Zürcher Kantonalbank

ZKB Commodity Sector Indices

Participation

Content

Introduction

Parameters

Structured Products on ZKB Commodity Sector Indices

1. Direct and unlimited participation in selected commodities
2. Application of the established ZKB Q-MAT maturity selection model
3. Choice between six single sectors and two aggregated sectors
4. Optimised diversification through equally weighted index components
5. Possibility to combine the sectors in a flexible way
6. Index Tracker with a sophisticated currency hedge

Why invest in commodities?

There are many reasons why investors should consider commodities. Commodities offer a chance for attractive yields due to chronic shortage of commodities, increasing demand coming from Emerging Markets and last but not least also because of the recent developments in monetary policy. Additionally, commodities offer an excellent diversification effect in a mixed portfolio.

Why invest in single commodity sector indices?

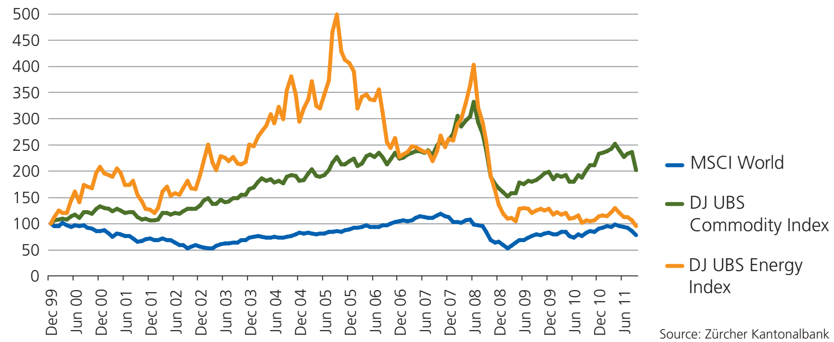
The term «commodities» stands for a very diverse group of durable goods, which are divided into different classes: energy, industrial metals, precious metals, soft commodities, crop and live stock. Each sector develops in its own dynamic way because they are all influenced by different demand factors affecting prices. It is therefore lucrative to invest in single sectors on the basis of a business-cycle-dependent approach.

Sectors

Single sectors (Examples)

Energy

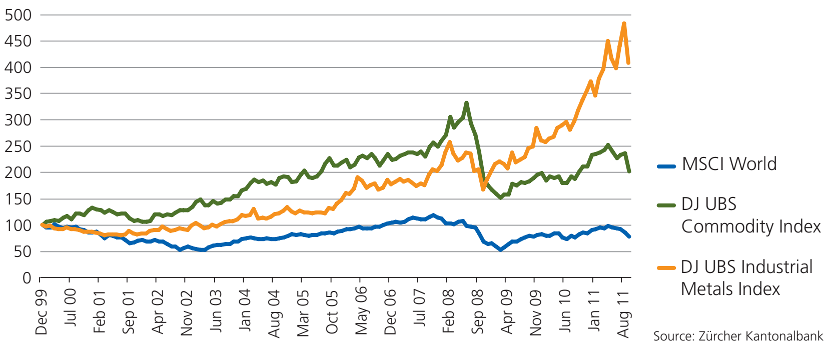
The energy sector consists of Crude Oil (WTI and Brent), Gasoil, Heating Oil, Natural Gas and RBOB-Gasoline (unleaded gasoline). Measured by world production of commodities, the energy sector takes the biggest weight.



Source: Zürcher Kantonalbank

Industrial Metals

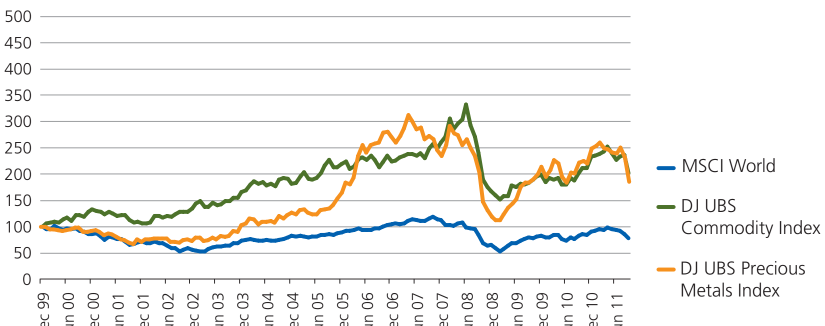
The industrial metals sector consists of Aluminium, Copper, Lead, Nickel and Zinc. The demand and therefore the prices of these commodities rely strongly on the economic cycle because these commodities are mainly used in the construction and production area.



