

Asset class: Commodities
Educational document for clients

Banque Bordier & Cie SCmA

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*This educational document provides a simple overview of commodities as an investment asset class, how they work and the main risks associated with them. It is intended for clients without financial expertise and **does not replace the contractual or regulatory documentation applicable to the instruments used to invest in them.***

1. Introduction

Commodities are a specific asset class based on **physical or natural assets** used in the real economy. They can play a specific role in an investment portfolio, particularly in terms of **diversification, inflation protection** or exposure to certain economic dynamics.

Unlike equities or bonds, commodities **do not generate intrinsic income**, and their performance depends mainly on price movements in the markets.

2. What is a commodity?

A commodity is a **standardised physical asset** used as a basic resource for the production of goods or services. It is generally traded on organised markets or via financial instruments.

The main types are:

- **energy** commodities,
- **metallic** commodities,
- **agricultural** commodities.

Investors do not generally purchase the physical commodity directly, but gain exposure to its price through specific financial instruments.

3. Main characteristics of commodities

Commodities have several distinctive characteristics:

- **No intrinsic yield:** Unlike equities or bonds, they do not generate dividends or interest.
- **Prices determined by supply and demand:** Prices are influenced by economic, geopolitical, climatic and regulatory factors.
- **High volatility:** Prices can fluctuate significantly over short periods.
- **Variable correlation with other asset classes:** They can offer partial diversification within a portfolio.
- **Exposure to inflation:** Some commodities perform well in periods of rising prices.

4. Objective of investing in commodities

Investing in commodities can serve several purposes:

- portfolio diversification,
- protection against inflation,
- exposure to economic or sector trends,
- seeking short- or medium-term tactical opportunities.

It is generally a complementary investment, rather than a central pillar of the portfolio.

5. What are the main types of commodities?

Commodities are divided into broad categories:

- **Energy commodities** Oil, natural gas, coal, electricity.
- **Industrial metals** Copper, aluminium, nickel, zinc.
- **Precious metals** Gold, silver, platinum, palladium.
- **Agricultural products** Wheat, corn, soybeans, coffee, cocoa, sugar.

Each category responds to specific economic dynamics and price factors.

6. The main players in the commodities markets

Investing in commodities involves several players:

- **Producers:** Mining, agricultural or energy companies that produce the commodity.
- **Industrial consumers:** Players who use commodities in their business (industry, energy, food).
- **Financial intermediaries:** Banks, brokers, trading platforms.
- **Investors:** Institutional or private investors seeking financial exposure.
- **Supervisory authorities:** They oversee the functioning of markets and traded instruments.

7. The life cycle of a commodity investment

A commodity investment generally follows these steps:

1. Selection of the commodity or benchmark index
2. Choice of investment vehicle
3. Exposure to price movements
4. Adjustments based on market conditions
5. Exit from the investment by reselling the instrument

Unlike productive investments, there is **no internal value creation**, but rather **direct exposure to price fluctuations**.

8. Commodity yield structure

The return on a commodity investment comes exclusively from changes in the price of the underlying commodity.

It may be influenced by:

- changes in supply and demand,
- weather conditions,
- geopolitical tensions,
- production costs,
- monetary policy and interest rates.

When exposure is achieved through financial instruments, returns may also be affected by:

- holding costs,
- contract rollover mechanisms,
- management fees.

9. Risk structure of commodities

Investing in commodities involves several specific risks:

- **Market risk:** High price volatility, sometimes unpredictable.
- **Geopolitical risk:** Conflicts, sanctions or instability in production areas.
- **Climate risk:** Weather conditions affecting agricultural or energy production.
- **Liquidity risk:** Some markets may become temporarily less liquid.
- **Instrument-related risks:** Leverage, complexity, or dependence on an intermediary.

These risks can be partially mitigated through diversification, but cannot be completely eliminated.

*Commodities are a **volatile** asset class. They are generally suitable for investors with a **high risk profile** who are able to withstand significant fluctuations in value, including capital losses. Exposure to this asset class should, in principle, be part of a **portfolio diversification strategy**.*

10. Main advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none">▪ Portfolio diversification▪ Potential protection against inflation▪ Exposure to macroeconomic trends	<ul style="list-style-type: none">▪ High volatility▪ No recurring income▪ Complexity of investment mechanisms

The above is a summary and non-exhaustive presentation of the main advantages and disadvantages associated with commodities.

11. How to invest in commodities

Investment is generally made indirectly, through:

- specialized funds or ETFs,
- structured products,
- derivative instruments,
- shares of companies linked to commodities.

Access depends on the investor's profile and the chosen investment vehicle.

12. How to liquidate a position

Liquidation is carried out by selling the instrument held, at prevailing market conditions. Liquidity depends on the investment vehicle and market conditions at the time of sale.

13. The Bordier offering

The Bank's commodity offering combines financial exposure via derivatives to underlying assets such as precious metals with indirect exposure through shares in specialised mining companies – particularly in copper, iron ore and aluminium – enabling investors to capture the structural momentum of these markets.

14. Important information

This document is provided for informational and educational purposes only and does not constitute personalised financial advice. Nor should it be interpreted as an advertisement or an offer of financial instruments. The content presented is neither exhaustive nor intended to cover all the characteristics and risks associated with the relevant category of financial instruments.

This information is intended to provide a factual overview and should not be used as the sole basis for investment decisions. Past performance is not indicative of future results, and the value of investments may fall as well as rise.

For general information on financial instruments, please refer to the Swiss Bankers Association's brochure entitled 'Risks Involved in Trading Financial Instruments', available on our website under the heading Legal & Compliance, Switzerland, FINSA, Guidelines Risks Involved in Trading Financial Instruments (published by SBA): <https://www.bordier.com/legal-and-compliance/switzerland/finsa/>.

If, for the relevant type of financial instrument, a key information document (KID) or a prospectus has been drawn up in accordance with the applicable legal provisions, these documents can be viewed and downloaded from our website under the heading Legal & Compliance, Switzerland, FINSA, Key Information Document (KID), at the following address: <https://www.bordier.com/legal-and-compliance/key-information-documents-kids/>

Before making any investment decision, investors are advised to carry out their own checks and carefully assess the potential risks. It is strongly recommended that they seek the assistance of a qualified financial adviser. The relationship manager is available to provide, upon request, any further information and to supply the relevant documentation. The Bank accepts no liability for decisions made on the basis of the information provided in this document.

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