

Edgar Filing: United States 12 Month Oil Fund, LP - Form 10-K

United States 12 Month Oil Fund, LP  
Form 10-K  
March 31, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from            to            .

Commission file number: 001-33859

United States 12 Month Oil Fund, LP  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-0431897  
(I.R.S. Employer  
Identification No.)

1320 Harbor Bay Parkway, Suite 145  
Alameda, California 94502  
(Address of principal executive offices) (Zip code)

(510) 522-3336  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Units  
(Title of each class)

NYSE Arca, Inc.  
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

---

Edgar Filing: United States 12 Month Oil Fund, LP - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   
Yes  No

The aggregate market value of the registrant’s units held by non-affiliates of the registrant as of June 30, 2008 was: \$8,392,000.

The registrant had 4,900,000 outstanding units as of March 30, 2009.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

---

## UNITED STATES 12 MONTH OIL FUND, LP

## Table of Contents

<u>Part I.</u>	Page
<u>Item 1. Business.</u>	1
<u>Item 1A. Risk Factors.</u>	42
<u>Item 1B. Unresolved Staff Comments.</u>	58
<u>Item 2. Properties.</u>	59
<u>Item 3. Legal Proceedings.</u>	59
<u>Item 4. Submission of Matters to a Vote of Security Holders.</u>	59
<u>Part II.</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	59
<u>Item 6. Selected Financial Data.</u>	60
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	60
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</u>	77
<u>Item 8. Financial Statements and Supplementary Data.</u>	79
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	108
<u>Item 9A. Controls and Procedures.</u>	108
<u>Item 9B. Other Information.</u>	108
<u>Part III.</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance.</u>	108
<u>Item 11. Executive Compensation.</u>	112
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	113
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence.</u>	113
<u>Item 14. Principal Accountant Fees and Services.</u>	113

<u>Part IV.</u>	
<u>Item 15. Exhibits and Financial Statement Schedules.</u>	114
<u>Exhibit Index.</u>	114
<u>Signatures</u>	116

---

Part I

Item 1. Business.

What is US12OF?

The United States 12 Month Oil Fund, LP (“US12OF”) is a Delaware limited partnership organized on June 27, 2007. US12OF maintains its main business office at 1320 Harbor Bay Parkway, Suite 145, Alameda, California 94502. US12OF is a commodity pool that issues limited partnership interests (“units”) traded on the NYSE Arca, Inc. (the “NYSE Arca”). It operates pursuant to the terms of the Amended and Restated Agreement of Limited Partnership dated as of December 4, 2007 (the “LP Agreement”), which grants full management control to United States Commodity Funds LLC (the “General Partner”).

The investment objective of US12OF is for the changes in percentage terms of its units’ net asset value (“NAV”) reflect the changes in percentage terms of the price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the average of the prices of 12 futures contracts on light, sweet crude oil traded on the New York Mercantile Exchange (the “NYMEX”) consisting of the near month contract to expire and the contracts for the following 11 months for a total of 12 consecutive months’ contracts (the “Benchmark Futures Contracts”), except when the near month contract is within two weeks of expiration, in which case it is measured by the futures contracts that are the next month contract to expire and the contracts for the following 11 consecutive months, less US12OF’s expenses. When calculating the daily movement of the average price of the 12 contracts, each contract month is equally weighted. US12OF began trading on December 6, 2007. The General Partner is the general partner of US12OF and is responsible for the management of US12OF.

Who is the General Partner?

The General Partner is a single member limited liability company that was formed in the state of Delaware on May 10, 2005. Prior to June 13, 2008, the General Partner was known as Victoria Bay Asset Management, LLC. It maintains its main business office at 1320 Harbor Bay Parkway, Suite 145, Alameda, California 94502. The General Partner is a wholly-owned subsidiary of Wainwright Holdings, Inc., a Delaware corporation (“Wainwright”). Mr. Nicholas Gerber (discussed below) controls Wainwright by virtue of his ownership of Wainwright’s shares. Wainwright is a holding company that also owns an insurance company organized under Bermuda law (currently being liquidated) and a registered investment adviser firm named Ameristock Corporation. The General Partner is a member of the National Futures Association (the “NFA”) and registered with the Commodity Futures Trading Commission (the “CFTC”) on December 1, 2005. The General Partner’s registration as a Commodity Pool Operator (“CPO”) was approved on December 1, 2005.

