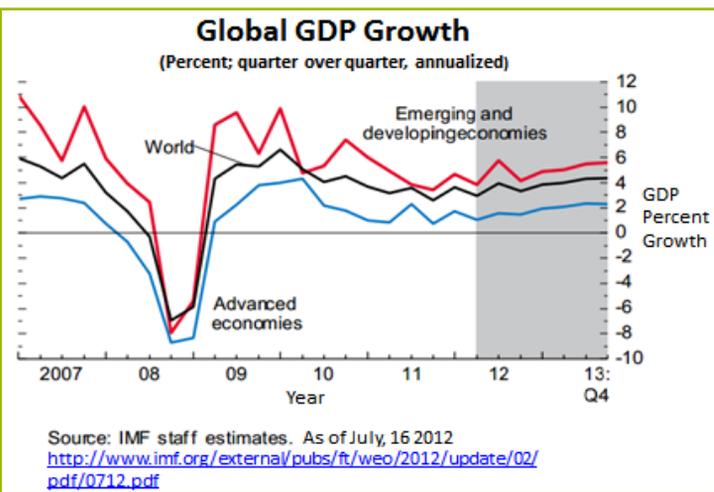


China and Agricultural Commodities

Although the area of emerging market opportunities for investors has been dissected, analyzed and examined in fine detail over the last few years, many investors continue to ask, “Do opportunities still exist?” For us at Teucrium, we believe that the agricultural sector bears some additional analysis; current agricultural trends relating to emerging markets appear to be tracking the same patterns and influence the emerging markets had on

the global crude oil markets in the 1990s. The International Monetary Fund (IMF) recently projected China’s Gross Domestic Product (GDP) to increase by just over eight percent in 2012, with India close behind at around six percent and Brazil touching two and half percent. Although GDP growth in these markets has slowed over previous years, when compared to predictions of negative GDP growth in the Euro Area as a whole, (Germany, France, Italy and Spain) and two percent growth in the U.S., the numbers look compelling.¹ Since GDP growth is often considered one of the key indicators of growing



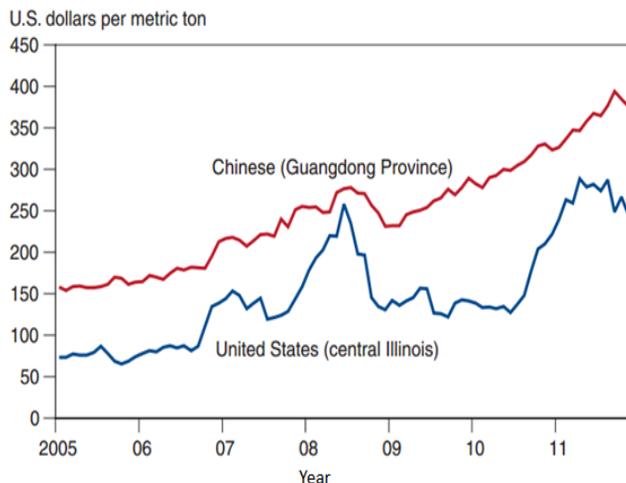
national affluence, one should, obviously, search for potential investment opportunity. Interestingly enough, increased affluence can manifest itself through an increase in caloric intake per capita. As those in emerging markets add more protein to their diets, a potential play may be available in agricultural commodities.



Feeding China’s Pork Industry

The growing consumption of protein that is experienced with increasing population and an expanding middle class can be examined through China’s pork industry. USDA studies show that, “China accounts for nearly half of the world’s pork production and consumption. Its annual pork output is four to five times that of the United States and more than double that of the European Union. According to official Chinese statistics, China slaughters over 600 million hogs annually—one hog for every 2.2 Chinese people.”²

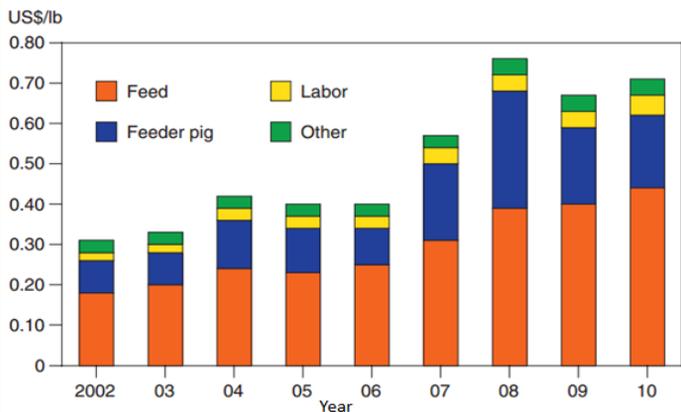
Corn prices are higher in China



Source: USDA, Economic Research Service using data from China National Grain and Oils Information Center and USDA. As of February 2012
http://www.ers.usda.gov/media/262067/ldpm21101_1.pdf

With continued growth in China's population and GDP, there is a case to be made that hog consumption in that country still has room to grow. Of the major costs in hog production in China cited in USDA studies, feed is the largest component, representing over half of the cost per pound in 2010. For reference, the cost of soybeans produced in China has averaged around one and one-half times that of soybeans grown in the United States, and the cost of corn produced in China was more than that of corn grown in the United States and, therefore, available for export to China.²

China hog production costs are rising



Note: Data in Chinese yuan per head were converted to U.S. dollars per pound of live weight using the official exchange rate. Data are for farms raising 30 or more hogs per year. Source: USDA, Economic Research Service using data from China National Development and Reform Commission. Data not adjusted for inflation. As of February 2012 http://www.ers.usda.gov/media/262067/ldpm21101_1.pdf

