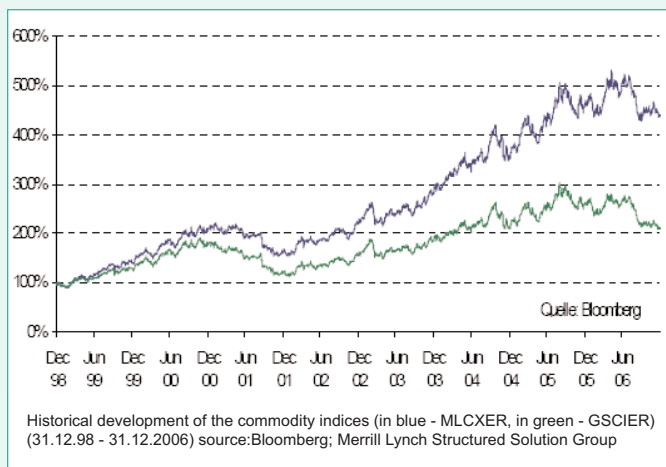


## FINANCIAL FIX: MERRILL LYNCH COMMODITY ALPHA CERTIFICATE



**Focus:** The certificate offers investors access to low volatility generated, "commodity alpha" which is captured by its underlying, the Merrill Lynch Commodity Index Extra Excess Return (MLCXER) against its benchmark index, the Goldman Sachs Commodity Excess Return Index (GSCI)

The MLCX has been structured by ML based on the world production of commodities and liquidity criteria - it is currently invested in 18 commodity contracts, spanning 6 market sectors that reflect and are representative of the global commodity markets. Index constituents are based on the liquidity of the commodity contracts - and each sector bears a min. representation of 3%, but can't exceed 60% - and must be representative of at least 2 of 4 commodity contracts that are to be rolled over every 15 days. Its benchmark, GSCI, is currently invested in 25 commodities that cover 5 sectors. Index constituents are weighted based on the world's production of the commodity, and its commodity contracts are rolled over every 5 days. In contrast to the GSCI, the MLCX uses an anti-cyclical point to sell its contracts - which enables the MLCX contracts to be sold when the prices have been trended upward by the GSCI.

**Strength:** The open-ended certificate provides exposure to commodities, with a lower volatility and with daily liquidity; bears a low correlation to stocks and bonds

**Weakness:** the concept is based on the GSCI, if the index were to change (re-weighted, re-configured, structurally altered etc.) this could potentially distort, impair or impact the performance of the certificate

**Opportunity:** to capture "commodity alpha"

**Threat:** low barriers to entry

### Risk Assessment

□ = low □ = low/moderate □ = moderate □ = fairly high ■ = high

Ability to consistently extract "commodity alpha":	□□□□■
Ability to maintain volatility within a contained band (5.43%) :	□□□□■
Avg. correlation between the MLCXER and GSCI commodity indices:	□□□□■
Ability to monitor and control risk posed by index constituents:	□□□□■
Ability to optimise the roll over of the underlying index futures:	□□□□■
Ability to sell futures at a high price and buy at a low price:	□□□□■
Ability to mitigate contango/backwardatio related risk :	□□□□■
Currency related risk among index underlyings:	□□□□□
Leverage used: none	
Underlying's fund constituents to weather related risks and its impact on certificates performance:	□□□□□
Relevance of macro economic, financial, political risks at certificate level:	□□□□□

### Performance Parameters

■ = insufficient ■ = adequate ■ = satisfactory ■ = good ■ = outstanding

Ability to generate commodity alpha in:	
a bull market (eg. period 01.10.2003 - 31.03.2004 - commodity alpha generated =8.72%):	■ ■ ■ ■ □
a bear market (eg. period 01.08.-31.12.2006 - commodity alpha generated = 8.24%):	■ ■ ■ ■ □
Inclusion in a:	
conservative portfolio:	■ ■ ■ ■ □
balanced portfolio:	■ ■ ■ ■ ■
opportunistic portfolio:	■ ■ ■ ■ □
Certificate's correlation to:	
equities:	■ □ □ □ □
bonds: none	

### Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside

Barriers to entry at certificate level: low

Scope for a commodity alpha certificate:  
Ability for the certificate to perform over:

Over the next 12 months:

Next 1-3 years:

Beyond 3 years:

### Investment Insights

Target audience: broad based

Level of complexity for an investor: fairly simple

Certificate's USP: aims to deliver market neutral commodity generated performance

To optimise returns recommended holding period: opportunistic

Traded exchanges: Frankfurt and Stuttgart

Base currency of the certificate: EUR