

Commodities in a diversified portfolio
Exploring sector benefits

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Commodities in a portfolio

Commodities can bring significant theoretical benefits to a portfolio

- As a source of diversification
- As an inflation hedge

How can investors maximise the benefits?

- Identify specific commodities or sectors with the most useful attributes

Does it work in practice?

- What impact can commodities have on portfolio risk/reward?
- Consider long-term, short-term and times of market stress

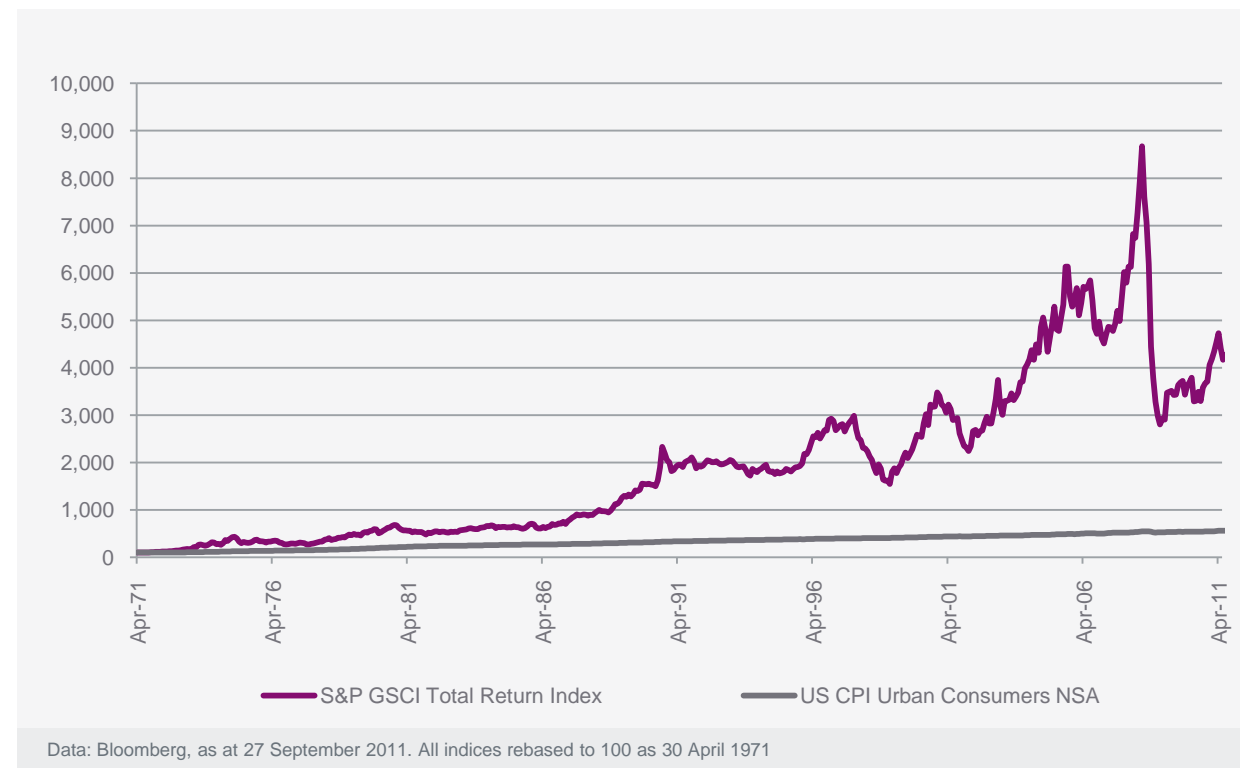
What can Source offer?

- Efficient access to a broad range of commodities
 - Physically backed products
 - Enhanced indices
- Robust, transparent ETP structure

Commodities as an inflation hedge

- Commodities are the raw materials for many consumer goods, so a natural inflation hedge
- Long-term, commodities have consistently outpaced inflation

Returns: commodities vs. inflation



Low correlation with other asset classes

- Commodities have had limited correlation with equities and bonds
- Within the commodities asset class, correlations vary considerably
- Gold is the standout asset – very low correlation with equities, over both long and short time horizons

Long-term and short-term correlations

10 years (Sep 2001 – Sep 2011)

| | Equity | Bond | Commodity | Gold | Crude Oil |
|-----------|-------------|------|-------------|------|-----------|
| Equity | 1.00 | | | | |
| Bond | 0.22 | 1.00 | | | |
| Commodity | 0.39 | 0.20 | 1.00 | | |
| Gold | 0.06 | 0.44 | 0.27 | 1.00 | |
| Crude Oil | 0.34 | 0.15 | 0.95 | 0.18 | 1.00 |

6 months (March 2011 – Sep 2011)

| | Equity | Bond | Commodity | Gold | Crude Oil |
|-----------|-------------|------|-------------|------|-----------|
| Equity | 1.00 | | | | |
| Bond | 0.51 | 1.00 | | | |
| Commodity | 0.59 | 0.77 | 1.00 | | |
| Gold | 0.15 | 0.91 | 0.66 | 1.00 | |
| Crude Oil | 0.64 | 0.59 | 0.96 | 0.41 | 1.00 |