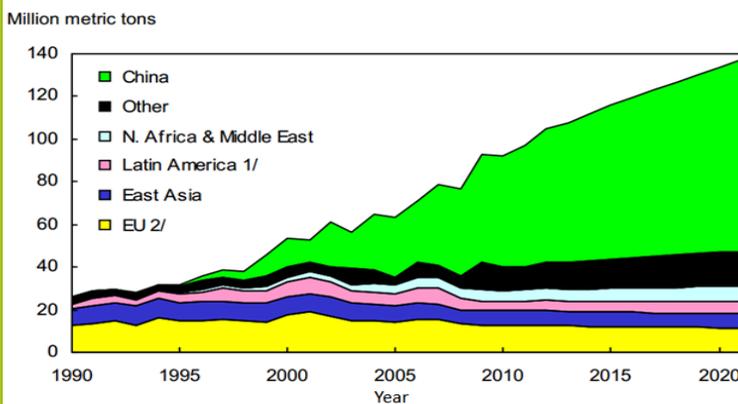
With this in mind, a critical look at the underlying agricultural commodities needed to support the Chinese hog population is warranted. Reports show that soybeans are a major feedstock for the Chinese herd. By stepping back to the year 2000 and examining global soybean imports by region, one would see, using the USDA information in the graph below, that Chinese imports of soybeans expanded significantly beginning early in that decade and are expected to continue on this trajectory out to the year 2020.³ Before 2000, China grew nearly all of the soybeans consumed in that country. However, as per-capita incomes increased and the demand for protein, as seen

through pork consumption, rose, China began importing soybeans at an increasing rate. Chinese soybean imports now account for more than fifty percent of the worldwide soybean trade, imports which are projected to increase over the next eight years³. Indeed, the recent soybean purchase commitments made by Chinese Vice President Xi Jinping during his February, 2012 visit to the United States seem to confirm and validate these projections.

This year may also provide confirmation of another Chinese import trend, this one involving corn. China's ability to produce enough corn domestically to meet its needs may have passed, and its appetite for corn imports seems to be incrementally increasing. China is projected to have a record corn harvest for the 2011-2012 crop year, producing, according to the USDA in their August 10, 2012 report, over 192 million metric tons.⁴ The USDA first expected China to import approximately two million metric tons of corn to cover its domestic shortfall, but recent estimates from that agency indicate that China may require as many as five million metric tons to meet their needs.⁴



Global soybean imports

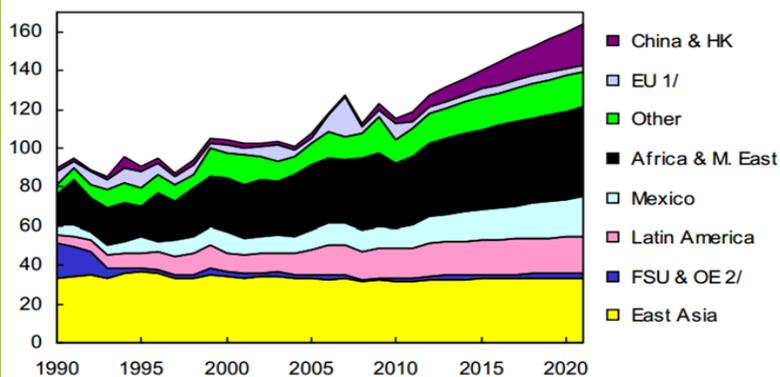


1/ Includes Mexico. 2/ Excludes intra-EU trade. Source: USDA Agricultural Projection to 2021 As of February 2012 http://www.usda.gov/oce/commodity/archive_projections/USDA_AgriculturalProjections2021.pdf

The chart to the right shows World coarse grain imports projected to 2020. The USDA predicts, “China’s net imports of corn are projected to reach 18 million tons by the end of the projection period as imports grow steadily, while exports remain small. China’s strengthening domestic demand for corn is driven by its expanding livestock and industrial sectors. The increase in China’s imports accounts for 45 percent of the 2012/13 to 2021/22 growth in world corn trade.”³

Global coarse grain imports

Million metric tons



1/ Excludes intra-EU trade.

2/ Former Soviet Union and other Europe; prior to 1999, includes Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

Source: USDA Agricultural Projection to 2021 As of February 2012

http://www.usda.gov/oce/commodity/archive_projections/USDAgriculturalProjections2021.pdf

As China’s demand for protein expands, the need for the core agricultural commodities such as corn and soybeans needed to fuel this growth will, by necessity, be subject to further analysis by the investment community. Patterns of soybean and corn usage, in a large part used to feed the hog population in China, will be considered by some as one of the “canaries in the coal mine.”

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The Teucrium Funds have a limited operating history, meaning there is little performance history that might serve as a basis to evaluate an investment in the Trust. Investing in a Fund subjects an investor to the risks of the applicable commodity market, which investment could result in substantial fluctuations in the price of Fund shares. Unlike mutual funds, the Funds generally will not distribute dividends to shareholders. The Sponsor has limited experience operating commodity pools; a commodity pool is defined as an enterprise in which several individuals contribute funds in order to trade futures or futures options collectively. Investors may choose to use a Fund as a vehicle to hedge against the risk of loss, and there are risks involved in hedging activities. **Commodities and futures generally are volatile and are not suitable for all investors. The Funds are not mutual funds or any other type of Investment Company within the meaning of the Investment Company Act of 1940, as amended, and are not subject to regulation thereunder.** For a complete description of the risks associated with the Funds, please refer to the applicable prospectus.

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