UBS Bloomberg CMCI
(Constant Maturity Commodity Index)

Special announcement

H1-2009, Effective 1st January 2009

London, November 17, 2008

The meeting of the UBS Bloomberg Constant Maturity Commodity Index Steering Committee was held on November 17, 2008, Mark Steinert chair.

Attendees Peter Carr, John Clemmow, Josh Eastright, Kurt Nelson, Mark Steinert, Roderick Schutt, Jason Hausdoerfer, Jeffrey Palma, Jennifer Delaney

Apologies Jason Barron, Melisa MacDonagh, Emilia Fazzalari, Helyette Geman

1. Changes to the CMCI Advisory Committee

There are two replacements proposed to the composition of Advisory Committee:

- The position of Brian Hanley (Bloomberg L.P.) on the CMCI Advisory Committee will be taken by Ke Xu, who is a developer in Bloomberg commodities R&D group and has a PHD in mathematics as well the CFA qualification;

- The position of Morgan Metters (UBS A.G.) on the CMCI Advisory Committee will be taken by Jason Hausdoerfer, who is a Managing Director in charge of Exotic Trading book, which also included commodity index business

Governance Committee has accepted these recommendations.

2. Index Composition and New Target Weights

For the determination of H1-2009 Target Weights (November 2008 Governance Committee), only the liquidity data has been updated.

Data periods for the determination are as follows:
- Period for PI5 (price indicator) determination was 31 May 2003 – 31 May 2008;
- Periods for Open Interest and volume indicators range from 1 June 2006 until 31 May 2008.

According to ACOIV and ACMVV admission rules (see sections 2.2.3 and 2.2.4), Central Appalachia Coal (Bloomberg Code: QZ) can now be included into the index composition analysis. However, in order to be included into CMCI target weights, it will need to pass the minimum threshold weight rule (TTW3 needs to be above 0.60%) for two (2) consecutive periods (see rule I.1 in Section 2.3.2 of the Technical Document). At the moment, the minimum threshold weight (0.60%) is not satisfied.

Orange Juice has dropped out of the index as its TTW3 is below the Maintenance Threshold Weight (0.60%) for the third (3rd) consecutive period (see rule I.2 in Section 2.3.2 of the Technical Document).

Rice has passed the minimum Admission Threshold Weight for the second (2nd) period running, so we have included it into the index Target Weights analysis.

As represented in Table 1 below, USD1bn investment into the CMCI (using Target Weights obtained in Section 2.3.2.K) would represent less than 5% in the majority of the CMCI commodities (in most cases this figure is below 2%). However, there are some large outliers, namely Rice and Sugar #5 (see Table I below).

Even though rice was included in the index composition analysis and obtained a Target Weight of 1.7%, after running the Market Liquidity analysis ($1bn investment analysis as per section 2.3.2.K) it became clear that the Target Weight that is attributed to rice results in 40% of daily liquidity (see Table I below).

