**Maxwell Gold**

Director –Investment Strategy

# Investment Insights

April 2017

# Broad commodities: a key alternative investment

## Summary

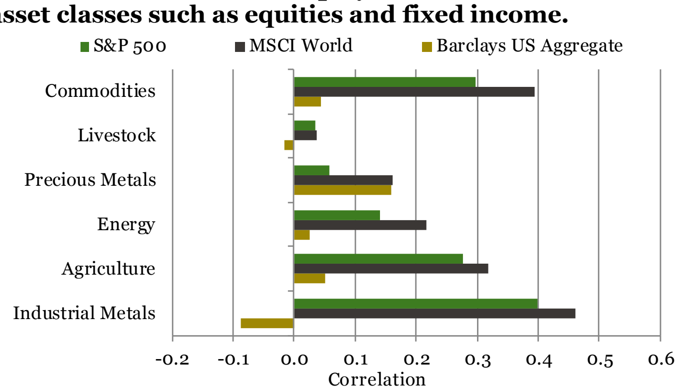
- Commodities are key alternative investments that may offer diversification benefits and risk reduction for portfolios.
- Historically moving in tandem with rising growth and inflation surprises, commodities may serve as a component of inflation hedging strategies for diversified portfolios.
- Investors may improve their portfolios by including broad commodities allocations; however, implementation choices of this exposure are central to the investment experience.

## The contribution of commodities

In an increasingly challenging investment landscape, portfolio diversification becomes an ever prudent approach for investors to take into consideration. The market exposures unique to commodities may help enhance the asset mix of traditional portfolios over time by providing diversification benefits, reduced drawdowns, and more efficient risk adjusted returns

Broad commodities have exhibited a relatively low positive relationship to both US and global equity markets (with 0.3 and 0.4 correlations to the S&P 500 and MSCI World indices respectively). Additionally, commodities tend to be less sensitive to fixed income markets as seen by its near zero correlation to the Barclays US Aggregate Index, with certain commodity sectors, such as industrial metals and livestock, having negative correlations (see Exhibit 1).

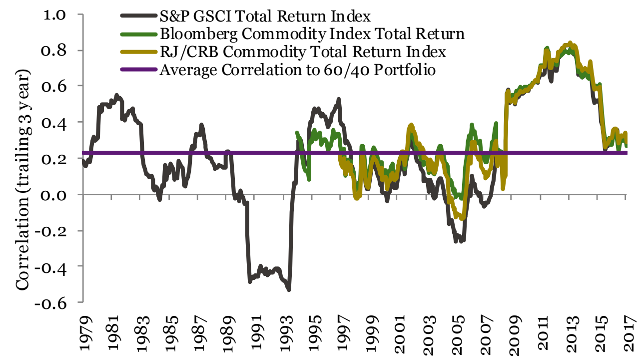
**Exhibit 1: Commodities display low correlations to other asset classes such as equities and fixed income.**




Source: Bloomberg, ETF Securities. Chart data from =01/02/91 to 02/28/17. Correlations based on total return indices. Commodity sectors represented by Bloomberg Commodity sub-indices.

Commodities further demonstrate their role as a key alternative investment through a low average correlation to diversified portfolios. Evaluating three major commodity indices, the average 3-year correlation to a fixed 60% stock and 40% bond allocation (60/40) is approximately 0.2 since 1979 (see Exhibit 2).

**Exhibit 2: Commodities' correlation to traditional stock/bond allocation is low over the long term.**



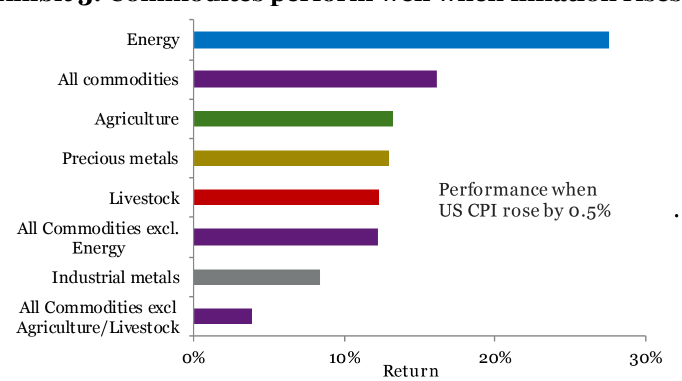

Source: Bloomberg, ETF Securities. Chart data from 2/28/79 to 2/28/17. 60/40 portfolio consists of fixed 60% MSCI World TR Index, 40% Barclays US Aggregate Index.

