

VONTOBEL

**Invest in oil and gas
– with proven
strategies**

**Vontobel Strategy
Indices**

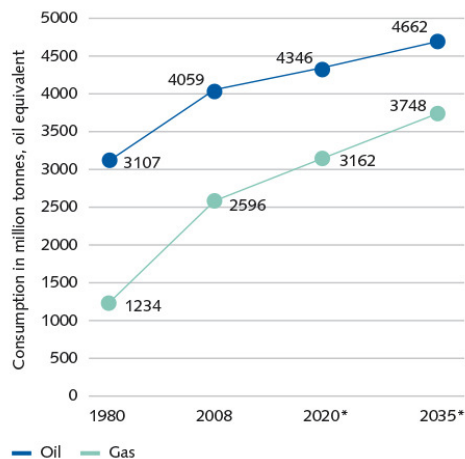
July 2014

Performance creates trust

Energy prices rising

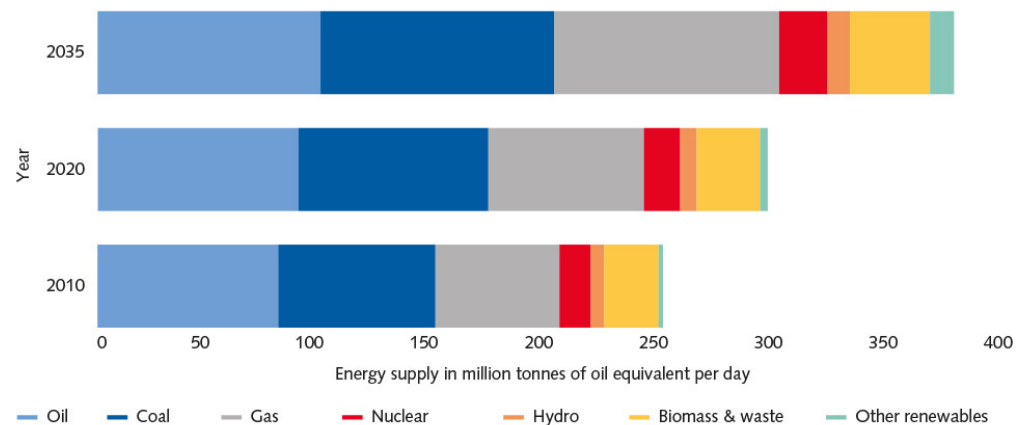
- The prices of many energy commodities such as natural gas and oil have risen over the past two and five years.
- Without exception, all regions of the world – the industrialized nations included – are showing a steadily rising need for energy.
- According to long-term forecasts, oil and gas will also remain the key sources of energy for primary consumption worldwide.

Chart 1: Fossil energy: global oil and gas consumption to 2035 (in million tonnes, oil equivalent)



Source: IEA, Bloomberg, PetroStrategies (June 2011)

