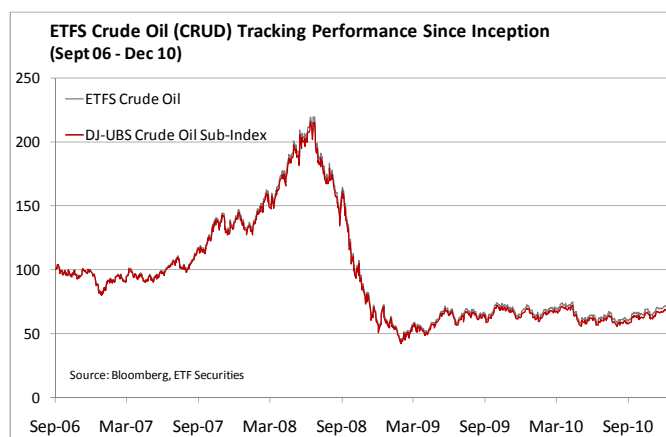


## ETFs Crude Oil (CRUD) and other oil ETCs

### Frequently Asked Questions

#### 1. I have recently purchased ETFs Crude Oil or ETFs Short/Leveraged Crude Oil and have noticed that it does not always track the oil price. Why?

ETFs Crude Oil (CRUD) is designed to track the DJ-UBS Crude Oil Sub-Index<sup>SM</sup> which is priced off oil futures. Investing in oil futures is not the same as investing in the oil "spot" price. The figure below shows that ETFs Crude Oil has tracked the DJ-UBS Crude Oil Sub-Index<sup>SM</sup> exactly as it should.



#### 2. What is the DJ-UBS Crude Oil Sub-Index<sup>SM</sup>?

The DJ-UBS Crude Oil Sub-Index<sup>SM</sup> tracks a rolling, fully collateralised investment in near month oil futures, which is not the same as tracking the oil "spot" price. The Dow Jones-UBS Commodity Indexes<sup>SM</sup> are priced off commodity futures contracts, and not physical oil.

Commodity futures contracts normally specify a certain date for delivery of the underlying physical commodity. To avoid expiry and physical delivery of the underlying commodity referred to in the futures contract, the index methodology (available at [www.djindexes.com](http://www.djindexes.com)) therefore specifies that as each futures contract approaches expiration, they are sold and replaced by similar contracts with later expirations. This process is called "rolling" and is currently the main source of any performance differential between the DJ-UBS Crude Oil Sub-Index<sup>SM</sup> and the WTI spot oil price.

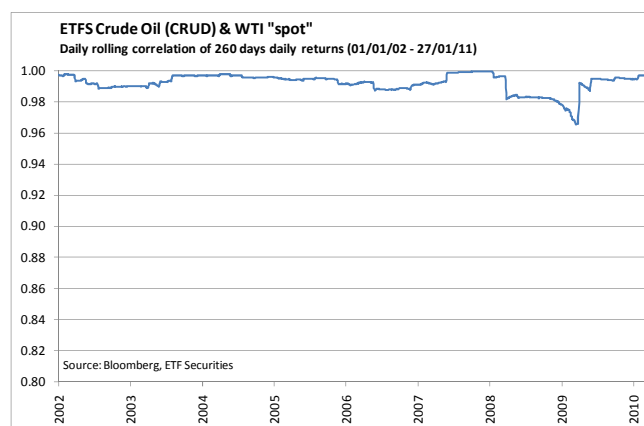
#### 3. Why can't you just track the oil price?

Tracking the oil "spot" price (meaning the prices quoted for immediate payment and delivery of particular physical commodity) implies physical ownership of the commodities and a number of associated costs such as delivery, storage and insurance.

The oil "spot" price which you see on Bloomberg or quoted in the news is by definition not an investable return. As a result, investors throughout the world, and also ETCs, use liquid and standardized futures contracts to get exposure to the oil market. Standardised futures contracts imply delivery costs of pre-specified deliverable grades, at a particular location.

