For more than a decade, institutional investors have been increasing their allocations to commodities, based on the potential to improve portfolio diversification and hedge against unexpected inflation and event risk. Another catalyst for investors: the continued growth and political liberalization of emerging economies, which has led to rising income and higher per capita consumption of basic raw materials. Within the developed world, infrastructure expansion and vital upgrades further support the demand trend, while supply-growth constraints, as well as access and security in numerous key producing regions have led to a tight supply/demand balance across many commodities.

In our view, the same rationale for investing in commodities today will also apply over the next decade. Our paper puts this outlook into perspective, as we make the case for allocating to commodities, using a fundamentally driven and actively managed investment approach.
Executive Summary

The longstanding secular bull market for basic resources continues to drive investor interest in allocating to commodities. In large part, these trends have been supported by a decade of rising consumption growth in emerging markets, where populations are expanding, urbanizing and becoming more wealthy.

More recently, decelerating growth in these regions, particularly in China, has led to a slowdown in the growth rate of demand for basic resources. We see this as a cyclical lull in China’s continued evolution from an investment-growth to a consumption-growth driven economy. Here and in other emerging economies, rising living standards have tasked governments with the massive build-out of basic infrastructure to meet modern-day requirements for energy transmission, transportation and the safety of food and water. In our view, it stands to reason that the consumption of commodities—energy, metals or food—will grow as a natural byproduct of these trends, as will intermittent constraints on supply.

The positive, albeit slow, path of global recovery also bodes well for commodity investments at current prices. As the long-anticipated withdrawal of quantitative easing takes shape, we believe both interest rates and inflation will move higher, bringing a new level of importance to investments leveraged to inflation or those with real-return characteristics.

Our case for commodities is also premised on the attractive return and complementary diversification potential of the asset class. Commodity returns have generated historically low-to-negative correlations with stocks and bonds. This characteristic is becoming increasingly more important to institutions seeking diversification as a means of lowering volatility. While correlations have been elevated since the 2008 financial crisis, we are beginning to see a more recent decline in correlations, particularly between equities and commodities.

Investors have a number of ways of making an allocation to commodities markets. Our paper assesses several options. Less effective, in our view, are passive and enhanced-index strategies that closely mirror the performance of a commodity index or investments in natural resource equities. Instead, we advocate an active approach to managing commodities, in a futures-based portfolio that incorporates fundamental research into the decision-making process. Active management allows trading on a market-by-market basis. The ability to take long and/or short positions in a risk-controlled manner or employ spread trades designed to exploit market dislocations among different commodities and potentially benefit from anticipated shifts in the structure of a commodity futures curve provides additional potential sources of alpha. In our view, these tools have the potential to outperform passive, enhanced-index-based or long-only strategies, while also providing a more strategic and pure commodities investment compared with commodity-linked natural resource equities.
The Investment Case for Allocating to Commodities

Two main reasons investors allocate to commodities are to i) help protect the long-term purchasing power of their portfolios’ assets and ii) enhance portfolio diversification. Over the long term, commodities have historically provided these benefits, while achieving total returns similar to those of equities. Commodities have also provided an effective means for participating in the longstanding bull market for basic resources, fueled in large part by a number of powerful “megatrends” unfolding in developing markets: population growth, urbanization, increasing per capita income levels and shifting demographics. We believe that these trends will not only continue, but also intensify as the emerging world gains prominence in the global economy.

A Potential Hedge Against Unexpected Inflation and Other Event Risk

In periods of rising inflation from December 1970 through June 2014, commodities generally have demonstrated a far more meaningful record of outperformance, compared with equities. In periods of rising inflation over this time frame, the S&P GSCI commodity index had a time-weighted annual return of 26.8% vs. 6.1% for stocks, as measured by the S&P 500 Index, shown in Exhibit 1 below. Today, inflation may not be an immediate concern; however, we believe it will trend higher as economic conditions continue to improve and money velocity responds to rising loan demand. In our view, these conditions will bode well for real assets like commodities, given the real-return potential of the asset class.

