

Performance (in %)

	Q3/13	YTD	1 y. p.a.	3 y. p.a.	5 y. p.a.
B USD	2.4	-9.6	-15.9	-3.3	-4.7
I USD	2.6	-9.1	-15.2	-2.5	n.a.
Index	2.1	-8.6	-14.3	-3.2	-5.3

Benchmark: Dow Jones - UBS Commodity Index TR

Source: Bank Vontobel AG. Past performance is not a guide to current or future performance. The performance data do not take account of the commissions and costs incurred on issue and redemption. The return of the fund can be a result of currency fluctuations rise or fall.

Market developments

For the commodity markets, the third quarter can best be described as a roller-coaster. At the start of the period, commodity performances managed to bounce back after renewed comments by the US Federal Reserve (Fed) seeking to stabilise markets after their initial tapering talk. However, momentum was short-lived as renewed selling pressure confronted the broader financial markets.

Unfortunately, the ever-present threat of geopolitical risk raised an ugly head into August, as events in Syria panned out for the worse. Concerns of military intervention and the potential wider ramifications lifted crude-oil prices to a two-year high. Precious metals also bounced back on safe-haven buying.

As September came around, the financial markets again refocused on the US Federal Reserve and the debate on "to

Taper, or not to Taper". The broad consensus was that the Fed would taper, but as you may recall, back in May we considered this notion "as premature". Despite the potential benefit to risk assets due to the Fed's "on hold" status, commodity and financial markets trended lower as the debt-ceiling debate loomed around the corner.

In spite of the volatile quarter, commodities as measured by the DJ UBS Commodity Index (TR) finished higher by 2.1% in comparison to the previous quarter. The strongest performing sector was precious metals, ending the quarter up +9.0%, primarily driven by silver (+11.0%) and gold (+5.6%). The weakest sector for the period was agriculture, which lost -2.6% as a result of a collapse in the prices of corn (-32.7%), soybeans (-18.3%) and soybean meal (15.5%).

Portfolio review and analysis

The fund's net performance for the third quarter of 2013 was +2.6% in the I share class (+2.4% in the B share class), whilst the DJUBS Commodity TR Index returned +2.1%.

The fund delivered a gross outperformance versus the benchmark of +77 basis points (bp). Tactical weighting contributed a total of +64 bp and contract selection added +13 bp to the performance.

Drilling down into the commodity sectors, the attribution from tactical weighting was as follows: energy (+39 bp), livestock (-13 bp), grains (+40 bp), softs (-6ps), industrial metals (-18 bp) and precious metals (+8 bp). Higher cash positions during the period also delivered a positive attribution of +15 bp. Looking at individual commodities, the stand-out positive attribution came from corn (underweight), delivering +67 bp. Positive attributions also came from RBOB (underweight) delivering +17 bp and crude oil (overweight) delivering +18 bp. The largest negative attributions came from soybean meal

(underweight) delivering -28 bp and aluminium (underweight) -12 bp.

Within contract selection, the strongest attributions came from the energy sector (+22 bp). Grains (-8 bp) delivered a negative attribution along with softs (-5 bp). Small positive attributions from livestock and industrial metals were partially offsetting. With regards to the positioning of the fund, the average-sector-positioning for the period was overweight in energy (+1.7%), neutral in livestock, underweight in grains (-5.4%), underweight in softs (-1%), underweight base metals (-1.5%) and underweight in precious metals (-0.5%). The average cash-rate held for the period was 6.5%.

Energy

On a total attribution basis, energy delivered a positive performance of +61 bp. This came from a combination of weighting (+39 bp) and contract selection (+22 bp).

The main individual driver of energy attributions came from contract selection in natural gas (+47 bp), followed by tactical weighting in crude oil (+38 bp).

Livestock

The total attribution was negative (-10 bp). Weighting attributions (-13 bp) were marginally offset by positive attributions in contract selection (+3 bp).