On May 12, 2005, the General Partner formed the United States Oil Fund, LP (“USOF”), another limited partnership that is a commodity pool and issues units traded on the NYSE Arca. The investment objective of USOF is to have the changes in percentage terms of its units’ NAV reflect the changes in percentage terms of the price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the price of the futures contract for light, sweet crude oil traded on the NYMEX, less USOF’s expenses. USOF began trading on April 10, 2006. The General Partner is the general partner of USOF and is responsible for the management of USOF.

On September 11, 2006, the General Partner formed the United States Natural Gas Fund, LP (“USNG”), another limited partnership that is a commodity pool and issues units traded on the NYSE Arca. The investment objective of USNG is for the changes in percentage terms of its units’ NAV to reflect the changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the changes in the price of the futures contract for natural gas traded on the NYMEX, less USNG’s expenses. USNG began trading on April 18, 2007. The General Partner is the general partner of USNG and is responsible for the management of USNG.

On April 12, 2007, the General Partner formed the United States Gasoline Fund, LP (“UGA”), also a limited partnership that is a commodity pool and issues units traded on the NYSE Arca. The investment objective of UGA is for the changes in percentage terms of its units’ NAV to reflect the changes in percentage terms of the price of unleaded gasoline delivered to the New York harbor, as measured by the changes in the price of the futures contract for gasoline traded on the NYMEX, less UGA’s expenses. UGA began trading on February 26, 2008. The General Partner is the general partner of UGA and is responsible for the management of UGA.

On April 13, 2007, the General Partner formed the United States Heating Oil Fund, LP (“USHO”), also a limited partnership that is a commodity pool and issues units traded on the NYSE Arca. The investment objective of USHO is for the changes in percentage terms of its units’ NAV to reflect the changes in percentage terms of the price of heating oil (also known as No. 2 fuel oil) delivered to the New York harbor as measured by the changes in the price of the futures contract for heating oil traded on the NYMEX, less USHO’s expenses. USHO began trading on April 9, 2008. The General Partner is the general partner of USHO and is responsible for the management of USHO.

USOF, USNG, UGA, and USHO are collectively referred to herein as the “Related Public Funds.” For more information about each of the Related Public Funds, investors in US12OF may call 1-800-920-0259 or go online to [www.unitedstatescommodityfunds.com](http://www.unitedstatescommodityfunds.com).

The General Partner has filed a registration statement for two other exchange traded security funds, the United States Short Oil Fund, LP (“USSO”) and the United States 12 Month Natural Gas Fund, LP (“US12NG”). The investment objective of USSO would be to have the changes in percentage terms of its units’ NAV inversely reflect the changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the price of the futures contract on light, sweet crude oil as traded on the NYMEX, less USSO’s expenses. The investment objective of US12NG would be to have the changes in percentage terms of its units’ NAV reflect the changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the changes in the average of the prices of 12 futures contracts on natural gas traded on the NYMEX, consisting of the near month contract to expire and the contracts for the following 11 months, for a total of 12 consecutive months’ contracts, less US12NG’s expenses.

The General Partner is required to evaluate the credit risk of US12OF to the futures commission merchant, oversee the purchase and sale of US12OF’s units by certain authorized purchasers (“Authorized Purchasers”), review daily positions and margin requirements of US12OF and manage US12OF’s investments. The General Partner also pays the fees of ALPS Distributors, Inc. (the “Marketing Agent”) and Brown Brothers Harriman & Co. (“BBH&Co.”), which acts as the administrator (the “Administrator”) and the custodian (the “Custodian”) for US12OF.

Limited partners have no right to elect the General Partner on an annual or any other continuing basis. If the General Partner voluntarily withdraws, however, the holders of a majority of US12OF’s outstanding units (excluding for purposes of such determination units owned, if any, by the withdrawing General Partner and its affiliates) may elect its successor. The General Partner may not be removed as general partner except upon approval by the affirmative vote of the holders of at least 66 and 2/3 percent of US12OF’s outstanding units (excluding units owned, if any, by the General Partner and its affiliates), subject to the satisfaction of certain conditions set forth in the LP Agreement.

The business and affairs of the General Partner are managed by a board of directors (the “Board”), which is comprised of four management directors, some of whom are also its executive officers (the “Management Directors”), and three independent directors who meet the independent director requirements established by the NYSE Arca and the Sarbanes-Oxley Act of 2002. Notwithstanding the foregoing, the Management Directors have the authority to manage the General Partner pursuant to its limited liability company agreement. Through its Management Directors, the General Partner manages the day-to-day operations of US12OF. The Board has an audit committee which is made up of the three independent directors (Peter M. Robinson, Gordon L. Ellis and Malcolm R. Fobes III). For additional information relating to the audit committee, please see “Item 10. Directors, Executive Officers and Corporate Governance – Audit Committee” in this annual report on Form 10-K.

