June 2010

S&P World Commodity Index

Frequently Asked Questions

1. What is the S&P World Commodity Index?

The S&P World Commodity Index (WCI) can be considered a complement to the S&P GSCI®, widely recognized as the leading measure of commodity price movements and inflation in the world economy, as the index provides non-United States commodity exposure in comparison to the U.S. focused S&P GSCI. The S&P WCI is a prime example of S&P Indices' commitment to extending its reach beyond equity indices and into alternative areas of the global market. The S&P WCI is a rules-based, world production-weighted commodity index. It is designed as a tradable index, readily accessible to global market participants.

2. How is the S&P WCI unique?

Only listed commodity futures contracts that trade outside of the United States are included in the index. There is also no restriction on the currencies in which the eligible contracts are traded.

3. Why was the S&P WCI created?

S&P Indices created and designed the S&P WCI to meet market demand for a benchmark that would complement the U.S. focused S&P GSCI and provide all-world commodity exposure.

4. Why is S&P Indices launching the S&P WCI now?

S&P Indices' goal is to provide an index that will offer greater transparency, insight, and access into non-U.S. commodities markets. A need has developed in the industry for a relevant benchmark of this kind. S&P Indices is meeting this need and helping to fill in a gap in client portfolios and strategies.

5. What is the main difference between the S&P WCI and the S&P GSCI?

The S&P WCI includes commodities traded on exchanges across Europe, North America (excluding the United States), and Asia. Although the S&P GSCI does include non-U.S. traded commodities, they are only U.S. Dollar based commodities. The S&P WCI is multi-currency.

6. How many commodities does the S&P WCI currently include?

The S&P WCI includes 22 commodities listed on eight international exchanges covering three main sectors: Agriculture, Energy, and Metals. The included commodities trade in six currencies in Asia, Europe, and North America.

7. Which international exchanges do the commodities included in the S&P WCI trade on?

The current participating Trading Facilities are:

- ICE Futures, Canada
- ICE Futures, Europe
- London Metal Exchange
- Malaysia Derivatives Exchange Berhad
- NYSE LIFFE – LIFFE, United Kingdom
- NYSE LIFFE – Paris
- Tokyo Commodity Exchange
- Tokyo Grain Exchange

8. Are there any liquidity constraints on the commodities included in the S&P WCI?

Yes, individual commodities are screened by liquidity for inclusion in the S&P WCI.

9. How are the S&P WCI returns calculated?

The S&P WCI returns are calculated based on the price changes of stable long positions in futures contracts.

10. How frequently are these indices calculated?

S&P Indices publishes an official daily settlement price for each of the indices and sub-indices on every S&P WCI Business Day between 04:00 PM and 06:00 PM, Eastern Time.

11. In which currency is the index calculated?

The S&P WCI is calculated in U.S. Dollars. However, the underlying futures contracts' prices are collected in local currencies. Using WM/Reuters' spot exchange rates, these local prices are converted to U.S. Dollars.

12. What exchange rates are used in the calculation of the index?

Real-time Forex rates, as supplied by WM/Reuters, are used for ongoing index calculation. The index's final closing values convert all underlying contracts' prices used in the index calculation to the spot exchange rates provided by WM/Reuters at London 04:00 PM Greenwich Mean Time.

13. What does the currency carry calculation mean?

Since the S&P WCI represents an uncollateralized investment in a portfolio of foreign denominated futures contracts, the price changes in the underlying futures contracts need to be captured. Additionally, the FX exposure in the index needs to be tracked. While it is relatively straightforward to track the price changes in the futures contracts, for the FX exposure, there is a need to turn to an FX tracking portfolio. Because their prices are reflected only in local currencies, the futures themselves do not provide the information needed to track them. In order to keep the U.S. Dollar denominated S&P WCI on an uncollateralized basis, investors seeking to replicate the commodity returns in an index-style investment need to borrow U.S. Dollars to buy the local currencies associated with the underlying futures contracts, thereby earning the local interest rates on their local spot currency positions. Investors also need to pay U.S. Dollar rates on the cash that they have borrowed, and in short, incur a currency carry. Thus, the excess return of S&P WCI consists of the returns from the underlying futures contracts, the FX exposure, and the Daily Currency Carry Adjustment (DCCA).

14. What is the roll process for the S&P WCI?

The simplest way to think about the rolling process for the S&P WCI is to look at the index as rolling from one basket of nearby futures (the first nearby basket) to a basket of futures contracts that are further from expiration (the second nearby basket). The S&P WCI is calculated as though these rolls occur at the end of each day during the roll period at the daily settlement prices. The portfolio is shifted from the first to the second nearby baskets at a rate of 20% per day for the five days of the roll period. Until just before the end of the fifth business day, the entire S&P WCI portfolio consists of the first nearby basket of commodity futures. At the end of the fifth business day, the portfolio is adjusted so that 20% of the contracts held are in the second nearby basket (i.e. a basket of future contracts that are farther from maturity), with 80% remaining in the first nearby basket. The roll process continues on the sixth, seventh, and eighth business days, with relative weights of first to second nearby baskets of 60%/40%, 40%/60%, and 20%/80%, respectively. At the end of the ninth business day, the last of the old first nearby basket is exchanged, completing the roll and leaving the entire portfolio in what we have been calling the second nearby basket. At this time, this former second nearby basket becomes the new first nearby basket, and a new second nearby basket is formed (with futures maturities further in the future) for use in next month's roll.

