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**PUBLIC EQUITIES**

# Keeping it “Real”— The Case for Natural Resource Equities

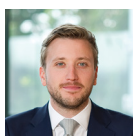
## INSIGHTS

Natural resource equities can provide inflation protection and portfolio diversification, making them a potentially compelling investment option in environments characterized by elevated inflation, heightened geopolitical risk, and increasing energy demand.



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## Executive Summary

Natural resource equities have historically provided an effective inflation hedge, while also offering diversification benefits within a broader equity portfolio. Over the last 20+ years, natural resource equities have protected against inflation better than many other fixed income and equity asset classes. Further, as a 'real asset', commodities can continue to provide inflation protection even when global government debt levels are elevated, and hedge against the specter of rising fiscal deficits. We believe the next phase of global growth will likely be energy intensive, driven by power demand from artificial intelligence and data centers. This increase will lead to a structural demand for key materials including copper and aluminium, at time when investment in new supply is insufficient.

When assessing the most effective way to allocate to this asset class, history shows that natural resource equities have provided a much higher return than commodity futures. This advantage stems from the underlying cash flows of the companies and avoiding the significant costs of holding the underlying commodities. Natural resource equities can also serve as an effective diversifier for global equity portfolios given the high concentration risk of the broader global equity market and the dominance of a few mega-cap technology stocks—which has led to pools of capital globally exhibiting high exposure to sector and company risks.

We believe the most effective way to access natural resource equities is through investing in a diversified resources equity portfolio.

An actively managed natural resource equities portfolio has historically outperformed both broad global equity benchmarks and many resource sub-sectors, while exhibiting lower peak drawdowns during that period.<sup>1</sup>

In this world of higher market concentration, persistent inflation and rising geopolitical risks, the structural case for investing in natural resource equities is both compelling and vastly underappreciated. This is best framed in the following three key pillars:

Inflation Protection	Diversification & Low Correlation	The Investment Approach is Key
Natural resource equities have a strong historical record in outperforming the broader equity market and providing real returns during inflationary periods.	Natural resource equities can be an effective diversifier for portfolios, especially given highly concentrated global equity indices.	Historically, natural resource equities have significantly outperformed commodity futures, offering structural advantages.

