

## JMCXENER Risk Disclosure

### The JPMCCI Energy Excess Return Index (Bloomberg Code: JMCXENER Index): Risk Disclosure

*Capitalised terms used in this document and not defined herein shall have the respective meaning ascribed to those terms in the rules (the "Rules") for the JPMCCI Energy Excess Return Index (Bloomberg Code: JMCXENER Index) (the "Index") which can be accessed on <http://www.jpmmorgan.com/jpmcci>*

### IMPORTANT NOTICE

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THE FOLLOWING LIST OF RISKS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF ALL THE RISKS ASSOCIATED WITH THE INDEX. IT IS NOT INTENDED TO BE AND SHOULD NOT BE RELIED UPON AS A SUBSTITUTE FOR READING THE RULES. YOU SHOULD CAREFULLY READ THE RULES IN THEIR ENTIRETY TO UNDERSTAND THE TERMS OF THE INDEX. IN ADDITION, IF YOU ARE CONSIDERING PURCHASING A PRODUCT OR ENTERING INTO A TRANSACTION REFERENCING THE INDEX YOU SHOULD ALSO READ THE OFFERING DOCUMENT OR AGREEMENT FOR SUCH PRODUCT OR TRANSACTION TO FULLY UNDERSTAND THE TERMS OF, AND THE RISKS ASSOCIATED WITH, SUCH PRODUCT OR TRANSACTION BEFORE MAKING A DECISION ABOUT WHETHER TO INVEST IN OR PARTICIPATE IN SUCH PRODUCT OR TRANSACTION. YOUR DECISION TO INVEST IN ANY PRODUCT OR PARTICIPATE IN ANY TRANSACTION REFERENCING THE INDEX SHOULD BE MADE WITHOUT RELIANCE ON THE INDEX SPONSOR OR ANY OF ITS AFFILIATES AND YOU SHOULD CONSULT WITH YOUR PROFESSIONAL ADVISORS TO THE EXTENT YOU DEEM NECESSARY. THE INDEX SPONSOR DOES NOT SPONSOR, ENDORSE OR PROMOTE ANY PRODUCT OR TRANSACTION REFERENCING THE INDEX AND THE INDEX SPONSOR MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, TO THE OWNERS OF ANY PRODUCT OR THE PARTIES TO ANY TRANSACTION REFERENCING THE INDEX OR ANY MEMBER OF THE PUBLIC REGARDING THE ADVISABILITY OF INVESTING IN ANY PRODUCT OR TRANSACTION REFERENCING THE INDEX OR ANY PRODUCT OR TRANSACTION GENERALLY. NOTHING HEREIN CONSTITUTES OR SHOULD BE CONSTRUED AS AN OFFER TO BUY OR SELL ANY SECURITIES, PARTICIPATE IN ANY TRANSACTION OR ADOPT ANY INVESTMENT STRATEGY OR LEGAL, TAX, REGULATORY OR ACCOUNTING ADVICE. THE INDEX SPONSOR SHALL, TO THE FULLEST EXTENT PERMITTED BY LAW, HAVE NO LIABILITY OR RESPONSIBILITY TO ANY PERSON OR ENTITY FOR ANY LOSS, DAMAGES, COSTS, CHARGES, EXPENSES OR OTHER LIABILITIES, INCLUDING WITHOUT LIMITATION LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS, LOST TIME AND GOODWILL), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER ARISING IN TORT, CONTRACT, STRICT LIABILITY OR OTHERWISE, IN CONNECTION WITH THE USE OF THE INDEX OR IN CONNECTION WITH ANY PRODUCT OR TRANSACTION REFERENCING THE INDEX. THE INDEX IS THE EXCLUSIVE PROPERTY OF THE INDEX SPONSOR AND THE INDEX SPONSOR RETAINS ALL PROPRIETARY RIGHTS THEREIN.

## **The Index is Synthetic**

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The Index is purely synthetic. There is no pool of energy commodity futures to which any person is entitled or in which any person has any ownership interest or which would serve as collateral for the return on any product or transaction referencing the Index.

