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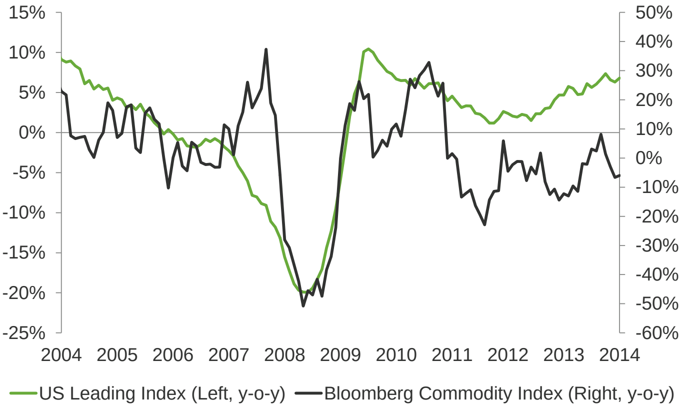
OUTLOOK 2015: GLOBAL RECOVERY TO DRIVE CYCLICAL ASSETS

DIVERGING GROWTH TRENDS AND MONETARY POLICIES CREATE OPPORTUNITIES

Cyclical assets will give the best investment opportunities in 2015 on the back of the increasing momentum of the global economic recovery. While the recovery will be led by the US and emerging Asia, it will be gradual and not likely to be a straight line. Numerous risks remain, particularly the growth and deflation threats for the Eurozone and Japan, alongside the fading economic momentum in the UK economy. Accordingly, those commodities and currencies poised to benefit from US and Chinese growth are likely to be the main beneficiaries in 2015. Our favoured assets are cyclical commodities like industrial metals and energy and the US Dollar.

Continued economic growth to support cyclical commodities demand. Cyclical commodities are likely to be the main beneficiaries of continued economic growth in US and China in 2015. With China continuing to stimulate its economy and budgeting for more commodity-intensive infrastructure spending we believe the outlook for cyclical commodities looks strong. Local governments in China were reluctant to make large spending decisions in 2014 because of the central government's clampdown on the use of third-party funding vehicles. Now that local governments are able to borrow under their own name, we believe commodity-intensive infrastructure spending will accelerate in 2015. Commodity performance has lagged traditional economic activity indicators like the US leading index amongst others, and we expect this to mean revert.

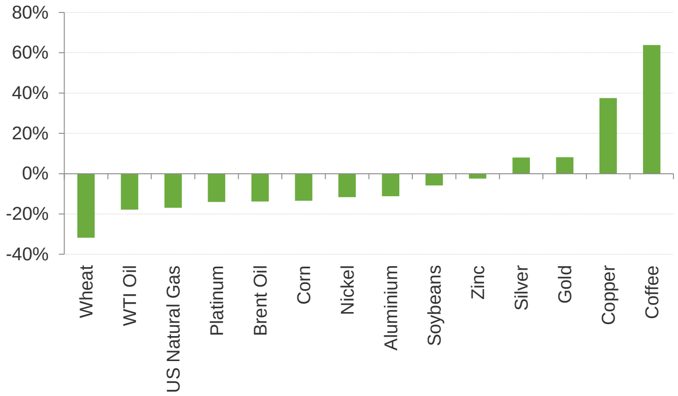
US Recovery to Drive the Recovery in Commodity Prices
Monthly Data, From October 31, 2004 to October 31, 2014



Source: Bloomberg, ETF Securities

Supply likely to become constrained if price weakness persists. With so many commodities trading at or below their marginal cost of production, we believe that unless we see price increases, production will be cut. While in the short-term companies and mines can continue to produce even if prices are trading below marginal costs, it is not sustainable in the long-term. Unprofitable operations will have to be shut down or downsized, reducing production to contain costs. In turn, tighter supply will drive better price performance. We expect the recent correction in commodity prices to be transitory and believe commodities are attractively valued at current levels. Most of the factors that have hit commodity prices over the past months are temporary, and we believe the price correction creates tremendous opportunities for medium to long-term investors.