Commodities can also be an effective hedge against unexpected event risk, especially for the active manager with the flexibility to respond quickly as supply shocks occur. Exhibit 2 below highlights some newsworthy examples of how this asset class has weathered the storms of drought, war and natural disasters, based on the short-term price performance of futures associated with the underlying commodities affected.

### Exhibit 1: Annual Total Returns: Periods of Rising Inflation
Commodities vs. Stocks, 12/31/70–6/30/14

<table>
<thead>
<tr>
<th>Inflation Regime</th>
<th>Commodities</th>
<th>Stocks</th>
</tr>
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<tbody>
<tr>
<td>Hyperinflation</td>
<td>26.8%</td>
<td>6.1%</td>
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</tbody>
</table>


### Exhibit 2: Event Risk Highlights and Effects on Short-Term Commodity Futures Prices

<table>
<thead>
<tr>
<th>Event</th>
<th>Location</th>
<th>Date</th>
<th>Sector</th>
<th>Commodity</th>
<th>% Move</th>
<th>Duration (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hurricane Katrina</td>
<td>Gulf of Mexico</td>
<td>8/05</td>
<td>Energy</td>
<td>Natural Gas</td>
<td>+46%</td>
<td>60</td>
</tr>
<tr>
<td>Earthquake</td>
<td>Chile</td>
<td>2/10</td>
<td>Base Metals</td>
<td>Copper</td>
<td>+14%</td>
<td>39</td>
</tr>
<tr>
<td>Arab Spring</td>
<td>Middle East</td>
<td>12/10</td>
<td>Energy</td>
<td>Brent Crude Oil</td>
<td>+36%</td>
<td>111</td>
</tr>
<tr>
<td>Civil Unrest/Strikes</td>
<td>South Africa</td>
<td>8/12</td>
<td>Precious Metals</td>
<td>Platinum</td>
<td>+23%</td>
<td>30</td>
</tr>
<tr>
<td>Polar Vortex</td>
<td>U.S.</td>
<td>Q114</td>
<td>Energy</td>
<td>Natural Gas</td>
<td>+54%</td>
<td>27</td>
</tr>
<tr>
<td>Drought</td>
<td>Brazil</td>
<td>Q114</td>
<td>Agriculture</td>
<td>Coffee</td>
<td>+80%</td>
<td>30</td>
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<tr>
<td>Government Export Ban</td>
<td>Indonesia</td>
<td>H114</td>
<td>Base Metals</td>
<td>Nickel</td>
<td>+52%</td>
<td>66</td>
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<tr>
<td>PED Hog Virus</td>
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<td>Q114</td>
<td>Livestock</td>
<td>Lean Hogs</td>
<td>+32%</td>
<td>110</td>
</tr>
</tbody>
</table>

Source: Cohen & Steers.

Additional footnotes for Exhibit 1: Inflation regimes are based on the percentage change in year-over-year CPI. Prior to 12/1982, regimes were defined by absolute levels of 2%, 4% and 6%. From 1/1983 to 12/1997 and 1/1998 to 6/2014 regimes were defined by standard deviation from the period mean. Our inflationary regimes were defined as follows: Hyperinflation: Above 6% year over year. High Inflation: Between 4% and 6% year over year. Normal Inflation: Between 2% and 4% year over year. Low Inflation: When the annual year-over-year change of CPI was below 2%. Commodity performance is represented by the S&P GSCI commodity index. Stock performance is represented by the S&P 500 Index. See index definitions and additional disclosures on page 15.
A Low Correlation With Other Asset Classes

Historically, commodities have shown a low correlation with other asset classes, such as stocks and bonds. In our view, this characteristic is one of the primary reasons why many investors believe in a strategic allocation to commodities, as many institutions are seeking ways to reduce volatility through diversification.

Exhibit 3 below shows that commodities have had a lower or more negative correlation with bonds than with equities. Equity correlations with commodities have generally been in the range of -0.2 to +0.2, with one exception—the period beginning with the 2008 financial crisis. This stands to reason as investors tend to move out of risky assets in periods of financial distress, which, in turn, can drive performance lower and result in higher correlations.


