

Subprime Mortgage Crisis

In August 2007, the Subprime Mortgage Crisis progressed into a liquidity crisis on a global scale, spreading rapidly from borrowers of subprime mortgages, to hedge funds, banks and other firms. The scale and suddenness of the crisis brought on widescale risk aversion in the markets, forcing some investors and firms to struggle to attain financing. Asset classes were impacted indiscriminately, as investors liquidated assets to raise capital.

Below is a timeline of some key points at the height of the crisis. Commodities ended the month of July at strong levels, but were impacted by the crisis in August.

Financial Markets:

Tuesday, July 31

- U.S. stocks down on subprime concerns
- 10-year U.S. Treasury yield nears 2-mo low
- Yen rises vs. dollar as carry trades reduced

Thursday, August 9

- Fed, ECB, BOJ inject liquidity into market
- 2-yr U.S. Treasury yields fall most since 2004
- Yen extends biggest gain in six years

Thursday, August 16

- Fed injects additional liquidity
- Dow index opens under 13,000
- VIX volatility index highest since March 2003

Commodity Markets:

- BCISM index hits high for the year
- Crude oil trades at over \$78 a barrel
- Gold, silver move higher

- Crude oil falls on economic, subprime woes
- Metals plummet on lending fears, sales to cash
- Grains fall on selling to cover subprime losses

- Biggest commodity plunge in at least 50 years
- Crude oil down on falling stock prices
- Raw material prices fall on demand concerns

Performance of Commodity Markets

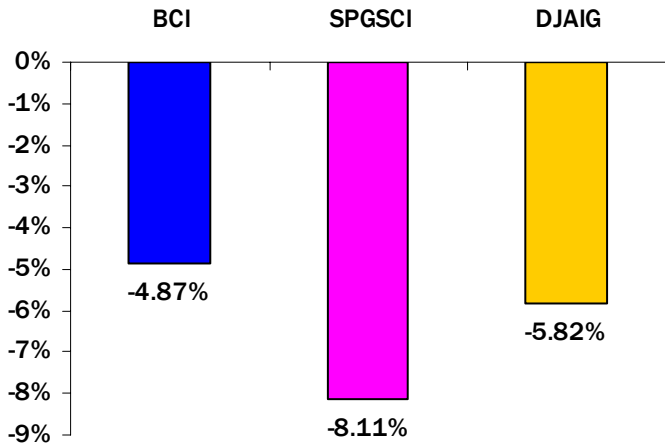
Commodities may be a good long-term hedge against equity market declines. However, in August 2007 the dominant factors driving commodity prices were liquidity, leverage, and rebalancing. Because commodities are liquid, they are a ready source of cash. When cash is in demand even hard assets such as gold become cheaper. During the crisis the cost of leverage rose for all assets, including commodities. Commodities that are easy to leverage, such as metals, were hit hardest by this development. Finally, the drop in equity markets left many institutional portfolios overweight in commodities. Dynamic asset allocation models kicked in, selling commodities to achieve the desired weight.

BCISM Performance

As markets become more integrated, the way commodities are held has become as important as their diversification potential. The Bache Commodity IndexSM (BCISM) weathered the Subprime Mortgage Crisis, outperforming the other major benchmark indices in both