1. Source: Barings; Bloomberg, MSCI. As of October 31 2025.

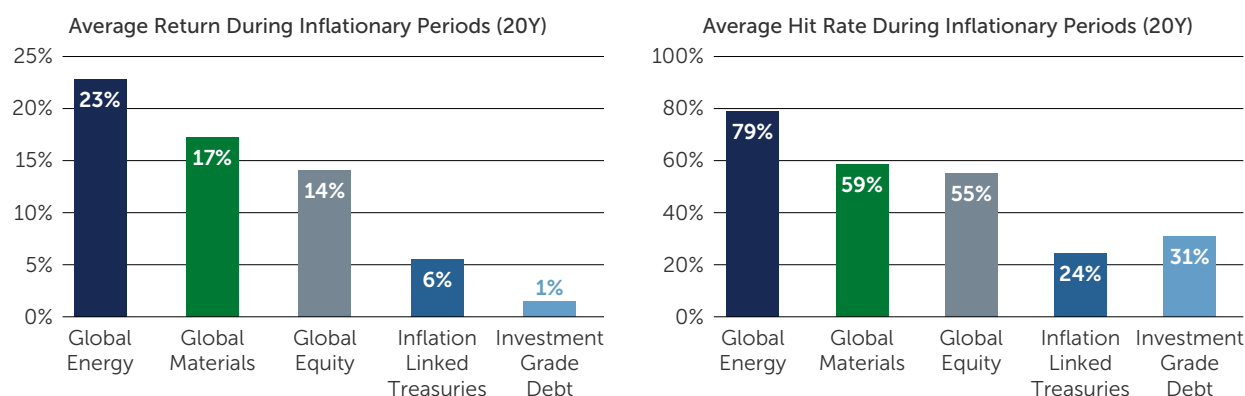
## Inflation Protection

When assessing the global impacts of inflationary pressures, we believe the underlying drivers have the potential to persist, and in some instances become entrenched. Energy demand continues to rise, supported by population growth and improving living standards in the developing world. However this structural demand is increasingly overshadowed by seismic thematic shifts. Electrification of transport, power and the build out of data centers, along with the continued expansion of artificial intelligence, will drive structural demand for mined commodities at a time when investment in new supply is insufficient over the medium and long-term. For example, copper is a key metal for electrification given its physical properties, and its annual consumption, accordingly, is projected to grow more than 70% to over 50 million tonnes of annual consumption by 2050.<sup>2</sup> What is less well recognized is that these trends also impact everyday construction materials like steel to cement, as well as other forms of energy including renewables, natural gas and oil, that will be needed to drive this growth.

The impact of inflation, and its impact on 'real' returns, is one of the greatest risks investors face. Inflationary shocks can occur in commodities for several reasons, including government policy changes, strong demand or more restrictive supply. To gauge the impact of these shocks over time, we looked at both the average returns and the 'hit rate' of different asset classes during periods of elevated inflation since 2005 (the 'hit rate' is defined as how often an asset class delivered a 'real' above-inflation return during these periods). What we found is that natural resource equities, which comprise both 'global energy' and 'global materials' shares, have historically produced compelling average returns, offering better protection against inflation compared to many key asset classes (Figure 1). Moreover, the high 'hit rate' of natural resource equities indicates there may be a higher probability of delivering 'real' returns above inflation. We believe a combination of energy and materials equities can provide additional risk return benefits to investors as well.

## RETURNS DURING INFLATIONARY PERIODS

**Figure 1: Strategic Benefit: Natural Resources Can Benefit From Inflationary Environments**

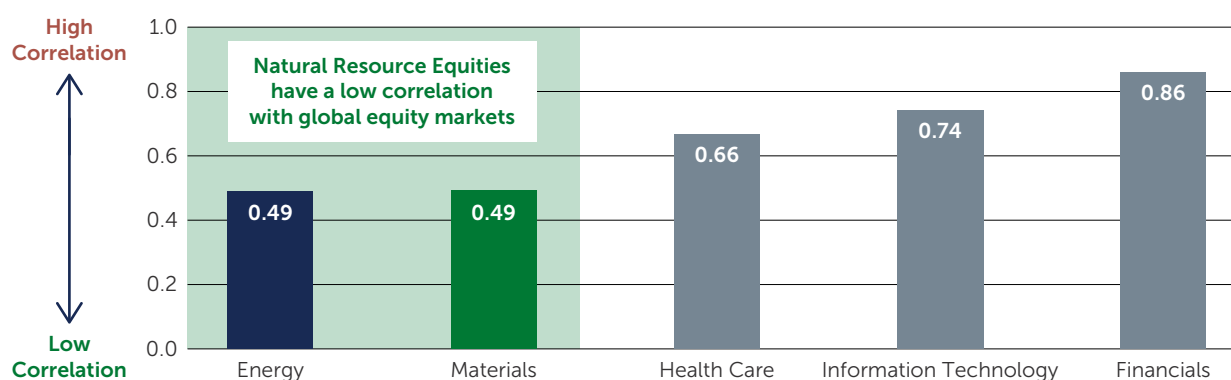


Source: Barings; MSCI. As of October 31, 2025. Data from November 30, 2005–October 31, 2025. Global Energy is represented by MSCI ACWI Energy, Global Material by MSCI ACWI Materials, Global Equity by MSCI ACWI World, Inflation Linked Treasuries by ICE BofA U.S. Inflation-Linked Treasury Index, and Investment Grade Debt by the Bloomberg U.S. Global Aggregate Index.