#### How Does US12OF Operate?

The net assets of US12OF consist primarily of investments in futures contracts for light, sweet crude oil, but may also consist of other types of crude oil, heating oil, gasoline, natural gas, and other petroleum-based fuels that are traded on the NYMEX, ICE Futures (formerly, the International Petroleum Exchange) or other U.S. and foreign exchanges



(collectively, “Futures Contracts”). US12OF may also invest in other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for crude oil, and over-the-counter transactions that are based on the price of crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, “Other Crude Oil-Related Investments”). For convenience and unless otherwise specified, Futures Contracts and Other Crude Oil-Related Investments collectively are referred to as “Crude Oil Interests” in this annual report on Form 10-K.

US12OF invests in Crude Oil Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Futures Contracts and Other Crude Oil-Related Investments. In pursuing this objective, the primary focus of the General Partner is the investment in Futures Contracts and the management of US12OF's investments in short-term obligations of the United States of two years or less ("Treasuries"), cash and/or cash equivalents for margining purposes and as collateral.

The investment objective of US12OF is to have the changes in percentage terms of its units' NAV reflect the changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the average of the prices of the Benchmark Futures Contracts, less US12OF's expenses. When calculating the daily movement of the average price of the 12 contracts each contract month is equally weighted. It is not the intent of US12OF to be operated in a fashion such that its NAV will equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil.

The General Partner believes that holding futures contracts whose expiration dates are spread out over a 12 month period of time will cause the total return of such a portfolio to vary compared to a portfolio that holds only a single month's contract (such as the near month contract). In particular, the General Partner believes that the total return of a portfolio holding contracts with a range of expiration months will be impacted differently by the price relationship between different contract months of the same commodity future compared to the total return of a portfolio consisting of the near month contract. For example, in cases in which the near month contract's price is higher than the price of contracts that expire later in time (a situation known as "backwardation" in the futures markets), then absent the impact of the overall movement in crude oil prices the value of the near month contract would tend to rise as it approaches expiration. Conversely, in cases in which the near month contract's price is lower than the price of contracts that expire later in time (a situation known as "contango" in the futures markets), then absent the impact of the overall movement in crude oil prices the value of the near month contract would tend to decline as it approaches expiration. The total return of a portfolio that owned the near month contract and "rolled" forward each month by selling the near month contract as it approached expiration and purchasing the next month contract to expire would be positively impacted by a backwardation market, and negatively impacted by a contango market. Depending on the exact price relationship of the different month's prices, portfolio expenses, and the overall movement of crude oil prices, the impact of backwardation and contango could have a major impact on the total return of such a portfolio over time. The General Partner believes that based on historical evidence a portfolio that held futures contracts with a range of expiration dates spread out over a 12 month period of time would typically be impacted less by the positive effect of backwardation and the negative effect of contango compared to a portfolio that held contracts of a single near month. As a result, absent the impact of any other factors, a portfolio of 12 different monthly contracts would tend to have a lower total return than a near month only portfolio in a backwardation market and a higher total return in a contango market. However there can be no assurance that such historical relationships would provide the same or similar results in the future.

As a specific benchmark, the General Partner endeavors to place US12OF's trades in Futures Contracts and Other Crude Oil-Related Investments and otherwise manage US12OF's investments so that A will be within plus/minus 10 percent of B, where:

- A is the average daily change in US12OF's NAV for any period of 30 successive valuation days; i.e., any trading day as of which US12OF calculates its NAV, and
  - B is the average daily change in the prices of the Benchmark Futures Contracts over the same period.

The General Partner believes that market arbitrage opportunities cause daily changes in US12OF's unit price on the NYSE Arca to closely track daily changes in US12OF's NAV per unit. The General Partner believes that changes in US12OF's NAV in percentage terms will closely track the changes in percentage terms in the Benchmark Futures Contracts, less US12OF's expenses. The following two graphs demonstrate the correlation between the daily and monthly changes in the NAV of US12OF and the daily and monthly changes in the average of the prices of the

Benchmark Futures Contracts both since the initial public offering of US12OF's units on December 6, 2007 through December 31, 2008 and during the last thirty valuation days ended December 31, 2008.

