

Metal product pioneers

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A raft of banks are rumoured to be readying physically backed base metal products, but Basinvest, a small Zurich-based boutique has beaten them to the punch.

"We are pioneering the concept," Ronald Wildmann, managing director of Basinvest, says proudly.

"Portfolio investors have been able to buy and hold base metals without the usual requirement of opening a futures trading account," adds Richard Stevenson of Capdistributors, a third-party marketer.

The BI Physical Commodity Fund has attracted \$42m (£26m) since launch in May last year. Unlike passive exchange traded products, it is an actively managed vehicle, but is nevertheless blazing a trail for financial investors to hold physical stocks of industrial metal.

Its 8,754 tonnes of copper, lead, aluminium, zinc and nickel are stored in London Metal Exchange warehouses around the world, with the certificates of ownership held directly by the fund.

At the end of September the portfolio was 20 per cent copper, 15 per cent zinc, 13 per cent lead, 12 per cent aluminium and 11 per cent nickel, topped off with a 15 per cent exposure to palladium and 10 per cent to platinum.

"We add discretionary palladium and platinum because these precious metals are used in industry too," Mr Wildmann says. The typical cash exposure is between 2 and 5 per cent.

Even though the fund has outperformed the LME Price Index so far this year (by 10.8 per cent to 7.3 per cent) Mr Wildmann does not believe performance is the key issue.

"Our investors do not choose us because of performance but because of the physical availability of the commodities," he says, arguing that security is important nowadays.

But he also believes industrial metal prices will rise in the future as emerging markets continue to develop. China's consumption of copper, for instance, has more than quadrupled since 1995.

With a total expense ratio of 1.41 per cent the fund is broadly in line with other actively managed funds. The storage costs, determined by the LME, are between \$0.32 and \$0.50 a tonne per day. The minimum investment is \$150.

But what will be the impact on the commodity markets if a swathe of physically backed base metal products pop up? Mr Wildmann would expect higher price volatility as investors would be likely to enter the market in bull phases but sell when commodity prices are falling.

"In bull markets there could be additional shortage," he says. "But funds like ours also provide liquidity to the market and hence reduce spreads."

At a gathering of industry executives and traders at the LME last week the prevailing view was that a "super-cycle" in metals was set to continue into 2011 and beyond. With the exception of aluminium, supply may not be able to keep pace with demand.

Basinvest is unlikely to be the only asset manager offering a physically backed industrial metal fund for much longer.

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