TABLE I: H1-2009 TARGET WEIGHTS BEFORE THE APPLICATION OF MARKET LIQUIDITY ANALYSIS

Commodity Component	Exchange	Group	TW	As a portion of USD1bn	ACMVV	As % of ACMVV
WTI Crude Oil 1	NYMEX	EN	9.1655%	91,655,000	40,686,568,279	0.23%
WTI Crude Oil 2	ICE	EN	4.2327%	42,327,000	16,855,492,944	0.25%
Brent Crude Oil	ICE	EN	5.5899%	55,899,000	20,276,097,030	0.28%
Heating oil #2	NYMEX	EN	2.7345%	27,345,000	7,251,768,048	0.38%
Gasoil	ICE	EN	3.2299%	32,299,000	7,390,771,305	0.44%
RBOB Gasoline	NYMEX	EN	3.2521%	32,521,000	7,299,327,799	0.45%
HHUB Natural Gas	NYMEX	EN	6.6010%	66,010,000	9,977,165,468	0.66%
Central App. Coal	ClrPort	EN	0.0000%	0	43,936,551	0.00%
Copper	LME	INDM	10.9493%	109,493,000	16,201,015,542	0.68%
High Grade Copper	COMEX	INDM	0.0000%	0	1,513,404,579	0.00%
Zinc	LME	INDM	2.8638%	28,638,000	3,883,960,504	0.74%
Aluminium	LME	INDM	9.2701%	92,701,000	11,187,714,690	0.83%
Nickel	LME	INDM	2.8311%	28,311,000	3,193,762,180	0.89%
Lead	LME	INDM	1.1505%	11,505,000	1,231,428,659	0.93%
Tin	LME	INDM	0.0000%	0	422,738,643	0.00%
Gold	COMEX	PM	3.8452%	38,452,000	9,951,410,988	0.39%
Gold	CBOT	PM	0.0000%	0	2,181,087,880	0.00%
Silver	COMEX	PM	0.8321%	8,321,000	2,513,711,998	0.33%
Platinum	NYMEX	PM	0.0000%	0	175,848,353	0.00%
Palladium	NYMEX	PM	0.0000%	0	73,032,956	0.00%
SRW Wheat	CBOT	AGS	4.1798%	41,798,000	2,805,769,966	1.49%
HRW Wheat	KCBOT	AGS	0.0000%	0	816,402,152	0.00%
Corn	CBOT	AGS	5.4942%	54,942,000	4,680,779,085	1.17%
Soybeans	CBOT	AGS	5.6379%	56,379,000	6,656,624,311	0.85%
Soybean Meal	CBOT	AGS	1.5021%	15,021,000	1,360,481,268	1.10%
Soybean Oil	CBOT	AGS	1.5610%	15,610,000	1,434,735,044	1.09%
Canola	WCE	AGS	0.0000%	0	126,640,789	0.00%
Sugar #11	NYBOT	AGS	3.0622%	30,622,000	801,127,312	3.82%
Sugar #5	EN	AGS	2.6421%	26,421,000	130,736,634	**20.21%**
Cocoa	NYBOT	AGS	0.0000%	0	222,871,317	0.00%
Cocoa	EN	AGS	0.7895%	7,895,000	440,972,450	1.79%
Coffee Arabica	NYBOT	AGS	1.2243%	12,243,000	769,627,315	1.59%
Coffee Robusta	EN	AGS	0.0000%	0	168,829,046	0.00%
Cotton	NYBOT	AGS	1.7082%	17,082,000	700,782,060	2.44%
F.C. Orange Juice (A)	NYBOT	AGS	0.0000%	0	62,369,361	0.00%
Rapeseed	EN	AGS	0.0000%	0	55,616,350	0.00%
Milling Wheat	EURONEXT	AGS	0.0000%	0	71,572,500	0.00%
Feed Wheat	EURONEXT	AGS	0.0000%	0	19,457,300	0.00%
Rice	CBOT	AGS	1.7513%	17,513,000	44,624,629	**39.25%**
Live Cattle	CME	LVTK	2.2162%	22,162,000	1,245,272,060	1.78%
Lean Hogs	CME	LVTK	1.6835%	16,835,000	755,697,707	2.23%
Total						

Source: UBS Investment Bank, UBS Commodity Research, CMCI Advisory Committee

When we reduce the Target Weight of Rice to the level where $1bn investment does not breach the 10% threshold (in order to ensure that a significant investment into the Index does not upset the market), Rice Target Weight drops below the min Admission Threshold Weight requirement of 0.60% (see section 2.3.2.I) to 0.44% (see Table 2 below).

Previously, when we described the course of events with weight redistribution during the Market Liquidity Analysis, we have not envisaged such a situation and as a result have not included a rule as to the course of action.

However, as we state in the Section 2.3.2.I. of the CMCI Technical Document that the minimum Admission and Maintenance Threshold Weight is 0.60%, we believe that Rice would need to be excluded from the index completely and its Target Weight would have to be re-distributed equally between other agriculture components (apart from Sugar #5 as its weight has already been reduced as a result of breach under the $1bn investment test). Furthermore, Rice would need to pass the Maintenance Threshold Weight for two (2) consecutive periods before it can be admitted into the Index.