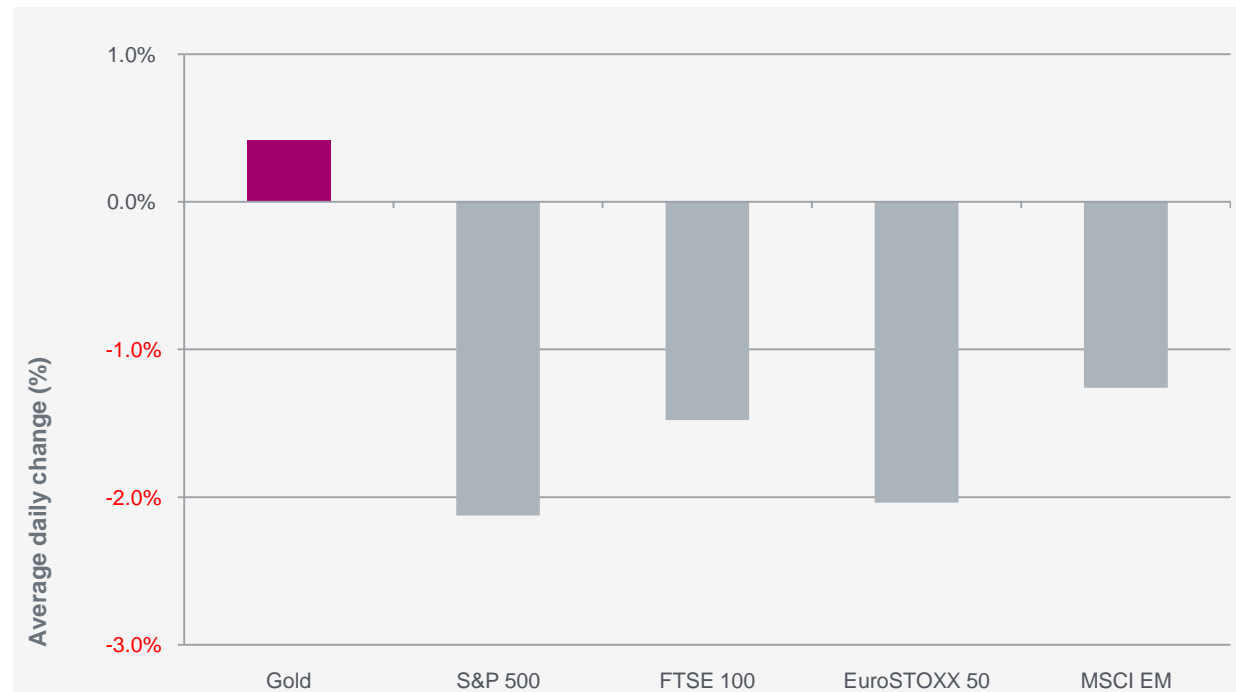
Data: Bloomberg, as at 27 September 2011, based on monthly returns. Equity is represented by MSCI World TR Index, Bond by JP Morgan Global Aggregate Index, Commodity by S&P GSCI TR Index, Gold by the London PM gold fixing, Crude Oil by S&P GSCI Crude Oil TR Index

Gold in times of market stress

What happens when US equity markets fall sharply?

- Equity markets globally show high correlation
- Even EM equities can't offer sufficient diversification
- The gold price typically rises

