02 October 2020

RISK AND VOLATILITY PROOFING OUR OIL AND NATURAL GAS ETP RANGE

Key Questions Explained

In 2020 we have seen particularly high volatility in the price of crude oil futures contracts including an event when WTI Crude Oil futures prices closed at a negative level on April 20th. WisdomTree has therefore been considering proposals to seek to mitigate some of the risk associated with the return of such unprecedented volatility for the benefit of our exchange traded product (“ETP”) investors and to improve the product robustness of the affected ETPs in such a scenario.

This security holder vote sets out a proposal which, we believe, is in the best interest of investors of the affected ETPs and is subject to your consent by the passing of an extraordinary resolution.

We believe that, taken as a whole, these changes, which include replacing the current index (see below), will improve the stability of the affected ETPs and will make them less susceptible to adverse outcomes from volatility in the relevant futures markets. We further see these changes bringing the ETPs in line with current best practices and help to ensure their viability in today’s market.

Key timings to note:

+ **15 October:** Shareholder vote on the proposed changes
+ **13 October:** Deadline to submit proxy voting forms (11 AM London time)

List of affected ETPs

Affected ETPs	The Original Index	The Substituted Index	ETP Bloomberg Ticker	ISIN
WisdomTree WTI Crude Oil 2x Daily Leveraged	Bloomberg WTI Crude Oil Subindex (BCOMCL)	Bloomberg WTI Crude Oil SL Index (BCLSLER)	LOIL IM	JE00BDD9Q840
			LOIL LN	JE00BDD9Q840
			4RT6 GY	DE000A2BDEB6
WisdomTree WTI Crude Oil 1x Daily Short	Bloomberg WTI Crude Oil Subindex (BCOMCL)	Bloomberg WTI Crude Oil SL Index (BCLSLER)	SOIL IM	JE00B24DK975
			SOIL LN	JE00B24DK975
			9GA7 GY	DE000A0V9XY2
WisdomTree Brent Crude Oil 2x Daily Leveraged	Bloomberg Brent Crude Oil Subindex (BCOMCO)	Bloomberg Brent Crude Oil SL index (BCOSLER)	LBRT IM	JE00BDD9QD91
			LBRT LN	JE00BDD9QD91
WisdomTree Brent Crude Oil 1x Daily Short	Bloomberg Brent Crude Oil Subindex (BCOMCO)	Bloomberg Brent Crude Oil SL index (BCOSLER)	SBRT IM	JE00B78DPL57
			SBRT LN	JE00B78DPL57
WisdomTree Natural Gas 2x Daily Leveraged	Bloomberg Natural Gas Subindex (BCOMNG)	Bloomberg Natural Gas SL index (BNGSLER)	LNGA IM	JE00BDD9Q956
			LNGA LN	JE00BDD9Q956
			4RUC GY	DE000A2BDED2
WisdomTree Natural Gas 1x Daily Short	Bloomberg Natural Gas Subindex (BCOMNG)	Bloomberg Natural Gas SL index (BNGSLER)	SNGA IM	JE00B24DKH53
			SNGA LN	JE00B24DKH53
			4RTD GY	DE000A0V9X41

What changes are being proposed?

The Issuer is proposing to amend the terms of the affected ETPs so that:

i. they provide exposure to a new index, the Substituted Index, which is also based on the price of futures contracts on the same commodity. The Substituted Index provides a more stable exposure to the front end of the futures curve, given the monthly rebalancing, and it mitigates the risks associated with negative pricing of the underlying futures contracts by not investing in the front month contract.

ii. A new "restrike" provision would apply to the affected ETPs with the aim of mitigating the risk of the price of the affected security reducing to zero, should there be a large adverse move in the price of the relevant individual commodity index;

iii. the definition of 'Intra-day Price', which is used in the corresponding compulsory redemption event, would be widened.

iv. the issuer would have the ability, on five business days' notice, to further change the individual commodity index, applicable to the affected ETP, in a way which maintains the exposure to the underlying commodity but may change the expiries of the commodity futures contracts upon which the relevant individual commodity index is based.

What is the new index? How does the methodology compare to the old index?

Tracking the Substituted Index instead of the Original Index would allow the affected ETPs to:

+ improve their resilience to extreme scenarios and potential negative oil or natural gas prices and allow the affected ETPs to continue trading and enable investors in the affected ETPs to benefit from a recovery in the underlying futures price even in a situation where one of the nearer term futures has gone negative; and
+ remain correlated to the returns of the front-month futures. The correlation between the Bloomberg WTI Crude Oil Sub IndexSM and the Bloomberg WTI Crude Oil SL Index has historically been 99.5%[1], the correlation between the Bloomberg Brent Crude Oil Sub IndexSM and the Bloomberg Brent Crude Oil SL Index has historically been 99.8%[1] and the correlation between the Bloomberg Natural Gas Sub IndexSM and the Bloomberg Natural Gas SL Index has historically been 98.7%[1].