Most Commodities are Trading Below Marginal Costs of Production
Daily Data, Price as of November 20, 2014

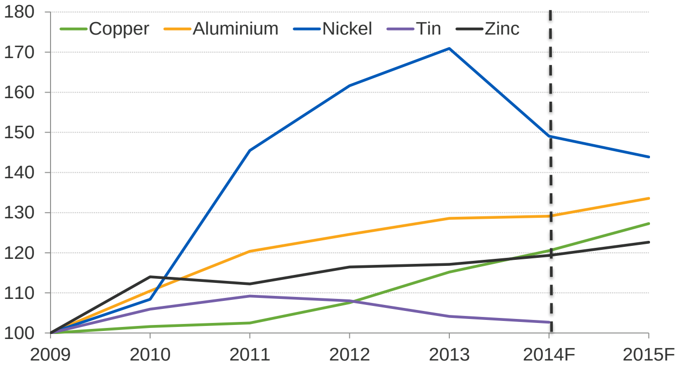


Source: Bloomberg, USDA, International Coffee Organisation, Thomson Reuters GFMS, Morningstar, Bernstein, ETF Securities

Geopolitical risk – a double-edged sword. While the geopolitical environment remains tense in a number of regions, and likely to weigh on the economic outlook, it is likely to be a supportive influence for a number of commodities. Demand for defensive assets like gold, primarily as a portfolio hedge will likely remain resilient, especially with the price of this hedge so close to the marginal cost of production. In our central scenario, we don't expect geopolitical risk to significantly interfere with continued economic growth and the demand for cyclical assets. At the same time, geopolitical risks could cause supply disruptions across a number of commodities.

Supply disruptions key for industrial metals. While supply remains abundant across most commodity sectors, contributing to price weakness, we feel that the most aggressive supply forecasts have been priced in. Supply shocks have played a central role in the metal space this year, with South Africa suffering a 5-month long strike and Indonesia introducing an ore export ban. Significant production is located in emerging markets, which makes supply consistency an ongoing uncertainty.

Market Supply Forecasts for Copper, Aluminium, Nickel, Zinc and Tin
Rebased to 100 = 2009, From 2009 to 2015F



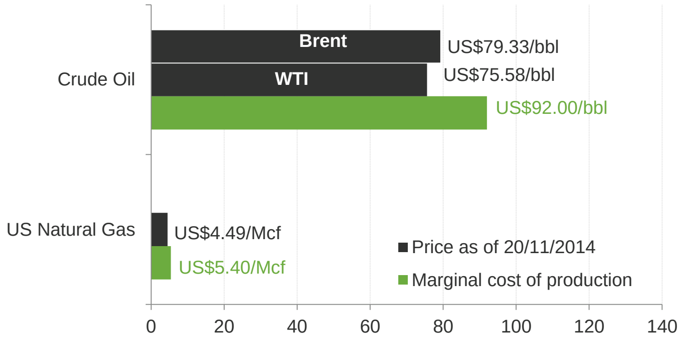
Source: Australian Government Bureau of Resources and Energy Economics, Barclays, Deutsche Bank, ETF Securities
Note: F = forecasted (June 2014)

Industrial metal and precious metal markets should also benefit from continued growth in Chinese demand (we feel that the negativity over a Chinese slowdown is overdone), and supply not achieving growth expectations of the market. Supply disruptions are quite common in the commodity space and they are likely to continue to be a key driver of prices in 2015. As noted above, a worsening geopolitical outlook could also moderate some of the supply expectations for commodities, particularly in the energy and metals sectors, helping lift prices in 2015. The recent price weakness reflects transitory investor capitulation and we believe that a broad range of commodity markets appear attractively priced, particularly those linked to a cyclical upswing.

Modest tightening of oil supply expected. While there appears to be a clear split between Gulf OPEC members and the remaining countries in terms of cutting oil production to sustain oil prices, we expect the OPEC oil cartel will eventually commit to cutting back on oil production.