Asset performance on days of equity market stress, 2011 YTD¹

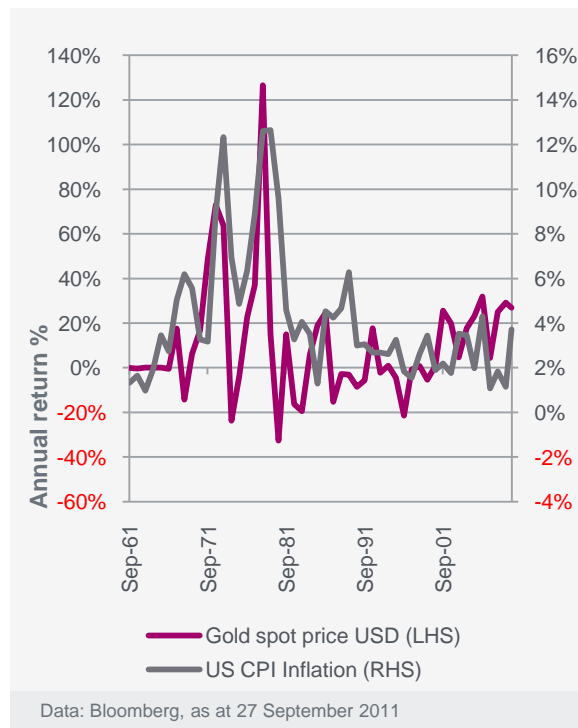


Data: Bloomberg, 1 January 2011 – 27 September 2011

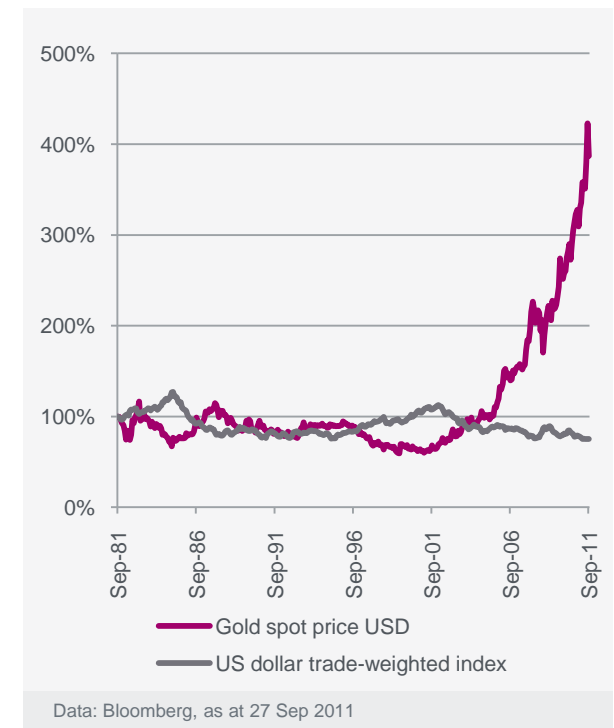
Gold as an inflation and currency hedge

- An effective long-term hedge against inflation
 - Gold has kept its purchasing power over the long term
 - Spikes in inflation have coincided with spikes in the gold prices
- An hedge against USD weakness
 - Gold is physically limited in supply
 - Unlike currency, it cannot be devalued by governments

Gold Spot Price vs. US CPI Inflation



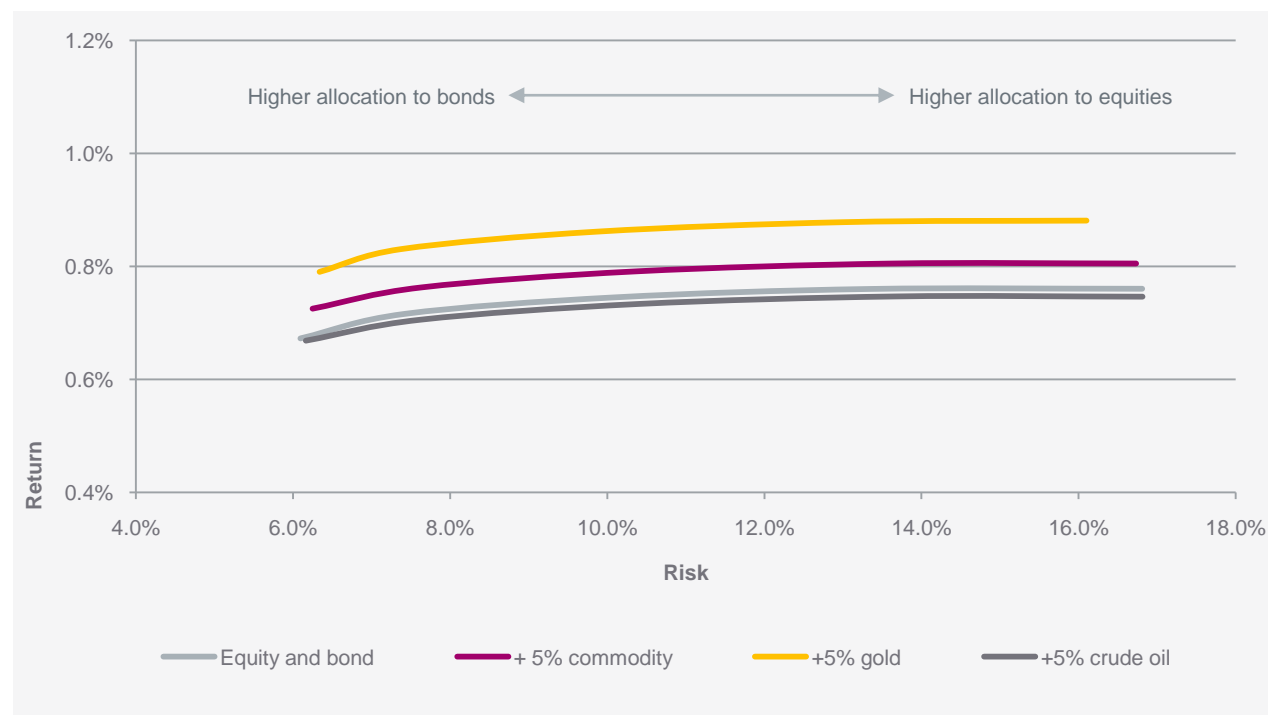
Gold Spot Price vs. US Dollar Trade-Weighted Index



Commodities in a portfolio: 1 year time horizon

- A traditional portfolio of bonds and equities has delivered slightly higher return for higher risk (i.e. a higher allocation to equity)
- The addition of 5% commodities to the portfolio has a positive impact
- The addition of 5% gold has a significant positive impact