Chart 2: World supply of primary energy from 2010 to 2035 by energy source



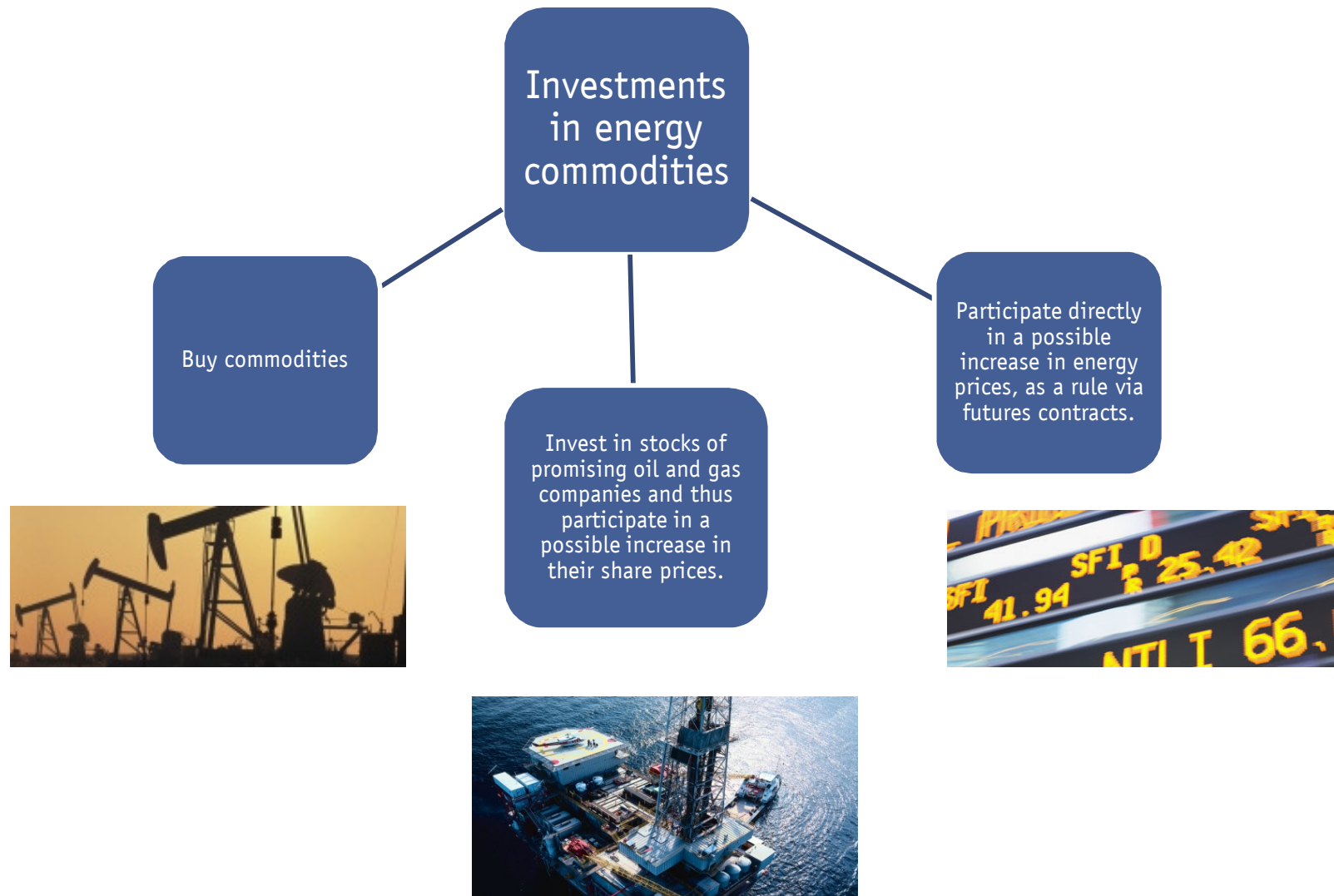
Source: OPEC – World Oil Outlook 2013

Lucrative oil and gas companies

- The **oil and gas sector is a lucrative industry**. In 2013, the world's **top 50 companies in terms of profits included 14 oil and gas groups** (e.g. Total, Statoil, BP and ConocoPhillips)
- No.1 was US oil and **gas producer Exxon Mobil**, pushing tech giant Apple into second place. In third place was Gazprom – also an energy producer (Sources: Fortune, money.cnn.com)
- Exxon Mobil epitomizes the success of US firms in this industry, which have been able to profit from **rising revenues in oil and gas production** as well as energy transportation in recent years – and which also remain well positioned worldwide. (Source: Ibisworld April 2014, December 2013)
- Despite typically having much of their capital tied up in fixed assets, most of them are currently sitting on **massive cash reserves**.
- Since they are at the **start of the value chain** in their sector and in some instances also cover other phases, oils and gas companies are also likely to continue to be the first of all sectors to benefit from the exploitation of new energy reserves (Source: Seekingalpha.com, June 2014)



How to invest in energy commodities?



The problems of investing in futures



- Futures are standardized, exchange-traded forward contracts in which the future date for the physical delivery of the commodity is specified (expiry date).
- If you don't want to take physical delivery of the actual commodity, the future is sold shortly before it falls due and the proceeds are invested in a new futures contract with a later expiry date.
- This is also referred to as rolling. Depending on the market situation (contango or backwardation), this can result in roll losses or gains.