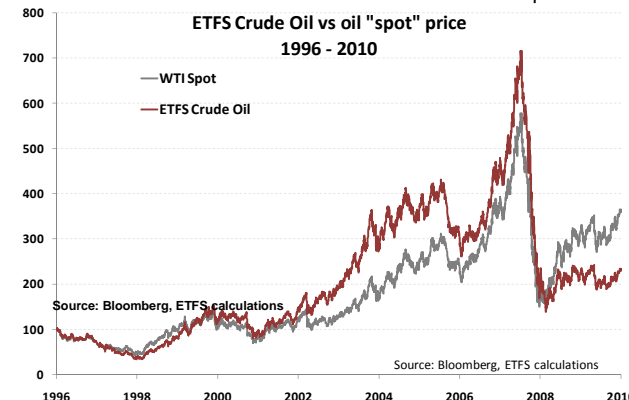
#### 4. What is the correlation between the DJ-UBS Crude Oil Sub-Index<sup>SM</sup> and the oil "spot" price?

The correlation between the DJ-UBS Crude Oil Sub-Index<sup>SM</sup> and the oil "spot" price has historically been very strong (average 0.99) as shown by the chart below.



#### 5. Can ETFs Crude Oil outperform the oil "spot" price?

Yes, when the oil market is in backwardation, the roll return may be positive and therefore ETFs Crude Oil could outperform the oil "spot" price. As the chart below shows, ETFs Crude Oil outperformed the oil "spot" price during periods when the oil market is in backwardation such as the 2002-2006 period.



#### 6. What causes this difference in returns?

ETCs issued by the ETF Securities group of companies (excluding those backed by physical bullion) are total return securities. A total return is the return that an investor can earn by holding a continuous, fully collateralised position in commodity futures. A total return consists of three sources of return: Commodity Price ("Spot") Return, Roll Return, and Collateral Return.

The roll return is the return associated with selling near month futures contracts prior to expiry, and re-investing the proceeds in the "next" month futures contract; rolling keeps an investor fully invested. For any long ETC, the roll return will be positive when the futures curve is downward sloping ("backwardation") or negative when the futures curve is upward sloping ("contango"). The opposite is true for short ETCs.

## 7. Is there any way to avoid the (negative or positive) roll?

No, rolling is an inherent feature of investing in the commodities futures market. While a financial investor cannot avoid it, there are different ways to play the shape of the futures curve.

## 8. Is the roll yield more frequently positive or negative?

The roll return depends on the shape of the futures curve and also the maturity of the specific contract. The shape of the oil futures curve changes over time as various factors such as supply and demand, inventory levels, cost of carry, volatility and investor's expectations about future prices evolve.

## 9. Why does an oil ETC return differ from the return of the front month oil future contract I see on Bloomberg/Reuters?

Use of a "Generic" contract can be a source of confusion in some instances. This is because of both the fact that it does not include rolling returns and that rolling methodologies used (1<sup>st</sup>-5<sup>th</sup> Business day or 6<sup>th</sup>-10<sup>th</sup> business Day) differ from the maturities of the underlying contracts (generally around the 20<sup>th</sup> of each month).

## 10. How can I monitor the shape of the oil futures curve on Bloomberg?

There are several functions that can be useful to monitor commodities markets:

- GLCO** – Global commodity prices and data
- GCIN** – Display/track global commodity indices
- CCRV** – Analyse futures curves
- HS** – Analyse historical Contango / Backwardation

## ETF Securities Oil ETC Platform

ETF Securities Oil ETC platform provides investors with the tools to implement a wide range of investment strategies in the oil markets. Investors are able to take long, short and leveraged positions and are able to choose to be at the short or longer end of the futures curve. Investors also have the choice of exposure to Brent or WTI prices.