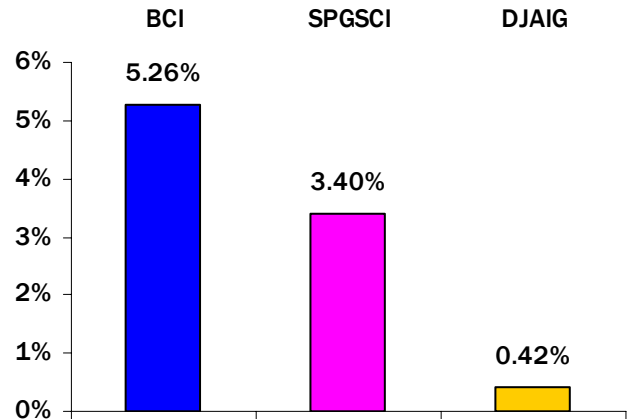


**Commodity Index Performance
During Subprime Crisis
Jul 31 - Aug 22, 2007**



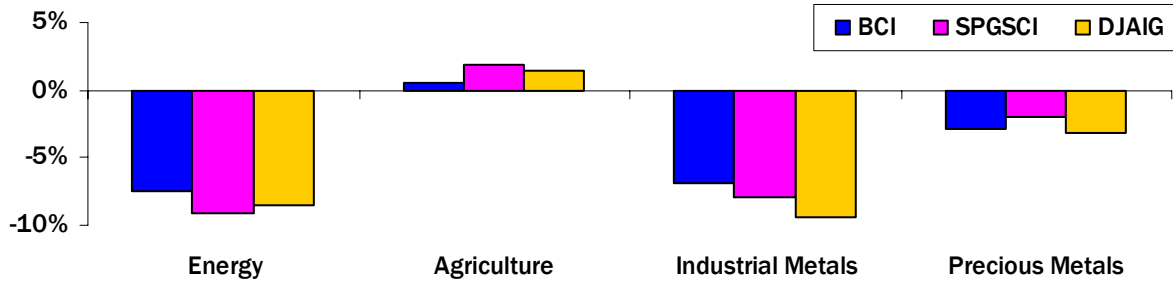
Source: Global Commodities Group

**Commodity Index Performance
Year-to-Date 2007
Dec 31, 2006 - Aug 22, 2007**



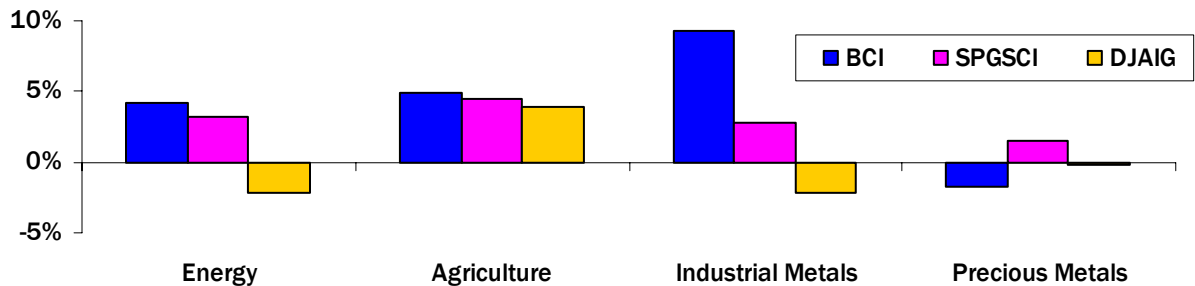
Source: Global Commodities Group

**Commodity Index Sector Performance During Subprime Crisis
July 31 - Aug 22, 2007**



Source: Global Commodities Group

**Commodity Index Sector Performance Year-to-Date 2007
Dec 31, 2006 - Aug 22, 2007**



Source: Global Commodities Group

total return and volatility measures, as a result of its unique methodology. The BCISM uses a structured model of individual commodity markets to decide which positions to reduce, and which to increase. This approach allows the index to respond to market downturns with more flexibility and less volatility than other commodity indices, allowing the possibility for higher risk-adjusted returns.

Comparison of Commodity Index Returns

The BCISM outperformed the Dow Jones-AIG Commodity Index (DJAIG) and the S&P Goldman Sachs Commodity Index (SPGSCI) through the height of the crisis period, as is demonstrated by the chart at the far left. While all of the major indices lost ground during the period of July 31 to August 22, the BCISM fell the least of the three, due primarily to the unique structured asset allocation feature of the index.

The structured asset allocation feature of the BCISM methodology enables the index to hold more or less of a commodity based on recent price movements. When prices are falling, the BCISM is able to move positions into cash and out of volatile assets. While this feature allows the index to take advantage of commodity gains during times of market upswings, the structured asset allocation feature plays an important role when markets weaken, allowing the BCISM to avoid holding commodity positions that are losing value.

