

# Total Return & Exchange Traded Commodities

## What is Total Return?

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

## Why use Total Return?

Commodity returns are measured using total return because the spot return is not an investable return. The spot return is not an investable return because most commodities held for investment purposes are unsuitable to be held in physical form.

## Spot Return

The spot return is the percentage change in price of the relevant futures contract – generally the near month or "spot" futures contract.

## Roll Return

The roll return is the return derived from selling expiring futures contract and rolling into another in order to maintain investment exposure. Can be positive (backwardation) or negative (contango) depending on the shape of the future curve when rolling.

## Backwardation and Contango

When the front month futures contract price ( $P_1$ ) is higher than the next futures contract price ( $P_2$ ), the curve is said to be in "backwardation". If an investor rolls the position, the "roll" return is positive. The opposite is true for "contango".

## Excess Return

The excess return comprises the sum of the Spot Return and the Roll Return. The excess return measures the return of an un-funded commodity futures position. Unless stated otherwise, the DJ-UBS Commodity Indices<sup>SM</sup> are excess return indices.

## Collateral Return

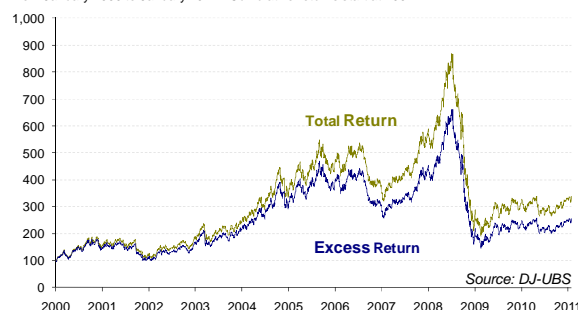
The collateral return is the implied return accruing on the margin held on a fully funded commodities futures position.

## Total Return

Spot return	Not "investable" but measured by change in near month or "spot" futures prices
+ Roll return	Return associated with "rolling" futures contracts prior to expiry to remain fully invested
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= Excess return	Measures return of an un-collateralised futures position
+ Collateral return	Implied return accruing on fully funded position
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= TOTAL RETURN	

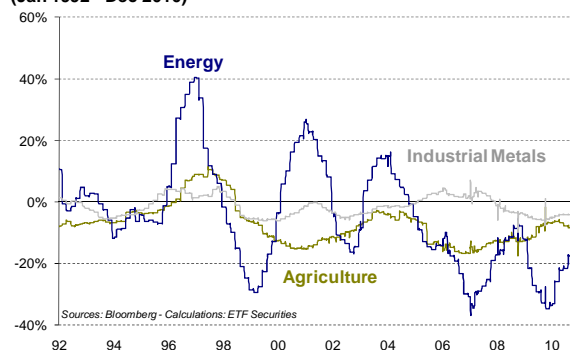
## Total and Excess Return

DJ-UBS Petroleum Index<sup>SM</sup> - Total vs Excess Return  
From January 2000 to January 2011 - Cumulative returns start at 100



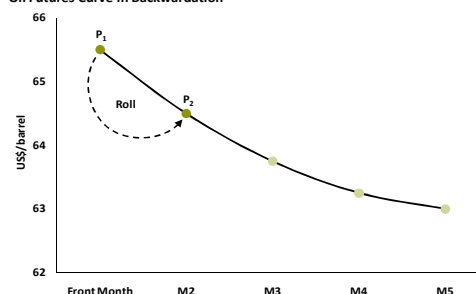
## Roll Return

Annualised roll return for DJ-UBS Commodity Index sectors (Jan 1992 - Dec 2010)



## Backwardation

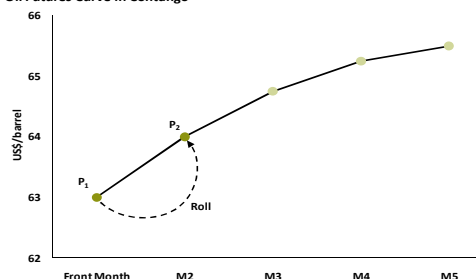
Oil Futures Curve in Backwardation



Source: ETF Securities

## Contango

Oil Futures Curve in Contango



Source: ETF Securities



## For more information

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### *About ETF Securities*

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### *Other sources of information*

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ETF Securities now offers more than 270 Exchange Traded Products (ETPs). The ETPs provide investors with a wide variety of investment strategies, with ETPs offering access to asset classes such as equities, currencies and commodities with physical, long, forward, leveraged and short exposure.

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