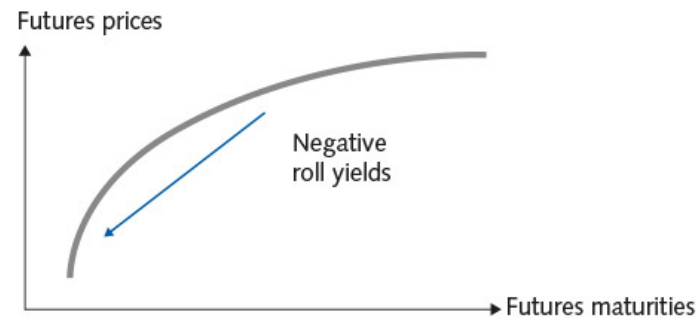
Contango situation

The price of an energy futures contract with a longer term to maturity is higher than that of the corresponding contract with a shorter term to maturity.

The futures curve therefore slopes upward.

If a futures contract that is about to mature is rolled into one with a longer term, in this scenario the result would be roll losses, since the price of the contract with a longer term to maturity is higher.

Chart 3: Contango situation – rising futures curve



Source: Vontobel

Potential loss for the investor due to roll losses

Backwardation situation

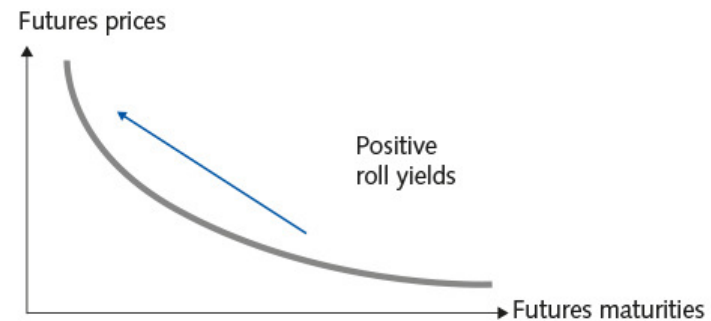
Conversely, here the prices of contracts with later expiry dates are lower than those with shorter maturities.

The futures curve therefore slopes downward.

In such a backwardation situation, if a futures contract that is about to mature is rolled into one with a later expiry date, this results in roll gains.

This is because the proceeds from the sale of the expiring contracts can now be invested in cheaper – and therefore more – contracts than before the rolling.

Chart 4: Backwardation situation – falling futures curve



Source: Vontobel

The result is a potential gain and thus a possible advantage for the investor

Vontobel Energy Strategy Indices

You want

- to participate in a possible increase in demand for energy commodities
- to profit from possible above-average price gains
- to avoid potential roll losses, and take roll gains
- to optimize your investment while doing so

We offer

- a smart strategy that takes into account the characteristics of the energy market (contango / backwardation)
- simplicity and transparency
- optimized investment in the energy commodities oil & natural gas
- investment opportunities for private investors in themes that can be difficult to access

The smart approach of the Vontobel Strategy Indices: switching between stocks and futures

In May and September 2009, Vontobel launched two Strategy Indices.

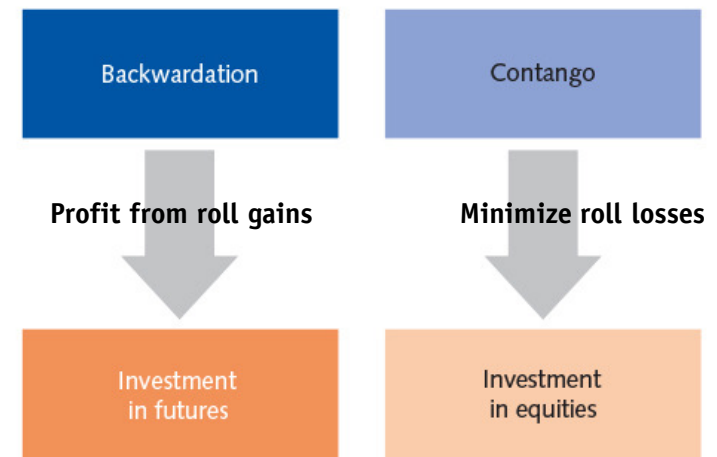
These indices **take advantage of the characteristics of the energy market.**