## **Price Return Risk**

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The Index is comprised of futures on energy commodities. Price movements in energy commodity futures can be very volatile; they can change frequently and by large amounts. Prices are influenced by a number of factors including, without limitation, changing supply and demand relationships, the price of the underlying energy commodity, government policies and programs, political and economic events, changes in applicable interest rates and inflation rates and the emotions of market participants. The price of any one energy commodity may also be correlated to some extent with the price of another energy commodity, so price movements in one energy commodity may also affect the price of another. The commodities market is also subject to temporary trading suspensions, distortions or other disruptions due to various factors, including the lack of liquidity in the market, the participation of speculators and government regulation and intervention. Any of these factors (alone or in combination) may affect the price of the energy commodity futures that comprise the Index and therefore the level of the Index and the payout on any product or transaction that references the Index. If prices decrease, the payout on any product or

transaction that references the Index may also be reduced. Historical prices for energy commodity futures should not be considered to be indicative of future prices, the level of the Index or the amount that may be due under any product or transaction that references the Index.

## **Roll Return Risk**

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The Index is comprised of energy commodity futures with a variety of maturity dates selected on the basis of historical open interest. Each month, contracts that are about to mature or cease to be available for trading before the end of the next roll period will be rolled into longer dated contracts. In addition, because the Index is weighted by open-interest, all monthly contracts included in the Index will be re-weighted on a monthly basis, whether they are approaching maturity or not, to reflect the monthly change in their open interest. The re-weighting is achieved by rolling the monthly contracts included in the Index into contracts with a different maturity. The act of replacing and re-weighting the energy commodity futures that comprise the Index will generate a profit or loss known as the roll return that will be reflected in the level of the Index. This return will be affected by a number of factors including, without limitation, whether the prices of the relevant longer dated contracts are higher or lower than the prices of the shorter dated contracts. If the prices of the relevant longer dated contracts are higher than the prices of the shorter dated contracts then the roll return will generally be negative. Conversely, if the prices of the relevant longer dated contracts

are lower than the prices of the shorter dated contracts then the roll return will generally be positive. The prices of energy commodity futures can be volatile and the roll return generated by rolling energy commodity futures included in the Index will therefore have an effect, which may be positive or negative, on the level of the Index.

### **Diversification**

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Diversification is generally considered to reduce the amount of risk associated with investment returns. The Index contains futures with a variety of maturities. However there can be no assurance that the Index will be sufficiently diversified at any time to reduce or minimise such risks to any extent.

### **Excess Return**

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The total return generated by investing in and rolling energy commodity futures comes from three sources: (a) changes in the price of the energy commodity futures (which is known as the "**price return**"), (b) profits and/or losses realised by rolling the energy commodity futures (which is known as the "**roll return**") and, (c) interest earned on any cash deposited as collateral or margin for the purchase of the energy commodity futures (which is known as the "**collateral return**").

The Index is an excess return index which means that it measures the returns accrued from investing in uncollateralized futures or, in other words, the sum of the price return and the roll return associated with an investment in and the roll of energy commodity futures. It does not reflect the collateral return that would be generated by

a direct investment in energy commodity futures. To buy some assets, for example shares, you must generally pay the full purchase price upfront. However, futures can generally be purchased by posting a fraction of the purchase price as collateral or margin with your broker. You can therefore put the cash you don't need to purchase the futures to use elsewhere and you may earn a return on that cash. Any such return is not reflected in the Index.

### **Weighting Limitations**

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The Index is intended to be a benchmark weighted across the commodity futures curve by open interest so that it is representative of the investment opportunities in the energy commodity futures market. However, it is impossible to weight by actual open interest because those figures cannot be determined at the time the weightings are calculated. The Index is therefore weighted using historical average open interest figures, averaged over the previous three years. A three year average was chosen by the Index Calculation Agent to capture structural and cyclical shifts in liquidity and filter out any short term anomalies. However, there can be no assurance that the historical average open interest figures will resemble the actual open interest for any particular energy commodity futures contract and therefore that the Index will reflect the actual investment opportunities in the market.