2. Source: BHP estimates. As of 2024.

Commodities directly impact the prices of many products and services in the economy. Occasionally, raw material inflationary pressures can be acute enough that, indirectly, they can feed into wage demands, prompting more persistent inflation. As an example, the oil supply embargo of 1973 caused oil prices to quadruple, setting the scene for persistent and widespread inflation during the 1970s. Similarly, Russia's invasion of Ukraine saw a significant supply shock, prompting energy prices to rise and directly contributed to increasing broader inflation. Other materials offer similar examples. Food, for instance, is a key consideration given that it represents a significant proportion of household spending, particularly in emerging markets. Elevated grain prices can have widespread impacts across the food supply chain, pushing up the prices of goods from bread to, more indirectly, in meat. Grain is also a key ingredient in animal feed as well as biofuel, specifically corn-based ethanol.

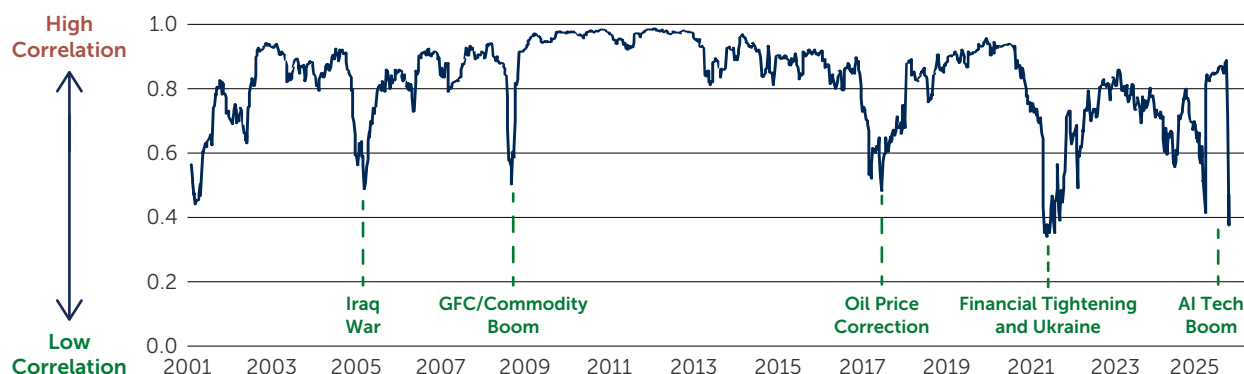
**Figure 2: Strategic Benefit: Natural Resources Can be a Diversifier**



Sources: Barings; MSCI. As of October 2025. 5-Year Annualised Average Returns Correlation to MSCI AC World December 31, 1999 to October 31, 2025.

Uniquely, natural resource equities tend to offer the strongest diversification benefits in periods of heightened uncertainty, benefiting from the fact that commodities can move in different ways to the broader economic cycle. This is particularly prevalent in periods when conflict is present, which can physically tighten commodity markets, such as the Iraq or the Russia-Ukraine War.

**Figure 3: Natural Resource Equities' Correlation to Global Equity Over Time<sup>5</sup>**



Source: MSCI AC World. As of March 6, 2001 to October 28, 2025, 6 month rolling returns correlated to MSCI AC World. Natural Resources Equities comprises 50% MSCI AC World Energy and 50% MSCI AC World Materials



## The Investment Approach is Key—Public Equity

While the benefits of owning natural resources are unique, we believe the best way to gain exposure is through listed equities rather than investing in the underlying commodities themselves.

First, the underlying companies within natural resource equities generate cash flows to invest and grow, while also returning capital to shareholders in the form of dividends and share buybacks. Investors often refer to an ‘equity risk premium’, or the rate of return equity investors require above the risk-free interest rate. Returns are variable, but studies from London Business School and Credit Suisse (now UBS), have shown an average global equity return of c.5 % per year above inflation over the last 120 years, ahead of other key asset classes. Second, there are underlying financial costs of owning physical commodities, such as storage and transportation, as well as the inconvenience cost of receiving a large shipment of oil or copper.

