Betashares OOO ETF Frequently Asked Questions

The Betashares Crude Oil Index ETF - Currency Hedged (synthetic) (OOO) aims to track the performance of an index (before fees and expenses) that provides exposure to crude oil futures, hedged for movements in the AUD/USD exchange rate. OOO allows investors to gain exposure to oil without the need to trade futures or take physical delivery of oil.

There are important differences between ETFs such as OOO that gain their exposure via futures contracts, and ETFs that hold assets such as shares or physical gold.

How does OOO provide investors with exposure to oil?

Most ETFs provide their exposure by holding the assets underlying the ETF – for example by holding a portfolio of shares, or a physical asset like gold bullion.

However, most commodity ETFs do not work this way. Because it is impractical and costly to physically transport, store and insure commodities like oil, wheat and wool, commodity ETFs typically gain their exposure via futures contracts.

OOO aims to track the performance of an index based on oil futures. To do this, the ETF invests its assets in cash and is paid the performance on the underlying futures-based index by a counterparty via an agreement with one or more financial institutions. This agreement is known as a 'swap agreement'. ETFs structured this way are referred to as 'synthetic' ETFs.

What assets are held by OOO?

OOO is fully backed by cash, which is held in bank accounts with a third-party custodian for the benefit of OOO's unitholders.

What index does OOO aim to track?

OOO aims to track the performance of an index based on West Texas Intermediate (WTI) crude oil futures – namely, the S&P GSCI Crude Oil Index Excess Return (hedged into $A). This index may perform differently to physical oil itself, and you should not expect OOO to provide an identical return to holding oil itself.

What are oil futures?

An oil futures contract is a contract which sets the price for delivery of oil at an agreed point of time in the future. WTI crude oil futures are traded on the New York Mercantile Exchange (NYMEX). WTI futures are liquid and standardised and utilised by oil investors throughout the world.

What are the sources of return from OOO?

The return from OOO comes from three sources:

1. movements in the spot price of oil
2. roll return – the return (positive or negative) that results from the process of rolling futures contracts.
3. collateral return – the return the ETF makes from investing its assets in cash (typically a return close to the RBA cash rate).

With interest rates at record lows, collateral return currently has minimal impact on your overall return from an investment in OOO. As such, the primary influences on OOO's returns are movements in the spot price and the roll return.

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What is 'roll return'?

WTI crude oil futures have a settlement date, on which the holder of a contract (i.e. a party with an outstanding 'long' position) is required to pay for, and take delivery of, the underlying oil. Most investors, including managers of oil ETFs, do not want to take delivery of oil. So, if they want to maintain an ongoing exposure to oil beyond settlement of the futures contracts they currently hold, the investor must sell those contracts before they expire and buy new contracts with a later expiry date.

This process is known as rolling.

The process of maintaining an ongoing exposure to a commodity through holding and rolling futures contracts involves either a cost, or a benefit – this is called 'roll return'. The continual process of rolling means that roll return can be an important factor in your overall returns from OOO.

To learn more about roll return, and how oil futures are priced, please refer to **Understanding the performance of the Betashares Crude Oil Index ETF – Currency Hedged (synthetic) (ASX: OOO)**.

Is there any way to avoid the effects of rolling?

Rolling is a necessary part of the index that OOO tracks. The effects of rolling cannot be avoided for any commodity ETF based on futures contracts.

Do synthetic ETFs such as OOO involve increased risk?

It is true that a synthetic ETF has a level of 'counterparty risk' to the issuer of the swap – but this should be kept in context. Betashares imposes a 'zero exposure threshold' on counterparty exposure. This means that we revalue the swap agreement on a daily basis, and require that where the counterparty owes funds to OOO above a certain threshold, payment is made promptly to reduce the exposure to zero. In any event, ETFs are regulated under ASX rules that require any counterparty exposure to be managed so it does not exceed 10% of a synthetic ETF's net asset value.

Synthetic also doesn't mean that there is nothing underlying the ETF. OOO is 100% cash-backed, meaning that the ETF holds cash equal to the total exposure that OOO has to the oil futures index through the swap. The cash is held in bank accounts by a third-party custodian.

Who are the counterparties in the swap agreement?

Betashares applies strict criteria in selecting its swap counterparties. In particular, any Betashares counterparty must:

- be subject to prudential supervision in Australia or elsewhere
- be of good financial standing
- have, as a minimum, a long-term investment grade credit rating from a major credit rating agency, and
- be a regulated and significant participant in index, equities and derivatives products with trading capabilities in the major asset classes.

OOO's swap counterparty is UBS AG, one of the world's largest financial institutions.

What if the swap counterparty defaults?

In the event that a counterparty defaults, OOO has full recourse to the cash held in the independent thirdparty custodian's account. Since counterparty exposure is managed to a zero exposure threshold, the extent of any loss (should there be one) is expected to be mitigated.

If Betashares were to default, this should have no impact on the value of OOO. The assets of OOO are held by the custodian, and are separate from the assets of Betashares.

What happens if the oil futures price turns negative?

OOO incorporates certain risk management measures that may be called on in extreme market circumstances. These measures were introduced in response to the market volatility experienced in April 2020, when, for the only time in history, the oil price briefly turned negative. The measures include the automatic termination of OOO's swap agreement if the price of oil futures falls below a designated level. For more detail, please refer to the **OOO SPDS.**

How can I invest in OOO?

OOO can be bought or sold on the ASX, just like shares.

About Betashares

Betashares is a specialist provider of fund products that are traded on the ASX. We offer the broadest range of ETFs and other funds on the ASX. Our objective is to provide intelligent investment solutions to help investors reach their financial goals.

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There are risks associated with an investment in OOO, including market risk, commodity volatility risk, commodity roll risk and derivatives risk. For more information on risks and other features of OOO, please see the product disclosure statement at www.betashares.com.au.

The index which OOO aims to track is based on the price of WTI crude oil futures contracts. Investing in commodity futures is not the same as investing in the "spot price" of a given commodity. As such, OOO does not aim to, and should not be expected to, provide the same return as the performance of the spot price of oil. The performance of ETFs that are linked to commodity futures may be materially different to the spot price for the commodity.