Grains

The combined attribution for grains was positive (+32 bp), coming primarily from weighting. As highlighted above, the largest positive attribution came from corn (+67 bp) that was partially offset by a negative attribution from soybean meal (-28 bp).

Outlook

Firstly, on a broad positive economic note, the JPM Global Manufacturing Purchasing Managers Index (PMI) improved for the third straight month in September, recording the highest level since June 2011. Critical sub components of the index continue to demonstrate positive trends. Both output and export-order indices rose to their best level since May 2011 and additionally, further increases in the new orders index was reported. Breaking down the data into economic regions, PMIs suggest that developed economies such as the US, UK, Japan and Canada are seeing the strongest growth. In developing economies, the index is broadly supportive, remaining in expansion territory and as such, those economies are becoming less of a drag. The positive trend in global manufacturing bodes well for forward-looking commodity demand, albeit in the very near-term, potential hangovers from the US and China remain.

After initial tapering fears, the expected transition towards a less accommodative Federal Reserve now appears to have been pushed out. This has eased the idea of a possible correction in risk assets. Renewed conjecture about tapering is now being focused on December, although we still see this as premature. Given that the incumbent Fed Chairman is due to step down in early 2014 and hand the reins over to the favoured candidate Janet Yellen, tapering is unlikely to happen until then. Also, given that Janet Yellen's stance is known to be dovish there is a good case to be made that tapering could be delayed well into 2014 and will be very data dependent.

However, the lack of any clear direction by risk assets since the Fed's announcement appears to reflect uncertainties about the US fiscal impasse, as well as ambiguity on how to interpret the Fed's decision not to taper. The Fed cited a possible slowing of the economy's recovery pace due to

Softs

Combined attribution was negative (-11 bp). The losses were evenly split between weighting and contract selection.

Industrial metals

Total attribution was negative (-18 bp), stemming primarily from aluminium (-12 bp) and zinc (-6 bp). Nickel delivered slight gains (+6 bp), which offset some of the losses.

Precious metals

The total combined attribution for the period was +8 bp. Gold's positive attribution (+11 bp) was marginally offset by negative attributions (-3 bp) from silver.

potentially tighter financial conditions via rising mortgage rates, as a factor for the decision. This has raised concerns about the medium-term outlook for the economy. Going forward, we believe that the Fed could be more elusive on forward-looking statements and policy will be very data dependent, which in turn, will make the financial markets more sensitive to economic news. The effect will very likely be amplified by the increased uncertainty as to how the Fed interprets incoming economic data.

Moving on to the US, the eventual impact on the US economy from the shutdown of sections of their government is uncertain. Clearly, the longer that the two opposing parties cannot broker a deal, the more negative the impact could be in the months ahead. Estimates vary, but the average assumption is that for each week the shutdown persists, the US economy is impacted by 0.1%.

Shifting to China, both the official manufacturing PMI and the minor HSBC manufacturing PMI reading for September remained in expansion mode, but were largely flat versus the previous month. Although both readings were below expectations, the HSBC PMI was notably lower and taken at face value. This raised concerns that economic momentum had started to slow. However, the reality is that due to official holidays within China there were a number of missing data points rendering the reading less trustworthy. In addition, official holidays, notably "Golden Week" into October, could impact the October PMI and potentially give a weaker number. In November, all eyes are on the upcoming third plenary of the 18th Party Congress where the leadership is expected to unveil far-reaching economic reforms. For many China observers, this event is seen as crucial to the tackling of deep rooted structural issues that threaten a sustainable economic growth plan. Some of the biggest issues viewed by "China Watchers" are the over-

reliance on investment for growth, the increased levels of debt, shadow banking and the allocation of key productive resources away from State-Owned Enterprises (SOE's) to the private sector.