Depending on the form of the corresponding energy price curve (contango / backwardation), **they have phases where they invest either in equities or futures.**



This means: to profit from roll gains in a backwardation situation, in such phases the strategy index invests in the corresponding energy price futures. And to minimize the disadvantage of roll losses in a contango scenario, the index then invests in equities rather than futures.

Chart 5: The concept behind the Vontobel Oil Strategy and Vontobel Natural Gas Strategy Indices



Source: Vontobel

Strategy: when does which phase apply?

- On the observation date, the last trading day of a given month, it is determined whether natural gas or the WTI oil price is in contango or backwardation.

 In the event of a **contango situation** - the strategy invests **in shares**

- If this is not the case, there is a backwardation situation.

 In the event of a **backwardation situation** - the strategy invests in **futures contracts**

Stock selection

- The equity baskets for the oil and the gas indices are each **reconstituted every six months** and are **calculated using the total return method**. Any dividend payments or other distributions are thus reinvested in the index performance.
- The **Vontobel Oil Strategy Index** comprises the shares of the **ten largest oil companies based in the US or Canada** in terms of market capitalisation. The primary focus of these companies' activities is on the **exploration, production, distribution, refining or marketing of oil**.
- Meanwhile, the Vontobel **Natural Gas Strategy Index** comprises **the 15 largest US gas companies** in terms of market capitalisation, these generating the bulk of their revenues **in the fields of exploration & production, pipelines or distribution**.
- To be included in the respective Vontobel Strategy Index, the shares of oil and gas companies also have to meet further **quantitative and qualitative criteria** (market cap > USD 1,000 million, average daily trading volume > USD 1 million)

Current composition of the Vontobel Energy Indices

Vontobel Oil Strategy Index



currently invested in futures

Vontobel Natural Gas Strategy Index



15 equally weighted stocks

ANADARKO PETROLEUM CORP	NOBLE ENERGY INC
APACHE CORP	OCCIDENTAL PETROLEUM CORP
CABOT OIL & GAS CORP	PIONEER NATURAL RESOURCES CO
CHESAPEAKE ENERGY CORP	RANGE RESOURCES CORP
DEVON ENERGY CORP	SOUTHWESTERN ENERGY CO
EOG RESOURCES INC	SPECTRA ENERGY CORP
EQT CORP	WILLIAMS COS INC
KINDER MORGAN INC	

