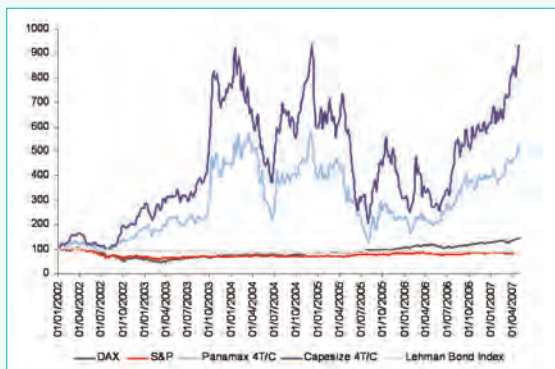


## SHIPPING

Shipping related investment prospects... in discussion with Montan Alternative Investment's Philipp Sebbesse

**Are shipping related investments unique? If so, what sets them apart from other assets classes?**

Indeed, shipping related investments are unique. Firstly, shipping investments tend to show almost no correlation with other asset classes such as equity or bond markets \*. Secondly, we believe, no other asset class reflects the global demand and original trade as accurately as the shipping industry does. As it is either directly or indirectly linked, the shipping industry benefits from all levels of production. Bulk carriers, for example, ship commodities such as iron ore which form the basis for steel production; or oil and coal in order to ensure the generation of energy. The volume of iron ore, coal and oil shipped by sea almost doubled over the last 5 years from 280m tons to 500m tons. Container ships, then, ship finished and semi-finished goods in standard boxes to their different destinations.



Source: Montan Alternative Investment GmbH, Bloomberg

**How has investing in shipping evolved over time?**

Over the past years shipping has transformed itself into an asset class. Today, there are more opportunities to invest in shipping than a few decades ago. In the past, shipping investments were confined to close ended funds. The product palette includes not only traditional instruments such as stocks and bonds, but have also seen the emergence of innovative investment products that are being specially structured (use of derivatives) to benefit from the growing shipping industry.

**Which phase of the shipping cycle are we in presently? And why invest now?**

One has to first distinguish between the different segments within the shipping industry.

From a historic price perspective, today's dry bulk market is exposed to relatively higher charter rates and ship prices. This is mainly driven by the significant growth that is being experienced by economies such as China and India which exhibit a strong demand for tonnage. In addition, containerisation of goods is a phenomenon that will continue over the next years - supported by global production, global sourcing and increasing shipping of semi-finished goods for price efficient production.

Forecasts by the IWF and the OECD forecast sustainable global growth - taking that a step further, we estimate global trade will increase even further - which in turn bodes well for a strong and attractive shipping segment. Especially for the dry bulk market (the relevant one when it comes to global demand) we anticipate continued strength in demand for coal, iron ore etc. from countries such as China and India. Unless those countries do not tentatively limit their growth, we believe shipping related demand will persist, probably not at those growth rates experienced over the last 2 years - but none the less, we expect to see solid developments over the next couple of years.

**How investable is it as an asset class and what are the different investment opportunities, instruments, structures that are currently available to investors?**

Compared to some years ago, shipping is an increasingly investable asset class and can be accessed via equities, bonds, hedge funds and index certificates among others.

• **what are the respective risks associated with these investments?**

Shipping industry- investments tend to be characterised by a high level of volatility combined with a higher degree of illiquidity – especially if one were considering direct investments in “ships”. The chart above showing the spot charter rates for dry bulk carriers illustrates this thesis. In addition, one can see this from the price development for the different vessels. From 1996 to 2006 new building prices for a Capesize dry bulk carrier rose by 60%, for Panamax dry bulk carriers by 40%.

• **what net annualized returns can one expect; and what is the minimum time frame one should consider in each case?**

This again is hard to say and depends on the different investment classes. A shipping stock investor could probably expect higher returns than if one were invested in a closed end fund that paid out an annual cash dividend. Based on a long term investment perspective, one could expect an average annualised return of 8% plus pa. from a “sound” shipping investment.

**Shipping related investments are suited to investors looking for...**

Asset/ portfolio diversification of their and for those who want to participate in and “profit” from global trade. As pointed out earlier, correlations with other asset classes is very low – as indicated by the table\* below. We believe, in the case of shipping related investments, it pays to take a long-term rather than a short-term view on returns, as volatility will likely remain strong.

Correlation	Panamax Spot Index	Capesize Spot Index	Dax	S&P	Lehman Bond Index
Panamax Spot Index	1	0.97	0.18	-0.23	-0.78
Capesize Spot Index	0.97	1	0.20	-0.23	-0.78
Dax	0.18	0.20	1	0.75	-0.02
S&P	-0.23	-0.23	0.75	1	0.51
Lehman Bond Index	-0.78	-0.78	-0.02	0.51	1

Source: Montan Alternative Investment GmbH, Bloomberg

**Would you say barriers to entry in this space are high and are likely to stay high going forward? Elaborate.**

That depends on how one invests. Barriers to direct investments in ships are very high - since the upfront investment is substantial. But on the other hand, these barriers came down significantly after several shipping companies had IPO's - which has helped make shipping related investing more liquid and accessible for those with an interest!