

Commodity Investments

Can your commodities investment be BOTH a high risk-adjusted return source and a portfolio hedge?

Important Information

The information contained in this document is not meant to be exhaustive. While Tellus Asset Management has done its best to verify the accuracy of all information contained herein, Tellus Asset Management does not guarantee the accuracy of any statements, qualitative or numerical, contained herein. An offer to sell any securities in any fund or strategy to any person will be made only by the confidential offering materials of the applicable fund.

Tellus Asset Management reminds the recipient that alternative investment strategies often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; they can be highly illiquid; they are not required to provide periodic pricing or valuation information to investors; they may involve complex tax structures and delays in distributing important tax information; they are not subject to the same regulatory requirements as mutual funds; and they often charge high fees.

Some statistical index information contained herein is courtesy of The Barclay Group www.barclaygrp.com .

Increased Interest in Commodities

Return Driven

- Increasing demand from emerging economies
- Limited recent investment in processing and distribution infrastructure

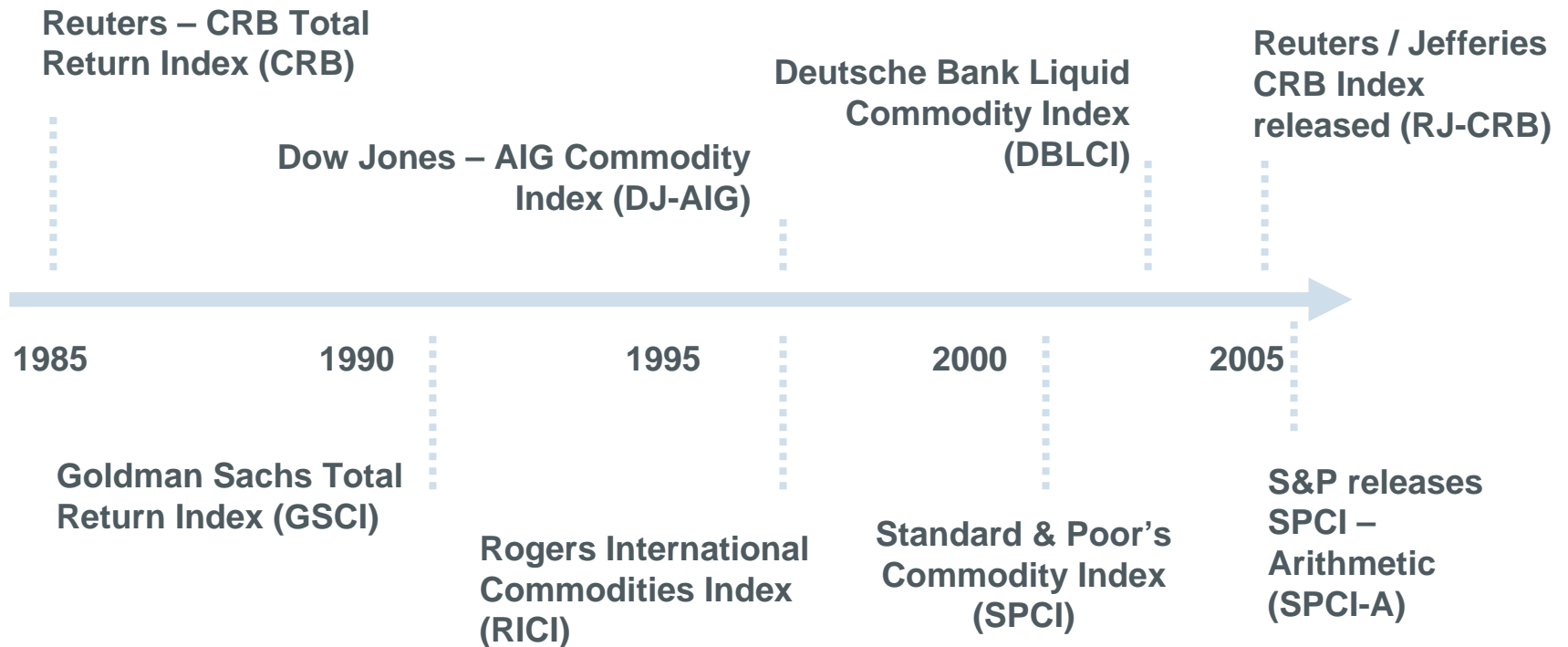
Whole Portfolio Driven

- Inflation hedging characteristics
- Recent academic research notes viability of commodities as a diversifying asset class

Focus on Passive
Commodity Investments

The Commodity Index Universe

Development of “Total Return” Commodity Indexes



Estimated Assets in Commodity Index-Linked Products: >\$100 billion

Performance Characteristics

Key Commodity Index Risk and Return Characteristics

<i>January 1991 - December 2006</i>	Annualized RoR	Ann. Std Dev	Sharpe Ratio	Worst Drawdown	Correlation to S&P 500
Dow Jones AIG Commodity Index	7.41%	12.28%	0.29	-36.20%	0.08
Goldman Sachs Commodity Index	5.36%	18.80%	0.08	-48.25%	-0.01
Rogers International Commodity Index	10.21%	14.12%	0.45	-36.94%	0.04