3

---

\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

\*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

An investment in the units provides a means for diversifying an investor's portfolio or hedging exposure to changes in oil prices. An investment in the units allows both retail and institutional investors to easily gain this exposure to the crude oil market in a transparent, cost-effective manner.

The expected correlation of the price of US12OF's units, US12OF's NAV and the price of the Benchmark Futures Contracts is illustrated in the following diagram:

**The Price of US12OF's Units is  
Expected to Correlate Closely with  
US12OF's NAV**

US12OF's units are traded on the NYSE Arca. The price of the units will fluctuate in response to US12OF's NAV and the supply and demand pressures of the Exchange. Because of certain arbitrage opportunities, the General Partner believed the price of US12OF's units traded on the Exchange will correlate closely with US12OF's NAV.

**Changes in US12OF's NAV are  
Expected to Correlate Closely with  
Changes in the Price of the  
Benchmark Futures Contract**

The General Partner will endeavor to invest US12OF's assets as fully as possible in Futures Contracts and Other Crude Oil-Related Investments so that the changes in the NAV will closely correlate with the changes in the price of the Benchmark Futures Contracts.

The General Partner employs a “neutral” investment strategy in order to track changes in the prices of the Benchmark Futures Contracts regardless of whether these prices go up or go down. US12OF’s “neutral” investment strategy is designed to permit investors generally to purchase and sell US12OF’s units for the purpose of investing indirectly in crude oil in a cost-effective manner, and/or to permit participants in the crude oil or other industries to hedge the risk of losses in their crude oil-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in crude oil and/or the risks involved in hedging may exist. In addition, an investment in US12OF involves the risk that the changes in the price of US12OF’s units will not accurately track the changes in the Benchmark Futures Contracts.

The Benchmark Futures Contracts changes from the near month contract to expire and the 11 following months to the next month contract to expire and the 11 following months during one day each month. On that day US12OF will “roll” its positions by closing, or selling, its oil interests and reinvesting the proceeds from closing these positions in new oil interests. The anticipated monthly dates on which the Benchmark Futures Contracts will be changed and US12OF’s Other Crude Oil-Related Investments will be “rolled” in 2009 are posted on US12OF’s website at [www.unitedstates12monthoilfund.com](http://www.unitedstates12monthoilfund.com), and are subject to change.

US12OF’s total portfolio composition is disclosed on its website each business day that the NYSE Arca is open for trading. The website disclosure of portfolio holdings is made daily and includes, as applicable, the name and value of each Crude Oil Interest, the specific types of Other Crude Oil-Related Investments and characteristics of such Other Crude Oil-Related Investments, Treasuries, and amount of the cash and/or cash equivalents held in US12OF’s portfolio. US12OF’s website is publicly accessible at no charge. US12OF’s assets are held in segregated pursuant to the Commodity Exchange Act (the “CEA”) and CFTC regulations.

The units issued by US12OF may only be purchased by Authorized Purchasers and only in blocks of 100,000 units called Creation Baskets. The amount of the purchase payment for a Creation Basket is equal to the aggregate NAV of units in the Creation Basket. Similarly, only Authorized Purchasers may redeem units and only in blocks of 100,000 units called Redemption Baskets. The amount of the redemption proceeds for a Redemption Basket is equal to the aggregate NAV of units in the Redemption Basket. The purchase price for Creation Baskets and the redemption price for Redemption Baskets are the actual NAV calculated at the end of the business day when notice for a purchase or redemption is received by US12OF. The NYSE Arca publishes an approximate intra-day NAV based on the prior day’s NAV and the current price of Benchmark Futures Contracts, but the basket price is determined based on the actual NAV at the end of the day.

While US12OF issues units only in Creation Baskets, units may also be purchased and sold in much smaller increments on the NYSE Arca. These transactions, however, are effected at the bid and ask prices established by specialist firm(s). Like any listed security, units can be purchased and sold at any time a secondary market is open.

#### What is US12OF’s Investment Strategy?

In managing US12OF’s assets, the General Partner does not use a technical trading system that issues buy and sell orders. The General Partner instead employs a quantitative methodology whereby each time a Creation Basket is sold, the General Partner purchases Crude Oil Interests, such as the Benchmark Futures Contracts, that have an aggregate market value that approximates the amount of Treasuries and/or cash received upon the issuance of the Creation Basket.