### **The level of the Index**

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The level of the Index is determined on each day on which at least half of the exchanges on

which the energy commodity futures comprising the Index are listed are scheduled to be open and publish a settlement price for such energy commodity futures. However, the Index Calculation Agent will still publish the level of the Index even if a settlement price is not available on a given day for a particular futures contract. If a settlement price is not available, the Index Calculation Agent will use the most recently available settlement price to determine the level of the Index. In these circumstances the level of the Index will only approximate the actual performance of the energy commodity futures that comprise the Index.

The price of energy commodity futures can be volatile and the level of the Index may therefore vary considerably over time. It may go down as well as up and the past performance of the Index should not be considered to be an indication of the future performance of the Index.

**Continuity of the Index**

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The Index Calculation Agent is under no obligation to continue the calculation, publication and dissemination of the Index. Should the Index cease to exist, this may have a negative impact on the return on any product or transaction that references the Index.

**Index Modification or Cancellation**

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The occurrence of certain events which affect the ability to use commodity futures for hedging purposes may lead to the modification or even the cancellation of the Index by the Index Calculation Agent. These events include (but are not

limited to): a change in law which makes it unlawful to hold, acquire or dispose of any commodity future comprising the Index, a lowering in allowable position limits by a trading facility on a certain commodity future which causes positions held on such commodity future to be exceeded, any suspension or limitation imposed on trading commodity futures or any event that causes trading in any commodity futures to cease. In the event of such occurring, the Index Calculation Agent may choose to modify the Index by either replacing a commodity future included in the Index with another commodity future or excluding a commodity future included in the Index. A replacement or exclusion of a commodity future may adversely affect the level of the Index. In certain circumstances, the Index Calculation Agent may also decide that it is necessary to cancel the Index.

**Amendment to the Index Rules**

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The Rules may be amended and/or supplemented from time to time by the Index Calculation Agent without prior notice to any person. The Index Calculation Agent has no obligation to consider the circumstances of any person or entity when amending and/or supplementing the Rules and any such amendment and/or supplement may have an adverse effect on the level of the Index and may therefore have adverse consequences for any person or entity that has exposure to the Index via an investment in any product or the participation in any transaction linked to the Index.

**Index Calculation Agent Discretion**

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Subject to approval from the JPMCCI Supervisory Committee, the Index Calculation Agent is responsible for determining which energy commodity futures are included in the Index and all other calculations and determinations related thereto. The Index Calculation Agent may exercise a certain amount of discretion in making these calculations and determinations. The exercise of this discretion may have an adverse impact on the level of the Index and therefore on the return on any product or transaction that references the Index.

For example, in November of each year the Index Calculation Agent will determine which energy commodities will be represented in the Index in the following calendar year by reference to certain criteria. The Index Calculation Agent is permitted to exercise some discretion with respect to these criteria. For example, a particular energy commodity will only be represented in the Index if futures on that energy commodity have sufficient liquidity. Whether futures on a particular energy commodity have sufficient liquidity is determined by the Index Calculation Agent in its discretion without reference to any specific principles or rules. Similarly, an energy commodity will only be represented in the Index if, generally speaking, futures on that energy commodity have been trading for at least a year before the date on which they may be included in the Index. However, the Index Calculation Agent may decide to include an energy commodity in the Index even if it has a shorter trading history if, in its discretion, it determines that the representative nature of the Index would be compromised if

such energy commodity were excluded. Moreover, an energy commodity will only be represented in the Index if the Index Calculation Agent determines that it can obtain sufficient data on futures on such energy commodity. The Index Calculation Agent will make this determination in its discretion without reference to any specific principles or rules. All of these determinations will have an impact on the composition of the Index and therefore on the level of the Index and the return on any product or transaction that references the Index. This impact may be positive or negative.