Risk vs. return, 1 year

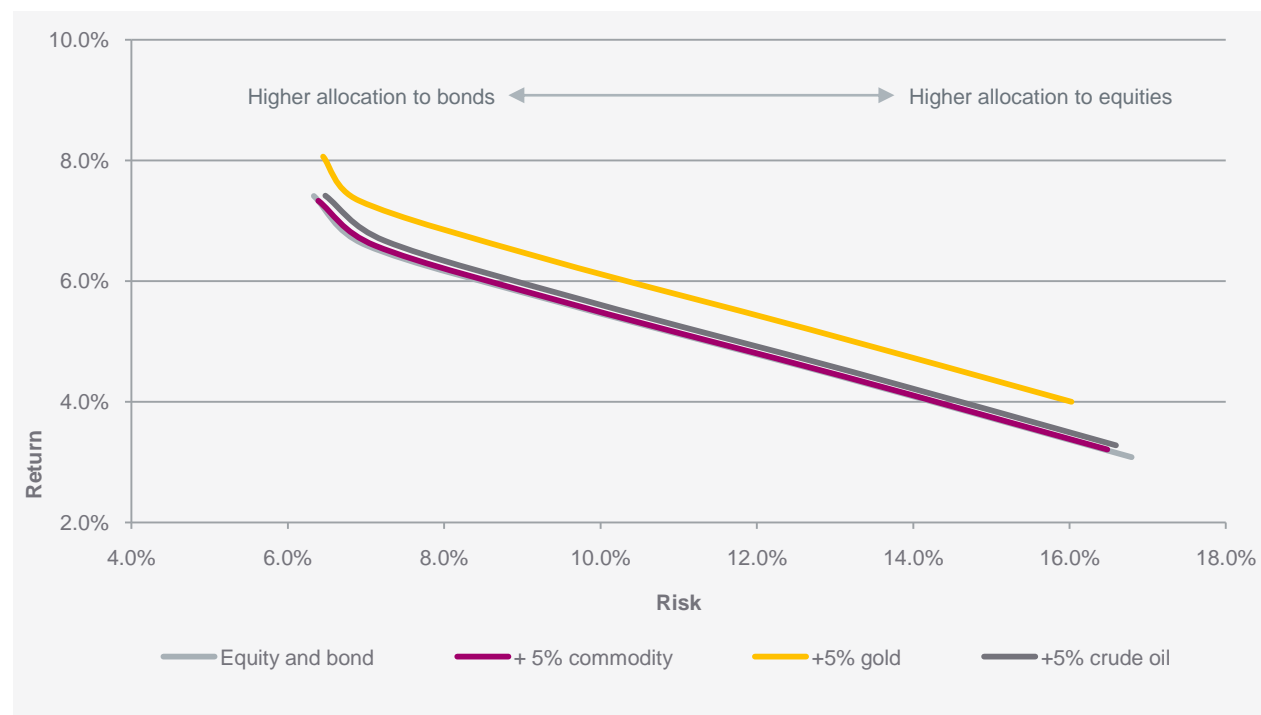


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Commodities in a portfolio: 10 year time horizon

- Over the past 10 years, the concept of “higher risk for higher reward” has not played out
- Lower risk portfolios have outperformed
- But the addition of 5% gold to a portfolio has had a significant positive impact

Risk vs. return, 10 years



Data: Bloomberg, as at 27 September 2011, based on monthly returns. Equity is represented by MSCI World TR Index, Bond by JP Morgan Global Aggregate Index, Commodity by S&P GSCI TR Index, Gold by the London PM gold fixing, Crude Oil by S&P GSCI Crude Oil TR Index

The case for energy: strong long-term fundamentals

The largest commodity sector

- Energy accounts for two-thirds of global commodity production¹
- Crude oil is by far the largest component

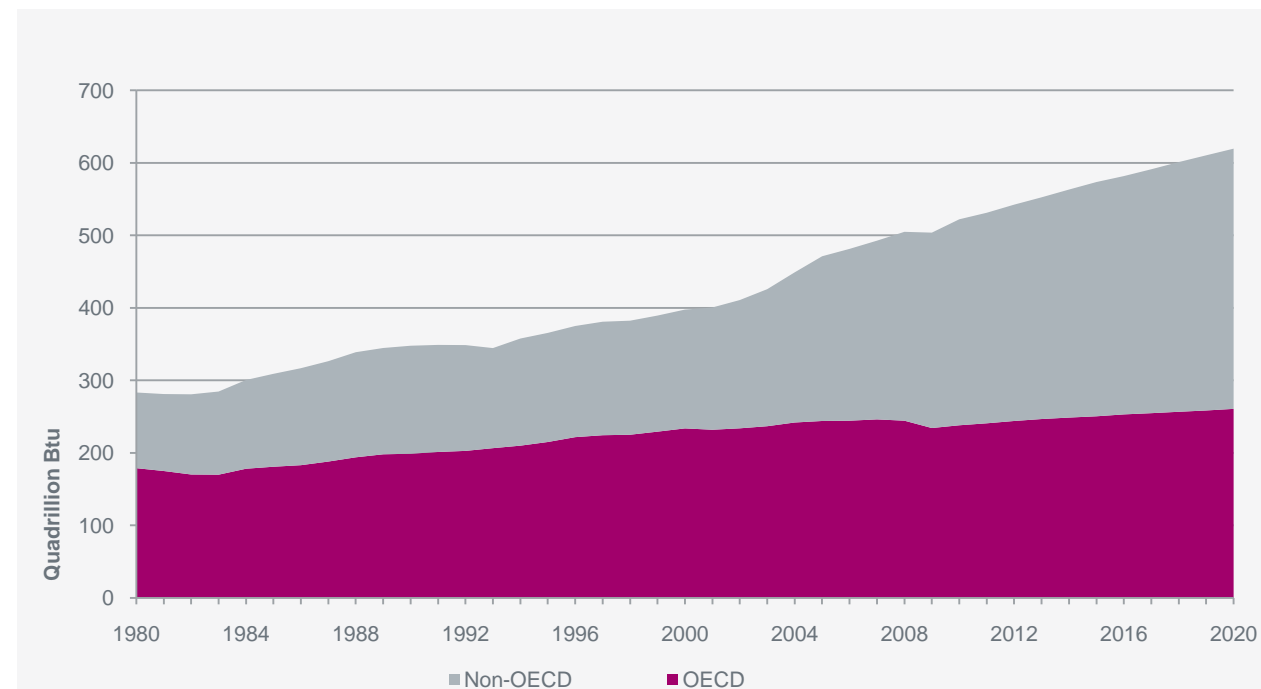
Demand now driven by developing world

- The International Energy Agency expects energy demand to increase by over 40% between 2011 and 2035²

What drives the price?

