

RESOURCEFUL: SAM SMART MATERIALS FUND



Rodrigo Amandi unveils what he believes is in store for investors interested in “materials” ...

How do you identify an investable materials sector?

The materials sector is dominated by four global trends:

- :population growth and therefore a soaring demand for all kind of goods,
- :an increase in wealth and industrialisation especially in the newly industrialised nations - eg. China and India, where there is an steady rise in the standard of living and the pace of industrialisation,
- :the shortage of natural resources and the corresponding bottlenecks in the availability of raw materials and
- :finally our “disposable society” with its higher consumption rate and the generation of more waste

As a result of these global trends we have identified four investment themes, that have the potential to deliver promising returns.

These investment themes are:

- :**basic materials**, where we include innovative mining technologies, companies active in the fields of forestry management, paper, cellulose and building materials, as also producers and processors of farmed goods such as cereals, sugar, vegetables, tea or coffee.
- :**efficient use of materials**, with focus on companies in the field of logistics and transportation, companies that generate smaller volumes of waste or lower emissions, or those which produce “more with less”.
- :**recycling and disposal**, where we cover companies active in the areas of metal recycling, waste incineration, clean-up of contaminated zones, and paper recycling.
- :**innovative materials** and technologies, where we include nanotechnology and innovative solutions companies. We also include providers of analysis and monitoring equipment, as well as state-of-the-art process technologies.

More recently we are seeing an over-crowding in sectors such as commodities, mining, exploration, renewable resources etc.

Isn't everyone chasing the same names? Aren't equities in this space already over priced?

We have clearly seen an increased interest in the commodities sector following the surging prices of commodities (oil, precious metals, aluminium, nickel, zinc, copper and corn among others) and the consolidation of certain industries such as steel. I tend to agree, that investors have been chasing the same names, and that the current valuation of many of the stocks in the commodity universe look overpriced. However, there are still a number of commodities and stocks which operate in niche markets that show attractive valuations. We, as investors have to look towards other parts of the commodity structure and other ways of getting access to it.

How much of this can be attributed to speculation - (hot money vs. sticky money that has been invested in this space)?

Certainly, merger and acquisition led speculation in the commodity sector has driven many stock valuations.

Based on your experience, how and why do you think one can stand apart from the crowd?

In my view, differentiation from the crowd can be achieved by focusing on specific investment areas or themes. However, this requires in-depth knowledge, know-how and experience in order to fully understand the challenges and trends that are likely to change the future competitive environment of a particular sector.

We have seen an increasing interest from investors towards specific theme driven products such as renewable energy, biofuels or water.

How lucrative is it to invest in the innovative materials, technologies sector, disposable management and recycling ... given a large wedge of the profits were accrued by private equity investors... or a lot of the entrepreneurs active in this space are non-listed companies?

There are still many good investment opportunities in these three sectors. For example, a look at the innovative materials and technology space reveals there is a lot of scope for nanotechnology companies. After the initial hype, the stocks seem to be reverting closer to their fair valuation - which offers an excellent entry point possibility.

How do you identify and what criteria do you apply to investments made in under valued companies in sectors such as disposable management and recycling? What could be the risks associated with investing in such companies?

We use a combination of a top-down and a bottom-up approach. From a top-down perspective, it is important to consider the competitive environment, the local regulation framework, the license allocation process, the deregulation trends, technology used, the costs of resources and the fund raising environment. From a bottom-up perspective we assess the investment opportunities using a DCF/value added stock valuation tool and peer group comparison.

The risks associated with investing in such companies include the change in their legal framework and requirements, changes that might occur within the licence attribution framework. Then there are technology related risks, financial structure risk and environmental and legacy operations risk that also must be considered.

Are the number of new companies that operate in the “materials space” keeping up with the demand from investors?

I believe so. There is an enormous number of companies in the materials space, far more than the demand from investors! It is true that for example the flow of IPOs for nanotechnology companies has been lower than expected, but the situation is likely to change given the current positive economic environment.

Hasn't the performance in this sector borne a high correlation to that exhibited by equity markets? Or would you argue otherwise.

I would agree. However by investing in small and mid size companies the correlation is no longer as high.

Are returns in “smart materials” truly sustainable? Why?

Indeed! We have an excellent team of knowledgeable and experienced analysts with a great degree of understanding of the opportunities and challenges offered by the different sectors within the materials universe. This enables us to continue identifying stocks with above average return potential across the entire materials value chain.