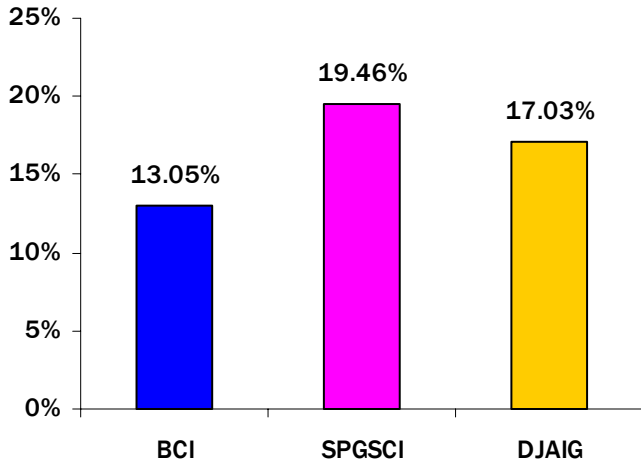
This feature can also enhance performance in times of strong markets, as it allows the index to hold positions that are gaining in value during market upswings. As shown in the chart at the near right, the BCISM outperformed its index counterparts on a year-to-date basis as well, as a result of being able to hold flexible positions, and respond to both market turbulence and strength.

Sector Performance

BCISM performance can be analyzed on a sector basis compared to the other two major commodity indices. As shown in the charts at lower left, the BCISM outperformed the SPGSCI and DJAIG in the Energy and Industrial Metals sectors in the period that represents the height of the Subprime Mortgage Crisis, July 31–August 22. These two sectors suffered the most during the crisis, and the BCISM was able to respond by decreasing positions in those assets.

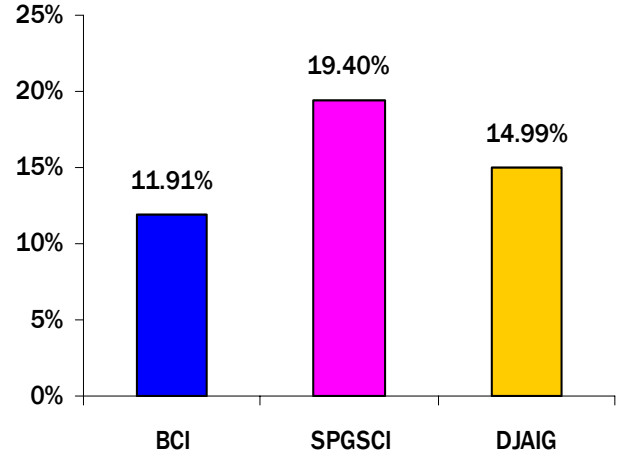
On a year-to-date basis, including returns from December 31, 2006–August 22, 2007, the BCISM outperformed the SPGSCI and DJAIG on a sector basis in the areas of Energy, Agriculture, and Industrial Metals. This longer-term performance further demonstrates the effectiveness of the index's trading strategy, as the BCISM is never dominated by a single commodity sector or by several commodities within a commodity sector.