Performance data quoted represents past results. Past results are not indicative of future results. Returns in this chart represent the moving average of six-month correlations of daily returns, which were available for all categories as of December 31, 1989. Commodities were represented by the S&P GSCI commodity index, U.S. stocks were represented by the S&P 500 Index, and U.S. bonds were represented by the Barclays Capital U.S. Aggregate Bond Index. The S&P 500 Index data was represented by price returns, while the commodities and bond data was represented by total returns. See index definitions and additional disclosures on page 15.

Attractive Total Return Potential

As highlighted in Exhibit 4 on the next page, the average annual total return of the S&P GSCI commodity index from December 1970 through June 2014 was 9.1%, which was 150 basis points lower but comparable to the 10.6% of large-cap equities, as measured by the S&P 500 Index.

Though the long-term average annual returns of commodities and equities have been similar, there are fundamental differences between the two asset classes that can drive different return profiles at any given point in time. For example, over the past 3½ years, equities appreciated by about 16%, while commodities appreciated by 1%, based on a comparison of the S&P 500 Index and the S&P GSCI from December 31, 2010 through June 30, 2014. This was a period marked by massive monetary stimulus and other government induced measures implemented across the globe to spur economic growth. The performance of equities, as forward-looking, anticipatory assets, is largely driven by how investors value the future earnings of a given company. Thus, it stands to reason that investors would embrace equities given the future prospects of improving global growth trends. In contrast, the performance of commodities is largely influenced by short-term fundamental dynamics. Since much of the growth expected to result from quantitative easing has been slow moving and has not yet been broadly realized on a global scale, the immediate supply/demand tug of war has yet to be felt across many commodity markets.
While commodities have underperformed equities in recent years, performance is not unexpected at this point in the economic cycle, as commodities often perform well in the later stages of expansion. Understandably, investors may be reluctant to allocate to commodities based on recent performance; however, times like these can create true buying opportunities—particularly when they are supported by macroeconomic factors and individual commodity fundamentals, as we believe they are today. We are in the midst of a gradual global economic recovery, with major developed economies such as the U.S. leading the way, and Europe and China stabilizing. Economic indicators remain mixed, but overall these trends signal a more supportive environment. At the same time, many commodities have declined to levels low enough to stimulate physical demand and drive production cuts. Fundamentally, we believe commodities have limited further downside at current levels.

Along with these favorable macroeconomic trends and attractive valuations for many individual commodities, we are also seeing attractive valuations at the asset-class level relative to equities. As shown in Exhibit 5 below, equities began outperforming commodities in 2008. But now, the relationship of equity prices to commodity prices is more than +2 standard deviations above its historical average since 1970. At these levels, commodities are signaling an attractive entry point, in our view.
An Asset Class Aligned With 21st Century Megatrends

History tells us that commodity market trends tend to run in “super cycles” that span many years. While the term “super cycle” is often ill-defined, and therefore easily attacked, we believe that the emerging-market-led megatrends defined earlier, and the characteristics of the current secular bull market that began in the early 2000s, remain in place. We also recognize that growing pains or cyclical slowdowns within an extended bull market are healthy and normal; however, we believe this long-term growth trend has further room to run amid the structural shift in global growth that has been passed from developed to emerging economies. In large part, this has been driven—and will continue to be driven—by the increasing appetite for raw materials in developing economies, combined with the rationalization of supply.

The continued demand for raw materials is not limited to large developing countries such as China and India; it also spans the rapidly growing but smaller Asian economies such as Indonesia, Malaysia, the Philippines, Thailand and Vietnam. The developing world also continues to propel demand growth via infrastructure expansions and upgrades. Throughout these emerging regions, the focus is on building basic infrastructure to address the growth of rapidly urbanizing populations with rising personal income, as they embrace higher standards of living. In turn, these growing populations are becoming much more energy-intensive, calorie-intensive and basic-material-intensive. In support of these trends are projections from organizations such as the United Nations and the U.S. Energy Information Administration:

- By 2050, the world population will grow from 7.1 billion to over 9 billion. Much of this growth will be concentrated in emerging markets.(1)
- About 49% of China’s population will be deemed “middle class” by the year 2050.(1)
- China’s population is rapidly urbanizing, with 20 million people leaving agrarian lifestyles each year for cities.(1)
- Between 2010 and 2030, the combined energy consumption growth of China and India will rise by more than 90%. (2)

Over time, these trends are destined to transform modes of transportation with rising car ownership and more frequent air travel. Governments will be tasked with enhancing systems that provide electricity and clean water to meet the needs of growing, more affluent populations. Rising incomes will also lead to more resource-intensive diets with higher levels of protein, such as meat and dairy products—which, as a byproduct, will increase the pull on grains as a feed source.