Source: Zürcher Kantonalbank

Precious Metals

Gold, Silver, Platinum and Palladium form the precious metals sector. The quality of these commodities lies in the fact that they are also used to store wealth.

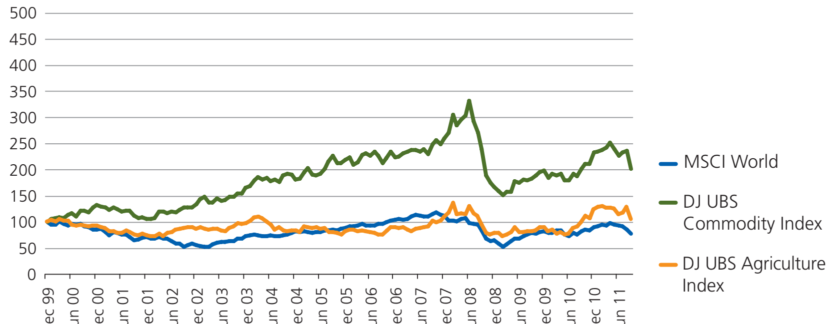


Source: Zürcher Kantonalbank

Aggregated Sectors (Example)

Agriculture

The agriculture sector is an aggregated sector and can be split into soft commodities, crop and live stock. The latter two are available as single sectors to invest in. Very typical for these sectors is, that they are strongly influenced by weather and protectionism.



Source: Zürcher Kantonalbank

Commodity Indices

ZKB Commodities Sector Indices

The ZKB Commodities Sector Indices offer a possibility to participate in the development of the sectors energy, industrial metals, precious metals, soft commodities, crop and live stock. The single sectors are equally weighted for the purpose of optimised diversification.

In order to invest in a broader spectrum of commodities, two aggregated sector indices are available. Agriculture combines the three sectors soft commodities, crop and live stock and weighs these three sub-sectors based on their trading volumes. In the Commodity Basket all available sectors are included and are also weighted based on their trading volumes. Thus, this index represents the total of all commodities.

Single Sectors	Annual Fee	Index Components	
Energy	1.35 %	16.66%	WTI-Crude Oil
		16.66%	Brent-Crude Oil
		16.66%	Gasoil
		16.66%	Heating Oil
		16.66%	Natural Gas
		16.66%	RBOB Gasoline
Industrial Metals	1.35 %	20.00%	Aluminium
		20.00%	Copper
		20.00%	Lead
		20.00%	Nickel
		20.00%	Zinc
Precious Metals	0.90%	25.00%	Gold
		25.00%	Silver
		25.00%	Platinum
		25.00%	Palladium
Soft Commodities	1.35 %	25.00%	Coffee
		25.00%	Cocoa
		25.00%	Sugar
		25.00%	Cotton
Crop	1.35 %	20.00%	Corn
		20.00%	Wheat
		20.00%	Kansas Wheat
		20.00%	Soy Beans
		20.00%	Soy Bean Oil
Live Stock	1.35 %	33.33%	Cattle
		33.33%	Lean Hogs
		33.33%	Live Cattle

Aggregated Sectors	Annual Fee	Index Components	
Commodity Basket	1.60 %	11.00%	Soft Commodities
		26.00%	Crop
		6.00%	Live Stock
		41.00%	Energy
		9.00%	Industrial Metals
		7.00%	Precious Metals
Agriculture	1.60 %	27.00%	Soft Commodities
		60.00%	Crop
		13.00%	Live Stock

