



Andrew Whiteley on why diversity is key for commodity ETFs

By Nicholas Paler | 08:23:08 | 19 February 2010

Analyse every fund and fund manager in Citywire's Fund & Manager Performance area. Build charts to compare funds and managers and see how successfully fund have controlled risk while delivering returns.

Financial planner Andrew Whiteley believes a broadly spread portfolio is needed when using a commodities ETF to provide a hedge against inflation.

Andrew Whiteley, director of WKH Financial Services, uses the Lyxor ETF Commodities CRB in the model portfolios he puts together and said it provides the necessary diversity of holdings.

'We were looking for a broad spread of exposure without having to pick individual commodities,' said Whiteley, who also runs the Assetfirst model portfolio service that he is marketing to other IFAs.

'It tracks the Reuters/Jefferies CRB Total Return index and is a good way of getting all the commodities exposure an investor needs via one product.'

Synthetic strategy

The ETF is synthetic-based and uses swaps, meaning it carries more counterparty risk than an ETF offering direct exposure to shares.

It is predominantly made up of soft commodities and energy, with the two accounting for a total of 80% of the portfolio. The remainder is in base and precious metals.

Lyxor ETF Commodities asset allocation

- Soft commodities 41%
- Energy 39%
- Basic metals 13%
- Precious metals 13%

ETFs may not meet all needs

But not every asset class is well-catered for by ETFs, said Whiteley, who uses the Aegon High Yield Corporate Bond fund, run by Phil Milburn, in the Assetfirst portfolios.

It currently has an attractive distribution yield of 12.8%, as well as an underlying yield of 11.7%.

Whiteley said: 'Its yield is so high because it has a lot of high yielding investments, although it is more risky.'

'There is no sterling denominated ETF for sub-investment grade debt so we had to use an active bond fund.'

© Citywire Financial Publishers Ltd 2010.

The material on the site is the copyright material of Citywire Financial Publishers Ltd. You may not copy, reproduce, republish, disassemble, decompile, reverse engineer, download, post, broadcast, transmit, make available to the public, or otherwise use citywire.co.uk content in any way except for your own personal, non-commercial use. This includes but is not limited to all individual fund manager data such as rankings of fund managers and ratings of fund managers. Citywire does not accept any liability for your reliance upon, or any errors or omissions in, the Citywire ratings or rankings. Any other use of citywire.co.uk content requires the prior written permission of Citywire Financial Publishers Ltd.

© 2010 Citywire.co.uk. [All Rights Reserved](#).

Citywire Financial Publishers Ltd. is authorised and regulated by the Financial Services Authority no: 222178 to provide investment advice and is bound by its rules.