



# Dow Jones-UBS Commodity Index<sup>SM</sup> Methodology

The DJ-UBSCI<sup>SM</sup> is composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold, and contracts that have not yet reached the delivery period must be purchased. This process is known as “rolling” a futures position. The DJ-UBSCI<sup>SM</sup> is a “rolling index.”

Indexes in the DJ-UBSCI<sup>SM</sup> family are calculated on both an excess return and total return basis. The excess return indexes reflect the return of underlying commodity futures price movements only, whereas the total return indexes reflect the return on fully collateralized futures positions. Nineteen commodities are included in the DJ-UBSCI<sup>SM</sup>, representing the following commodity sectors: energy, precious metals, industrial metals, livestock and agriculture.

## Four main themes underlie the construction of the DJ-UBSCI<sup>SM</sup>:

- Economic significance
- Diversification
- Continuity
- Liquidity

## Economic Significance

A commodity index should fairly represent the importance of a diversified group of commodities to the world economy. To that end, the DJ-UBSCI<sup>SM</sup> relies primarily on liquidity data of futures contracts, along with U.S. dollar-adjusted production data, in determining the relative quantities of included commodities.

Liquidity, or the relative amount of trading activity centered on a particular commodity, is an important indicator of the value placed on that commodity by financial and physical market participants. Liquidity provides a window on the commercial significance of a commodity. The DJ-UBSCI<sup>SM</sup> relies on data that are both exogenous to the futures markets (production) and endogenous to those markets (liquidity) in determining relative weightings.

Production data, although a useful measure of economic importance, may underestimate the economic significance of storable commodities (e.g., gold) at the expense of relatively nonstorable commodities (e.g., live cattle). Production data alone also may underestimate the investment value that financial market participants place on certain commodities. The addition of liquidity data as a weighting measure reduces this type of potential distortion.



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## Diversification

The DJ-UBSCI<sup>SM</sup> is designed to be a highly liquid and diversified benchmark for commodities investments. Disproportionate weighting of any particular commodity or sector may increase volatility and negate the concept of a broad-based commodity index.

To ensure that no single commodity or commodity sector dominates the index, the DJ-UBSCI<sup>SM</sup> relies on several diversification rules. Among these rules are the following:

- No related group of commodities (e.g., energy, precious metals, livestock or grains) may constitute more than 33% of the index
- No single commodity may constitute less than 2% of the index

The diversification rules are applied annually when the DJ-UBSCI<sup>SM</sup> is reweighted and rebalanced on a price-percentage basis.

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## Rebalancing

Rebalancing is an important feature for a commodity futures index because it helps avoid over-concentration in any one commodity or group of commodities over time. Rebalancing can take advantage of market phenomenon that appear to be persistent.

The DJ-UBSCI<sup>SM</sup> is reweighted and rebalanced annually on a price-percentage basis.

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## Continuity

Unlike broad-based equity indexes, which often include hundreds or thousands of component stocks, the available universe of commodity futures is more limited. The predictability of future index behavior decreases if the composition of an index changes materially from year to year.

The DJ-UBSCI<sup>SM</sup> attempts to resolve these differences through annual reweighting and rebalancing, and five-year averaging of both liquidity and production data. Along with the diversification rules described previously, the reweighting, rebalancing and averaging are designed to help the DJ-UBSCI<sup>SM</sup> respond smoothly to future market developments.

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## Index Construction Percentages

### Commodity Liquidity Percentage

The first step in constructing the DJ-UBSCI<sup>SM</sup> is to determine the relative liquidity and production percentages. Each June, the Commodity Liquidity Percentage (“CLP”) for each commodity designated for potential inclusion in the Index (collectively, “Commodities”) is determined by taking a five-year average of the product of trading volume and the historic U.S. dollar value of the futures contract selected as the reference contract for that Commodity (the “Designated Contract”), and dividing the result by the sum of such products for all Commodities. The Futures Industry Association is the source for volume data used in the calculation of the Commodity Liquidity Percentages.

### Commodity Production Percentage

The Commodity Production Percentage (“CPP”) is also determined for each Commodity by taking a five-year average of production figures, adjusted by the historical U.S. dollar value of the Designated Contract, and dividing the result by the sum of such products for all Commodities.

As with the calculation of the Commodity Liquidity Percentages, the Commodity Production Percentages are calculated over a five-year period (the “Production Averaging Period”).

## Commodity Index Multiplier

The Commodity Liquidity Percentage and the Commodity Production Percentage are then combined (using a ratio of 2:1) to establish the Commodity Index Percentage (“CIP”) for each Commodity. This Commodity Index Percentage is then adjusted in accordance with the diversification rules in order to determine the Commodities that will be included in the Index (“Index Commodities”) and their respective percentage weights.

On the fourth business day of the month of January following the calculation of the CIPs, the CIPs are combined with the settlement prices of all Index Commodities for such day to create the Commodity Index Multiplier (“CIM”) for each Index Commodity. The Commodity Index Multipliers remain in effect throughout the ensuing year.

Once the Commodity Index Multipliers are determined, the calculation of the DJ-UBSCI<sup>SM</sup> is an arithmetic process whereby the CIMs for the Index Commodities are multiplied by the respective prices in U.S. dollars for the applicable Designated Contracts. The products are then summed. The daily percentage change in this sum is then applied to the prior day's DJ-UBSCI<sup>SM</sup> value to calculate the current DJ-UBSCI<sup>SM</sup> value.

## Commodities Included in the Index

Commodities have been selected that are believed to be both sufficiently significant to the world economy to merit consideration and tradable through a qualifying related futures contract. With the exception of several metals contracts (aluminum, nickel and zinc) that trade on the London Metals Exchange (“LME”), each of the Commodities is currently the subject of a futures contract that trades on a U.S. exchange.

## Designated Contracts

A Designated Contract is selected for each of the 19 commodities included in the Index. With the exception of several LME contracts, where there exists more than one futures contract with sufficient liquidity to be chosen as a Designated Contract for a Commodity, the futures contracts traded in North America and denominated in U.S. dollars have been chosen. If more than one such contract exists, the most actively traded contract was selected.

## Commodities Currently Included in the Dow Jones-UBS Commodity Index<sup>SM</sup>:

Aluminum	Heating Oil	Soybean Oil
Coffee	Lean Hogs	Sugar
Copper	Live Cattle	Unleaded Gasoline
Corn	Natural Gas	Wheat
Cotton	Nickel	Zinc
Crude Oil	Silver	
Gold	Soybeans	



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For more information on the Dow Jones-UBS  
Commodity Index<sup>SM</sup>, please visit:

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