15. What do the roll basket splits mean?

Using the first day of the roll as an example, just before the roll takes place at the end of the day, the S&P WCI consists of the first nearby basket. That portfolio, constructed the night before and held throughout the fifth business day, has a dollar value. For the roll, that dollar value is distributed across the first and second nearby baskets such that the number of contracts or the quantity of the first nearby basket is 80% of the total and the quantity held of the second nearby basket is 20% of the total. The roll percentages refer to contracts or quantities, not value. The dollar value held of each nearby basket can then be calculated from those quantity weights by multiplying them by the prices of the futures contracts contained in each basket. As the baskets contain futures with different maturities for some of the commodities, the prices are generally close but not exactly the same. Hence, the percentage of the portfolio value (i.e. U.S. Dollar weight) held in each basket is generally close to, but not exactly equal to, the 80%/20% split specified for the quantities.

16. How is the S&P WCI weighted?

The world-production weighting of the S&P WCI is accomplished by keeping the quantity weights of the individual commodities within each basket proportional to world production weights, which are averages of historical production levels and are generally updated every year.

17. How many indices comprise the S&P WCI?

Three separate but related indices have been developed based on the S&P WCI:

- **S&P WCI Spot** – an index that is based on price levels of the contracts included in the S&P WCI.
- **S&P WCI Excess Return (S&P WCI ER)** – an index which incorporates the returns of the S&P WCI, the discount or premium obtained by "rolling" hypothetical positions in such contracts forward as they approach delivery, and the daily currency carry adjustment.

- **S&P WCI Total Return (S&P WCI TR)** – an index which incorporates the returns of the S&P WCI ER and interest earned on hypothetical fully collateralized contract positions on the commodities included in the S&P WCI.

18. What is the S&P WCI Spot?

The S&P WCI Spot tracks the price of the nearby futures contracts, not the returns available to investors. At the end of every business day, the S&P WCI Spot is composed of the same proportions by weight of the underlying commodities and expirations as the portfolio represented by the S&P WCI Total Return and the S&P WCI Excess Return.

19. What is the S&P WCI Total Return?

The S&P WCI Total Return measures a fully collateralized commodity futures investment that is rolled forward from the fifth to the ninth business day of each month.

20. How is the S&P WCI Spot different from the S&P WCI Total Return?

The S&P WCI Spot cannot be compared directly to the S&P WCI Total Return, either conceptually or with a single mathematical operation. In fact, there is nothing comparable between the S&P WCI Spot and Total Return because they are measuring two very different kinds of investments.

21. What is the S&P WCI Excess Return?

The S&P WCI Excess Return measures the return from investing in nearby S&P WCI futures and rolling them forward each month (on the fifth through ninth business days of each month), as well as the daily currency carry adjustment. This is a leveraged futures investment. The S&P WCI Excess Return (unlike the excess return S&P calculates on equity indices) is not the return above cash.

22. How is the S&P WCI Excess Return different from the S&P WCI Total Return?

The S&P WCI Excess Return cannot be compared directly to the S&P WCI Total Return. The S&P WCI Excess Return Index plus T-bills does not equal the S&P WCI Total Return Index because it ignores the impact of the re-investment of T-bill collateral yield gains back into commodity futures and gains (losses) from commodity futures back into (out of) T-bills.

23. Is a license from Standard & Poor's required to use the S&P WCI?

Yes, all products based on the S&P WCI must be licensed by Standard & Poor's.

24. Who can I contact at S&P to license my use of these indices?

Questions regarding licensing the S&P WCI can be addressed to:

Bo Chung
Managing Director
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25. Where can I get more information about the S&P WCI?

Historical and daily index returns for the S&P WCI, the index methodology, and a factsheet are available at www.indices.standardandpoors.com.

Additional index data is available by subscription. For more information, please contact index_services@standardandpoors.com or +1.212.438.2046.

26. How much history is available?

The back-dated history for the S&P WCI begins on December 31, 1999.

27. How do I get information on the individual commodities and sub-indices that make up the S&P WCI?

For more information on how to subscribe to this data, please contact index_services@standardandpoors.com or +1.212.438.2046.

28. Who can I contact at S&P with questions regarding this index?

Questions about the index can be addressed to index_services@standardandpoors.com or +1. 212.438.2046.