While there have been periods of extremes, the experience over full market cycles may help provide critical diversification benefits. Applying this more broadly highlights the true portfolio benefits of including commodities. By incorporating a commodity allocation investors may reduce portfolio volatility and drawdowns while increasing risk-adjusted returns. A 10% allocation to commodities (funded from equities) can boost portfolio efficiency (higher Sharpe Ratios). Balanced risk profiles have benefited the most with the largest increase in Sharpe Ratios, but similar benefits have been yielded from the inclusion of commodities in conservative and aggressive risk profiles as well.

## Linked to inflation & growth cycles

Rising prices in food and energy remain central to many inflation measures such as the consumer price index (CPI). This overlap between commodity prices and inflationary pressures creates a natural link between the two (See Exhibit 3).

**Exhibit 3: Commodites perform well when inflation rises.**




Source: Bloomberg, ETF Securities. Chart data from 01/02/91 to 2/28/17.

Historically, during months when US headline CPI rises by 0.5% annually, all commodities, as measured by the Bloomberg Commodity Index, rose 16% on average. Given their high contribution to consumer and producers costs, energy (+28%) and agriculture/livestock (+13%/+12%) were top performing sectors during rising inflationary periods. Industrial metals, while still posting positive returns (+8%), was the least sensitive sector on average.

Inflation is also a key component of economic expansion, and investors interested in capturing this cyclicality in portfolios, may want to consider commodities with their high correlation to growth. As shown in Exhibit 4, during months of extremely high or low inflation, commodities perform strongest when these extremes are accompanied by rising growth. Since 1976, during months when US CPI was among the top 20%, commodities averaged 1.3%; indicative of rising commodity demand at late stages of the economic cycle. Alternatively, when CPI was among the bottom 20% of months during rising growth, commodities performed slightly better (1.4%). This would typically occur at the start of an economic recovery following a drop in commodity prices creating a low base from which to recover.

**Exhibit 4: Rising growth and extreme inflationary periods have historically boded well for commodities.**

| | Slowing Growth | | Rising Growth | |
|---|---|---|---|---|
| Low Inflation | REITs | 1.1% | Commodities | 1.4% |
| | Bonds | 0.9% | REITs | 1.1% |
| | Global Equities | 0.6% | Global Equities | 0.7% |
| | Cash | 0.5% | Bonds | 0.5% |
| | Commodities | 0.4% | Cash | 0.2% |
| High Inflation | REITs | 1.2% | REITs | 1.7% |
| | Bonds | 1.1% | Commodities | 1.3% |
| | Cash | 0.7% | Global Equities | 0.7% |
| | Commodities | 0.2% | Cash | 0.6% |
| | Global Equities | -0.1% | Bonds | 0.2% |

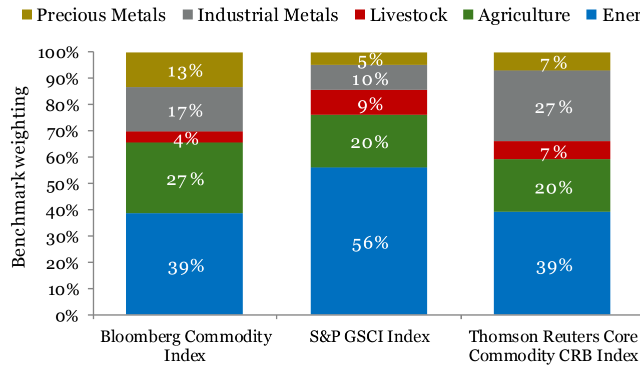
Source: Bloomberg, ETF Securities. Table data from 01/30/76 to 02/28/17. Commodities = S&P GSCI TR Index, Global equities = MSCI World TR Index, Bonds= Barclays US Aggregate TR Index, REITs (Real Estate Investment Trusts) = FTSE NAREIT All Equity REIT TR Index, Cash = 3 month US Treasury bill. High/low inflation = top/bottom 20% of months in US headline consumer price index (CPI), Slowing/rising growth = US ISM Purchasing Manufacturing Index (PMI).