Commodity Futures Market Overview

The commodities futures market has two types of participants. One is the “hedger”—e.g., a farmer with a crop to sell or an airline that needs to buy fuel. These commercial producers and consumers seek to stabilize their cost and reduce price volatility of the raw materials they buy and sell. Often, on the other side of the trade is the “speculator,” or non-commercial participant who seeks to profit from the price movement of the commodity. Importantly, both sides play key roles in price discovery and in their contribution to the formation of liquid and well-functioning markets.

Through commodities, investors can gain diversification to a broad range of subsectors across the energy, metals and agricultural sectors as listed in Exhibit 6 on the next page.

Published indexes offer a diversified snapshot of the world of commodities, but each is unique. The Rogers International Commodity Index has the largest number of commodities, including some obscure components such as azuki beans, greasy wool and rubber. The Bloomberg Commodity Index (1) and the S&P GSCI commodity index, the most widely used by institutional investors and whose components are all highly liquid futures contracts, both use global production as the major factor to determine sector weightings. However, the Bloomberg Commodity Index constrains each sector to no more than 33% of the index and each commodity to no more than 15% of the index. Since the S&P GSCI commodity index has no such constraints, energy is the dominant component at 69% of the index, with North Sea Brent and West Texas Intermediate crude oil contracts comprising more than 50% of the index.

Commodity performance can be measured by a number of indexes, each with very different characteristics. The four indexes summarized in Exhibit 7 on the next page cover a broad mix of commodities, some of which are more liquid than others.

For institutions, the Bloomberg Commodity Index has become the benchmark of choice, given its broad diversification.

(1) Formerly the Dow Jones-UBS Commodity Index, renamed the Bloomberg Commodity Index as of July 1, 2014.
A Broad Spectrum of Commodities-Based Strategies

Commodity investors have many choices with respect to investment styles, approaches and instruments. Commodity strategies can be quantitative or rules-based, fundamental or a combination thereof. With respect to instruments employed, many use a mixture of derivatives via the exchange-traded and/or over-the-counter markets. Some types of blended strategies may also include allocations to equities, fixed income or other real-asset linked securities.

At one end of the spectrum are passive strategies designed to mirror the performance of a commodities index. At the other end are actively managed, absolute-return strategies, which are typically benchmark agnostic. As highlighted in this paper, we believe that an active long-biased approach provides the beta of investing in the asset class, while offering the potential to generate alpha through active management.

Some brief characteristics of these strategies are listed in Exhibit 8 on the opposite page. In addition to choosing an investment style and approach, investors also need to consider factors such as the instruments employed by a strategy or the collateral requirements of the investment.

**Instruments Employed:** Pure-play commodity strategies can be structured with any combination of futures, options, commodity-backed exchange-traded products and physical commodities. Related strategies may include other asset classes, such as natural resource equities and/or fixed-income (TIPS and structured notes) securities. In our view, the purest investment in commodities is achieved through the primary use of commodities futures, which we believe should be actively managed to maximize alpha generation.

**Cash Collateral:** Since only a minimal cash outlay (margin) is needed to purchase a commodity futures contract, the remaining capital can serve as a form of collateral for the notional value of the futures investments. Many institutional investors prefer a fully collateralized futures portfolio for risk-management purposes. How a manager or investor chooses to manage that cash may vary, from conservative to...
aggressive investment options. Along those lines, we do not view cash collateral to be a prudent source of alpha generation in a commodities portfolio—a belief which developed during the credit crisis a few years back when many commodity investment portfolios suffered a loss of principal at the expense of taking even a marginal amount of credit and/or duration risk with the cash. We believe a true commodities manager should source their alpha from the quality and execution of their commodities expertise, not as a cash management specialist. In that regard, we recommend a conservative approach to collateral management through the use of U.S. Treasuries.

