ESMA’S GUIDELINES
ETFs & Other UCITS Issues
ESMA’S GUIDELINES ON ETFS & OTHER UCITS ISSUES

FREQUENTLY ASKED QUESTIONS
This FAQ document is intended to help communicate Bloomberg’s general responses to frequently asked questions with respect to the Bloomberg Commodity Index™, including certain composite sub-indices (collectively, “BCOM” or the “Index”), and the “Guidelines for competent authorities & UCITS management companies: Guidelines on ETFs and other UCITS issues”, reference 2014/937, dated August 1, 2014 (the “Guidelines”) published by the European Securities and Markets Authority (“ESMA”), specifically in relation to a UCITS use of financial indices as described in Section XIII of the Guidelines.

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If you have any further questions on this subject, please contact us at commodities@bloombergindexes.com.

1Except as otherwise indicated or the context otherwise requires, references to “BCOM” or the “Index” include the composite sub-indices set forth on Appendix 1.
INDEX-TRACKING UCITS

Guideline – Paragraph 9 of Section V of the Guidelines provides that the prospectus of an index-tracking UCITS should include a clear description of the indices including information on their underlying components. In order to avoid the need to update the document frequently, the prospectus can direct investors to a website where the exact compositions of the indices are published.

Response – The BCOM methodology is available both on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional® service and includes a clear description of the Index family (including components, calculation, maintenance, managing disruption events and other policies and procedures).

The composition of the Index is rebalanced by Bloomberg each year pursuant to the procedures set forth in the Index methodology. Once determined, the new composition of the Index and percentage weights are publicly announced, and take effect in the month of January following the announcement. All the announcements are made via multiple sources, including (but not limited to) bloombergindices.com and the Bloomberg Professional service. In addition, the Index weights to two decimal point precision are made available via fact sheets on a monthly basis on bloombergindices.com and on a daily basis via BCOM <GO> on the Bloomberg Professional service.

FINANCIAL INDICES

Guideline – Paragraph 49 of Section XIII of the Guidelines provides that when a UCITS intends to make use of the increased diversification limits (e.g., 20%/35%), this should be disclosed clearly in the prospectus together with a description of the exceptional market conditions which justify this investment.

Response – Commodity markets are inherently prone to “exceptional market conditions” due to the limited universe of investable commodity futures contracts with adequate liquidity upon which an index may be based, justifying the use of the increased diversification limits. Currently, the Index is made up of 22 exchange-traded futures contracts, which represent 20 commodities, weighted to account for economic significance and market liquidity. The weights are subject to weighting restrictions applied annually such that no related group of commodities constitutes more than 33% of the Index and no single commodity constitutes more than 15%. Note that between rebalancings, weightings may fluctuate to levels outside these limits.

Guideline – Paragraph 50 of Section XIII of the Guidelines provides that a UCITS should not invest in a financial index which has a single component that has an impact on the overall index return which exceeds the relevant diversification requirements (e.g., 20%/35%).

Response – The diversification rules of the Index as described in the Index methodology are structurally compatible with the 20%/35% diversification requirements and the history of BCOM is well within the parameters set by the Guidelines.

Guideline – Paragraph 51 of Section XIII of the Guidelines provides that a UCITS should not invest in commodity indices that do not consist of different commodities. Subcategories of the same commodity (for instance, from different regions or markets or derived from the same primary products by an industrialized process) should be considered as being the same commodity for the calculation of the diversification limits. For example, WTI Crude Oil, Brent Crude Oil, Gasoline or Heating Oil contracts should be considered as being all sub-categories of the same commodity (i.e., oil). Sub-categories of a commodity should not be considered as being the same commodity if they are not highly correlated. With respect to the correlation factor, two components of a commodity index that are sub-categories of the same commodity should not be considered as highly correlated if 75% of the correlation observations are below 0.8. For that purpose the correlation observations should be calculated (i) on the basis of equally-weighted daily returns of the corresponding commodity prices and (ii) from a 250-day rolling time window over a 5-year period.

Response – A fundamental aim of BCOM is to provide diversified exposure to commodities as an asset class. The BCOM methodology is designed to ensure that the Index is composed of different commodities: the diversification rules, which are applied annually, are intended to limit the exposure of the Index to (i) each commodity on an individual basis, (ii) each commodity together with its derivatives, and (iii) each group of related commodities.