Optimised rollover

Maturity selection model as base for the index construction

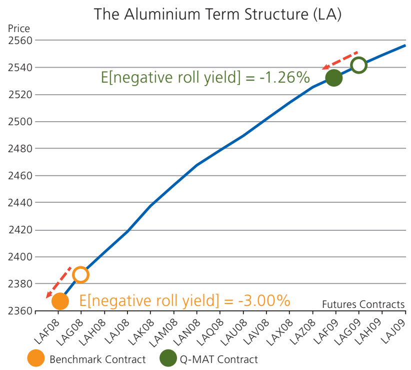
As a result when rolling Futures, there will inevitably be roll yields, positive or negative ones. A positive roll yield exists if the expiring future contract has a higher price than the contract further down the timeline. In the opposite case, a negative roll yield is the result (see also chart on page 11). However, there are different futures contracts available and it is rational to select the futures contract that minimises the negative roll yields, respectively maximises the positive ones. Because the underlyings are so diverse, the maturity of each futures contract should be selected one by one. As the optimal maturity for each contract shifts continuously, it has to be managed dynamically (meaning a new maturity is selected at each roll-over). This process is repeated each month. In precious metals there is no added value by optimising the maturity and is therefore neglected.

But, how is an optimised rollover realised? In order to reduce negative roll yields (futures curve is in contango) one chooses a futures contract with an expiration date where the futures curve is less steep compared to the front months futures contract. The flatter the curve, the smaller the negative roll yield. In order to maximise the positive roll yields, a similar procedure is carried out (futures curve is in backwardation). Now, the futures contracts on the curve where they fall the most are selected.

All sector indices generate added value when the optimised maturity is selected, thanks to the ZKB Q-MAT maturity selection model. There is no short-selling involved and the maximum investment grade is 100%. The investment in commodity futures is covered at 100% by riskless assets.

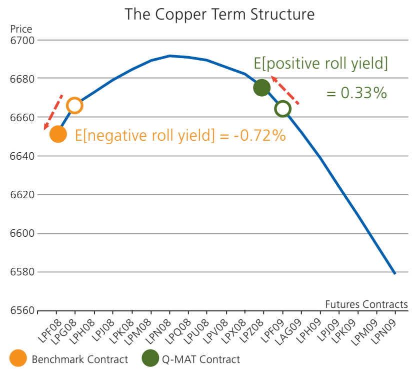
Contango

Minimising the negative roll yield based on an example on Aluminium



Backwardation

Maximising the positive roll yield based on an example on Copper



Investment Solution

How to invest?

An investment in the sector indices is possible with the respective Index Tracker. The Index Trackers are suitable for qualified and private investors, who like to use them as modular building blocks. The maturity is open end and the currency exposure is hedged on a daily basis.

Opportunities

- Added value due to the underlying-specific and dynamic roll optimisation
- Application of the established ZKB Q-MAT maturity selection model
- Best diversification due to equally weighted underlyings
- Possibility to combine the sectors in a flexible way

Risks

- The price of the Tracker Certificate moves to the same extent as the underlying (negative or positive). Tracker Certificates can trade below their issue price.
- Investors bear the Issuers Risk of Zürcher Kantonalbank.

Redemption Mode

At redemption, the cash repayment reflects the performance of the underlying minus fees.

Terms

Issuer	Zürcher Kantonalbank, Zurich
Maturity	Open End
Currency	CHF, daily hedge against the USD
Issue Price	CHF 101.00 for Retail Tranche CHF 100,250.00 for Institutional Tranche
Notional	CHF 100.00 for Retail Tranche CHF 100,000.00 for Institutional Tranche
Listing	will be listed on the SIX Swiss Exchange
Annual Fee	depending on the sector index, the annual fee amounts to between 0.90% and 1.60% for the Retail Tranche and 0.50% p.a. for the Institutional Tranche

Life Cycle Management

The Issuer publishes periodically a detailed reporting that shows the weights of the indices and their respective performances.

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