As an example, assume that a Creation Basket is sold by US12OF, and that US12OF’s closing NAV per unit is \$50.00. In that case, US12OF would receive \$5,000,000 in proceeds from the sale of the Creation Basket (\$50 NAV per unit multiplied by 100,000 units, and excluding the Creation Basket fee of \$1,000). If one were to assume further that the General Partner wants to invest the entire proceeds from the Creation Basket in the Benchmark Futures Contracts and that the average market value of the Benchmark Futures Contracts is \$59,950, US12OF would be unable to buy the

exact number of Benchmark Futures Contracts with an aggregate market value equal to \$5,000,000. Instead, US12OF would be able to purchase 83 Benchmark Futures Contracts with an aggregate market value of \$4,975,850. Assuming a margin requirement equal to 10% of the value of the Benchmark Futures Contracts, US12OF would be required to deposit \$497,585 in Treasuries and cash with the futures commission merchant through which the Benchmark Futures Contracts were purchased. The remainder of the proceeds from the sale of the Creation Basket, \$4,502,415, would remain invested in cash, cash equivalents and Treasuries as determined by the General Partner from time to time based on factors such as potential calls for margin or anticipated redemptions.

The specific Futures Contracts purchased depend on various factors, including a judgment by the General Partner as to the appropriate diversification of US12OF's investments in futures contracts with respect to the month of expiration, and the prevailing price volatility of particular contracts. In addition, US12OF may make use of a mixture of standard sized futures contracts as well as the smaller sized "mini" contracts. While the General Partner has made significant investments in NYMEX Futures Contracts, as US12OF reaches certain accountability levels or position limits on the NYMEX, or for other reasons, it has also and may continue to invest in Futures Contracts traded on other exchanges or invest in Other Crude Oil-Related Investments such as contracts in the "over-the-counter" market.

The General Partner does not anticipate letting its Futures Contracts expire and taking delivery of the underlying commodity. Instead, the General Partner will close existing positions, e.g., when it changes the Benchmark Futures Contracts or it otherwise determines it would be appropriate to do so and reinvest the proceeds in new Futures Contracts. Positions may also be closed out to meet orders for Redemption Baskets and such case proceeds for such baskets will not be reinvested.

By remaining invested as fully as possible in Futures Contracts or Other Crude Oil-Related Investments, the General Partner believes that the changes in percentage terms in US12OF's NAV will continue to closely track the changes in percentage terms in the average of the prices of the Futures Contracts in which US12OF invests. The General Partner believes that certain arbitrage opportunities result in the price of the units traded on the NYSE Arca closely tracking the NAV of US12OF. For performance data relating to US12OF's ability to track its benchmark, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Tracking US12OF's Benchmark".

What are Futures Contracts?

Futures Contracts are agreements between two parties. One party agrees to buy crude oil from the other party at a later date at a price and quantity agreed upon when the contract is made. Futures Contracts are traded on futures exchanges, including the NYMEX. For example, the Benchmark Futures Contracts are traded on the NYMEX in units of 1,000 barrels (a "mini" contract is 500 barrels). Futures Contracts traded on the NYMEX are priced by floor brokers and other exchange members both through an "open outcry" of offers to purchase or sell the contracts and through an electronic, screen-based system that determines the price by matching electronically offers to purchase and sell.

Certain typical and significant characteristics of Futures Contracts are discussed below. Additional risks of investing in Futures Contracts are included in "What are the Risk Factors Involved with an Investment in US12OF?"

Impact of Accountability Levels, Position Limits and Price Fluctuation Limits. Futures Contracts include typical and significant characteristics. Most significantly, the CFTC and U.S. designated contract markets such as the NYMEX have established accountability levels and position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by US12OF is not) may hold, own or control. The net position is the difference between an individual or firm's open long contracts and open short contracts in any one commodity. In addition, most U.S. futures exchanges, such as the NYMEX, limit the daily price fluctuation for Futures Contracts. Currently, the ICE Futures imposes position and accountability limits that are similar to those imposed by NYMEX but does not limit the maximum daily price fluctuation.

The accountability levels for the Benchmark Futures Contracts and other Oil Futures Contracts traded on the NYMEX are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor's positions. The current accountability level for any one month in the Benchmark Futures Contracts is 10,000 contracts. In addition, the NYMEX imposes an accountability level for all months of 20,000 net futures contracts in light, sweet crude oil. If US12OF and the Related Public Funds exceed these accountability levels for investments in futures contracts for light, sweet crude oil, the NYMEX will monitor US12OF's and the Related Public Funds' exposure and ask for further information on their activities, including the total size of all positions, investment



and trading strategy, and the extent of liquidity resources of US12OF and the Related Public Funds. If deemed necessary by the NYMEX, it could also order US12OF to reduce its position back to the accountability level. In addition, the ICE Futures maintains the same accountability levels, position limits and monitoring authority for its light, sweet crude oil contracts as the NYMEX. As of December 31, 2008, US12OF and the Related Public Funds held 57,735 Benchmark Futures Contracts and 51,888 futures contracts for light, sweet crude oil traded on the NYMEX. As of December 31, 2008, US12OF held no futures contracts traded on the ICE Futures.