**Figure 4: Natural Resource Equities Outperform Commodity Futures Historically**



Sources: Barings; Bloomberg. As of October 2025. Spot Index = Bloomberg Commodity Spot Index. Futures Index – Net of Costs = Bloomberg Commodity Total Return Index. Bloomberg Commodity Total Return Index is composed of futures contracts and reflects the returns on a fully collateralised investment in the Bloomberg Commodity Index. This combines the returns of this index with the returns on cash collateral in 3 Month Treasury Bills.

## Investing in Commodities is Expensive

In practice, many financial investors choose to invest in the underlying commodity ‘futures’—a commitment to buy the commodity at a future date—or products underpinned by these ‘futures’, such as some commodity Exchange Traded Funds (ETFs). As part of this approach, investors need to contend with the ‘roll yield’ of futures, where they sell out of an expiring ‘futures’ contract before physical delivery and buy a longer dated ‘futures’ contract. As there are extra costs for holding commodities, such as storage and transportation, it is more common for the new ‘futures’ prices to be bought at a higher level than the expiring contract. What is effectively “selling low and buying high” can ultimately erode the realized return.

To further illustrate the costs of owning commodity futures, we have compared the commodity Spot Index return to a futures index, which is net of the roll yield and other associated costs. The spot return is the theoretical return you would have received if you could have bought the physical commodities today, but without the associated costs. Based on this analysis, the actual result is a far inferior return to the theoretical 'spot' market performance.

**Figure 5: Investors in Commodities Futures have not Benefitted From the Returns of 'Spot' Commodity Markets**

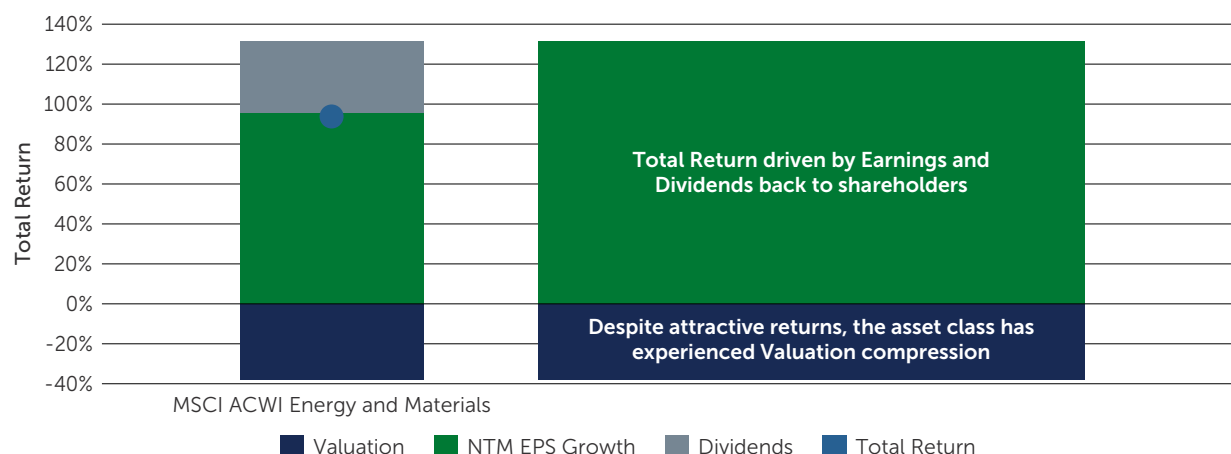


Sources: Barings; Bloomberg. As of February 2025. Spot Index = Bloomberg Commodity Spot Index. Futures Index—Net of Costs = Bloomberg Commodity Total Return Index. Bloomberg Commodity Total Return Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the Bloomberg Commodity Index. This combines the returns of this index with the returns on cash collateral in 3 Month Treasury Bills.