Guideline – Paragraph 52 of Section XIII of the Guidelines provides that a UCITS should be able to demonstrate that an index satisfies the index criteria in Article 53 of the UCITS Directive and Article 9 of the Eligible Assets Directive, including that of being a benchmark for the market to which it refers. For that purpose:

a) an index should have a clear, single objective in order to represent an adequate benchmark for the market;
b) the universe of the index components and the basis on which these components are selected for the strategy should be clear to investors and competent authorities;
c) if cash management is included as part of the index strategy, the UCITS should be able to demonstrate that this does not affect the objective nature of the index calculation methodology.
Response

a) The objective of the Index is to represent a highly liquid and diversified benchmark for commodities investments. BCOM has provided broad-based exposure to commodities as an asset class since 1998.

b) The Index universe comprises commodities that are both sufficiently significant to the world economy and tradable through futures contracts. The commodities eligible for inclusion in the Index are listed in the BCOM methodology. The commodities represented in the Index are selected and weighted on the basis of production data and market liquidity data, subject to weighting restrictions that ensure diversification. The composition and weightings are reviewed on an annual basis to ensure the Index continues to reflect the global economic significance of each component over time. For more detail, please see the BCOM methodology available at bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service.

c) The headline BCOM index does not reflect returns on cash collateral. However, the BCOM Total Return Index does: it combines the returns of BCOM with the returns on cash collateral invested in Treasury Bills. The cash return is included on the basis of objective calculation rules, as further described in the BCOM methodology.

Guideline – Paragraph 53 of Section XIII of the Guidelines provides that index should not be considered as being an adequate benchmark of a market if it has been created and calculated on the request of one, or a very limited number of, market participants and according to the specifications of those market participants.

Response – BCOM was originally launched in 1998 as the Dow Jones-AIG Commodity Index (DJ-AIGCI) and renamed to Dow Jones-UBS Commodity Index (DJ-UBSCI) in 2009, when UBS acquired the index from AIG. On July 1, 2014, the index was rebranded under its current name. The index is one of the two widely used global benchmarks in commodities space and, as of the end of 2014, an estimated $61.5 billion was benchmarked to the BCOM indices by a wide range of market participants.

Guideline – Paragraph 54 of Section XIII of the Guidelines provides that the UCITS’ prospectus should disclose the rebalancing frequency and its effects on the costs within the strategy.

Response – In order to maintain diversified commodities exposure over time, BCOM is rebalanced annually on a price-percentage basis (during the roll period in January). For more detail, please see the BCOM methodology available at bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service. No specific rebalancing costs are embedded in the Index.

Guideline – Paragraph 55 of Section XIII of the Guidelines provides that a UCITS should not invest in a financial index whose rebalancing frequency prevents investors from being able to replicate the financial index. Indices which rebalance on an intra-day or daily basis do not satisfy this criterion. For the purpose of the Guidelines, technical adjustments made to financial indices such as leveraged indices or volatility target indices according to publicly available criteria should not be considered as rebalancing in the context of this paragraph.

Response – The composition of the Index is rebalanced by Bloomberg each year pursuant to the procedures set forth in the Index methodology (available on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service). The new Index composition and target weights are calculated in the third or fourth quarter of the year immediately prior to the year these go into effect. Once determined, the new composition of the Index and percentage weights are publicly announced as promptly as practicable to allow users of the Index ample time to make any necessary adjustments, and take effect in the month of January following the announcement.

Guideline – Paragraph 56 of Section XIII of the Guidelines provides that a UCITS should not invest in financial indices for which the full calculation methodology to, inter alia, enable investors to replicate the financial index is not disclosed by the index provider. This includes providing detailed information on index constituents, index calculation (including effect of leverage within the index), re-balancing methodologies, index changes and information on any operational difficulties in providing timely or accurate information. Calculation methodologies should not omit important parameters or elements to be taken into account by investors to replicate the financial index. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the Internet. Information on the performance of the index should be freely available to investors.

Response – The complete BCOM index methodology is publicly available free of charge on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service and includes a clear description of the index family (including components, calculation, rebalancings, maintenance, disruption events, changes and other policies and procedures).

Guideline – Paragraph 57 of Section XIII of the Guidelines provides that a UCITS should not invest in financial indices that do not publish their constituents together with their respective weightings. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the Internet. Weightings may be published after each rebalancing on a retrospective basis. This information should cover the previous period since the last rebalancing and include all levels of the index.
Response – The Index is rebalanced by Bloomberg each year. Once determined, the new composition of the Index and percentage weights are publicly announced, and take effect in the month of January following the announcement. The BCOM weights and composition are publicly available, free of charge, not only after each annual rebalancing, but also on monthly basis, on bloombergindices.com. Furthermore, daily effective weights can be accessed on the Bloomberg Professional service via BCOM <GO>.