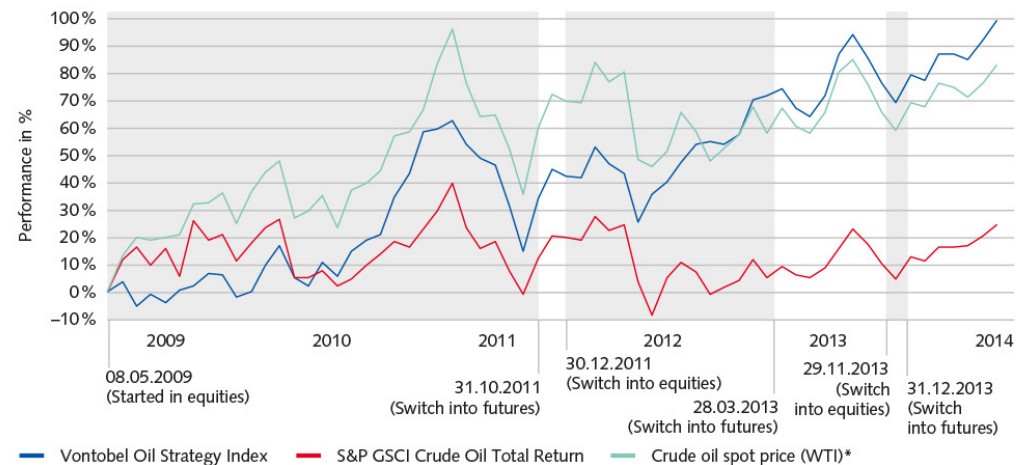
As at 23 July 2014

Performance check – Vontobel Oil Strategy Index



- Mostly invested in equities in the first 3.5 years after its launch given that crude oil (WTI) was predominantly in a contango situation.
- At the end of March 2013, the futures curve for crude (WTI) “turned” to backwardation, and the Vontobel Oil Strategy Index has – with the exception of one month – been invested in crude oil futures ever since.

Chart 6: Performance review of the Vontobel Oil Strategy Index since launch



Source: Bloomberg, as at 30 June 2014

Historical data are not a reliable indicator of future performance.

*The spot price is the cash price at which a transaction is carried out on the international commodity exchanges for immediate payment and delivery. The only way investors can participate in the development of the spot price is to trigger the physical delivery of the commodity in question.

Since its launch on 8 May 2009, the Vontobel Oil Strategy Index has outperformed the S&P GSCI Crude Oil TR Index* by **73.86 percentage points**. In contango situations, the Vontobel Oil Strategy Index has delivered a **strong outperformance in most cases** because its strategy allows roll losses to be avoided. In backwardation phases, it has **mostly showed a somewhat**

Source: Bloomberg, 30.06.2014.

*S&P GSCI Indices

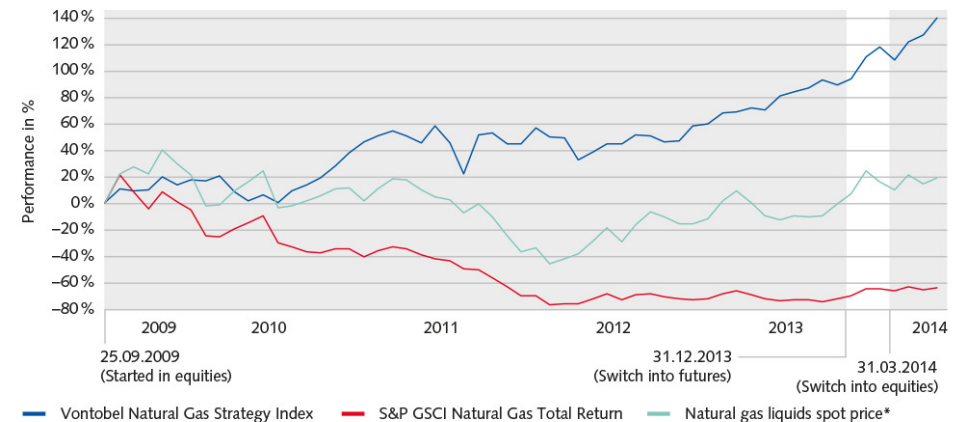
These are, on the one hand, official benchmarks for investments in commodities markets. The indices can also be traded, however, and are open to market participants. As benchmarks, they serve as a performance yardstick for commodities over time. They contain the respective commodity / commodities pertinent for the active, liquid futures market. The indices are calculated by S&P Dow Jones Indices on the basis of the weighting of the physical production volumes of the commodity concerned worldwide.

Performance check – Vontobel Natural Gas Strategy Index



- This index has also been predominantly invested in shares since its launch on 25 September 2009, in this instance shares in US natural gas firms.
- The only period in which natural gas was in a backwardation situation was from the beginning of January to the end of March 2014, and the index was then accordingly invested in futures.

Chart 7: Performance review of the Vontobel Natural Gas Strategy Index since launch



Source: Bloomberg, as at 30 June 2014

Historical data are not a reliable indicator of future performance.

*The spot price is the cash price at which a transaction is carried out on the international commodity exchanges for immediate payment and delivery. The only way investors can participate in the development of the spot price is to trigger the physical delivery of the commodity in question.