## WHAT DRIVES THE RETURN OF NATURAL RESOURCE EQUITIES?

Interestingly, when disaggregating the returns of natural resource equities over the past five years,<sup>3</sup> the largest contribution to total returns (over 90%) came from earnings growth and dividends, however the asset class has experienced valuation compression. We believe this reduces the risk of the sector de-rating in a broader market correction, whilst providing a potential compelling entry point into the asset class.

**Figure 6: What Has Driven Returns?**



Sources: Barings; Refinitiv; MSCI. As of November 30, 2025. Data in USD, \*50/50 split of MSCI ACWI Energy & Materials.

3. Sources: Barings; Refinitiv; MSCI. As of October 31, 2025. Data in USD. \*50/50 split of MSCI ACWI Energy & Materials.

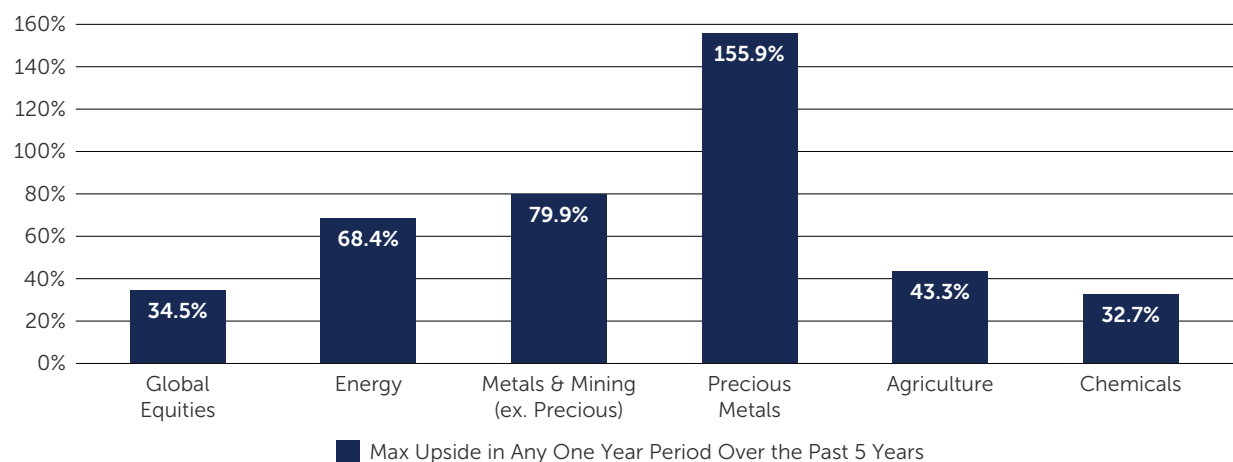
## Why Barings Global Resources?

At Barings, we invest across the entire resources universe including energy, mining, chemicals and agriculture. Our broad capabilities allow us to uncover opportunities ranging from pure-play upstream commodity producers in mining or oil, to consumer-facing companies like those in the flavors and fragrances industry that provide ingredients into fast moving commodity goods companies. This ability to invest in upstream companies that benefit from stronger commodity prices, and in the downstream processing industries that may gain from lower raw materials prices, supports our ability to identify investment opportunities across a wide range of industries and economic environments. Ultimately, this drives diverse portfolio returns and helps create greater stability than traditional single-sector strategies, with a lower drawdown across the cycle.

