

The Oil Bond

The Oil Bond is an innovative investment strategy for private investors who wish to invest in oil as part of the process of building a balanced and diversified investment portfolio.

The Key Features of the Bond are:

- Underlying Investment: S&P GSCI® Crude Oil Excess Return Index
- Term: 2 years, 3 months
- 100% Capital Protection (if the underlying investment does not fall by 50% or more at any time during the investment term. If the underlying investment does fall by 50% or more, the capital protection is lost and investors will suffer any fall in the underlying investment at maturity)
- 140% Participation
- Maximum Gross Return: 56% (Maximum index return 40% X 140% participation = 56%)
- Minimum Investment: €25,000
- Closing Date for Applications: 27 February 2009
- Fees & Charges: 4% (2.5% to investment advisors. No annual fees)

Warning: You can lose some or all of the amount invested in the bond.

The Economic and Financial Market Environment in 2008

The global economy and financial markets not only reached the end of the positive economic cycle (that had begun in 2003) during 2008, but went into significant decline and then freefall. The year started badly and got progressively worse as the economic and financial news seemed to get more and more frightening. Investors lost confidence in the financial system and the global Credit Crises forced institutional and private investors to unwind the highly leveraged positions that they had built up during the good times. This de-leveraging in the financial system was indiscriminate resulting in a sell off of all liquid assets (whether these assets were effected by credit/leverage or not). For example, traditionally uncorrelated or non-directional assets like currencies, commodities and hedge funds were sold in line with equities and property simply because they were liquid and could be sold.

Economic & Investment Rationale for investing in Oil

The price of oil like any commodity or raw material is a function of Demand and Supply. Oil prices fell in the second half of 2008 as demand expectations fell as a result of the worsening economic projections for 2009 and 2010. While some downward revision to oil demand expectations in the coming years is reasonable, demand should not be expected to disappear altogether or by 70% or more as the current oil price might suggest. There is also the potential of an earlier and more pronounced economic recovery than expected. On the supply side, nothing has changed since mid 2008 except that less investment is being made which will result in even more supply constraints in the years to come.

The table below describes the demand and supply side fundamentals for oil that we expect to reassert themselves in 2009 and 2010.

Demand Side	Supply Side
1. Demand forecasts reduced for 2009 & 2010 but demand has not completely gone away.	1. Potential security of supply issues have not gone away.
2. Potential for earlier and more pronounced global economic recovery than expected.	2. Constraints could be worsened by reduced investment in supply due to lower price.
3. Remember: the pent-up emerging market demand and inflation concerns in mid 2008?	3. Remember: peak oil, environmental and resource nationalism concerns in mid 2008?

Oil reached a peak of \$147.27 on 11 July 2008 and then declined to its lowest level of \$35.13 on 24 December 2008. The current oil price is in the region of \$36 per barrel. The indiscriminate selling of all liquid asset classes also affected oil in 2008. The graphs below illustrate how far the underlying index fell during the latter half of the year. However, these declines also represent an opportunity for investors to reinvest in the index at lower levels on the understanding that the oil price will recover and increase from its current levels as demand & supply fundamentals reassert themselves and as general economic conditions improve during the 2 year, 3 month term of the Bond.

Graph 1: The S&P GSCI® Crude Oil Excess Return Index: 2/1/08 to 9/1/09:



Source: Bloomberg 2/1/08 to 9/1/09

Graph 2: The S&P GSCI® Crude Oil Excess Return Index: 1/7/08 to 9/1/09:



Source: Bloomberg 1/7/08 to 9/1/09

Risk & Wealth Warnings

Warning: You can lose some or all of the amount invested in the bond.
Warning: Past Performance is not a reliable guide to future performance.
The value of your investment can go down as well as up.
Warning: This document does not constitute and should not be taken as a recommendation from Duggan Asset Management.
Warning: This document should only be read in conjunction with the full brochure.