- Economic growth and energy are fundamentally related
- Prices also react strongly to events (natural and political) that threaten future supply
- Longer-term, the market will be shaped by governments' response to the challenges of energy security and climate change

Total primary energy consumption, 1980 - 2020



Data: U.S. Energy Information Administration, World Outlook September 2011

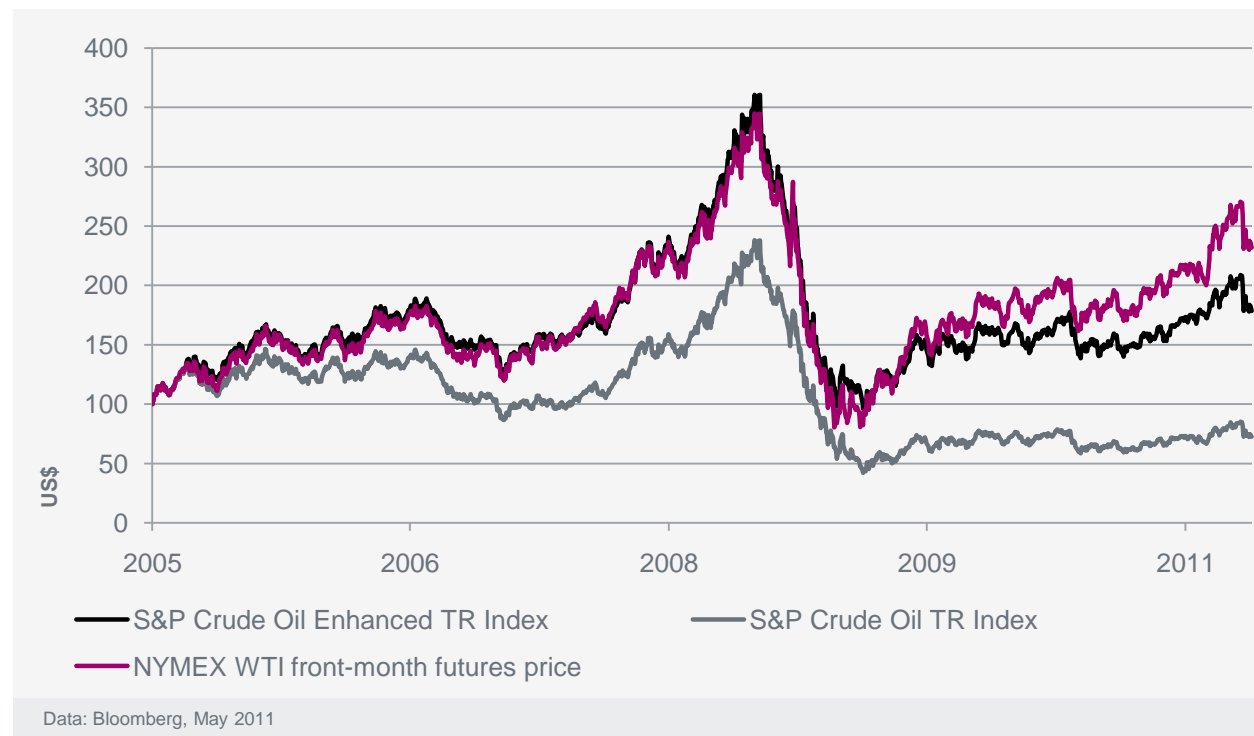
¹ Based on S&P GSCI production weightings, December 2010

² International Energy Agency, World Outlook 2011

Accessing crude oil via enhanced indices

- Most oil tracking products have significantly underperformed the spot oil price because of contango
- Enhanced indices such as the S&P GSCI Crude Oil Enhanced TR Index can mitigate this
 - Use dynamic futures rolling rules

