BETASHARES COMMODITY ETFS
FREQUENTLY ASKED QUESTIONS

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What is the structure of BetaShares Commodity ETFs?

Because it is possible to store physical gold bullion, BetaShares Gold Bullion ETF is backed by physical gold bullion. Most commodities, however involve significant storage and handling costs. As storage and handling can be impractical and costly for many commodities, investing in such commodities typically occurs via investment in commodities futures.

BetaShares Commodity ETFs (other than BetaShares Gold Bullion ETF), like most commodities ETFs globally track the performance of indices based on commodities futures. To do this, each ETF invests its assets in cash and is paid the performance on the underlying index by a counterparty via swap agreements with one or more financial institutions. Because the ETF obtains exposure to the performance of commodities in the way described above, the ETF is referred to as a "synthetic" ETF. However, BetaShares ETFs structured in this fashion are fully backed by cash, which is held in a segregated account by a third party custodian, RBC Investor Services.

What are commodity futures?

A futures contract is a contract which sets the price for delivery of a particular commodity at an agreed point of time in the future. Commodity futures are traded on futures exchanges globally - they are liquid and standardised and utilised by commodities investors throughout the world.

What is an "ETC"? Is it different from a commodity ETF?

ETC stands for "exchange traded commodity". Like a Commodity ETF, an ETC trades on ASX and tracks the price of an underlying commodity. Commodity ETFs are managed funds (i.e. "unit trusts"), and are subject to the highest form of investor protection regulation in Australia. ETCs, by contrast, are classified as "structured products" and may use a variety of structures to deliver their investment return. They are generally subject to less onerous regulation than ETFs and may have different tax outcomes for investors.

What assets are held by BetaShares Commodity ETFs?

BetaShares Gold Bullion ETF is backed by physical gold bullion. The other BetaShares Commodity ETFs are fully backed by cash. These assets are held in a segregated account with a third party custodian, being RBC Investor Services.

What price is tracked by BetaShares Commodity ETFs?

BetaShares Commodity ETFs (other than BetaShares Gold Bullion ETF), like most commodities ETFs globally track the performance of indices based on commodities futures (hedged into Australian dollars). Indices based on commodities futures may perform differently to the underlying commodity itself.

BetaShares Gold Bullion ETF tracks the price of gold bullion, with a currency hedge against movements in AUD/USD exchange rate, before fees and expenses. BetaShares Gold Bullion ETF is backed by physical gold bullion.

Do commodity ETFs always track the underlying commodity spot price?

It depends on the underlying commodity.

Where it is possible to access and store the relevant commodity, an ETF can directly track the underlying spot price. For example, the BetaShares Gold Bullion ETF tracks the spot price of gold (with a hedge against movements in the AUD/USD exchange rate).

Many commodity ETFs, however, are priced off futures contracts. This is because, for many commodities (e.g., oil, agricultural products), it is not possible to physically access and store the underlying commodity for long periods. In addition, futures pricing can be more efficient for some commodities, especially where the futures contracts helps to standardise the pricing (e.g, agricultural commodities where quality varies between crops, seasons and regions).

An investment in an ETF that tracks commodities futures is not the same as investing in the spot price of the commodity itself.

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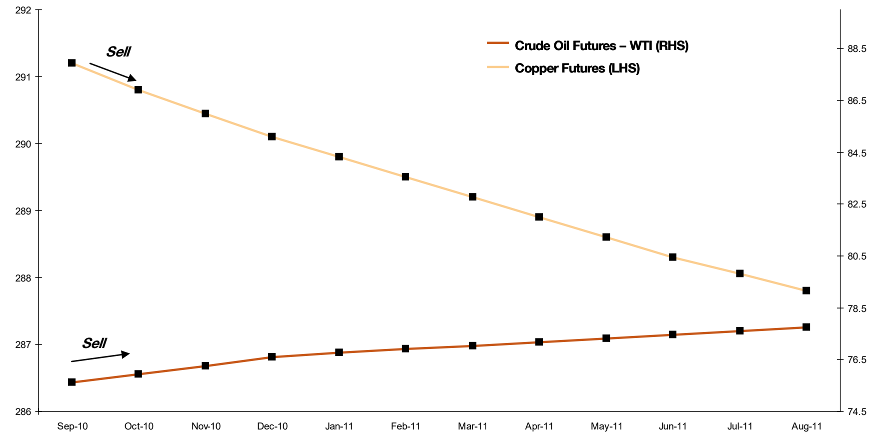
What is 'futures roll', contango and backwardation?

Most often, investors in commodities futures do not wish to take delivery of the commodity itself. As such, investors usually trade their futures contracts before expiry and replace them with contracts with a later expiry instead. This process is known as "rolling". Understanding rolling is important for commodities investors as it impacts investment returns.