TABLE 2. EXCESS WEIGHT AND WEIGHT REALLOCATION

Commodity Component	Exchange	Group	Excess Weight	Allocate to same commodity instruments	Proportional allocation within sector	TW % obtained	Below min weight threshold?	Final TW %
WTI Crude Oil 1	NYMEX	EN	-	-	-	9.1655%	-	**9.1655%**
WTI Crude Oil 2	ICE	EN	-	-	-	4.2327%	-	**4.2327%**
Brent Crude Oil	ICE	EN	-	-	-	5.5899%	-	**5.5899%**
Heating oil #2	NYMEX	EN	-	-	-	2.7345%	-	**2.7345%**
Gasoil	ICE	EN	-	-	-	3.2299%	-	**3.2299%**
RBOB Gasoline	NYMEX	EN	-	-	-	3.2521%	-	**3.2521%**
HHUB Natural Gas	NYMEX	EN	-	-	-	6.6010%	-	**6.6010%**
Central App. Coal	ClrPort	EN	-	-	-	0.0000%	-	**0.0000%**
Copper	LME	INDM	-	-	-	10.9493%	-	**10.9493%**
High Grade Copper	COMEX	INDM	-	-	-	0.0000%	-	**0.0000%**
Zinc	LME	INDM	-	-	-	2.8638%	-	**2.8638%**
Aluminium	LME	INDM	-	-	-	9.2701%	-	**9.2701%**
Nickel	LME	INDM	-	-	-	2.8311%	-	**2.8311%**
Lead	LME	INDM	-	-	-	1.1505%	-	**1.1505%**
Tin	LME	INDM	-	-	-	0.0000%	-	**0.0000%**
Gold	COMEX	PM	-	-	-	3.8452%	-	**3.8452%**
Gold	CBOT	PM	-	-	-	0.0000%	-	**0.0000%**
Silver	COMEX	PM	-	-	-	0.8321%	-	**0.8321%**
Platinum	NYMEX	PM	-	-	-	0.0000%	-	**0.0000%**
Palladium	NYMEX	PM	-	-	-	0.0000%	-	**0.0000%**
SRW Wheat	CBOT	AGS	-	-	+0.21%	4.3857%	-	**4.4561%**
HRW Wheat	KCBOT	AGS	-	-	-	0.0000%	-	**0.0000%**
Corn	CBOT	AGS	-	-	+0.27%	5.7648%	-	**5.8574%**
Soybeans	CBOT	AGS	-	-	+0.28%	5.9156%	-	**6.0106%**
Soybean Meal	CBOT	AGS	-	-	+0.07%	1.5761%	-	**1.6014%**
Soybean Oil	CBOT	AGS	-	-	+0.08%	1.6379%	-	**1.6642%**
Canola	WCE	AGS	-	-	-	0.0000%	-	**0.0000%**
Sugar #11	NYBOT	AGS	-	+1.33%	+0.22%	4.6135%	-	**4.6876%**
Sugar #5	EN	AGS	1.33%	-	-	1.3074%	-	**1.3074%**
Cocoa	NYBOT	AGS	-	-	-	0.0000%	-	**0.0000%**
Cocoa	EN	AGS	-	-	+0.04%	0.8284%	-	**0.8417%**
Coffee Arabica	NYBOT	AGS	-	-	+0.06%	1.2846%	-	**1.3052%**
Coffee Robusta	EN	AGS	-	-	-	0.0000%	-	**0.0000%**
Cotton	NYBOT	AGS	-	-	+0.08%	1.7923%	-	**1.8211%**
F.C. Orange Juice (A)	NYBOT	AGS	-	-	-	0.0000%	-	**0.0000%**
Rapeseed	EN	AGS	-	-	-	0.0000%	-	**0.0000%**
Milling Wheat	EURONEXT	AGS	-	-	-	0.0000%	-	**0.0000%**
Feed Wheat	EURONEXT	AGS	-	-	-	0.0000%		**0.0000%**
Rice	CBOT	AGS	1.31%	-	-	**0.4462%**	**YES**	**0.0000%**
Live Cattle	CME	LVTK	-	-		2.2162%	-	**2.2162%**
Lean Hogs	CME	LVTK	-	-		1.6835%	-	**1.6835%**
Total								

Source: UBS Investment Bank, UBS Commodity Research, CMCI Advisory Committee

The language of the section would be amended to include the above rule and hence would read as follows:

In order to ensure that a significant investment into the Index does not upset the market, we cap all the CMCI TW at such a level that they do not breach a **maximum of 10% of daily liquidity** in that component, as represented by ACMVV, which the CMCI Governance and Advisory Committees consider to be a sufficient level in terms of market liquidity, as well as stable enough to be consistent over time. Any commodity that exceeds the 10% threshold would have its weight reduced to the level where it meets that threshold. Any excess weights that need to be redistributed would be allocated in the following way:

- if there is another instrument in the index that represents the same commodity (i.e. Sugar #11 and Sugar #5 both represent Sugar commodity), then the excess weight would first be allocated to that instrument,
- if there are no other instruments representing the same commodity, the excess weight would be reallocated proportionally between commodities within the same sector, excluding the commodity which have already breached the threshold (i.e. Rice excess weight would be re-allocated to other commodities within the Agriculture sector, excluding Sugar #5 as it has already breached the threshold)
- if, as a result of the excess weight allocation, the new TW for any commodity, taken as a percentage of the ACMVV, breaches the 10% threshold of any of the other commodities, the process would be repeated again. Any commodities that have previously breached the threshold would not be included into the re-allocation process.

Once all the CMCI components are within the liquidity threshold limits, we apply the minimum weight test as per Section 2.3.2.part I.1. (Admission Threshold Weight requirement) and part I.2. (Maintenance Threshold Weight Requirement).

Admission Threshold Weight requirement

Components that were previously not part of the Index are eligible for introduction if their TW obtained after Market Liquidity Analysis have exceeded their Admission Threshold Weight (0.60%) requirement for at least two (2) consecutive scheduled CMCI Governance committee meetings.

The CMCI Governance Committee can decide to override the rule and will determine, in their reasonable judgment, whether such action is necessary or advisable in order to protect or advance the goals of the Index.

Target Weights of all components excluded by this rule get reallocated to other components within the same commodity sector that haven’t been previously capped.

Maintenance Threshold Weight requirement

Similarly, components that previously were in the CMCI can only be excluded if they fail to satisfy to their Maintenance Threshold Weight (0.60%) requirement after the market liquidity analysis for three (3) consecutive periods.

Target weights of all the excluded components as a result of this rule get allocated to other components within the same commodity sector that have not been previously capped.

Both procedures L1 and L2 are performed in order to maintain the stability of the index composition over time and prevent unnecessary migration of components in the CMCI.

As a result of the above procedure, the final CMCI Target Weights are as presented below in Table 3.