The Value Add of Active Management

First and foremost, we believe that fundamentals are the main driver of commodity prices over the long-term. By combining fundamental views with the flexibility of an active approach, managers can preserve the beta of a broad-based commodities allocation, while potentially adding alpha through active management. We believe an active commodities manager can generate alpha through three primary sources: 1) by strategically managing commodity position weights; 2) by employing commodity spread trades; and 3) by analyzing each commodity term structure to maximize roll yield.

Actively Managing Commodity Position Weights

We believe an active manager can add value through the ability to express their fundamental views (positive or negative) on a particular commodity by strategically managing position weights (over/under-weights versus an index). Fundamental support and guidelines for investing in non-benchmark commodities can provide an additional value add. Some of the key fundamental factors we believe are important to consider in actively managing commodity position weights include supply/demand balances, inventory levels and trends, valuation, price, market participant composition, volatility, seasonality and structural curve analysis.

The Benefits of Shorting

Unlike passive or even many enhanced long-only strategies, active commodity managers can make investment decisions and manage active weights on a market-by-market basis, based on the underlying fundamentals at the commodity contract level. If a long-only manager has a negative opinion on a commodity, they are limited in how they can express that negative view to either not owning or underweighting that commodity contract. By contrast, the ability to short provides the added flexibility to reflect that negative opinion by shorting a commodity contract or executing that view in a risk-controlled manner via a spread trade. This ability to short can avail a multitude of spread-trade strategies, which provide an active long-biased manager with a host of additional alpha-generating opportunities. Simply put, spread trades involve the purchase of one commodity futures contract against the sale of another. Some examples of different types of spread trades are highlighted on the next page.
In a spread trade, an active long-biased manager seeks to a) benefit from an expected shift in the curve structure of a commodity (calendar spread); b) exploit relative fundamental dislocations between commodities (fundamental spread); or c) capture refiner/producer margins (product spread).

In the hypothetical example provided above, a long-only commodity portfolio is compared with a long-biased portfolio. In this example, we assumed a 130/30 structure (130% long and 30% short). While the ratio may vary (e.g., 120/20, 150/50), the concept is the same, with the short exposure offset by the long extension for a maximum 100% net-long market exposure.

The three components of commodity total returns are the spot return, collateral yield and roll yield.

**The Importance of Roll Yield and the Shape of the Forward Curve**

Investments in commodities derive returns from three sources:

- **The Spot Return** is the change in the market price of the physical commodity over the holding period of the futures contract.

- **The Collateral Yield** is the interest earned on the cash or other collateral held in a commodities account. Investors who buy commodities usually collateralize the notional value of those contracts with investments in U.S. Treasury securities.

- **The Roll Yield**, either positive or negative, originates from the process through which an investor replaces an expiring contract with one that is longer-dated in order to maintain the desired exposure, while avoiding physical delivery. A negative roll yield relates to a futures price curve in **contango**, while a positive roll yield results from a futures price curve in **backwardation**. Exhibit 10 on the next page provides some perspective on the characteristics and implications of these types of markets.
Generally, passive long-only index strategies are structured to hold only the front-month contract for a commodity. With this in mind, the process of continually rolling over expiring futures contracts can become one of two things, depending on the shape of the yield curve: it can be a good way to pick up consistent yield (in a backwardated market) or a costly activity that slowly erodes total return (in a contangoed market).

- In a contangoed market, passive strategies that must roll their futures positions forward every month are likely to produce negative roll returns as they replace expiring contracts with new, higher-priced contracts.
- In a backwardated market, nearby contracts have a higher price than later-month contracts, and the term structure of the forward curve is downward sloping. A positive roll yield results as the futures contract approaches expiration and its price converges with the spot price.

Backwardation and contango refer to the relationship between a nearby futures contract and a futures contract further from expiration.

Backwardation describes a market in which the current price of a nearby futures contract is higher than the price of a futures contract further from expiration. Steep backwardation typically indicates an immediate shortage of a specific commodity. It implies that a buyer is willing to pay a premium to have a commodity now.