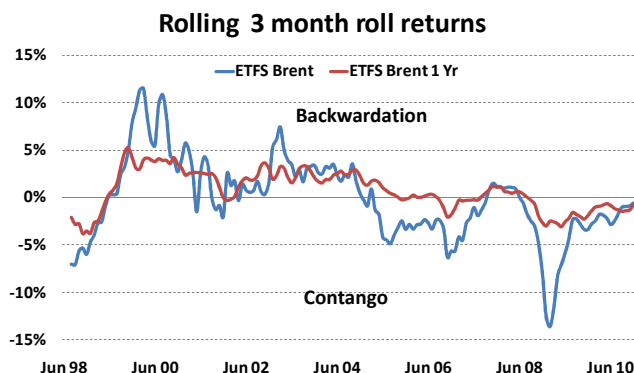
ETC	LSE Dealing Code	Exposure	Available Listings
ETFS Crude Oil	CRUD	DJ-UBS Crude Oil Sub-Index	UK, GER, FR, NL, IT
ETFS Forward Crude Oil	FCRU	DJ-UBS Crude Oil 3 Month Forward Sub-Index	UK
ETFS Short Crude Oil	SOIL	-100% of the daily % change in the DJ-UBS Crude Oil Sub-Index	UK, GER, IT
ETFS Leveraged Crude Oil	LOIL	200% of the daily % change in the DJ-UBS Crude Oil Sub-Index	UK, GER, IT
ETFS Brent 1mth	OILB	ICE Futures' Brent oil 1st or 2nd month futures contracts	UK, GER, FR, NL, IT
ETFS Brent 1mth £*	OLBP	ICE Futures' Brent oil 1st or 2nd month futures contracts	UK
ETFS Brent 1yr	OSB1	ICE Futures Brent oil contracts with an average maturity of approx. 1 yr	UK
ETFS Brent 2yr	OSB2	ICE Futures Brent oil contracts with an average maturity of approx. 2 yrs	UK
ETFS Brent 3yr	OSB3	ICE Futures Brent oil contracts with an average maturity of approx. 3 yrs	UK
ETFS WTI 2mth	OILW	NYMEX WTI oil 2nd or 3rd month futures contract	UK, GER, FR, NL, IT
ETFS WTI 2mth £*	OLWP	NYMEX WTI oil 2nd or 3rd month futures contract	UK
ETFS WTI 1yr	OSW1	NYMEX WTI oil contracts with an average maturity of approx. 1 yr	UK
ETFS WTI 2yr	OSW2	NYMEX WTI oil contracts with an average maturity of approx. 2 yr	UK
ETFS WTI 3yr	OSW3	NYMEX WTI oil contracts with an average maturity of approx. 3 yr	UK

\* Unhedged USD return but quoted in GBP

## 11. How can I get exposure to more or less roll yield?

Research has shown that ETCs with exposure to front month futures such as ETFS Crude Oil or ETFS Brent 1mth (OILB) tend to be more sensitive to factors affecting the short term supply / demand picture (such as economic announcements, geopolitical tensions or inventory levels). At the same time, the performance of these ETCs has been more affected by contango / backwardation than longer-dated ETCs.

ETCs with exposure to longer-dated futures such as ETFS Brent 1yr (OSB1) tend to be driven more by perceptions of long term structural supply, demand and cost issues which tend to change more slowly. Back testing shows that longer dated ETCs such as OSB1 or OSB3, have been affected less by contango / backwardation, and their price has also tended to be less sensitive to short term news and events.



Source: Bloomberg, ETF Securities. Reference period 30/06/1998 to 31/12/2010

## For more information

**"Total Return & Exchange Traded Commodities" factsheet** to gain more in-depth information on ETC returns  
**"Dow Jones- UBS Commodity Index<sup>SM</sup> calculation and performance"**

Issuers prospectuses – sections referring to Contango / Backwardation

**ETFS Oil Securities Limited prospectus (p.33, 34, & 35)**

**ETFS Commodity Securities Ltd. (Classic & Forward) prospectus (p.14 &15)**

**ETFS Commodity Securities Ltd. (Short & Leveraged) prospectus (p.14, 15 & 16)**

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