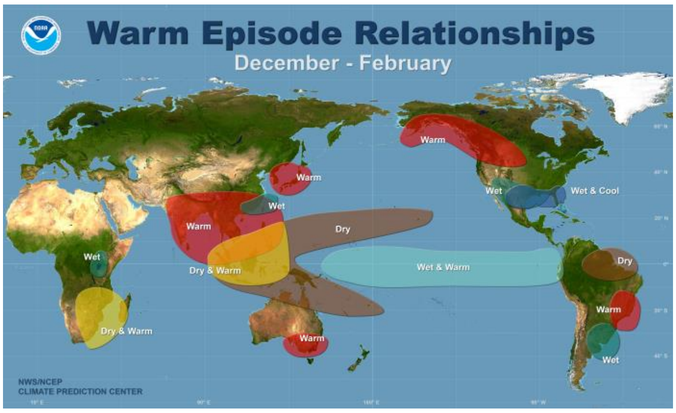
With the majority of OPEC countries estimated to require oil prices of above US$90-US$100/barrel to balance their government budgets, it is a matter of time before OPEC start to reduce supply and that could happen as early as November 27, when OPEC holds its next meeting. While US production is abundant, with oil production at multi-decade highs there is little potential for US crude exports in the near-term, capping the negative impact the over-supply in the US has on global prices.

Energy Prices and Marginal Cost of Production
(2013 data for natural gas and 2011 data for oil)



Source: Bloomberg, Morningstar, Bernstein, ETF Securities
Note: Marginal costs are defined by the 90th percentile of the cost curve of the 50 largest oil and gas companies.

Agricultural outlook remains varied and tied to weather. The fortunes of the agricultural sector are clearly significantly tied to weather. With an El Niño weather event forecast for the Northern Hemisphere winter, we could see further gains in coffee, sugar, wheat and a decline in soybean prices. Hot, dry weather in the major producing areas of Brazil, Australia and Asia typically hurts coffee, sugar and wheat growing, while soybean growing typically prospers under wetter conditions in parts of South America. Other weather-related disruptions could also cause sizable price movements in corn in 2015 given that perfect growing conditions have been priced in to this years crop.

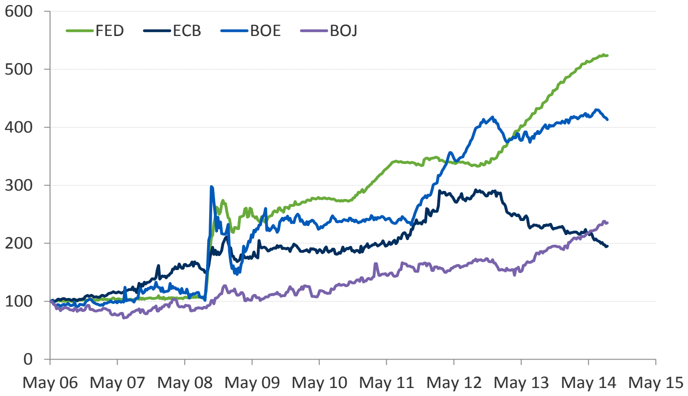


Gold likely to sustain modest gains. The outlook for the gold price is especially uncertain. Ordinarily, a positive economic environment, in which some major central banks will likely raise interest rates, will be a gold negative scenario. However, there are a number of events which could drive a surprise increase in the price. The potential passage of the Swiss gold referendum at the end of the month was once thought of as a tail-risk. However, with polls indicating 38% of the Swiss population in favour of the central bank holding 20% of its assets in gold, that risk is rising. Should the proposal pass, the central bank would need to increase its current holdings of gold from 8% to 20% over a span of 5 years, which would lend support to the gold market. We believe the expansionary monetary policy of the ECB and BOJ to also prompt demand for gold from investors in these regions as low or negative deposit rates increase the appeal of holding gold. The accompanying weakening of the euro and yen will also boost returns of foreign investors holding dollar denominated assets. In general, we expect gold to end 2015 in the range of US$1250-1300/oz, as long as US interest rate rises are modest and gradual.

Central banks' action key for currencies in 2015. The global interest rate cycle is turning. Interest rates in many developed economies have been hovering near their lowest levels in recorded history for nearly six years. In our view, as economic momentum gathers pace, interest rate settings will be adjusted higher toward historically normal levels.