S&P GSCI Enhanced Crude Oil TR Index vs. NYMEX WTI front-month futures price





About Source Commodity ETPs

Source commodity ETPs

| Product name | Exchange | Bloomberg | Reuters | Fixed fee |
|---|--------------|------------------------|-----------------------|-----------|
| S&P GSCI™ Total Return | SIX Xetra | SGSCI SW SGSCI GR | SGSCI.S SGSCI.DE | 0.49% |
| S&P GSCI™ Light Energy Total Return | SIX Xetra | SGSLE SW SGSLE GR | SGSLE.S SGSLE.DE | 0.49% |
| S&P GSCI™ Ultra Light Energy Total Return | Xetra | SGSULE GR | SGSULE.DE | 0.49% |
| S&P GSCI™ Agriculture Total Return | SIX Xetra | SFARM SW SFARM GR | SFARM.S SFARM.DE | 0.49% |
| S&P GSCI™ Energy Total Return | SIX Xetra | SENERG SW SENERG GR | SENERG.S SENERG.DE | 0.49% |
| S&P GSCI™ Non-Energy Total Return | Xetra | SNONEN GR | SNONEN.DE | 0.49% |
| S&P GSCI™ Petroleum Total Return | Xetra | SPETRO GR | SPETRO.DE | 0.49% |
| S&P GSCI™ Precious Metals Total Return | SIX Xetra | SPMETL SW SPMETL GR | SPMETL.S SPMETL.DE | 0.49% |
| S&P GSCI™ Grains Total Return | SIX Xetra | SGRAIN SW SGRAIN GR | SGRAIN.S SGRAIN.DE | 0.49% |
| S&P GSCI™ Industrial Metals Total Return | SIX Xetra | SIMETL SW SIMETL GR | SIMETL.S SIMETL.DE | 0.49% |
| S&P GSCI™ Livestock Total Return | Xetra | SLIVE GR | SLIVE.DE | 0.49% |
| S&P GSCI™ Softs Total Return | Xetra | SSOFT GR | SSOFT.DE | 0.49% |
| S&P GSCI™ Aluminum Total Return | Xetra | SALUMI GR | SALUMI.DE | 0.49% |
| S&P GSCI™ Coffee Total Return | Xetra | SCOFF GR | SCOFF.DE | 0.49% |
| S&P GSCI™ Copper Total Return | SIX Xetra | SCOPP SW SCOPP GR | SCOPP.S SCOPP.DE | 0.49% |
| S&P GSCI™ Corn Total Return | SIX Xetra | SCORN SW SCORN GR | SCORN.S SCORN.DE | 0.49% |

| Product name | Exchange | Bloomberg | Reuters | Fixed fee |
|---|--------------|------------------------|-----------------------|-----------|
| S&P GSCI™ Cotton Total Return | Xetra | SCOTN GR | SCOTN.DE | 0.49% |
| S&P GSCI™ Crude Oil Total Return | Xetra | SWTI GR | SWTI.DE | 0.49% |
| S&P GSCI™ Crude Oil Enhanced Total Return | SIX Xetra | SEWTI SW SEWTI GR | SEWTI.S SEWTI.DE | 0.49% |
| S&P GSCI™ Gold Total Return | Xetra | SGOLD GR | SGOLD.DE | 0.49% |
| S&P GSCI™ Natural Gas Total Return | SIX Xetra | SNGAS SW SNGAS GR | SNGAS.S SNGAS.DE | 0.49% |
| S&P GSCI™ Nickel Total Return | Xetra | SNICKL GR | SNICKL.DE | 0.49% |
| S&P GSCI™ Silver Total Return | Xetra | SSILVR GR | SSILVR.DE | 0.49% |
| S&P GSCI™ Soybeans Total Return | SIX Xetra | SSOYB SW SSOYB GR | SSOYB.S SSOYB.DE | 0.49% |
| S&P GSCI™ Sugar Total Return | SIX Xetra | SSUGAR SW SSUGAR GR | SSUGAR.S SSUGAR.DE | 0.49% |
| S&P GSCI™ Wheat Total Return | SIX Xetra | SWHEAT SW SWHEAT GR | SWHEAT.S SWHEAT.DE | 0.49% |
| S&P GSCI™ Zinc Total Return | Xetra | SZINC GR | SZINC.DE | 0.49% |
| Source Physical Gold | SIX LSE | SGLD SW SGLD LN | SGLD.S SGLD.L | 0.29% |
| Source Physical Silver | LSE | SSLV LN | SSLV.L | 0.39% |
| Source Physical Platinum | LSE | SPPT LN | SPPT.L | 0.39% |
| Source Physical Palladium | LSE | SPAL LN | SPAL.L | 0.39% |