**Commodity Index Std Deviation
During Subprime Crisis
Jul 31 - Aug 22, 2007**



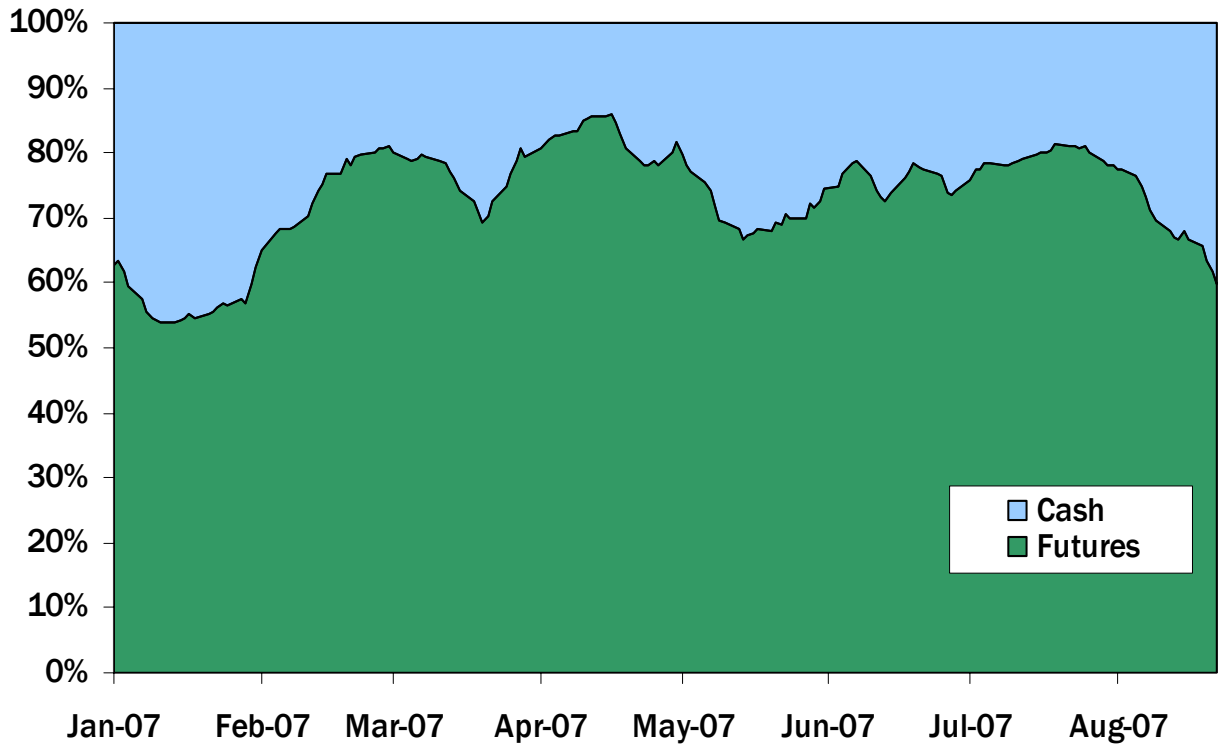
Source: Global Commodities Group

**Commodity Index Std Deviation
Year-to-Date 2007
Dec 31, 2006 - Aug 22, 2007**



Source: Global Commodities Group

BCI Composition: Futures vs. Cash



Source: Global Commodities Group

Analysis of Volatility

The structured asset allocation feature reduces the volatility of the BCISM, as the index can avoid excessive price fluctuations on the downside. By tactically reducing the risk of different commodities, the BCISM holds an average of 30% less exposure than a fully invested strategy. As a result, the volatility of the BCISM has been less than equivalent indices.

As shown in the charts at left, the BCISM had a lower volatility than the other two benchmark indices, as measured by the annualized standard deviation of daily returns. The BCISM experienced lower volatility both during the height of the Subprime Mortgage Crisis, as is shown in the chart at the far left, and on a year-to-date basis, as is shown in the chart on the near left. The lower volatility of the BCISM, especially in times of a market downturn, has been a valuable attribute of the index methodology.

Cash Allocation

During times of market downturn, the ability of the BCISM to hold flexible cash positions can be very valuable to investors. The index's unique methodology allows it to increase and decrease its cash position depending on opportunities in the commodity markets. As indicated in the chart at lower left, the cash holdings of the BCISM increased in August 2007 as the impact of the Subprime Mortgage Crisis on commodity prices grew. Similarly, at times of market strength at other points in the year, the futures holdings of the BCISM expanded.

Flexible cash positions in a commodity index mean that the index has the ability to provide higher risk-adjusted returns during times of market stress. The BCISM does not just provide the diversification benefit of holding commodities. The index's unique methodology of using price momentum of individual commodities to determine which positions to reduce, and which to increase, allows its cash position to fluctuate according to market potential. This method of holding commodities becomes increasingly important as markets become more integrated, and market crises impact investors on a global basis.

Summary

The variation in performance of commodity indices during this period underscores the importance of the selection of a commodity benchmark. The Bache Commodity IndexSM differs from the other major indices by including an allocation to cash along with allocations to major commodity futures markets. This provides an important diversification benefit for investors.