Contango describes a market in which the current price of a nearby futures contract is lower than the price of a futures contract further from expiration. Contango is the appropriate state of a futures curve that reflects the carrying cost of holding a physical position. Curves in contango above and beyond the cost of carry can arise under conditions when there is excess supply of a commodity in the spot market.

The steeply contangoed markets of recent years have become a significant drawback for passive commodity index strategies.
The steeply contangoed markets of recent years have become a significant drawback for passive commodity index strategies. Negative roll yields have led to investment returns that, at times, have lagged spot price returns. We believe the diminishing returns of passive commodity index strategies are a cause for concern, as these vehicles have been a popular means of investing in commodities through periods of steep contango and cycles of declining prices. A skilled active manager can mitigate negative roll yields through curve positioning and roll timing. Exhibit 11 helps put the effects of contango in perspective, by highlighting the roll yields of various commodity benchmarks over the past 20 years.

Commodity markets have generated a negative roll yield in 15 of the past 20 years.

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<tr>
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<tr>
<td>2010</td>
<td>16.8%</td>
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<td>0.2%</td>
<td>9.0%</td>
<td>8.9%</td>
<td>20.4%</td>
<td>-11.6%</td>
<td>0.1%</td>
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<td>18.9%</td>
<td>18.7%</td>
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<td>0.2%</td>
<td>13.5%</td>
<td>13.3%</td>
<td>50.3%</td>
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<td>7.6%</td>
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<td>-10.8%</td>
<td>3.5%</td>
<td>-35.7%</td>
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<td>-24.3%</td>
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<td>-9.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>1993</td>
<td>-1.1%</td>
<td>-4.0%</td>
<td>2.5%</td>
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<td>-15.0%</td>
<td>-9.6%</td>
<td>-5.3%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

At December 31, 2013. Source: Bloomberg.

Performance data quoted represents past results. Past results are not indicative of future results. See index definitions and additional disclosures on page 15.
Our Closing Perspective

The historical risk-and-return characteristics of commodities have captured the interest of many institutional investors, based on their relatively low correlations with traditional asset classes, attractive long-term return potential and high correlation with inflation. Additionally, commodities can provide one of the purest and most direct means of gaining exposure to socioeconomic world growth, and the resulting pull on raw materials. We believe that this resource-intensive demand is primarily being led by population expansion, urbanization, income growth and shifting demographics in rapidly growing emerging-market regions across the globe. While some investors have chosen to gain commodities exposure via passive, enhanced, or even long-only approaches, we strongly advocate for an actively managed, long-biased approach grounded in deep fundamental research that has the potential to generate greater alpha while providing the beta of an allocation to commodities.
Case Study: Commodities vs. Commodity-Linked Equities

Our research shows that commodities and commodity-linked equities can offer complementary diversification within a portfolio of multiple real asset categories; however, commodity futures, in our view, are better choices for pure exposure to a specific commodity, for a number of reasons:

- In large part, the performance of equities is driven by how investors value the company’s future earnings. Conversely, commodity futures are more directly tied to the near-term outlook for supply and demand.
- Often, investors allocate to commodities for protection against unexpected inflation and diversification in assets that have low correlations with equities. Since many commodity-related companies hedge the price of their outputs, their stock prices can be less responsive to changes in commodities prices and more sensitive to overall equity prices.
- The performance of commodity-linked equities can be affected by factors other than commodity prices. Events such as drought, war, natural disasters, labor issues and mine disruptions that restrict supply to the markets can be positive for commodities prices, but detrimental to the companies that produce them. For example, a labor strike at a company’s mining operation that disrupts the supply of copper can have a positive impact on copper futures but have a negative impact on the company’s stock.
- Commodity-based equities are shares in companies that tend to have diverse business operations and products across multiple natural resource categories.
- Commodities provide a broader mix of sectors, as shown in Exhibit 6 on page 7.

Exhibit A below provides an example of how the performance of commodity-related equities can diverge from the spot prices of the underlying commodity. Amid the unusual occurrence of early 2014’s double-polar vortex that delivered exceptionally cold winter weather to the U.S., natural gas prices spiked during the prime heating season. Notably, two of the largest natural gas companies were relatively unaffected in a market that remains structurally oversupplied from the U.S. shale revolution.

