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S&P GSCI 2X LEVERAGED AND 2X INVERSE CAPPED COMPONENT INDICES

INDEX METHODOLOGY SUPPLEMENT

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S&P GSCI® 2X Leveraged and 2X Inverse Capped Component Indices Methodology Supplement

S&P GSCI® 2X Leveraged and 2X Inverse Capped Component Indices

The S&P GSCI 2X Leveraged Capped Component Index is a two-times leveraged version of the S&P GSCI Capped Component 35/20 Index. It seeks to provide two-times the return of the S&P GSCI Capped Component 35/20 Index on a monthly basis. The S&P GSCI 2X Inverse Capped Component Index is a two-times leveraged, inverse version of the S&P GSCI Capped Component 35/20 Index. It seeks to provide two-times the inverse return of the S&P GSCI Capped Component 35/20 Index on a monthly basis. The S&P GSCI Capped Component 35/20 Index is intended to be UCITS III compliant while maintaining continuity and component weights proportional to the S&P GSCI.

The S&P GSCI® 2X Leveraged and 2X Inverse Capped Component Index Methodology

This methodology supplement is divided into two sections: 1) the details of the S&P GSCI® Capped Component 35/20 Index and 2) the S&P futures based leveraged and inverse index methodology. This methodology supplement uses various terms from the *S&P GSCI® Index Methodology*. Where not specifically noted otherwise in this document, the rules of the S&P GSCI® Methodology will prevail. Where the terms in this document are also defined in the S&P GSCI® Methodology, the definitions in this document prevail.

Section I – The S&P GSCI® Capped Component 35/20 Methodology

The S&P GSCI® Capped Component 35/20 version of the S&P GSCI® intends to be UCITS III compliant, while maintaining continuity and weights proportional to the S&P GSCI® component weights. The capping procedure follows two rules, in succession:

Rule 1: Only one component can reach a maximum weight of 35%. Any excess weight is distributed proportionately among the remaining components.

Once Rule 1 is implemented,

Rule 2: No remaining component's weight can exceed 20%. Any excess weight is distributed proportionately among the remaining uncapped components.

Capping frequency: Quarterly

Determination date: The S&P GSCI Business Day before the first quarterly roll date (January, April, July & October).

Capping excess distribution: Distributed among the remaining uncapped components

Components: There are 18 components with three containing more than one commodity based on the similarity of their physical characteristics and market use, and their inclusion in the same World Production Group for S&P GSCI weights.

The multiple commodity components are as follows:

Cattle: Feeder Cattle and Live Cattle
Petroleum: Brent Crude Oil, Gas Oil, Heating Oil, Unleaded Gasoline, and WTI Crude Oil
Wheat: Chicago Wheat and Kansas Wheat

The remaining single commodity components are: aluminum, cocoa, coffee, copper, corn, cotton, gold, lead, lean hogs, natural gas, nickel, silver, soybeans, sugar, and zinc.

S&P GSCI Capped Components
Wheat (Chicago, Kansas) Corn Soybeans Coffee Sugar Cocoa Cotton
Lean Hogs Cattle (Live, Feeder)
Oil (WTI Crude Oil, Brent Crude Oil, Gas Oil, Heating Oil, Unleaded Gasoline)
Natural Gas
Aluminum Copper Lead Nickel Zinc
Gold Silver

Implementation

Any excess weight from a rule #1 violation is distributed proportionally among the remaining index components.

After rule #1 is implemented, if there are rule #2 violations then any component that violates the 20% rule is capped at 20% and the balance distributed proportionally among the remaining uncapped index components.

In order to properly implement, Contract Production Weights (CPWs) are adjusted to arrive at the assigned weights for each commodity. This adjustment process takes place at the beginning of each quarter and every time the S&P GSCI index is rebalanced, adjusted, and/or new commodities are added to or deleted from the index, in order to be initially proportional to and inclusive of the S&P GSCI components.

The adjustment process takes place as follows:

1. On the S&P GSCI Business Day before each quarterly first roll date, the latest S&P GSCI commodity CPWs are multiplied by the commodity prices to determine the S&P GSCI commodity weights. For January, the CPWs will be the new ones that were determined with that year's annual rebalancing.
2. The commodities are separated into components and the components are sorted in descending order by their weights.
3. If there is any component above 35% (commonly petroleum), it is capped at 35% and the excess weight distributed among the remaining index components.
4. If any other component is above 20%, it is capped at 20% and the excess weight is distributed among the remaining uncapped index components. This process is repeated iteratively until all the capping rules are met.
5. The percentage weights of all commodities are converted to CPW-equivalents, all based on the prices from the S&P GSCI Business Day one day prior to the first roll date, and with the initial S&P GSCI weights implied by those last business day prices and the latest S&P GSCI CPWs. For January, the CPWs are the new ones that were determined with that year's annual rebalancing. For example, the 2011 S&P GSCI CPWs are multiplied by the commodity prices from Jan 6th, the last business day before the roll.
6. This capping adjustment process takes place every quarter and utilizes any CPW component changes to the base index, additions to, subtractions from, commodity substitutions, etc., in order to maintain continuity and be proportional with the base S&P GSCI weights.

Capping formulas

$$CPW_{capped,i} = CPW_{GSCI,i} * TargetWeight_j / GSCIWeight_j$$

where:

$CPW_{capped,i}$ = CPW for commodity *i* in the S&P GSCI Component Capped 35/20 Index, as of the rebalancing reference date

$CPW_{GSCI,i}$ = CPW for commodity *i* in the S&P GSCI, as of the rebalancing reference date

$GSCIWeight_j$ = Weight of component *j*, of which commodity *i* is a part, in the S&P GSCI, as of the rebalancing reference date

$TargetWeight_j$ = Weight of component *j*, of which commodity *i* is a part, in S&P GSCI Component Capped 35/20 Index, as of the rebalancing reference date.