The overall performance of commodities during the Subprime Mortgage Crisis provided further evidence that commodity markets are becoming more integrated with global stock and bond markets. This integration means there may be more instances like the recent experience when all commodity markets decline together, which occurred on August 16th. The BCISM is designed to perform well during periods when simply diversifying across commodities is not enough to protect the value of a commodity investment.

The Bache Commodity IndexSM

Built for Commodity Investors

The Bache Commodity IndexSM (BCISM) is a transparent, fully investable commodity index. Our unique method of constructing the index results in lower turnover and lower risk than other commodity indices, while maintaining the potential returns.

Predictable, Consistent Exposure

The BCISM is designed so that the index does not become dominated by a single commodity sector or by several commodities within a commodity sector. This is accomplished by employing upper and lower bounds on investment in each sector and each commodity, and by rebalancing the BCISM each day to maintain the desired exposure to each commodity market.

BCISM Benefits from Multiple Sources of Return

The BCISM is designed to capture more sources of return to investing in commodities than are available with existing commodity indices. In our historical tests, our asset allocation and roll methods contributed an additional 45% to the total return over a 15-year period.

Momentum Means Greater Return, Less Risk

Commodity markets exhibit short-term momentum. Our view is that using momentum to decide which positions to reduce and which to increase is more profitable than holding fixed positions. By tactically reducing the risk of different commodities, the BCISM holds an average of 30% less exposure than a fully invested strategy. As a result, the volatility of the BCISM has been roughly 30% less than equivalent indices.

Diversification, Inflation Hedge for Portfolios

Like other commodity indices on the market, the BCISM offers sector/market exposure, inflation protection, and diversification benefits. Unlike other indices, the BCISM offers these benefits while diminishing the downside risk that can occur with commodity investing.

Disclaimers

The returns presented in this document prior to February 1, 2007, were determined based on the pro forma calculations of the historical performance of the BCISM. Because the BCISM was not actually being calculated and published during these prior periods, and no actual trading was conducted in accordance with the BCISM, these returns could be considered to be hypothetical performance results. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any trading program or strategy will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved. One of the limitations of hypothetical performance results is that they are necessarily prepared with the benefit of hindsight and, if the BCISM were actually being calculated and published during these periods, it might have been based on different criteria and a different methodology. Moreover, the market conditions that existed during prior periods will most likely not be repeated and this difference could adversely affect performance. There are numerous factors related to the markets in general or the implementation of any investment strategy, which cannot be fully accounted for in the preparation of hypothetical results and all of which can adversely affect actual trading results, including but not limited to market liquidity, general levels of interest rates and the effect on the relevant markets of political, economic or other external events. In addition, hypothetical performance results do not involve financial risk, and no hypothetical performance results can completely account for the impact of financial risk in actual performance.

The hypothetical performance results shown were derived from a model based on an asset allocation strategy and daily roll strategy. The hypothetical performance reflects the historical contract daily return plus daily interest on the funds hypothetically committed to the investment. The hypothetical performance returns are estimates using current and historical futures price data as described. Historical results should not and cannot be viewed as an indicator of future results. For a more complete description of the BCISM, reference is made to The Guide to the Bache Commodity IndexSM.

The hypothetical performance results do not reflect any management fees, transaction costs or expenses which would reduce your actual return. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results.

The comments, opinions, and estimates contained in this document are based on, or derived from publicly available information from sources that Bache's Global Commodities Group believes to be reliable. We do not guarantee their accuracy. This information is provided for informational purposes only and sets forth our views as of this date. The underlying assumptions, and these views are subject to change. There is no guarantee that the views expressed will be realized. Bache Commodities Group from time to time, issues reports based on fundamentals, such as expected trends in supply and demand, as well as reports based on technical factors, such as price and volume movements. Since such reports rely upon different criteria, there may be instances when their conclusions are not in concert.

Information for inclusion in, or for use in, the calculation of the Index is obtained from sources whose accuracy is believed to be reliable but which may be subject to errors in data sources. This report was prepared by Alternative Investment Analytics LLC under the direction of Bache's Global Commodities Group.