# Implementation choices remain central

Portfolios may be enhanced by incorporating a broad commodity allocation. Choices around implementation of this allocation, however, remain central to the portfolio impact and experience. Individual commodities, however, can vary greatly over short-term periods as well as across different phases of the market cycle. Depending on the selected commodity or sector, the risk-return experience can vary greatly, particularly for those more volatile or less liquid commodities.

Investors should also note that diversified commodity indices come in many flavors, with different weightings and holdings. Evaluating exposures offered from three commonly referenced indices highlights the importance of knowing the index construction. The S&P GSCI Index has a high concentration in the energy sector and will likely be driven by oil and gas markets.

**Exhibit 5: Broad commodity indices may have different sector constraints, exposures, and concentrations.**

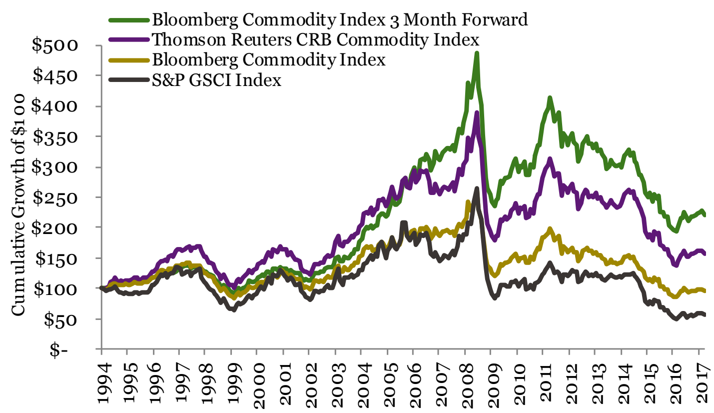



Source: Bloomberg, S&P GSCI, Thomson Reuters, ETF Securities. Chart data as of 12/31/16.

The Thomson Reuters CRB Index, on the other hand, has a high allocation to industrial metals, while the Bloomberg Commodity Index has more exposure to agriculture and precious metals (see Exhibit 5). Investors should utilize the commodity benchmark that best matches their investment objectives and outlook. In our view investors seeking to achieve the portfolio benefits of commodities as an asset class should look to those indices that offer the most diversification across sectors and individual commodity holdings.

With the exception of physical storage, tracking spot prices for most commodities is difficult. A common way investors participate directly in commodity markets is through futures contracts. This implementation, however, comes with additional factors - most notably contract selection. Many commodity indices track the future contract nearest to maturity. This provides the closest representation of the current market; nonetheless, for investors looking to maintain their investment, this can create volatility and a performance drag due to rolling into a new contract at maturity.

**Exhibit 6: Investing in longer dated contracts forward in time may improve investment experience.**




Source: Bloomberg, ETF Securities. Chart data from 1/01/94 to 03/31/17.

A way to help dampen this volatility, particularly for investors seeking continued exposure to commodities, is to hold longer dated contracts instead of the near term contracts. Historically this has helped reduce the performance impact of rolling contracts and the associated market volatility versus investing solely in the near month contract across broad commodity indices (see Exhibit 6).

Important Risks

The statements and opinions expressed are those of the author and are as of the date of this report. All information is historical and not indicative of future results and subject to change. Reader should not assume that an investment in any securities and/or precious metals mentioned was or would be profitable in the future. This information is not a recommendation to buy or sell. Past performance does not guarantee future results.