As an example, the new futures contract that investors 'roll' into may refer to a higher future price, which would mean that the investor receives fewer new contracts for the same investment amount. Assuming the commodity price does not rise, the rolling will result in a loss. This phenomenon is known as "contago". The opposite scenario can also occur, where the new futures contract an investor 'rolls' into may refer to a lower price. Assuming then that the commodity price does not change at the time of the expiry, the investor will profit. This is known as "backwardation".

The below figure depicts these two scenarios, using the example of a crude oil and a copper futures contract. As the figure shows, the crude oil contract which expired on September 2010 was sold, and, in place a more expensive contract was purchased – i.e. the crude oil futures were in *contango*. The line depicting the copper futures contracts indicate that the September 2010 contract was sold and was replaced by a cheaper contract expiring the next month. As the slope of the line indicates, the contracts that expire beyond September 2010 imply a further decrease in the price of copper – that is, the copper futures are in *backwardation*.

COPPER FUTURES AND CRUDE OIL (WTI) FUTURES: SEPTEMBER 2009 CURVE FOR AUGUST 2010-AUGUST 2011 DELIVERY

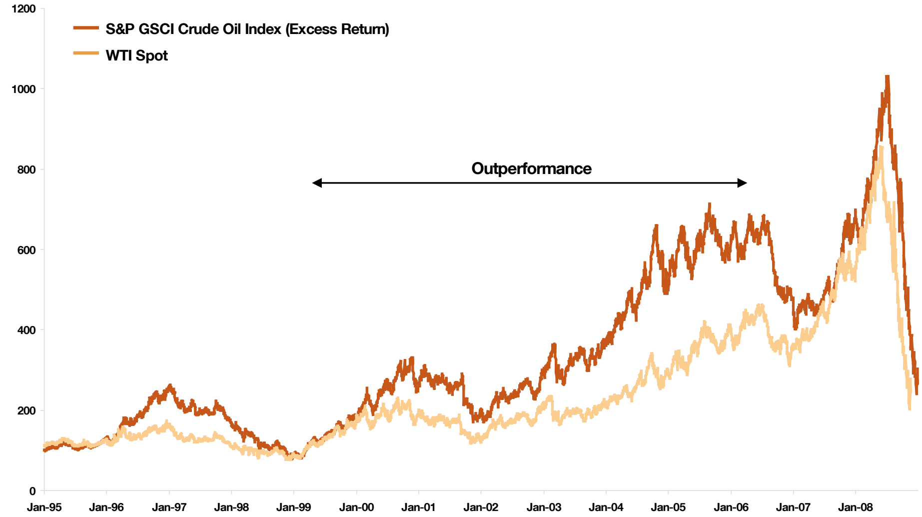


Source: Bloomberg. Past performance is not an indicator of future performance.

Is it possible for ETFs based on futures contracts to outperform the commodity spot prices?

Yes, it is. When the futures contracts are in 'backwardation', the 'roll return' will be positive which would lead to outperformance compared to the commodity 'spot price'. For example, the following diagram depicts the performance of the S&P GSCI Crude Oil Index (an index based on oil futures contracts) in the period 1995-2009. As the below indicates, the Index outperformed the spot price of oil from 1999-2006 as the oil futures contracts were in backwardation for extended periods during that period.

PERFORMANCE OF S&P GSCI CRUDE OIL INDEX V 'SPOT' OIL – JANUARY 1995 – JANUARY 2009



Source: Bloomberg. Past performance is not an indicator of future performance.

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Is there any way to avoid the effects of rolling?

For certain commodities, and to access diversified baskets of commodities, the only way for investors to get investment exposure is via futures contracts (and via indices based on these contracts). Rolling futures are a necessary part of investing in these commodities and cannot be avoided.

What are the sources of return of BetaShares Commodity ETFs?

BetaShares Commodity ETFs (other than BetaShares Gold Bullion ETF) are 'total return' commodity ETFs. Total return commodities ETFs have three sources of performance:

1. The performance of the commodity price ('spot return')
2. Roll return
3. Collateral return

The **spot return** is simply the return of the commodity price(s) being tracked by the underlying index.

The **roll return** is the return that derives from selling the soon-to-expire futures contract and re-investing the proceeds in later-dated futures contract. If the profile of the futures contracts are in backwardation, this roll return will be positive; if the futures contracts are in contango, this roll return will be negative.

The **collateral return** is the return that derives from investing the assets held by the ETF. As BetaShares Commodity ETFs (other than BetaShares Gold Bullion ETF) are backed by cash, the collateral return of BetaShares Commodity ETFs will be similar to RBA Cash rate.

BetaShares Commodity ETFs Trading Information

BetaShares Commodity ETFs can be bought or sold throughout the trading day on the ASX, and trade like ordinary shares.

About BetaShares

BetaShares is a specialist provider of fund products that are traded on the Australian Securities Exchange. Our objective is to expand the universe of investment possibilities for investors in Australia.

BetaShares is part of the Mirae Asset Global Investment Group, one of the largest asset managers in Asia. Currently, Mirae manages approximately US$60B, including over US$9B in the Horizons family of ETFs.

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Source: Bloomberg. Past performance is not an indicator of future performance.

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