A COMMODITY INDEX THAT GOES EASY ON THE OIL

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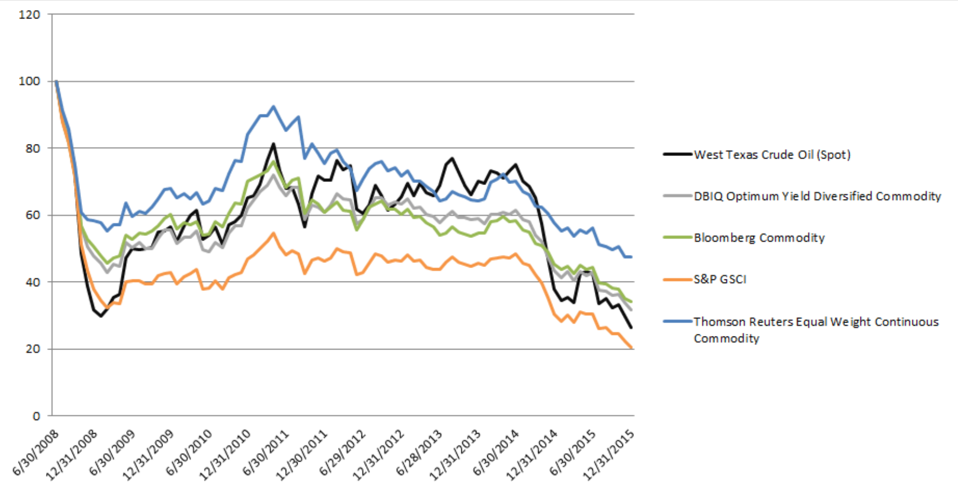
One of the major financial stories of 2015 was the continued fall of commodity prices, led by the collapsing price of oil. Those who bought into the proposition that broad-based commodity exposure could protect them from future inflation have taken a beating—not just in 2015, but since 2011 when the U.S. dollar embarked on a multiyear bull run. A global lull in industrial production, worsened by a manufacturing slowdown in China, has put pressure on a host of industrial metals. And with global production currently outstripping consumption, the planet is awash with crude oil. But while this pain has been felt by almost all commodity investors, it certainly was not shared equally among them. If we look at how some of the better-known commodity indexes performed over the past decade, we can see that not all broad-based commodity indexes are created equal. In fact, when surveying the commodity landscape, no benchmark emerges as the asset class's indisputable "beta." Index returns in this space vary greatly. The returns and the volatility exhibited over the last eight years were deeply impacted by how much weight each index typically assigns to oil—the "black gold" of the commodity universe. And like the annualized returns, target oil weights vary widely depending on the index. The chart below shows both the West Texas Crude Oil (Spot) Index and major broad-based commodity Indexes since oil began its dramatic multiyear price decline, beginning in July 2008. Since crude oil spiked to nearly $150 per barrel in the first half of 2008, the price has fallen steadily over the past 8 years, with some of the most stunning declines occurring over the past 18 months. By scaling the Indexes to 100, we can see how much each of these broad-based commodity Indexes have lost over the same period.

Oil and Major Commodity Indexes 6/30/2008 to 12/31/2015



	Oil Weight*	1 - Year	3 - Year	5 - Year	10 - Year	10 Yr Annualized Standard Deviation	Period Annualized Total Return**	Period Annualized Standard Deviation
Thomson Reuters Equal Weight Continuous Commodity	5.9%	-17.76%	-12.80%	-10.83%	-2.91%	16.55%	-9.44%	16.62%
Bloomberg Commodity	15.0%	-24.66%	-17.29%	-13.47%	-6.43%	18.09%	-13.35%	18.30%
DBIQ Optimum Yield Diversified Commodity	24.8%	-26.73%	-20.45%	-12.48%	-4.38%	19.93%	-14.14%	20.34%
S&P GSCI	42.4%	-32.86%	-23.71%	-15.18%	-10.56%	23.77%	-19.00%	24.11%
West Texas Crude Oil (Spot)	100.0%	-30.47%	-26.11%	-16.52%	-4.87%	32.09%	-16.23%	33.15%

*2015 Target Weights

**Period refers to 6/30/2008 to 12/31/2015

Source: Bloomberg. Past performance is not indicative of future results.
You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of terms and indexes in the charts, visit our glossary. It is clear from this chart and table that there was a strong relationship between the performance of the Index and the weight it held in oil. Simply put, of the broad-based commodity indexes, the more oil an index had, the worse its performance was, both absolutely and on a risk-adjusted basis. The S&P GSCI Commodity Index, recognized by some as the standard bearer for broad-based commodity indexes, typically devotes close to 50% of its overall weight to crude oil. This is most likely the main reason the Index exhibited the worst returns and highest volatility over the last 10 years. By contrast, the Thomson Reuters Equal Weight Continuous Commodity Total Return Index, which equally weights the 17 commodities it measures, typically does not have more than 6% weight in oil. Not only did equally weighting the contracts limit commodity losses over this period, it enabled the Thomson Reuters Equal Weight Continuous Commodity Index to exhibit the lowest annualized standard deviation of the major commodity Indexes. To be fair, should oil rally from this point forward and meaningfully outperform other commodities, the performance of the Thomson Reuters Equal Weight Continuous Commodity Total Return Index would likely lag other indexes more concentrated in oil. For investors wishing to make that bet, specific exchange-listed products give them various ways to express such a view on oil. But if someone is looking for a broad-based commodity index that gives exposure to the entire asset class, and does not concentrate the bets in any one commodity, the equally weighted approach makes a great deal of sense. But after several years of harsh sledding, what commodity lovers need most now is not just a better commodity index. They need global growth to kick it into next gear so that inflation can once again emerge on the global stage.

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You cannot invest directly in an index.

DEFINITIONS

Inflation : Characterized by rising price levels.

Bullish : a position that benefits when asset prices rise.

Commodity : A raw material or primary agricultural product that can be bought and sold.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

West Texas Crude Oil (Spot) Index : Generic First Month Futures for Crude Oi.

Risk-adjusted basis : When calculating the return, we refines the return by measuring how much risk is involved in producing that return.

S&P GSCI Commodity Index : Comprised of the principal physical commodity futures, this index is primarily calculated on a world production weighted basis.

Thomson Reuters Equal Weight Continuous Commodity Total Return Index : is a broad-based commodity index consisting of 17 different commodities. Each of the commodities is continuously rebalanced and a Treasury bill return is added to the return from the commodities to reflect interest earned on margin.

Standard deviation : measure of how widely an investment or investment strategy’s returns move relative to its average returns for an observed period. A higher value implies more “risk”, in that there is more of a chance the actual return observed is farther away from the average return.