**The ETFS Silver Trust, ETFS Gold Trust, ETFS Platinum Trust, ETFS Palladium Trust and Precious Metals Basket Trust are not investment companies registered under the Investment Company Act of 1940 or a commodity pool for purposes of the Commodity Exchange Act. Shares of the Trusts are not subject to the same regulatory requirements as mutual funds. These investments are not suitable for all investors. Trusts focusing on a single commodity generally experience greater volatility.**

**Commodities generally are volatile and are not suitable for all investors**. Trusts focusing on a single commodity generally experience greater volatility. Please refer to the prospectus for complete information regarding all risks associated with the Trusts. Shares in the Trusts are not FDIC insured and may lose value and have no bank guarantee.

The value of the Shares relates directly to the value of the precious metal held by the Trust and fluctuations in the price could materially adversely affect investment in the Shares. Several factors may affect the price of precious metals, including:

- A change in economic conditions, such as a recession, can adversely affect the price of the precious metal held by the Trust. Some metals are used in a wide range of industrial applications, and an economic downturn could have a negative impact on its demand and, consequently, its price and the price of the Shares;
- Investors' expectations with respect to the rate of inflation;
- Currency exchange rates;
- interest rates;
- Investment and trading activities of hedge funds and commodity funds; and
- Global or regional political, economic or financial events and situations. Should there be an increase in the level of hedge activity of the precious metal held by the trust or producing companies, it could cause a decline in world precious metal prices, adversely affecting the price of the Shares. Should there be an increase in the level of hedge activity of the precious metal held by the Trusts or producing companies, it could cause a decline in world precious metal prices, adversely affecting the price of the shares.

Also, should the speculative community take a negative view towards the precious metal held by the Trusts, it could cause a decline in prices, negatively impacting the price of the shares. There is a risk that part or all of the Trusts' physical precious metal could be lost, damaged or stolen. Failure by the Custodian or Sub-Custodian to exercise due care in the safekeeping of the precious metal held by the Trusts could result in a loss to the Trusts.

The Trusts will not insure its precious metals and shareholders cannot be assured that the custodian will maintain adequate insurance or any insurance with respect to the precious metals held by the custodian on behalf of the Trust. Consequently, a loss may be suffered with respect to the Trust's precious metal that is not covered by insurance.

Diversification does not eliminate the risk of experiencing investment losses.

Commodities generally are volatile and are not suitable for all investors.

Please refer to the prospectus for complete information regarding all risks associated with the Trust.

**Investors buy and sell shares on a secondary market (i.e., not directly from Trusts). Only market makers or "authorized participants" may trade directly with the Trusts, typically in blocks of 50k to 100k shares.**

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Indexes. The S&P GSCI Index provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets. The Thomson Reuters Core Commodity RJ/CRB Commodity Index is a basket of 19 commodities, and acts as a representative indicator of today's global commodity markets. The MSCI World Index is a free-float weighted equity index developed to track developed world markets, and does not include emerging markets. The S&P 500 Index is a capitalization-weighted index of 500 stocks selected by the Standard & Poor's Index Committee designed to represent the performance of the leading industries in the U.S. economy. The Barclays US Aggregate Bond Index (Barclays Agg) is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The FTSE NAREIT All Equity REITS Total Return Index is a market capitalization weighted index that includes all tax qualified REITs in the US. The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services; headline includes all categories while core excludes food and energy. The ISM Purchasing Manufacturing PMI Index (PMI) is an indicator of the economic health of the manufacturing sector. Bloomberg 3 Month Forward Index is a version of the Bloomberg Commodity (BCOM) Index where the lead and future contracts look 3 months ahead of the BCOM index contract calendar. Correlation is a measure of fluctuation between two variables, Sharpe ratio indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

**Commodities generally are volatile and are not suitable for all investors. This material must be accompanied or preceded by the prospectus. Carefully consider each Trust's investment objectives, risk factors, and fees and expenses before investing. Please click here to view the prospectus.**

**ALPS Distributors, Inc. is the marketing agent for ETFS Silver Trust, ETFS Gold Trust, ETFS Platinum Trust, ETFS Palladium Trust and ETFS Precious Metals Basket Trust.**

Maxwell Gold is a registered representative of ALPS Distributors, Inc.

ETF001138 04/30/18