

Why RS Global Natural Resources



Investing in natural resources doesn't mean speculating on commodity prices. Since 1995, we have sought out those commodity-producing companies that are able to create value for shareholders independent of changes in commodity prices. Our investment objective is to provide our clients with superior risk-adjusted returns across a commodity price cycle.

Value Investors in a World of Commodities

We invest in companies with key strategic advantages: low-cost, capital efficient producing assets, an attractive inventory of development projects and management teams focused on optimizing returns on capital. These companies possess unique competitive positions which allow them to earn persistent excess returns on capital, and as a result generate significant returns for their shareholders.

As value investors, we believe that capital preservation is the key to achieving superior risk-adjusted returns. We attempt to protect our shareholders' capital first by identifying advantaged assets, and then purchasing the company when we believe that our entry price is protected by the underlying value of the projects. We attempt to reduce commodity price risk by reallocating capital from positions which discount commodity prices that are above our assessment of the marginal cost of supply (i.e. are unsustainable) into those advantaged assets which we can buy at a discount to proved-only net asset value.

A Private Equity Approach to the Public Markets

Our approach to investing in the natural resources sector is private equity-like, both in terms of our investment horizon and our investment process. Our team is composed of business analysts, as opposed to stock analysts, who spend their time disaggregating companies, analyzing project level returns and assessing the capital allocation acumen of management teams. Our process begins by building supply cost curves for each commodity. We then establish long-term commodity price assumptions grounded in economic fundamentals and identify the companies that own advantaged assets within each commodity. Our investments are premised on the ability of our companies to grow long-term value, and on the prices which we pay to purchase those businesses.

Deep and Experienced Investment Team

The RS Global Natural Resources strategies are managed by the dedicated RS Hard Assets Team. The team consists of eight investment professionals who average more than 21 years of investment experience.

Investing in small- and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Portfolios that concentrate investments in a certain sector may be subject to greater risk than portfolios that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values. Investments in companies in natural resources industries may involve risks including changes in commodities prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. The value of a debt security is affected by changes in interest rates and is subject to any credit risk of the issuer or guarantor of the security.

Owning Advantaged Assets

Two factors can provide a company with distinct "advantages" over other commodities producers: geology and management skill.

Geology: A company's ability to earn above cost of capital returns is a function of the steepness of the supply cost curve for a given commodity, and the position of that company's assets along the cost curve. In effect, a company's competitive advantage is established by the rock that it owns.

Management Skill: While the asset quality was established millions of years ago, company management teams can have a material impact on creating value from those assets. In particular, capital allocation decisions can significantly influence project level and corporate level returns.