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Commodity Investments

A comparative review of commodity index and active commodity investment opportunities

Important Information

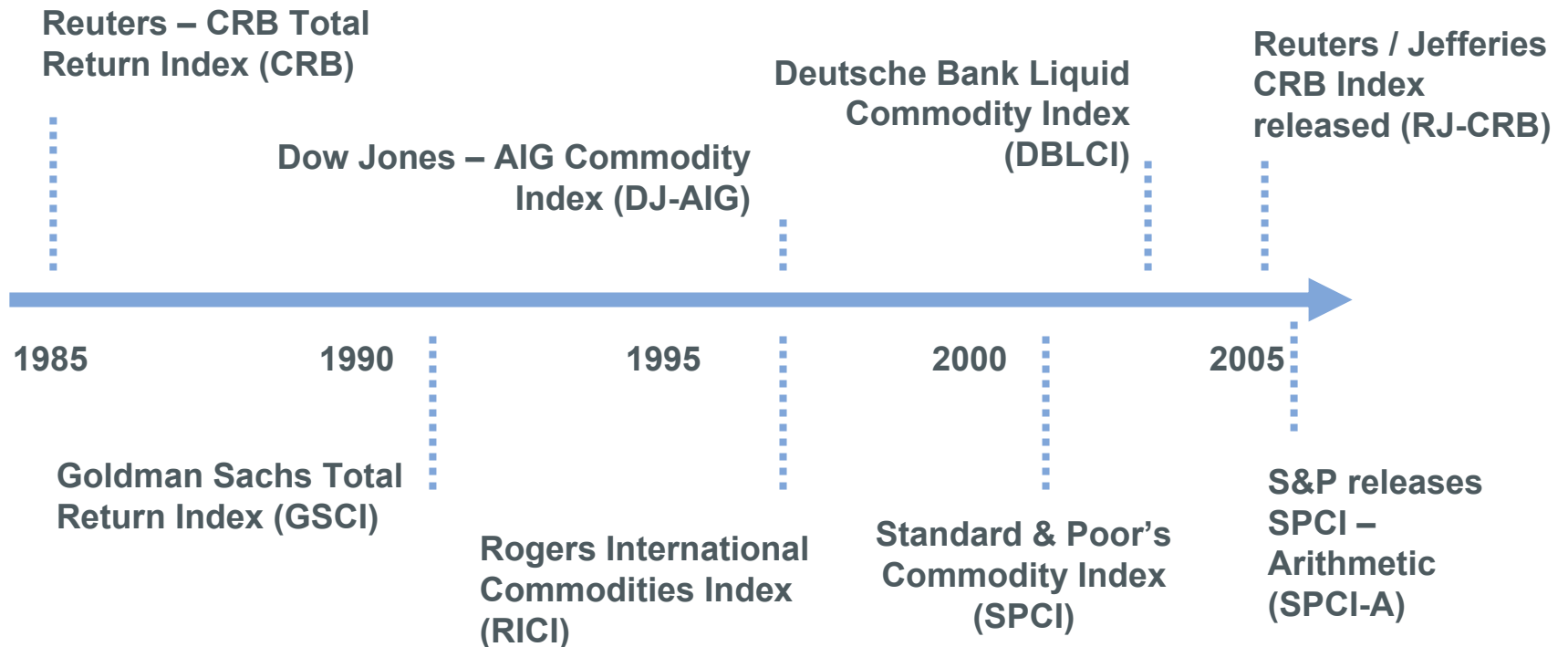
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Some statistical index information contained herein is courtesy of The Barclay Group www.barclaygrp.com .