TABLE 3. INDEX COMPOSITION AND TARGET WEIGHTS

Commodity	Exchange/ platform	Contract Code (Bloomberg)	H2-2008 Composite TW%	H2-2008 Per Sector STW%	**H1-2009 Composite TW%**	**H1-2009 Per Sector STW%**
WTI Crude Oil	NYMEX	CL	9.1350%	26.3335%	9.1655%	26.3334%
WTI Crude Oil	ICE	EN	4.2186%	12.1610%	4.2327%	12.1610%
Brent Crude Oil	ICE	CO	5.5713%	16.0604%	5.5899%	16.0603%
Heating oil #2	NYMEX	HO	2.7254%	7.8565%	2.7345%	7.8565%
Gasoil	ICE	QS	3.2191%	9.2797%	3.2299%	9.2798%
RBOB Gasoline	NYMEX	XB	3.2413%	9.3437%	3.2521%	9.3436%
HHUB Natural Gas	NYMEX	NG	6.5790%	18.9653%	6.6010%	18.9653%
Central App. Coal	ClrPort	QZ	0.0000%	0.0000%	0.0000%	0.0000%
			34.6897%	**100.0000%**	**34.8056%**	**100.0000%**
Copper	LME	LP	10.9322%	40.4559%	10.9493%	20.2279%
High Grade Copper	COMEX	HG	0.0000%	0.0000%	0.0000%	0.0000%
Zinc	LME	LX	2.8594%	10.5816%	2.8638%	5.2906%
Aluminium	LME	LA	9.2555%	34.2511%	9.2701%	17.1258%
Nickel	LME	LN	2.8267%	10.4605%	2.8311%	5.2302%
Lead	LME	LL	1.1487%	4.2509%	1.1505%	2.1255%
Tin	LME	LT	0.0000%	0.0000%	0.0000%	0.0000%
			27.0225%	**100.0000%**	**27.0648%**	**50.0000%**
Gold	COMEX	GC	3.8323%	82.2100%	3.8452%	82.2098%
Gold	CBOT	ZG	0.0000%	0.0000%	0.0000%	0.0000%
Silver	COMEX	SI	0.8293%	17.7900%	0.8321%	17.7902%
Platinum	NYMEX	PL	0.0000%	0.0000%	0.0000%	0.0000%
Palladium	NYMEX	PA	0.0000%	0.0000%	0.0000%	0.0000%
			4.6616%	**100.0000%**	**4.6773%**	**100.0000%**
SRW Wheat	CBOT	W	4.3029%	14.4728%	4.4561%	15.0785%
HRW Wheat	KCBOT	KW	0.0000%	0.0000%	0.0000%	0.0000%
Corn	CBOT	C	5.3707%	18.0644%	5.8574%	19.8202%
Soybeans	CBOT	S	5.5059%	18.5191%	6.0106%	20.3386%
Soybean Meal	CBOT	SM	1.4811%	4.9817%	1.6014%	5.4188%
Soybean Oil	CBOT	BO	1.5344%	5.1610%	1.6642%	5.6313%
Canola	WCE	RS	0.0000%	0.0000%	0.0000%	0.0000%
Sugar #11	NYBOT	SB	3.0404%	10.2264%	4.6876%	15.8618%
Sugar #5	EN	QW	2.6578%	8.9395%	1.3074%	4.4239%
Cocoa	NYBOT	CC	0.0000%	0.0000%	0.0000%	0.0000%
Cocoa	EN	QC	1.1789%	3.9652%	0.8417%	2.8481%
Coffee Arabica	NYBOT	KC	1.2023%	4.0439%	1.3052%	4.4166%
Coffee Robusta	EN	KC	0.0000%	0.0000%	0.0000%	0.0000%
Cotton	NYBOT	CT	1.6901%	5.6847%	1.8211%	6.1623%
F.C. Orange Juice (A)	NYBOT	JO	0.0000%	0.0000%	0.0000%	0.0000%
Rapeseed	EN	IJ	0.0000%	0.0000%	0.0000%	0.0000%
Milling Wheat	EURONEXT	CA	0.0000%	0.0000%	0.0000%	0.0000%
Feed Wheat	EURONEXT	QK	0.0000%	0.0000%	0.0000%	0.0000%
Rice	CBOT	RR	0.0000%	0.0000%	0.0000%	0.0000%
			29.7309%	**100.0000%**	**29.5526%**	**100.0000%**
Live Cattle	CME	LC	2.2137%	56.8300%	2.2162%	56.8300%
Lean Hogs	CME	LH	1.6816%	43.1700%	1.6835%	43.1700%
			3.8953%	**100.0000%**	**3.8997%**	**100.0000%**

Source: UBS Investment Bank, Bloomberg
(*): The underscore "_" denotes a space.

The Governance Committee accepted the proposed clarification of the Market Liquidity Analysis procedure and the resulting Index Target Weights.

3. Change of Reference Rate used in Currency Hedged Total Return Indices

Currency Hedged indices are defined in the technical document in the following way (Section 3.5 of the CMCI Technical Document):

'CMCI Currency Hedged indices aim to facilitate CMCI investment in currencies other than the US dollar. These indices shield the notional investment of non-USD based investors from variations in currency exchange rates … Currency Hedged indices are available in all major non-USD currencies in the traditional form of Excess and Total Return'

Total Return indices reflect the returns generated from an equivalent fully-collateralized futures positions in the commodities included in the Index. The overall return on a Total Return Index is generated by two components:

- uncollateralized returns from the futures contracts comprising the Index ("Component Contracts"); and
- The interest earned on securities theoretically deposited as collateral for the Component Contracts.

