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Overview of UBS Exchange Traded Commodities (ETCs)

Information on UBS ETCs within a UCITS framework

Background and Overview

The purpose of this Overview is to provide information about the UBS Exchange Traded Commodities (UBS ETCs) in the context of potential UCITS eligibility. UBS ETCs are delta-1 products listed on various exchanges across Europe including SIX Swiss Exchange, London Stock Exchange and Borsa Italiana. Each UBS ETC provides exposure to either a) a distinct commodity future; b) a single commodity index; or c) a basket of commodity futures and/or commodity indices

For information related to the Luxembourg law, the information provided is in reference inter alia to the Law of 17 December 2010 relating to undertakings for collective investment (the **2010 Law**), the Grand Ducal Regulation of 8 February 2008 (the **Grand-Ducal Regulation**) and the ESMA Guidelines 2014/937 on ETFs and other UCITS issues. For information related to the Irish law, the information provided is in reference to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011, as amended and the Central Bank of Ireland guidance which is available at:

<http://www.centralbank.ie/regulation/industry-sectors/funds/ucits/Pages/GuidanceonUCITSRegulations.aspx>.

We understand that under both Luxembourg and Irish law, certain transferable securities which are listed on regulated exchanges are

considered eligible assets for a UCITS. Our assumption is that under these guidelines, UBS ETCs could be considered as transferable securities based on the following criteria:

- a) the potential loss which the UCITS may incur with respect to holding those instruments is limited to the amount paid for them;
- b) their liquidity does not compromise the ability of the UCITS to comply with its obligation to provide at least fortnightly redemption facilities;
- c) a reliable valuation is available for them;
- d) appropriate information is available for them;
- e) they are negotiable;
- f) their acquisition is consistent with the investment objectives or the investment policy, or both, of the UCITS; and
- g) their risks are adequately captured by the risk management process of the UCITS.

Diversification

As an additional consideration for investors in the UBS ETCs, we understand that a UCITS may invest no more than 10% of its assets in transferable securities or money market instruments issued by the same body. The total value of the transferable securities and money market instruments held by a UCITS in the issuing bodies in each of which it invests more than 5% of its assets shall not exceed 40% of the value of its assets. This limit does not apply inter alia to deposits and OTC financial derivative transactions made with financial institutions.

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Overview of UBS Exchange Traded Commodities (ETCs)

Please see summary below for UBS ETCs with respect to the criteria for transferable securities:

a) the potential loss which the UCITS may incur with respect to holding those instruments is limited to the amount paid for them;

UBS ETCs are delta-1 securities that provide 1-1 exposure to the underlying. Each of the UBS ETCs, have a minimum value of zero, meaning that holders thereof cannot lose more than the purchase price of such UBS ETC.

b) their liquidity does not compromise the ability of the UCITS to comply with its obligation to provide at least fortnightly redemption facilities;

Each UBS ETC is listed on a regulated exchange such as the SIX Swiss Exchange, London Stock Exchange, or Borsa Italiana. UBS as issuer provides daily levels of each security and can provide a secondary market upon request from clients under normal market conditions. Note that UBS ETCs provide a delta-1 exposure to the underlying commodity/basket and hence liquidity is driven by the underlying commodities markets which are highly liquid.

c) a reliable valuation is available for them;

Daily secondary market levels are available via the exchange. Levels are also provided by UBS via Bloomberg and/or Keyinvest.

d) appropriate information is available for them;

ETCs are exchange listed. Comprehensive information is available on Bloomberg and/or www.ubs.com/keyinvest and/or www.ubs.com/cmci.

e) they are negotiable;

The ETCs are issued in dematerialized book entry securities and as such are fully negotiable.

h) their acquisition is consistent with the investment objectives or the investment policy, or both, of the UCITS;

In the context of a managed commodities exposure, and dependent on the ETC held, having exposure to the performance of the ETCs would be potentially consistent with the investment objective of such UCITS.

f) their risks are adequately captured by the risk management process of the UCITS;

The UCITS should be risk managed taking into account the risks of the UBS ETCs acquired by the UCITS including, amongst other things, the liquidity risks arising from the commodity exposure underlying the UBS ETCs.

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