The Commodity Index Universe

Key Investable “Total Return” Commodity Indexes



Estimated total assets in commodity index-linked products: >\$50 billion

Performance Characteristics

Risk and Return Characteristics

January 1994 to
December 2004

Index	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down
DBLCI	15.70%	19.74%	0.6	-46.11%
DJ-AIG	9.16%	12.76%	0.41	-36.20%
GSCI	8.75%	19.55%	0.25	-48.25%
RJ-CRB	12.84%	13.61%	0.66	-37.04%
RICI	13.95%	14.93%	0.67	-36.94%
SPCI-A	11.44%	16.48%	0.46	-37.57%

January 1994 to
December 2004

(former geometric
calculation for CRB and
SPCI)

Index	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down
DBLCI	15.70%	19.74%	0.6	-46.11%
DJ-AIG	9.16%	12.76%	0.41	-36.20%
GSCI	8.75%	19.55%	0.25	-48.25%
Reuters CRB Index	4.34%	8.65%	0.05	-28.37%
RICI	13.95%	14.93%	0.67	-36.94%
SPCI - Geometric	6.68%	14.28%	0.19	-37.95%

Performance Characteristics

Risk and Return Characteristics

January 2002 to
December 2004

Index	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down
DBLCI	28.55%	18.55%	1.47	-16.78%
DJ-AIG	19.42%	13.00%	1.39	-8.12%
GSCI	23.20%	21.55%	1.01	-19.66%
RJ-CRB	25.16%	13.24%	1.8	-9.74%
RICI	28.84%	13.89%	1.98	-10.63%
SPCI-A	22.92%	17.02%	1.27	-12.21%

Situational Performance

Sector exposure can have big impact on short-term performance discrepancies. Run-ups in the energy sector in October 2004 and subsequent price retreats in November had varying impact on commodity indexes.

Index	Oct-04	Nov-04
DBLCI	3.85%	-3.38%
DJ-AIG	1.69%	-1.20%
GSCI	4.15%	-4.84%
RJ-CRB	1.13%	0.25%
RICI	1.67%	-1.00%
SPCI-A	4.74%	-4.24%

Performance Characteristics

Correlation Characteristics

*Correlation among
commodity indexes*

*January 1994 to
December 2004*

	DBLCI	DJ-AIG	GSCI	RJ-CRB	RICI	SPCI-A
DBLCI	1.00	0.85	0.92	0.91	0.96	0.71
DJ-AIG	0.85	1.00	0.90	0.95	0.91	0.90
GSCI	0.92	0.90	1.00	0.93	0.92	0.85
RJ-CRB	0.91	0.95	0.93	1.00	0.97	0.84
RICI	0.96	0.91	0.92	0.97	1.00	0.76
SPCI-A	0.71	0.90	0.85	0.84	0.76	1.00

*Correlation to other
asset classes*

*January 1994 to
December 2004*

Index	S&P 500	Lehman Brothers Long Term Treasury Index	HFR Fund of Funds Index	Barclay CTA Index
DBLCI	0.02	0.03	0.21	0.15
DJ-AIG	0.10	0.05	0.23	0.26
GSCI	0.01	0.11	0.19	0.21
RJ-CRB	0.09	0.01	0.21	0.19
RICI	0.07	0.00	0.21	0.16
SPCI-A	0.02	0.10	0.13	0.28

Passive Commodity Index Limitations

Disconnect between objective (“broad measure of commodity price trends”) and execution (creating investor-friendly products):

- A “broad measure of commodity price trends” may not be the most attractive for investors.
- What has been optimized and what are the data biases?

Roll Yield:

- Capital in-flows may be limiting this “main, reliable” return source.

Commodity Prices:

- Notorious volatility suggests that occasional supply/demand disconnects may carry more near-term impact than longer-term macro themes.
- Underlying markets are more independent than other asset classes
- Many commodities have well defined (and knowable) cyclical patterns

Long Term Consensus: Commodity Prices will be Higher

Short Term Projections: Crude at \$105/barrel . . . Or \$35

Comparing Active Management to Passive

What is a commodity index investment missing?