<i>January 2002 - December 2006</i>	Annualized RoR	Ann. Std Dev	Sharpe Ratio	Worst Drawdown	Correlation to S&P 500
Dow Jones AIG Commodity Index	16.10%	13.91%	0.98	-9.41%	0.01
Goldman Sachs Commodity Index	14.79%	22.42%	0.55	-26.69%	-0.18
Rogers International Commodity Index	21.38%	14.37%	1.32	-10.63%	-0.07

Performance Characteristics

Key Commodity Index Correlation With Other Asset Classes

<i>January 1991 - December 2006</i>	S&P 500	Lehman Brothers Long Term Treasury Index	HFR Fund of Funds Index	Barclay CTA Index
Dow Jones - AIG Commodity Index	0.08	0.00	0.20	0.21
Goldman Sachs Commodity Index	-0.01	0.06	0.15	0.14
Rogers International Commodity Index	0.04	-0.03	0.17	0.14

Passive Commodity Index Limitations

Appeal of Passive Commodity Investments

Long-term profile of equity-like returns

Non-correlated to traditional asset classes AND many alternative investments

Limitations of Passive Commodity Investments

Substantial volatility and drawdown potential, *even in a bull market*

Commodity prices are historically mean-reverting

Primary main, reliable return source is roll yield. This is counter-intuitive for investors seeking price-based opportunities, particularly given the current term structure environment and fundamental views of the opportunity set.

Passive commodity investment approaches vary widely and require nuanced understanding of index construction and biases.

Limited opportunity set of commodity markets

Potential Advantages of an Active Commodity Investment

Tactical Approaches

- “Short” Opportunities
- Cyclical Trades
- Weather and Other Fundamental Themes
- Term Structure Trades
- Other Arbitrage and Relative Value Trades
- Long Volatility Optionality
- Securities Markets

Additional Markets

- Water
- Coal and Other Alternative Energy Sources
- Forestry Products
- Electricity/Utilities
- Emissions
- Shipping / Transport
- Resources Infrastructure

Comparing Active Management to Passive

Can an active approach to commodities investing offer asset class exposure with an enhanced risk-adjusted return profile?

Can active risk management mitigate some downside volatility?

Can active management participate in upside price run-ups while protecting downside in periods of consolidation or mean reversion?

Can exposure to peripheral futures markets and global securities markets within the resources sector broaden the opportunity set and offer additional investment opportunities?

Comparing Active Management to Passive

Comparing Active Natural Resources Managers* to Indexes

<i>January 1991 - December 2006</i>	Annualized RoR	Ann. Std Dev	Sharpe Ratio	Worst Drawdown	Correlation to S&P 500
Active Commodities*	18.80%	8.16%	1.83	-16.58%	0.27
Dow Jones AIG Commodity Index	7.41%	12.28%	0.29	-36.20%	0.08
Goldman Sachs Commodity Index	5.36%	18.80%	0.08	-48.25%	-0.01
Rogers International Commodity Index	10.21%	14.12%	0.45	-36.94%	0.04

<i>January 2002 - December 2006</i>	Annualized RoR	Ann. Std Dev	Sharpe Ratio	Worst Drawdown	Correlation to S&P 500
Active Commodities*	21.10%	6.82%	2.73	-3.50%	0.37
Dow Jones AIG Commodity Index	16.10%	13.91%	0.98	-9.41%	0.01
Goldman Sachs Commodity Index	14.79%	22.42%	0.55	-26.69%	-0.18
Rogers International Commodity Index	21.38%	14.37%	1.32	-10.63%	-0.07

*Equally weighted portfolio of up to 186 distinct non-financial Commodity Trading Advisors and natural resource sector hedge funds.

Comparing Active Management to Passive

Comparing Active Natural Resources Managers* to Indexes

<i>Correlation Characteristics</i> <i>January 1991 - December 2006</i>	S&P 500	Lehman Brothers Long Term Treasury Index	HFR Fund of Funds Index	Barclay CTA Index
Active Commodities*	0.27	0.00	0.30	0.23
Dow Jones - AIG Commodity Index	0.08	0.00	0.20	0.21
Goldman Sachs Commodity Index	-0.01	0.06	0.15	0.14
Rogers International Commodity Index	0.04	-0.03	0.17	0.14

*Equally weighted portfolio of up to 186 distinct non-financial Commodity Trading Advisors and natural resource sector hedge funds.

Comparing Active Management to Passive

Can an active approach to commodities investing offer asset class exposure with an enhanced risk-adjusted return profile? - **YES**

Can active risk management mitigate some downside volatility? - **YES**

Can active management participate in upside price run-ups while protecting downside in periods of consolidation or mean reversion? - **YES**

Can exposure to peripheral futures markets and global securities markets within the resources sector broaden the opportunity set and offer additional investment opportunities? - **YES**

Contact Information



449 North Wells, Suite 2E

Chicago, Illinois 60610

312.644.4486

www.colepartners.com