*“While the benefits of owning natural resources are unique, we believe the best way to gain exposure is through listed equities rather than investing in the underlying commodities themselves.”*

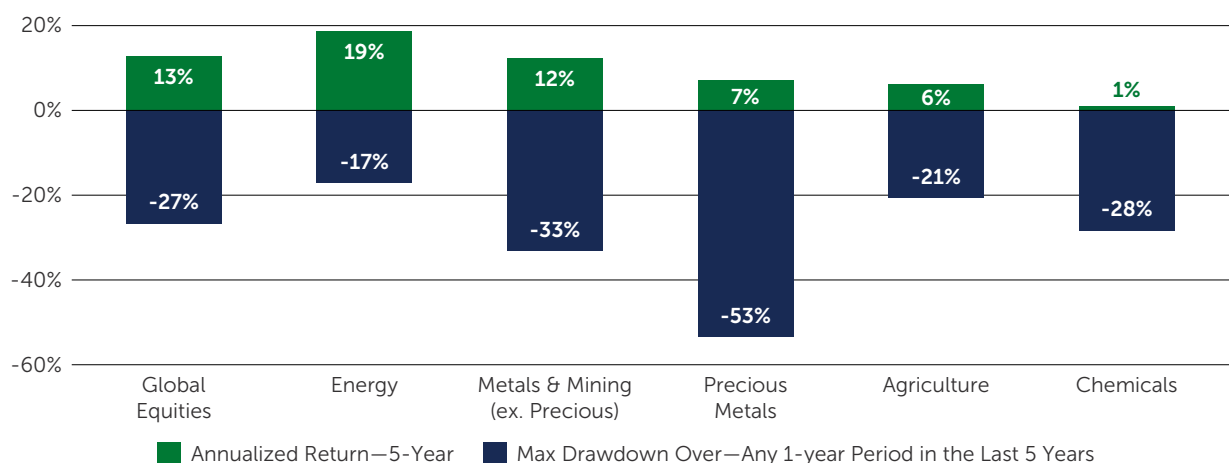
To illustrate the benefits of a diversified natural resource equities portfolio, we have compared the returns of various natural resources subsectors with global equities (**Figure 7**). However, when contrasting this return potential against the drawdown analysis seen in **Figure 8**, serves to highlight that while commodities can deliver high returns, there remains significant volatility which can ultimately erode the returns depending on the investor’s entry point. This contrast is best exemplified by the precious metals sector, which has seen substantial gains in 2025; however, its return on a five-year annualized basis lags a range of other sectors given the steep declines experienced from 2022 to 2024. By contrast, a more diversified natural resources approach is able to participate in the return potential, whilst mitigating the impact of significant drawdowns over an investment cycle.

**Figure 7: Natural Resource Equities Can Offer Strong Returns**



Sources: Barings; Bloomberg's MSCI. As of October 31, 2020–October 31, 2025. Precious Metals = MSCI ACWI Precious Metals Net Return, Energy = MSCI ACWI Energy, Chemicals = MSCI ACWI Chemicals, Metals & Mining (ex precious) = MSCI ACWI Select Metal & Mining Producers ex Gold & Silver IMI Index, Agriculture = DAX Global Agribusiness Index, Global Equities = MSCI ACWI, Barings Global Resources Strategy = Barings Global Resources Fund. Materials.

**Figure 8: Natural Resources Can Offer Strong Returns**



Sources: Barings; Bloomberg; MSCI. As of October 31, 2020–October 31, 2025. Data in USD 5 Years to End October 2025, Precious Metals = MSCI ACWI Precious Metals Net Return, Energy = MSCI ACWI Energy, Chemicals = MSCI ACWI Chemicals, Metals & Mining (ex precious) = MSCI ACWI Select Metal & Mining Producers ex Gold & Silver IMI Index, Agriculture = DAX Global Agribusiness Index, Global Equities = MSCI ACWI, Barings Global Resources Strategy = Barings Global Resources Fund. As of October 2019–2024.

Ultimately, this highlights that to maximize the benefit of an investment in a standalone natural resource sector, an investor would need significant confidence that their ability to identify and time their investment in the best sub-sector through a cycle—and conviction to maintain that position through periods of volatility.

An actively managed natural resource equities portfolio can support investors maintain exposure to commodities over time, leveraging the investment team's experience and research to actively manage exposures through the cycle and potentially deliver attractive returns with greater stability.



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