

# Institutional Perspective:

SEVEN DEADLY WINS – GLOBAL REAL ASSETS

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## Real opportunities for 2010

"Real Assets" such as property, infrastructure, commodities, industrial stocks and energy related shares are expected to benefit from the recovery in the productive capacity of global economies around the world. This has been driven in part from the huge monetary and fiscal stimulus we have seen, which raises the prospect of inflation which in turn drives up real asset prices.

Fiscal spending on infrastructure will see many beneficiaries in the steel, construction and energy sectors. Private sector funding had driven capital investment in recent years. Now, companies related to government spending will be favoured. For example, in response to urbanisation, emerging market governments are deploying unprecedented amounts of capital to upgrade their infrastructure.

Investment is being made into power, water, property, ports, airports and railways. For instance, China Railways has been adding track to the network at about 1,000 kilometres a year, rising to 10,000 kilometres per year by 2012. To put that in context, the entire German rail network is the longest in Europe and is just 34,000 kilometres. Warren Buffet's recent purchase of railroad company, Burlington Northern Sante Fe is an aggressive bet on the broad industrial sector which seems to have raised investor interest in "old economy" stocks.

A portfolio of real assets, investing across the developed and emerging markets would be well poised to benefit from the twin drivers of:

- 1) Near term rising inflation
- 2) Long term secular development in the emerging world

### Why should an investor choose a global "real assets" approach rather than just a simple natural resources fund or ETF?

Typically the absolute performance that is won or lost in a natural resources fund in different parts of the cycle far outweighs the returns due to stock picking. By expanding the opportunity set to include stocks that are negatively correlated to resources and commodities the return path may be smoothed. Two areas provide useful diversifiers - infrastructure and property. Infrastructure investment offers a bond like return stream and hence strong earnings visibility in times when resources show signs of being oversold and with more downside risks. Property offers the opportunity of not only benefiting from pick up in consumer confidence at the domestic and retail commercial level, but also along with utilities in phases where there is likely to be an upswing in capital expenditure.

Essentially, infrastructure, utilities and property are mature sectors in the developed world with defensive characteristics while in the emerging markets they represent more of a growth opportunity. For a portfolio built with a regional allocation policy a real asset portfolio adds a "tilt" to the portfolio to improve its positioning to benefit from a return of inflation to the global economy and continuing development in the emerging world. By adding this to a non-directional regional mix of funds and effectively "overweighting" these two key drivers in their asset mix the investor will have a strategy that not only offers diversification but also strategic direction as the market moves into a post-reflationary phase.

Many companies that benefit from the above trends are quoted in areas where a rigid adherence to an emerging market only benchmark would exclude them from investment. By way of example;

- The Australian and Canadian exchanges have many global exploration & production stocks quoted on them which Asia or Emerging mandates would miss.
- Some countries, such as Sweden and Japan are home to world class enabling technologies that Emerging countries require to fuel their development. A pure emerging market focus would miss this dynamic completely.
- Of the world iron ore cartel, only CVRD is quoted in the Emerging market index; BHP, Rio Tinto and Anglo are all quoted in the UK (for historic reasons).

### So, what is the correlation between real asset prices and the equity price of a commodity producing company or property prices to that of REITs?

Well, as far as commodities are concerned there is a strong correlation between commodity prices and the corresponding equity. Basic resource stocks have outperformed the broad index in each of the last five periods of rising inflation in Europe, while Oil & Gas stocks out-performed in four of the five. Conversely, in periods of rising inflation REITs do not perform well, in four of the five inflationary periods referred to earlier REITs underperformed. However, what is important is that REITs offer a negatively correlated opportunity set that allow for rotation at turning points in the inflation cycle.

### Conclusion

The pick up in leading indicators is un-mistakeable, most global economies have now pulled out of recession and the forecast is for a strong upturn in global growth, primarily driven by emerging markets. Real assets can help to protect against inflation and against such a backdrop the case for investment becomes compelling.

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## FF GLOBAL REAL ASSET SECURITIES FUND

Managed by Amit Lodha, the Fidelity Funds Global Real Asset Securities Fund invests in equities backed by physical or identifiable assets - such as copper, gold, oil, land, factories and the like. Portfolio manager Amit Lodha looks for assets that are not easily replaced or that are in short supply, where the equity is trading at reasonable valuations.

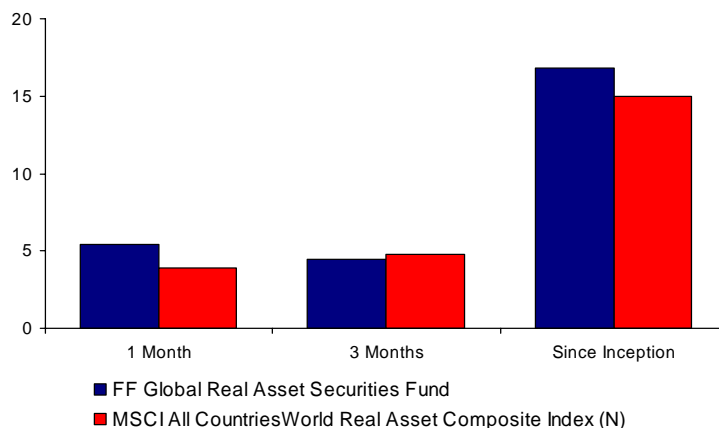
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Amit joined Fidelity as an equity analyst in 2003. Initially covering a number of sectors in the Indian market, Amit took on responsibility for coverage of pan-European natural resources stocks and commodities at the start of 2007. He was promoted to the role of portfolio manager in April 2008.

Before joining Fidelity, Amit worked as an equity analyst for Citigroup Smith Barney in India.

Amit has both Bachelors and Masters degrees in Commerce and Economics from the University of Mumbai. He is also a qualified chartered accountant and a CFA Charterholder.

## FF GLOBAL REAL ASSET SECURITIES FUND - PERFORMANCE



Source: FIL Limited, 31.12.2009. Performance figures are calculated net of fees in sterling terms. Benchmark is MSCI All Countries World Real Asset Composite Index (N). Return since inception is annualised. Since inception date is 02/09/2009. Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

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