Source Precious Metal P-ETCs: Structural Overview

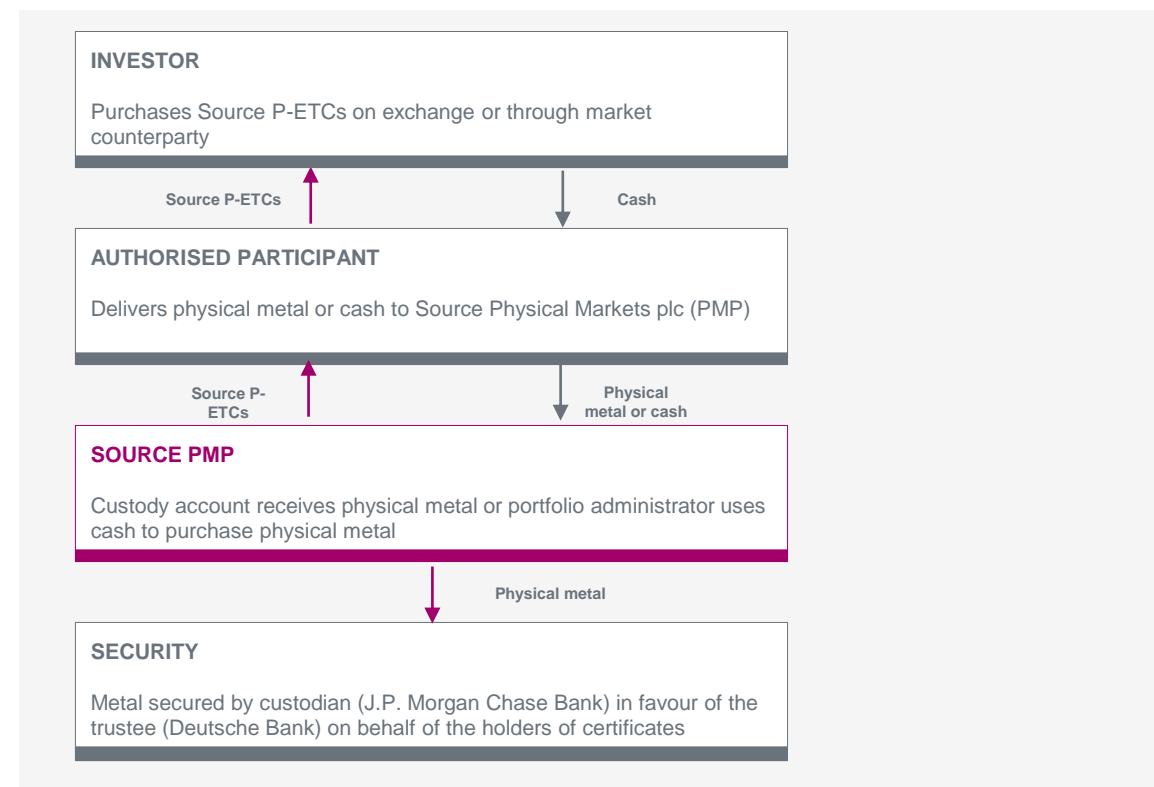
Structural overview

- Designed to provide exposure to the spot prices of gold, silver, platinum and palladium
- Secured by a specific physical investment in metal
 - Each P-ETC is a certificate, secured by physical metal held in J.P. Morgan Chase Bank's London vaults
 - Metal is held primarily in allocated bars, with only residual positions in unallocated accounts
- Among the most efficient physical precious metal tracking products on the market
- Can be created/redeemed on demand by market makers
- UCITS III eligible

Precious metals P-ETCs

| | |
|---------------------------------|--------------------|
| Source Physical Gold P-ETC | SGLD LN SGLD SW |
| Source Physical Silver P-ETC | SSLV LN |
| Source Physical Platinum P-ETC | SPPT LN |
| Source Physical Palladium P-ETC | SPAL LN |

Source P-ETC issuance structure



Source T-ETCs: Structural overview

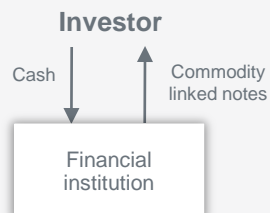
Source commodity T-ETCs

- T-ETCs are secured with US Treasury Bills and cash placed in a bankruptcy remote vehicle
- Related swaps are collateralised with G-7 government bonds and cash and reset weekly
- Track the underlying S&P GSCI index family:
 - Total return performance
 - Swap-based model
- Listed on SIX in USD and XETRA (Deutsche Boerse) in Euro
- Created/redeemed on demand by market makers
- UCITS III eligible
- Portfolio administrator: Wells Fargo
- Trustee: Deutsche Trustee Company

Source T-ETCs: Reduced counterparty exposure

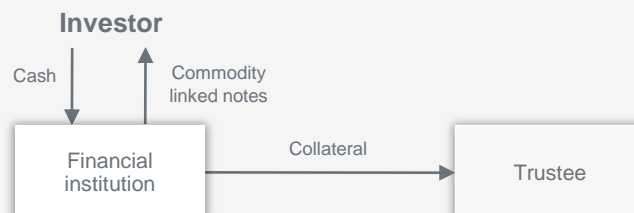
Uncollateralised Structured notes

- Structured note issued by a financial institution
- No collateral
- **Risk is that financial institution defaults, eliminating both principal and performance**



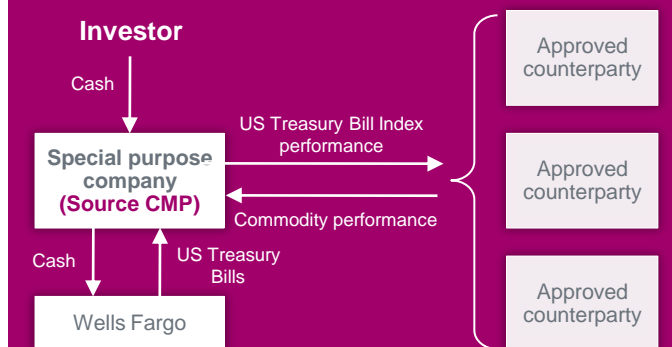
Collateralised Structured notes

- Structured note issued by a financial institution (sometimes indirectly, e.g. ETFs)
- Financial institution places collateral with a 3rd party trustee which can be sold if the financial institution defaults
- Broad range of eligible collateral
- **Risk is that financial institution defaults and either:**
 - **Value of the collateral is worth less than the amount owed to note holders**
 - **Liquidator or administrator of the defaulting financial institution seeks to delay or prevent disposal of the collateral**