The Index Calculation Agent may exercise discretion in other determinations bearing on the composition of the Index too. For example, futures on a particular energy commodity, say crude oil, may trade on more than one exchange. If the Index Calculation Agent determines, in its discretion, that the terms and conditions of both contracts are sufficiently similar and they are both eligible to be included in the Index, the Index Calculation Agent will, generally speaking, only include the contracts from the exchange with the greatest open interest, but the Rules do not preclude both contracts being included. Moreover, if the Index Calculation Agent determines that the contracts are sufficiently similar, it may decide, in its discretion, to allocate the open interest figures for the contracts excluded from the Index to the contracts included in the Index thereby increasing the weight allocated to the contracts included in the Index. Although the Index Calculation Agent will make this determination with the intention of improving the

representative nature of the Index, the exercise of such discretion may have a negative impact on the level of the Index and therefore on the return on any product or transaction that references the Index.

The Index Calculation Agent is also responsible for calculating and publishing the level of the Index. The level of the Index will reflect the prices of the energy commodity futures included in the Index. In the event that the price published by any exchange for a particular futures contract is subsequently corrected, the Index Calculation Agent may, if it determines in its discretion that it is practicable and the correction is material, correct the level of the Index in respect of the relevant days to reflect the price correction. A correction will only be made if the Index Calculation Agent determines, in its discretion, that the price correction is material and it is practicable to make the correction to the level of the Index. The exercise of this discretion will therefore affect the level of the Index.

The foregoing is not meant to be an exhaustive list of the discretions that the Index Calculation Agent may exercise in relation to the Index. It is only meant to illustrate some of the areas in which the Index Calculation Agent may exercise discretion and provide an indication of how the exercise of such discretion may impact the level of the Index and therefore the return on any product or transaction that references the Index. Investors should refer to the Rules and read them carefully to ensure they understand when and how the Index Calculation

Agent may exercise discretion in relation to the Index.

All calculations and determinations made by the Index Calculation Agent in relation to the composition of the Index are subject to review and approval by the JPMCCI Supervisory Committee that will, except in exceptional circumstances, always be composed of at most seven (7) voting members and at least one (1) voting member and at most seven (7) non-voting members and at least one (1) non-voting member, each of whom will be appointed by JPMSL. Each voting member serving on the JPMCCI Supervisory Committee shall be independent. For the purposes of determining whether a particular member of the JPMCCI Supervisory Committee is independent, "independent" means that the individual in question is not an employee, director, officer, agent or affiliate of JPMorgan Chase & Co. or any of its affiliates and does not have a personal direct financial interest in JPMCCI or any financial product linked to JPMCCI while serving as a voting member of the JPMCCI Supervisory Committee. All voting members of the JPMCCI Supervisory Committee shall be sufficiently knowledgeable about commodity futures contracts and the commodities markets in general, as determined by JPMSL in a good faith and commercially reasonable manner. JPMSL may from time to time add or remove voting members of the JPMCCI Supervisory Committee; provided that such addition or removal does not coincide with a meeting of the committee or is a result of a particular vote of a specific committee member.

#### **Potential Conflicts of Interest**

Potential conflicts of interest may exist in the structure and operation of the Index and the course of normal business activities for the Index Calculation Agent or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents of their normal business activities.

During the course of their normal business, the Index Calculation Agent or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents may enter into or promote, offer or sell products or transactions (structured or otherwise) linked to the Index or any of its components. In addition, any of the foregoing entities or persons may have, or may have had, interests or positions, or may buy, sell or otherwise trade positions in or relating to the Index or any of its components, or may invest or engage in transactions with other persons, or on behalf of such persons relating to any of these items. Such activity could give rise to a conflict of interest, and such conflict may have an impact, positive or negative, on the level of the Index. Neither the Index Calculation Agent or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents has any duty to consider the circumstances of any person when participating in such products or transactions or to conduct themselves in a manner that is favourable to anyone with exposure to the Index through any product or transaction referencing the Index.

**The foregoing list of risk factors is not intended to be**

**exhaustive. All persons should seek such advice as they consider necessary from their professional advisors, legal, tax or otherwise, without reliance on the Index Calculation Agent or any of its affiliates or subsidiaries or any of their respective directors, officers, employees, representatives, delegates or agents.**