Whilst these concerns are valid and very likely shared by the leadership, there still remains a huge rural-urban and regional income gap, coupled with the need to provide for millions of jobs. We feel that the market could be disappointed by what comes out, but the reality is that reforms, especially to the Hukou system, are essential aimed at reducing income disparities. As for reforms to the powerful SOE's, this is unlikely to happen as quickly as the SOE's remain very important regional GDP contributors and employers. It is likely that the leadership will opt for selected battles with SOE's rather than an all-out war.

Drilling down into selected commodity sectors, the area of most interest over the last few months has been the grains. In spite of the unusual start to the growing season in the US, firstly too wet then too dry, yields for the current US harvest are coming in higher than expected for corn. As such, the onset of harvest in the coming weeks should provide additional catalysts for prices to move lower.

However, there have been pockets of risks, most notably in soybeans and tighter US wheat stock levels. This follows the strong demand and drought-hit yields that provided some upside to prices through August. Wheat prices could continue to see some additional upside due to tight global stocks and the differentiated demand for high protein over low protein wheat. Soybeans carry some risk in the very short term, especially if yields in the US come in below expectations. However, the recent rally in soybean prices could encourage greater South American plantings in the months ahead, which will ensure that global supplies are huge by mid-2014. If this is the case, it will lend additional bearish momentum to soybean prices.

In the energy space, prices have come off their high peaks in late August as the geopolitical risk premium from Syria has weakened. Issues around Libyan production have improved somewhat but nevertheless remains shaky. Supply outages have meant that Organisation for Economic Co-operation

and Development (OECD) inventories have declined and overall spare capacity from the Organization of the Petroleum Exporting Countries (OPEC) producers remains thin. Currently, northern hemisphere demand has seasonally weakened and refinery maintenance is in full swing. However, demand is expected to pick-up, along with refinery output, into the latter part of the fourth quarter and should provide some upside bias to Brent prices. As for the differential between WTI-Brent, this has started to narrow again after it widened during the third-quarter. The start-up of the West Texas pipelines connecting the Permian Basin to refining operation on the US Gulf Coast is under way. We expect the spread to continue to narrow in the months ahead as pipeline filling continues and the southern section of the Keystone XL and the Seaway projects begin running. Given the very low levels of Cushing inventories and likelihood of further inventory draws, Cushing could test physical minimum-operational inventory-levels. In this case, there is a strong argument that the spread between WTI-Brent could revert to historical norms, i.e. WTI prices at a premium to Brent.

Finally, the broader metals complex remains challenged by China and the US Federal Reserve. Base metals, specifically copper, needs to see further improvements of Chinese PMI to warrant more upside. However, we suspect that October PMI numbers could be marginally weaker and would provide some ammunition for the bears to push copper lower. That being said, downside is limited. Additionally, seasonal demand pick-up in battery production bodes well for lead, where we see more upside relative to copper.

For the precious metals, the fourth-quarter is an important period for seasonal demand from India. With a monsoon behind us and India's weak currency there is a good case to be made for a pick-up in physical demand. However, with the increase of import duties being levied by the Indian government official statistics on demand will be tainted and harder to judge. Chinese physical demand has been very strong and helped to offset declines from India but that has also slowed recently and we suspect that demand going forward will be weaker. Overall, we see the potential for gold to retest its earlier lows in the near-future.

Fund information

Share Class	Currency	ISIN	Inception Date
B	USD	LU0415414829	04/04/2007
H	CHF	LU0415415479	25/04/2007
H	EUR	LU0415415636	14/05/2008
HI	CHF	LU0415416287	16/02/2009
HI	EUR	LU0415416444	03/07/2009
I	USD	LU0415415800	07/01/2009

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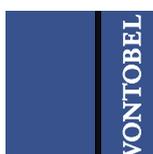
Investments in the securities of emerging market countries may exhibit considerable price volatility and – in addition to the unpredictable social, political and economic environment – may also be subject to general operating and regulatory conditions that differ from the standards commonly found in industrialised countries. The currencies of emerging market countries may exhibit wider fluctuations.

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