Target weights are calculated at each rebalancing as follows:

If $GSCIWeight_j > 35\%$ then $TargetWeight_j = 35\%$

For all remaining components:

$$TargetWeight_j = \frac{65\% * GSCIWeight_j}{(100\% - GSCIWeight_c)}$$

where:

$GSCIWeight_c$ = Total S&P GSCI weight of all capped components, as of the rebalancing reference date.

For any subsequent components:

If $GSCIWeight_j > 20\%$ then $TargetWeight_j = 20\%$

For all remaining components:

$$TargetWeight_j = \frac{(100\% \text{ - } Total\ Capped\ Weights) * GSCIWeight_j}{(100\% - GSCIWeight_c)}$$

Total Capped Weights = Total S&P GSCI® Capped Component Index weight of all capped Commodities as of the rebalancing reference date.

This process is repeated iteratively until no more than one component has a weight of greater than 20% in the index, with a maximum weight of 35% for that component.

Tickers

Index	Bloomberg	Reuters
S&P GSCI® Capped Component Index 35/20 Spot	SPGSUC	.SPGSUC
S&P GSCI® Capped Component Index 35/20 ER	SPGSUCP	.SPGSUCP
S&P GSCI® Capped Component Index 35/20 TR	SPGSUCTR	.SPGSUCTR

Section II - S&P Futures-based Leveraged and Inverse Indices Methodology

Standard & Poor's Futures-based Leveraged Indices are designed to generate a multiple of the return of the underlying futures index where the investor borrows funds to generate index exposure greater than the cash position provides alone.

Standard & Poor's Futures-based Inverse indices are designed to provide the inverse performance of the underlying futures index; this represents a short position in the underlying index.

The approach is to first calculate the underlying index, and then calculate the daily returns for the leveraged or inverse index. There is no change to the calculation of the underlying futures index.

The leveraged or inverse index may be rebalanced daily or periodically.

Monthly Rebalanced Leverage or Inverse Indices

If the S&P futures-based leveraged or inverse index is rebalanced monthly, the index excess return is a multiple of the underlying index excess return since the last monthly rebalancing day and is calculated as follows:

$$IndexER_t = IndexER_{t\_LR} * \left(1 + \left(K * \left(\frac{UnderlyingIndexER_t}{UnderlyingIndexER_{t\_LR}} - 1\right)\right)\right)$$

where:

$IndexER_{t\_LR}$ = The Index Excess Return on the last rebalancing day, *t_LR*.

$UnderlyingIndexER_{t\_LR}$ = The Underlying Index Excess Return value on the last rebalancing business day, *t_LR*.

t_LR = the last rebalancing business day.

K ($K \neq 0$) = Leverage / Inverse Ratio

For example, where:

- $K = 1$, no leverage or net exposure = 100%
- $K = 2$, leverage is 2x or net exposure = 200%
- $K = -1$, no leverage inverse or net exposure = -100%

A total return version of each of the Indices is calculated, which includes interest accrual on the notional value of the index based on the 91-day US Treasury rate, as follows:

$$IndexTR_t = IndexTR_{t-1} * \left(\left(\frac{IndexER_t}{IndexER_{t-1}}\right) + TBR_t\right)$$

where:

$IndexTR_{t-1}$ = The Index Total Return on the preceding business day.

TBR_t = Treasury Bill Return, as determined by the following formula:

$$TBR_t = \left[\frac{1}{1 - \frac{91}{360} * TBAR_{t-1}} \right]^{\frac{Delta_t}{91}} - 1$$

$Delta_t$ = The number of calendar days between the current and previous business days.

$TBAR_{t-1}$ = The most recent weekly high discount rate for 91-day US Treasury bills effective on the preceding business day. Generally the rates are announced by the US Treasury on each Monday. On Mondays that are bank holidays, Friday's rates will apply.

The monthly rebalancing occurs on the last S&P GSCI Business Day of the month.

Limited Loss Provision for Leveraged or Inverse Indices

The S&P GSCI 2X Leveraged Capped Component Index and the S&P GSCI 2X Inverse Capped Component Index each have a rule in place to limit losses.

If the S&P GSCI Capped Component 35/20 Index loses 40% or more by the close of any given S&P GSCI Business Day, then the S&P GSCI 2X Leveraged Capped Component Index will rebalance on that S&P GSCI Business Day and reset leverage back to 2. It will rebalance again normally on the last S&P GSCI Business Day of the month.

Similarly, if the S&P GSCI Capped Component 35/20 Index gains 40% or more by the close of any given S&P GSCI Business Day, then the S&P GSCI 2X Inverse Capped Component Index will rebalance on that S&P GSCI Business day and reset leverage back to 2. It will rebalance again normally on the last S&P GSCI Business day of the month.

Lastly, the S&P GSCI 2X Leveraged and Inverse Capped Component Index values must be positive.

Tickers

	Bloomberg
S&P GSCI 2X Leveraged Capped Component Index ER	SPGCC2XLP
S&P GSCI 2X Leveraged Capped Component Index TR	SPGCC2XLT
S&P GSCI 2X Inverse Capped Component Index ER	SPGCC2XSP
S&P GSCI 2X Inverse Capped Component Index TR	SPGCC2XST

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