

MAAP June Review

July 1, 2011

MAAP's returns were negative for the second month in a row. The largest contributors to the decline were long positions in the grains, closely followed by long energy positions, with a smaller contribution from the long position in metals. The long positions in the Australian and Canadian dollars and the short position in the U.S. Treasury bonds contributed small gains to the portfolio.

The investment environment remains one where investors are dominated by fear rather than greed as a result of the fall of 2008 experience. While the commodity bull market from 2001 through early 2008 experienced several intermediate corrections followed by new highs, the emotional tendency is to focus on the possibility of another fall of 2008 magnitude. However, the facts strongly suggest that commodity markets are still in a strong long-term bull market. The odds favor moderate corrections followed by new highs within a few months. The primary factor driving this bull market is the unprecedented demand emanating from the developing world. Investors in the U.S. and Europe tend to be focused on the financial problems and slow growth in the developed world. While these issues are important, it is the developing world that is driving demand growth. Therefore until evidence emerges that serious economic growth problems are occurring in the developing world or new low cost supplies miraculously appear, this commodity bull market will continue.

Within the developing world China remains the dominant factor. In order to slow the inflation rate, the Chinese government has been tightening credit conditions to slow but not stop economic growth. Coincident with these slowing measures, Chinese users of commodities have been reducing inventories by importing less than they have been consuming. Recently industrial metal prices which had been soft are once again firming. This is similar to last summer's experience when industrial metal prices firmed before all commodity prices commenced the most recent intermediate advance.

In addition to China's actions, the U.S. and other developed countries are attempting to suppress prices through maneuvers such as the sale of oil from strategic reserves. While it has a short-term impact on prices it does nothing to alleviate what could well be a serious oil supply problem by 2012. In fact we view the move ill timed, similar to the gold sales by the U.K. when gold was approximately \$260 an ounce. Continued global economic growth will strain supplies of most commodities but oil could well be the most serious in the years ahead.

In summary, developing country demand is the primary driving force for higher commodity prices. We are confident that the combination of our leverage risk control system and our strong fundamental research will allow MAAP to mitigate extreme downside risk, while enabling it to profit from the powerful trends that are unfolding in commodities, currencies, and precious metals.