Since its launch, the **Vontobel Natural Gas Strategy Index has outperformed the S&P GSCI Natural Gas TR Index by more than 200 percentage points** (Bloomberg, 30.06.2014). This ebullient performance is primarily attributable to the shale gas boom in the US, which has contributed to a strong showing from gas companies shares. Meanwhile, an **investment exclusively in natural gas futures would have led to heavy losses**, since the spot price of natural gas declined markedly at times owing to the massive increase in supply. **Thanks to the index strategy, it was also possible to avoid additional roll losses resulting from the contango situation.**

***S&P GSCI Indices**

These are, on the one hand, official benchmarks for investments in commodities markets. The indices can also be traded, however, and are open to market participants. As benchmarks, they serve as a performance yardstick for commodities over time. They contain the respective commodity / commodities pertinent for the active, liquid futures market. The indices are calculated by S&P Dow Jones Indices on the basis of the weighting of the physical production volumes of the commodity concerned worldwide.

Source: Bloomberg, 30.06.2014.

Invest in the Vontobel Strategy Indices

The VONCERT gives investors virtually 100% participation in the performance of the underlying Vontobel Energy Index, both on the upside but also on the downside.

Key product data ¹	Dynamic VONCERT Open End on Vontobel Strategy Indices				
Underlying	Vontobel Oil Strategy Index			Vontobel Natural Gas Strategy Index	
Valor number/ symbol	1014 0821 / VZOIC	1014 0822 / VZOIE	1014 0823 / VZOIU	1056 7772 / VZGIU	1056 7773 / VZGIE
Initial issue price	CHF 101.50 (1.5% front- load fee included)	EUR 101.50 (1.5% front- load fee included)	USD 101.50 (1.5% front- load fee included)	USD 101.50 (1.5% front- load fee included)	EUR 101.50 (1.5% front- load fee included)
Initial fixing/ payment date	08.05.2009 / 15.05.2009	08.05.2009 / 15.05.2009	08.05.2009 / 15.05.2009	25.09.2009 / 02.10.2009	25.09.2009 / 02.10.2009
Management fee	1.2 % p. a.	1.2 % p. a.	1.2 % p. a.	1.2 % p. a.	1.2 % p. a.
Current ask price ²	CHF 144.80	EUR 180.50	USD 181.80	USD 205.30	EUR 222.70

¹Issuer/guarantor: Vontobel Financial Products Ltd., DIFC Dubai/Vontobel Holding AG, Zurich (S&P A-; Moody's A3)

²As at 17.07.2014.

Termsheets with the legally binding information and other details can be downloaded at any time from www.derinet.ch.

Risk factors

- Global political and economic crises and changes could have a detrimental impact on the shares underlying the VONCERT.
- New competitors could engage the established firms in the index in a fight for market share.
- Issuer risk
- Currency risk
- No capital protection

Summary

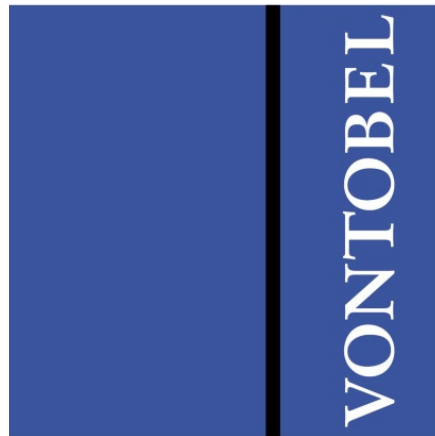
- According to long-term forecasts, oil and gas will also remain the **key sources of energy** for primary consumption worldwide
- If you want to participate in a potential positive performance of the oil and gas sector, you can either invest in **company shares or energy price futures**.
- Thanks to their **smart strategy featuring monthly adjustments**, the **Vontobel Natural Gas Strategy Index** and the **Vontobel Oil Strategy Index** can use both **these to their advantage, depending on the prevailing phase**:
 - Contango: equity investments (avoiding roll losses)
 - Backwardation: futures investments (profiting from roll gains)
- Investors can invest in these proven indices via a **Dynamic VONCERT**.

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July 2014

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**Private Banking
Investment Banking
Asset Management**

Performance creates trust