
Conclusion

- Investment in commodities as an asset class has grown over the last fifteen years
- As the asset class has matured, the number of products has increased and sophistication levels have grown but the majority of investment remains in passive vehicles
- Copper is a small percentage of the asset class as a whole. Contangos and low interest rates have reduced returns in recent years
- Copper related equities provide more leverage to copper prices and have outperformed in the longer term
- Copper prices are currently under pressure from increasing supply and concerns over demand
- We see demand improving in the short term but supply increases are likely to keep prices subdued over the next two years
- However, operating cost and Capex increases should provide support in the medium term and drive prices higher in the longer term
Contact details

Investec Asset Management
Woolgate Exchange
25 Basinghall Street
London
EC2V 5HA
United Kingdom

Telephone: +44 (0)20 7597 1900
Email: enquiries@investecmail.com

www.investecassetmanagement.com
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