### Exhibit A: Natural Gas Significantly Outperformed Natural Gas Equities

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Gas (NGI Commodity)</td>
<td>$4.05</td>
<td>$6.14</td>
<td>53%</td>
</tr>
<tr>
<td>Southwestern Energy Company (SWN)</td>
<td>$38.01</td>
<td>$42.81</td>
<td>13%</td>
</tr>
<tr>
<td>Ultra Petroleum Company (UPL)</td>
<td>$20.37</td>
<td>$25.10</td>
<td>23%</td>
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</table>


Performance data quoted represents past results. Past results are not indicative of future results. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. See page 15 for additional disclosures.
Index Definitions

Investors cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

The Barclays Capital U.S. Aggregate Bond Index (formerly the Lehman Brothers U.S. Aggregate Bond Index) is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds. The Bloomberg Commodity Index, formerly the Dow Jones-UBS Commodity Index as of July 1, 2014, is composed of futures contracts on physical commodities and represents 19 separate commodities traded in U.S. exchanges, with the exception of aluminum, nickel and zinc. The MSCI World Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets. The Rogers International Commodity Index is a composite, USD-based total-return index that represents the value of a basket of commodities consumed in the global economy, ranging from agricultural to energy and metals products. The S&P 500 Index is an unmanaged index of 500 large-capitalization, publicly traded stocks representing a variety of industries. The S&P GSCI commodity index is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The Thomson Reuters/Jefferies CRB Index is a commodity futures benchmark that is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.

Important Disclosures

These materials are provided for informational purposes only and reflect the views of Cohen & Steers, Inc. and sources believed by us to be reliable as of the date hereof. No representation or warranty is made concerning the accuracy of any data compiled herein, and there can be no guarantee that any forecast or opinion in these materials will be realized. This is not investment advice and may not be construed as sales or marketing material for any financial product or service sponsored or provided by Cohen & Steers, Inc. or any of its affiliates or agents.

This is not an inducement to buy or sell commodity interests. Trading in commodity interests involves a risk of loss. Past results are not indicative of future results. Investors should consider whether commodity interests are suitable investments.

Cohen & Steers Capital Management, Inc. (Cohen & Steers) is a registered investment advisory firm that provides investment management services to corporate retirement, public and union retirement plans, endowments, foundations and mutual funds.

Appendix

Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral Yield</td>
<td>The interest earned on the cash held in a commodities account. Investors who buy commodities usually collateralize those contracts with investments in U.S. Treasury securities.</td>
</tr>
<tr>
<td>Backwardation</td>
<td>Describes a market in which the current price of a nearby futures contract is higher than the price of a futures contract further from expiration.</td>
</tr>
<tr>
<td>Contango</td>
<td>Describes a market in which the current price of a nearby futures contract is lower than the price of a futures contract further from expiration.</td>
</tr>
<tr>
<td>Excess Return</td>
<td>Represents the spot return plus the roll yield (excluding collateral yield).</td>
</tr>
<tr>
<td>Roll Yield</td>
<td>Either positive or negative, this occurs when an investor lifts a futures or options position and re-establishes it in a more deferred delivery month to maintain sector exposure while avoiding physical delivery.</td>
</tr>
<tr>
<td>Spot Price</td>
<td>The price at which a physical commodity for immediate delivery is selling at a given time and place.</td>
</tr>
<tr>
<td>Spot Return</td>
<td>The change in the market price of the physical commodity over the holding period of the futures contract.</td>
</tr>
<tr>
<td>Term Structure</td>
<td>Relating to futures contracts, this refers to the price curve formed by the prices of futures contracts over successive expiration months.</td>
</tr>
</tbody>
</table>

About Cohen & Steers

Founded in 1986, Cohen & Steers is a leading global investment manager with a long history of innovation and a focus on real assets, including real estate, infrastructure and commodities. Headquartered in New York City, with offices in London, Hong Kong, Tokyo and Seattle, Cohen & Steers serves institutional and individual investors around the world.

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