Central Bank Balance Sheet Growth

Rebased at 100=May 21, 2006, Weekly data, From May 21, 2006 to Nov 16, 2014



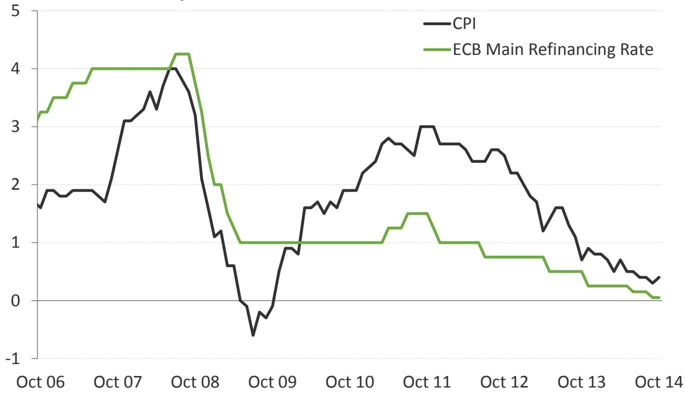
Source: Bloomberg, ETF Securities

While the global economic recovery is taking hold to varying degrees across the world, there has been a divergent trend in developed economies. These differences mean central bank policies will also diverge, providing opportunities for currency investors and investors exposed to assets that are not priced in their home currency. We believe continued improvements in the US economy will see the Fed being the first central bank to raise interest rates in 2015 toward historically more normal levels. The flattening of the US Treasury curve is likely to prompt broad-based strength of the US Dollar over the course of 2015. While the UK showed early signs of a robust recovery in 2014, momentum has faded in recent months, with manufacturing activity and household sector spending posting downside surprises. We expect the differential of US over UK bond rates to continue to widen as investors begin to factor in better US growth rates, putting further downward pressure on the GBP/USD exchange rate. At the same time, weakening growth has seen Eurozone inflation hovering less than a quarter of the ECB's 'below, but close to, 2%' target for several months.

As deflationary threats have mounted, the ECB has been aggressive in introducing fresh unconditional policy measures, including negative deposit rates and additional long term funding and asset purchasing initiatives. The new measures, which are aimed at increasing lending and liquidity conditions in the real economy, are likely to remain in place in for the foreseeable future. We expect the aggressive ECB stimulus to continue to weigh on the performance of the Euro, as we do not expect the economic situation to improve markedly over the coming year. With latest data showing that the Japanese economy is in a recession, we anticipate the BOJ adding further stimulus in 2015 (a similar situation to the ECB), keeping the Japanese Yen depressed in 2015.

No Improvement for the Euro

Monthly data, From October 31, 2006 to October 31, 2014

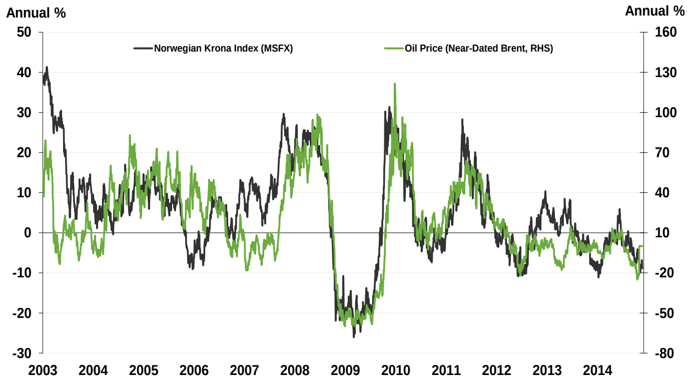


Source: Bloomberg, ETF Securities

We expect commodity currencies to perform well in 2015, as one source of weakness (depressed global commodity prices) begins to fade. We feel that as oil prices begin to rebound the Norwegian Krone and the Canadian dollar will appear particularly attractive against funding currencies like the Yen and the Euro. In addition, the Canadian dollar has the benefit of strong economic ties to the strengthening US economy - another source of support for the currency.

Norwegian Krone vs. Oil Price

Daily, From January, 2003 to November, 2014



Source: ETF Securities, Bloomberg

US Dollar strength is no threat to commodities. The historically negative correlation between the US Dollar and commodity prices has been a headwind for commodity price, particularly gold, at the margin. We expect this relationship to decouple moving into 2015 as the global economic recovery gains pace. The US Dollar strength in 2014 has been the result of the brightening US economic environment and the increasing potential for the Fed to tighten policy in 2015. We expect this 'positive' US Dollar strength to continue but the improving economic backdrop is likely to supportive for underlying commodity demand, especially with Chinese demand also remaining healthy. Accordingly we foresee an environment In 2015 that is beneficial for both the US Dollar and commodity prices.

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