The reference rate used to calculate collateral returns for USD Total Return indices is the US Government 3 month Treasury Bill High Discount rate (Bloomberg ticker USB3MTA). This index tracks the high discount rate at auction on a weekly basis. Treasury bills are used to represent short-term government borrowing and this methodology is standard across the industry. No change is being proposed for USD indices to keep in line with the standard that other USD commodity indices in the market use.

There is no such standard in commodity indices for non-US currencies. The CMCI currency-hedged indices are more like strategies that were designed to facilitate CMCI investments in currencies other than US dollar; they are unique in term of methodology and specific to UBS.

In the past, CMCI Currency Hedged indices are calculated using 3 month LIBOR to represent the risk free rate in different currencies adjusted by a factor (Available Reference Rate Scalar, ARRS) of 90% to reflect curve risk and transaction costs.

The last several months have demonstrated a complete detachment between interbank borrowing rates (LIBOR) and the respective risk free rates and just applying an adjustment factor to the current LIBOR rate is no longer the best solution.

Therefore, the CMCI Advisory Committee propose that, rather than just change the scalars (ARRS), which would not be a transparent move, the reference rates for currencies other than USD should be changed to rates which are more reflective of benchmark borrowing rates and the objectives of the Currency Hedged indices. The proposed Reference Rates will have a Rate Scalar (ARRS) of 100% and be adjusted by an appropriate ARRA (Available Reference Rate Adjustment). The ARRAs will be chosen to reflect the liquidity and volatility of the chosen Reference Rate for each currency. For details of the proposal, see Table 4 below.

TABLE 4. PROPOSED REFERENCE RATES AND PARAMETERS

Currency	Reference Rate & Parameters	Description
EUR	Euro Overnight Index.(BB code: EONIA) Rate Scalar: 100%, Rate Adjustment: -0.10%	EONIA is the weighted average rate of all unsecured Euro overnight cash transactions brokered in London between midnight and 4.00pm London time. EONIA is calculated from details supplied by brokers (Wholesale Market Brokers Association "WMBA")
GBP	Sterling Overnight Rate (BB code: SONIO/N) Rate Scalar: 100%, Rate Adjustment: -0.10%	SONIA is the weighted average of all unsecured Sterling overnight cash transactions brokered in London between Midnight and 4.15pm. (WMBA)
CHF	TOIS is the fixing rate on CHF Tom/Next Offered Indexed Swaps. (BB code: TOISTOIS) Rate Scalar: 100%, Rate Adjustment: -0.10%	Source is Cosmorex Zurich AG. Quotation provided by a number of prime banks (at least 20) at 10.45am Zurich Time.
AUD	The Royal Bank of Australia Cash Rate Overnight. (BB code: RBACOR) Rate Scalar: 100%, Rate Adjustment: -0.20%	Source is Australian Bureau of Statistics
JPY	The Mutan Overnight Average Call Rate (BB Code: JYMUON) Rate Scalar: 100%, Rate Adjustment: -0.15%	Source is published by the Bank of Japan
CAD	The Canadian Overnight Repo Rate Average ("CORRA") (BB Code: CAONREPO) Rate Scalar: 100%, Rate Adjustment: -0.15%	Source is published by the Bank of Canada

Source: UBS Investment Bank, CMCI Advisory Committee

The CMCI Advisory Committee proposes that:

- For currencies where CMCI indices are already in existence and their calculation methodology described in the Technical Document (EUR, CHF, AUD), the CMCI Advisory Committee proposes that the Reference Rate is changed for forward calculation only **from 1 January 2009**. Historical data will remain unchanged.

- For currencies where indices have their calculation methodology described in the Technical Document but are yet to be created (GBP, JPY and CAD), the CMCI Advisory Committee proposes that the new reference rate is used for calculation of the live data going forward as well as in creating the historical data series. The same approach would also apply to currencies where indices have not yet been described in the Technical Document.

The Governance Committee accepted this recommendation for implementation as soon as was practical.

4. AOB

The next meeting of the UBS Bloomberg Constant Maturity Commodity Index Steering Committee will be held in six months time in May 2009. The CMCI Advisory Committee will be a pre-meeting prior to the Steering Committee meeting to discuss the Index weightings and any proposed changes once they become available.

The chair for the next Governance Committee meeting will be Josh Eastright, Bloomberg.