Guideline – Paragraph 58 of Section XIII of the Guidelines provides that a UCITS should not invest in financial indices whose methodology for the selection and the rebalancing of the components is not based on a set of pre-determined rules and objective criteria.

Response – The composition of the index is determined in accordance with pre-determined rules and objective criteria that ensure that the relative proportion of each of the underlying individual commodities reflects its global economic significance and market liquidity. The composition and weightings are reviewed on annual basis to ensure the relevance and liquidity of components is maintained over time. For more detail, please see the BCOM methodology available at bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service.

Guideline – Paragraph 59 of Section XIII of the Guidelines provides that a UCITS should not invest in financial indices whose index provider accepts payments from potential index components for inclusion in the index.

Response – The inclusion of components in BCOM index is based solely upon whether that component meets the requirements stated in the rules-based BCOM methodology available on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service. Providers of commodity components do not and cannot pay to be included in the BCOM indices.

Guideline – Paragraph 60 of Section XIII of the Guidelines provides that a UCITS should not invest in financial indices whose methodology permits retrospective changes to previously published index values ('backfilling').

Response – The composition of the Index and related subindices is re-calculated annually in reliance upon historic price, liquidity and production data that are subject to potential errors in data sources or other errors that may affect the weighting of components of the Index. Any discrepancies that require revision are not applied retroactively but will be reflected in the weighting calculations of the Index for the following year.

Guideline – Paragraph 61 of Section XIII of the Guidelines provides that a UCITS should carry out appropriate documented due diligence on the quality of the index. This due diligence should take into account whether the index methodology contains an adequate explanation of the weightings and classification of the components on the basis of the investment strategy and whether the index represents an adequate benchmark. The due diligence should also cover matters relating to the index components. The UCITS should also assess the availability of information on the index including:

a) whether there is a clear narrative description of the benchmark;
b) whether there is an independent audit and the scope of such an audit;
c) the frequency of index publication and whether this will affect the ability of the UCITS to calculate its net asset value.

Response
a) The BCOM methodology is available on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service and includes a clear description of the index family (including components, calculation, maintenance, managing disruption events and other policies and procedures).
b) There is no independent, external audit of the Index, however Bloomberg is an independent index provider and does not issue, underwrite or act as placing agent or market maker for any securities or financial products. Bloomberg does not take positions in any securities or derivatives and the Bloomberg index personnel operate independently of affiliates engaged in agency trading and related activities. BCOM index levels are calculated according to specified procedures set out in the rule-based index methodology (available on bloombergindices.com as well as BCOM <GO> on the Bloomberg Professional service). Bloomberg has instituted robust governance and conflicts of interest policies and procedures with respect to its index business to further enhance the independence of the Index determination and administration process. Bloomberg has also established an internal Index Oversight Committee in compliance with the IOSCO Principles for Financial Benchmarks, which reviews and challenges all aspects of the benchmark process.
c) BCOM index levels are published on every index business day and during these days the levels are available in real time every 15 seconds from 10:00pm ET time to 3:20am ET time.
**Guideline – Paragraph 61 of Section XII** of the Guidelines provides that UCITS should ensure that the financial index is subject to independent valuation.

**Response** – Bloomberg is an independent index provider and does not issue, underwrite or act as placing agent or market maker for any securities or financial products. Bloomberg does not take positions in any securities or derivatives and the Bloomberg index personnel operate independently of affiliates engaged in agency trading and related activities. Moreover, the remuneration of employees responsible for the calculation of the Index levels is not linked to the performance of the Index. BCOM index levels are calculated according to specified procedures set out in the rule-based Index methodology (available on [bloombergindices.com](http://bloombergindices.com) as well as BCOM <GO> on the Bloomberg Professional service). Bloomberg has instituted robust governance and conflicts of interest policies and procedures with respect to its index business to further enhance the independence of the Index determination and administration process. Bloomberg personnel in charge of the day-to-day calculation of the Index level may provide advice to those responsible for overseeing the design of the Index but any such advice is non-binding and any changes to the Index are made independent of such personnel.

**APPENDIX 1**

<table>
<thead>
<tr>
<th>INDEX NAME</th>
<th>TICKER</th>
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<tr>
<td>Bloomberg Commodity Index Roll Select</td>
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<tr>
<td>Bloomberg Commodity Index Roll Select Total Return</td>
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<tr>
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<tr>
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