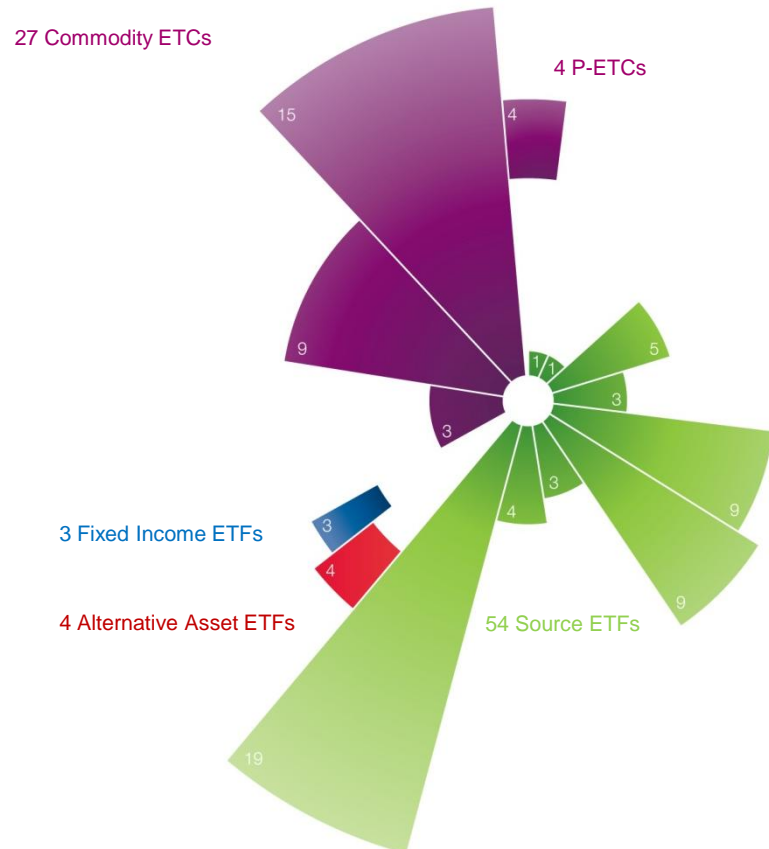


Source T-ETCs

- Issuer is a special purpose, bankruptcy remote company
- Issuer invests all proceeds in US Treasury bills purchased and custodied by Wells Fargo (which is neither shareholder nor derivative provider for Source)
- Issuer trades swaps with approved counterparties to get commodity exposure
- Swaps are marked-to-marked daily and counterparties provide cash or G7 bonds as collateral against market movements
- Swaps reset weekly and any upside performance is reinvested in US Treasury bills



Source: The full product offering



Source ETFs

- Physical funds, with swap enhancement
- Multiple Authorised Participants (BofA Merrill Lynch, Credit Suisse, Goldman Sachs, J.P.Morgan, Morgan Stanley and Nomura) provide trading liquidity
- Diversification of credit risk across multiple counterparties, with maximum counterparty exposure of 4.5% (more aggressive than UCITS requirement) and in practice counterparty exposure that tends to range between +2% and -2% and averages at 0%

PIMCO Source Fixed Income ETFs

- Direct access to PIMCO's fixed income expertise
- Source's proven distribution model and ability to enhance trading liquidity

Source commodity T-ETCs

- Total-return performance of 27 members of the S&P GSCI index family
- Fully collateralised by US Treasury Bills and cash; listed and traded on SIX and XETRA

Physically secured commodity P-ETCs

- Secured by physical metal; listed and traded on the LSE or SIX (SGLD only)
- Transparent and competitive cost structure

Source: The website www.source.info

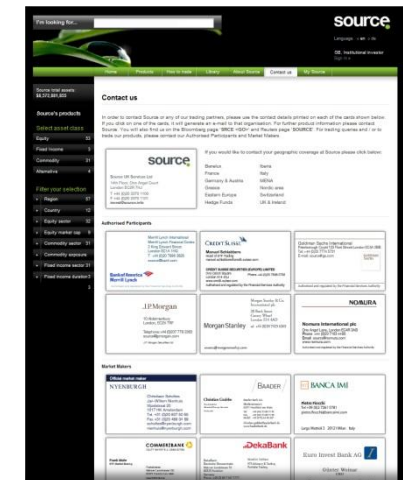
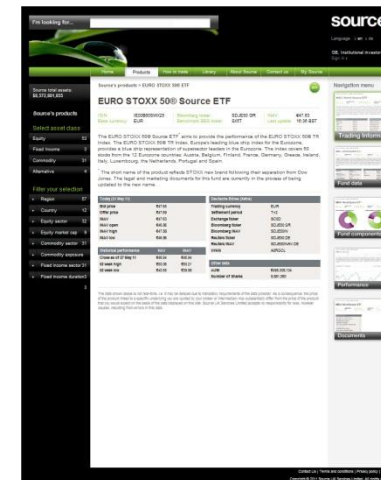
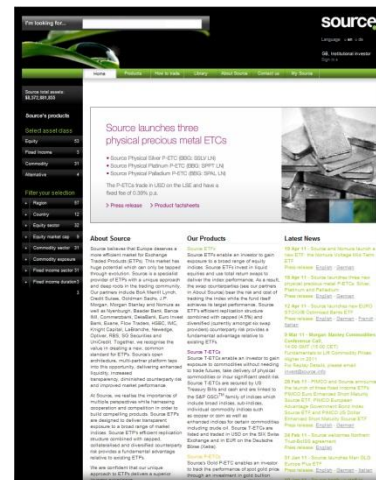
Home page with the latest product information, conference call details and press releases

Product tab with all available product information including summary data, index overview and legal documents

How to trade explanation of execution process

About Source - our mission, value statement, employees, founders and partners

Contact us - Source and our trading partners



Source: Additional information

Additional information

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| Reuters | (page SOURCE) | | |
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