



WHITE PAPER

Building a Better Commodities Portfolio

April 22, 2022

Commodities as an asset class gained in popularity during the 2000s, but experienced dismal performance in the 2010s as inflation stayed low and many commodity prices fell. Now, in the early 2020s, interest is rising again. Commodities have tended to be particularly strong diversifiers during periods of rising or volatile inflation.

During its first wave in the 2000s, commodities investing was dominated by passive portfolios tracking indices such as the S&P GSC Index and the BCOM Index. But recently investors have become more aware of the shortcomings of this approach – unfavorable contract roll costs, a lack of sector diversification, and missed active opportunities.

What does a “best-in-class” commodity portfolio look like? In this paper we first review the benefits of commodities as an asset class, and then explore the potential of three enhancements to a passive approach: better risk balance across sectors, dynamic risk management through time, and active tilts based on intuitive strategies that have been well-compensated historically.

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