If the NYMEX or the ICF Futures orders US12OF to reduce its position back to the accountability level, or to an accountability level that the NYMEX or the ICF Futures deems appropriate for US12OF, such an accountability level may impact the mix of investments in Crude Oil Interests made by US12OF. To illustrate, assume that the average price of the Benchmark Futures Contracts and the unit price of US12OF are each \$10, and that the NYMEX has determined that US12OF may not own more than 10,000 Benchmark Futures Contracts. In such case, US12OF could invest up to \$1 billion of its daily net assets in the Benchmark Futures Contracts (i.e., \$10 per contract multiplied by 1,000 (a Benchmark Futures Contract is a contract for 1,000 barrels of oil multiplied by 10,000 contracts)) before reaching the accountability level imposed by the NYMEX. Once the daily net assets of the portfolio exceed \$1 billion in Benchmark Futures Contracts, the portfolio may not be able to make any further investments in Benchmark Futures Contracts, depending on whether the NYMEX imposes limits. If the NYMEX does impose limits at the \$1 billion level (or another level), US12OF anticipates that it will invest the majority of its assets above that level in a mix of other Futures Contracts or Other Crude Oil-Related Investments.

In addition to accountability levels, the NYMEX and the ICE Futures impose position limits on contracts held in the last few days of trading in the near month contract to expire. It is unlikely that US12OF will run up against such position limits because US12OF's investment strategy is to close out its positions and "roll" from the near month contract to expire to the next month contract during one day beginning two weeks from expiration of the contract.

U.S. futures exchanges, including the NYMEX, also limit the amount of price fluctuation for crude oil Futures Contracts. For example, the NYMEX imposes a \$10.00 per barrel (\$10,000 per contract) price fluctuation limit for Benchmark Futures Contracts. This limit is initially based off the previous trading day's settlement price. If any Benchmark Futures Contract is traded, bid, or offered at the limit for five minutes, trading is halted for five minutes. When trading resumes, it begins at the point where the limit was imposed and the limit is reset to be \$10.00 per barrel in either direction of that point. If another halt were triggered, the market would continue to be expanded by \$10.00 per barrel in either direction after each successive five-minute trading halt. There is no maximum price fluctuation limit during any one trading session.

US12OF anticipates that to the extent it invests in Futures Contracts other than light, sweet crude oil contracts (such as futures contracts for Brent crude oil, natural gas, heating oil, and gasoline) and Other Crude Oil-Related Investments, it will enter into various non-exchange-traded derivative contracts to hedge the short-term price movements of such Futures Contracts and Other Crude Oil-Related Investments against the current Benchmark Futures Contracts.

Examples of the position and price limits imposed are as follows:

Futures Contract	Position Accountability Levels and Limits	Maximum Daily Price Fluctuation
NYMEX Light, Sweet Crude Oil (physically settled)	Any one month: 10,000 net futures / all months: 20,000 net futures, but not to exceed 3,000 contracts in the last three days of trading in the spot month.	\$10.00 per barrel (\$10,000 per contract) for all months. If any contract is traded, bid, or offered at the limit for five minutes, trading is halted for five minutes. When trading resumes, the limit is expanded by \$10.00 per barrel in either direction. If another halt were triggered, the market would continue to be expanded by \$10.00 per barrel in either direction after each successive five-minute

trading halt. There will be no maximum price fluctuation limits during any one trading session.

<p><b>NYMEX Light, Sweet Crude Oil</b> (financially settled)</p>	<p>Any one month: 20,000 net futures / all months: 20,000 net futures, but not to exceed 2,000 contracts in the last three days of trading in the spot month.</p>	<p>There is no maximum daily price fluctuation limit.</p>
--	---	---

<p><b>ICE West Texas Intermediate (“WTI”) Crude</b> (financially settled)</p>	<p>Any one month: 10,000 net futures / all months: 20,000 net futures, but not to exceed 3,000 contracts in the last three days of trading in the spot month.</p>	<p>There is no maximum daily price fluctuation.</p>
---	---	---

**ICE Brent Crude**