

Exchange Traded Commodities (ETCs) Fact Sheet

INTRODUCTION

One way to invest in commodities such as oil, wheat and cocoa is to buy the actual commodities themselves and store them in a warehouse. However, this would be impractical to the majority of investors. Alternatively, you can invest into individual equities or open-ended funds, but this would not necessarily track the underlying commodity returns, furthermore, share prices can typically fall despite commodity prices rising. Exchange Traded Commodities (ETCs) are an alternative for investors wanting exposure to commodities. Investors can typically gain exposure to individual commodities or a basket of goods through an index related ETC.

BENEFITS

- They are open-ended securities ~ the price is largely affected by change in the spot commodity price.
- Diversification ~ by adding different asset types to your portfolio the risk is spread so a fall in one asset may be offset by a rise in another.
- Can be traded during normal market hours (8.00am - 4.30pm).
- No requirement to pay government Stamp Duty ~ normally charged at 0.5% on purchases of shares.
- Eligible for ISAs and SIPPs.
- Standard charges apply (see www.redmayne.co.uk/terms).

RISKS

- Correlation returns may be affected by the underlying investments through contango and backwardation leading to tracking error.
- Geopolitics and macroeconomics can add volatility to commodity markets.
- Leveraged ETCs are best used for short-term trading due to the effect of daily rebalancing.
- Some ETCs are defined as 'complex instruments' by the Financial Conduct Authority (FCA), and we are required to satisfy ourselves that you have the experience and knowledge to enable you to understand the risk involved when dealing in these. Please see 'GETTING STARTED' overleaf for further details.

COUNTERPARTY RISK

As ETCs have grown in popularity, providers have begun to use different methods to gain exposure to the underlying investments, for instance 'swap-based' ETCs replicate the performance of an index or commodity through using index swap agreements, also known as a synthetic structure. The complex nature of these agreements, involving 'swapping' assets between two or three different parties, in order to generate a return equivalent to that of the index or commodity being tracked, means that there are additional risks involved that may not be apparent initially. In particular, although the return should still match the index in strong market conditions, the basket of assets may not replicate it and may potentially hold illiquid assets instead.

Therefore, if market conditions fall quickly, the provider may be forced to sell illiquid assets at a significant discount, which in turn will affect the price of the ETC and in the worst case may delay payment. Secondly, by introducing additional counterparties into the equation the risk is heightened because the investment is only as safe as those parties the ETC provider is trading with. If they fail to honour the swap agreement or get into financial difficulties themselves then the investment will also be impacted and might fail altogether. The other type of ETC is a physically backed ETC where the actual commodity is bought and is usually kept safe by a custodian.

ETCS AVAILABLE

The ETC (combined with ETFs) market has grown into a trillion Dollar industry with more and more providers emerging year-on-year. Some of the main providers include ETF Securities, iShares, Lyxor and Deutsche Bank db X-trackers.

ETCs are available for both indices and for individual commodities and the table below details a handful of the investments available by provider. Investors wanting to take on more risk can use leveraged ETCs which exaggerate the market movements and can therefore be extremely volatile. These are designed for more sophisticated investors. The prospectus will give more information on the risks of an ETC which can be accessed directly from the providers.

EXAMPLE OF INDIVIDUAL COMMODITY ETCs

ETF Securities			
ETC SECURITY NAME	EPIC CODE	ETC SECURITY NAME	EPIC CODE
ETFS Aluminium	ALUM	ETFS Silver	SLVR
ETFS Brent Oil	OILB	ETFS Sugar	SUGA
ETFS Coffee	COFF	ETFS Wheat	WEAT
ETFS Physical Gold	PHGP	ETFS Zinc	ZINC
iShares			
ETC SECURITY NAME	EPIC CODE	ETC SECURITY NAME	EPIC CODE
iShares Physical Gold	SGLN	iShares Physical Platinum	SPLT
iShares Physical Palladium	SPDM	iShares Physical Silver	SSLN

EXAMPLE OF INDEX COMMODITY ETCs

ETF Securities			
ETC SECURITY NAME	EPIC CODE	ETC SECURITY NAME	EPIC CODE
ETFS Agriculture DJ-AICGI	AIGA	ETFS Industrial Metals DJ-AIGCI	AIGI
ETFS All Commodities DJ-AICGI	AIGC	ETFS Livestock DJ-AIGCI	AIGL
ETFS Energy DJ-AIGCI	AIGE	ETFS Precious Metals DJ-AIGCI	AIGP
ETFS Grains DJ-AIGCI	AIGG	ETFS Softs DJ-AIGCI	AIGS
Lyxor			
ETC SECURITY NAME	EPIC CODE	ETC SECURITY NAME	EPIC CODE
ETF Commodities CRB	LCTY	ETF Commodities CRB Non-Energy	LCNE
db-X-trackers			
ETC SECURITY NAME	EPIC CODE	ETC SECURITY NAME	EPIC CODE
DBLCI - OY Balanced ETF	XDBG	-	-

GETTING STARTED

You can buy and sell ETCs in the same way as shares. Pricing and trading is in real time and you can call us at any time to obtain the latest price information. There are no share certificates so this means that you must have a Redmayne Bentley Nominee account or ISA. You must be aware of and understand the risks involved when dealing in ETCs. In this sense ETCs are ‘derivatives’ and may involve a level of gearing, which increases their risk and volatility. Under the current regulations and the rules of the Financial Conduct Authority (FCA), we are required to satisfy ourselves that you have the experience and knowledge to enable you to

understand the risk involved when dealing in ‘complex instruments’ such as some ETCs. Therefore, before you can trade in these you must undertake an assessment to demonstrate your knowledge and understanding of complex instruments, and this will involve completing our *Complex Instruments: Appropriateness Assessment Form*. For further details please call our Dealing Room on 0113 243 6941 or your usual Redmayne Bentley office who will be happy to answer any queries you may have, or alternatively visit: www.redmayne.co.uk