

Why commodities in multi asset portfolios?

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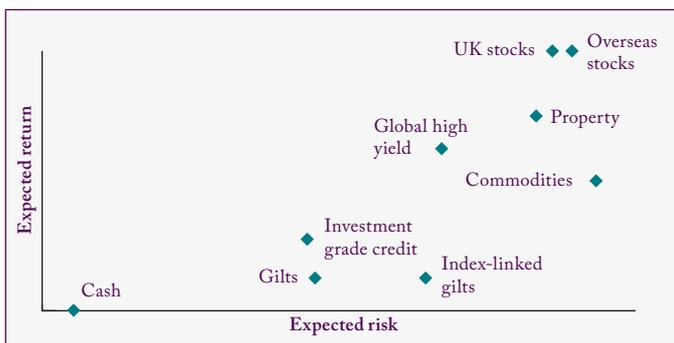
Commodities in the Governed Range portfolios

What are commodities?

When it comes to investing, it's possible to invest in a wide range of commodities from agricultural products, such as coffee and wheat, to oil and gas, industrial and precious metals, and even livestock.

How do commodities generally perform?

Commodities are at the higher end of the risk scale relative to most other major asset classes. So you can expect high volatility, with them among the best performers in some years and among the worst in other years. This further emphasises the importance of active management of asset allocation, which the Governed Range offers.



What's important to remember though is that not all commodities perform the same. The global commodities market is incredibly diverse, with each individual raw material, be that oil, copper, grain or beef, having different drivers of supply and demand.

Why include commodities in multi asset portfolios?

There are three key benefits:

1. Inflation protection

Commodities have the potential to offer protection against inflationary shocks. An example of this was in 2021/22 when the price of oil increased rapidly, and was a significant contributor to rising rates of inflation. However, from an investment perspective, having exposure to those rising oil prices gave some protection against the negative impact rising inflation had on other major asset classes, such as equities.

2. Portfolio diversification

Because the underlying commodities within multi asset portfolios are 'real' assets (as opposed to equities and bonds, which are financial assets), they typically react differently when economic fundamentals change.

As we've already mentioned, commodities tend to benefit from rising inflation – one of the few asset classes which do. That means they can provide portfolios with a hedge against inflation.

3. Return potential

Commodity returns have, historically, been largely independent of equity and bond returns, but positively correlated with inflation. So in periods of rising inflation, when most other asset classes struggle, commodities offer the potential for strong returns. For example, during the recent inflation spike of 2021/22, our commodity exposure returned around 70% over an 18-month period.

Commodities in the Governed Range portfolios

Rather than trying to make active decisions on which specific commodities we think will do well, with the Governed Range portfolios we aim to track the performance of the Bloomberg Commodity Index.

This is a common way of accessing these markets as it avoids the storage, transportation and insurance costs of buying physical commodities. The diversified commodity exposure of the Bloomberg Commodities Index also potentially reduces volatility in comparison with non-diversified commodity investments. The table below shows the index's target weightings for each commodity for 2025 and 2026, illustrating this diversification.

Group	Commodity	Ticker	2026 target weight	2025 target weight
Energy	Brent Crude Oil	CO	8.36%	8.03%
	Natural Gas	NG	7.20%	7.78%
	WTI Crude Oil	CL	6.64%	6.97%
	Low Sulphur Gas Oil	QS	2.89%	2.86%
	ULS Diesel	HO	2.19%	2.20%
	RBOB Gasoline	XB	2.15%	2.17%
			29.44%	30.01%
Grains	Soybeans	S	5.36%	5.97%
	Corn	C	5.53%	5.62%
	Soybean Meal	SM	2.93%	3.53%
	Soybean Oil	BO	2.82%	3.36%
	Wheat	W	2.72%	2.83%
	HRW Wheat	KW	1.79%	1.84%
			21.15%	23.15%
Industrial Metals	Copper	HG	6.36%	5.37%
	Aluminum	LA	3.97%	4.16%
	Zinc	LX	2.25%	2.27%
	Nickel	LN	2.23%	2.40%
	Lead	LL	0.95%	0.92%
			15.76%	15.12%
Precious Metals	Gold	GC	14.90%	14.29%
	Silver	SI	3.94%	4.49%
			18.84%	18.78%
Softs	Coffee	KC	2.91%	3.01%
	Cocoa	CC	1.71%	0.00%
	Sugar	SB	2.95%	3.00%
	Cotton	CT	1.59%	1.61%
			9.17%	7.61%
Livestock	Live Cattle	LC	3.86%	3.59%
	Lean Hogs	LH	1.78%	1.73%
			5.64%	5.33%

Source: Bloomberg, as at 31 December 2025.

Although the strategic asset allocation weighting to commodities in our multi asset portfolios is fairly low, Royal London Asset Management's Multi Asset team can use tactical asset allocation to increase or decrease exposure. That gives the potential to take advantage of opportunities when commodities are performing strongly and reduce downside risk when they aren't.



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