- “Short” Opportunities
- Cyclical Trades
- Weather and Other Fundamental Themes
- Term Structure Trades
- Other Arbitrage and Relative Value Trades
- Long Volatility Optionality

Comparing Active Management to Passive

Comparing active commodity traders* to indexes

January 1994 – December 2004

Index or Portfolio	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down	Correlation to S&P 500
Active Commodity Traders	15.17%	7.87%	1.43	-7.02%	0.08
DBLCI	15.70%	19.74%	0.6	-46.11%	0.02
DJ-AIG	9.16%	12.76%	0.41	-36.20%	0.1
GSCI	8.75%	19.55%	0.25	-48.25%	0.01
RJ-CRB	12.84%	13.61%	0.66	-37.04%	0.09
RICI	13.95%	14.93%	0.67	-36.94%	0.07
SPCI-A	11.44%	16.48%	0.46	-37.57%	0.02

January 2002 – December 2004

Index or Portfolio	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down	Correlation to S&P 500
Active Commodity Traders	15.22%	5.07%	2.74	-3.71%	0.05
DBLCI	28.55%	18.55%	1.47	-16.78%	-0.22
DJ-AIG	19.42%	13.00%	1.39	-8.12%	-0.03
GSCI	23.20%	21.55%	1.01	-19.66%	-0.21
RJ-CRB	25.16%	13.24%	1.8	-9.74%	-0.1
RICI	28.84%	13.89%	1.98	-10.63%	-0.12
SPCI-A	22.92%	17.02%	1.27	-12.21%	-0.12

*Equally weighted portfolio of up to 84 distinct non-financial Commodity Trading Advisors

Comparing Active Management to Passive

What is a commodity futures investment missing?

- Water
- Coal and Other Alternative Energy Sources
- Forestry Products
- Electricity/Utilities
- Emissions
- Shipping
- Resources Infrastructure

Comparing Active Management to Passive

Comparing active natural resources managers* to indexes

January 1994 – December 2004

Index or Portfolio	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down	Correlation to S&P 500
Active Commodity Traders	15.17%	7.87%	1.43	-7.02%	0.08
Active Commod. Traders & HF	18.40%	8.60%	1.68	-16.58%	0.26
DBLCI	15.70%	19.74%	0.6	-46.11%	0.02
DJ-AIG	9.16%	12.76%	0.41	-36.20%	0.1
GSCI	8.75%	19.55%	0.25	-48.25%	0.01
RJ-CRB	12.84%	13.61%	0.66	-37.04%	0.09
RICI	13.95%	14.93%	0.67	-36.94%	0.07
SPCI-A	11.44%	16.48%	0.46	-37.57%	0.02

January 2002 – December 2004

Index or Portfolio	Compound Annual Return	Annualized Standard Deviation	Sharpe Ratio	Worst Draw Down	Correlation to S&P 500
Active Commodity Traders	15.22%	5.07%	2.74	-3.71%	0.05
Active Commod. Traders & HF	20.93%	5.99%	3.27	-2.95%	0.35
DBLCI	28.55%	18.55%	1.47	-16.78%	-0.22
DJ-AIG	19.42%	13.00%	1.39	-8.12%	-0.03
GSCI	23.20%	21.55%	1.01	-19.66%	-0.21
RJ-CRB	25.16%	13.24%	1.8	-9.74%	-0.1
RICI	28.84%	13.89%	1.98	-10.63%	-0.12
SPCI-A	22.92%	17.02%	1.27	-12.21%	-0.12

*Equally weighted portfolio of up to 128 distinct non-financial Commodity Trading Advisors and natural resource sector hedge funds.

Conclusions

Commodities are rapidly gaining acceptance as a diversifying asset class.

Long-only index investments in commodities provide exposure but carry limitations which can limit opportunities and increase volatility for investors.

Active commodity trading strategies may provide exposure while improving risk-adjusted returns when compared to a passive, long-only commodity investment.

Adding hedge fund strategies to an active commodity futures investment may expand opportunity set while improving return and risk-adjusted return characteristics

Contact Information



COLE PARTNERS

449 North Wells, Suite 2E

Chicago, Illinois 60610

312.644.4486

www.colepartners.com