The full methodology can be found here: https://assets.bbhub.io/professional/sites/10/Bloomberg-Multi-Tenor-Index-Methodology_9.17.20.pdf

[1] Source: WisdomTree, Bloomberg. 4 January 2010 to 4 September 2020. Numbers include back-tested data. Historical performance is not an indication of future performance and any investments may go down in value.

Detailed Index Comparison

	Original Index	Substituted Index
Index holdings	Calculated by reference to one contract only (outside of Roll Periods)	Calculated by reference to three contracts equal weighted (outside of Roll Periods)
	Calculated by reference to a contract which is sometimes the first, sometimes the second and sometimes the third futures contract on the curve depending on the time of the year. On some days in 2020, the futures contract by reference to which the index is calculated could be as close as ten days (in the case of WTI Crude Oil) or fifteen days (in the cases of Brent Crude Oil and Natural Gas) from expiry.	Calculated by reference to the second or third futures contract on the curve depending on the time of the month.
Index rolling	Rolls every two months	Rolls every month
	Every roll is for all the contracts by reference to which it is calculated	Every roll is for a third of the contracts by reference to which it is calculated.
	Rolls over five General Trading Days (sixth to tenth (inclusive) General Trading Days). 20% of the contracts by reference to which it is calculated are "rolled" on each roll day.	Rolls over five General Trading Days (sixth to tenth (inclusive) General Trading Days) 20% of the contracts by reference to which it is calculated are "rolled" on each roll day.
Handling of negative prices	Calculated by reference to a single contract up to the moment where it is the front contract and can be as close as ten days (in the case of WTI Crude Oil) or fifteen days (in the cases of Brent Crude Oil and Natural Gas) or so from expiry.	Calculated by reference to the second futures contract keeping the index further away from the front of the curve.
	Can go negative intra-day and can close negative for one day. Thereafter it would terminate the next trading day at the negative value.	The end-of-day index value is floored at zero and would terminate at zero same day.

Please refer to the Circular for additional information on those proposed indices and their characteristics.

What is the restrike provision? And why are we adding this provision to the affected ETPs?

A restrike event seeks to protect investors in the event of extreme market movements. The restrike event is similar in some respects to the rebalancing of the affected ETPs which typically occurs at the end of each valuation date, although the former occurs during the day and could potentially occur more than once per day.

A restrike event will generally occur if the value of the relevant individual commodity index either rises (for a short exposure ETP) or falls (for a long exposure ETP) by a set specific percentage over the course of a day since the previous day's closing settlement price or valuation point.

How do restrike events work?

Once the restrike event is triggered, the affected ETPs will be rebalanced, with a price being set over a 15-minute window (i.e. the restrike period), to alleviate the risk of a fall of 100 per cent in value. When a restrike event occurs, there will be 2 valuations calculated for the relevant individual commodity index and consequently for the affected ETPs:

i. from the value at the previous day's closing settlement price to the restrike index valuation point, and
ii. from the restrike index valuation point to that day's closing settlement price.

The Issuer proposes that the restrike provisions should apply to the affected ETPs, as follows:

a. for the classes of affected ETPs which are leveraged individual ETPs (such as LOIL, LBRT, LNGA), a restrike event will occur if the relevant individual commodity index falls by 35% or more over the course of a day;

b. for the classes of affected ETPs which are short individual ETPs (such as SBRT, SNGA, SOIL), a restrike event will occur if the relevant individual commodity index rises by 70 per. Cent. Or more over the course of a day;

c. for all classes of affected ETPs, the definition of exchange hours is being changed to start at 9.00 a.m. London time and end at the end of the designated settlement period;

d. for all classes of affected ETPs, the restrike index value determination window during exchange hours would 30 minutes starting immediately following the restrike event.

We believe that applying these modified restrike provisions to the affected ETPs improves the viability of the affected ETPs in the event of acute movements in the value of the underlying futures market and provides some protection against the price of the affected ETPs falling to zero.

What changes are made to the "Intra-Day Price"

Condition 8.8 of the **prospectus** (*Compulsory Redemption when Intra-day Price falls to zero*) provides that if the intra-day price of a commodity index tracked by the affected ETP has fallen to or below zero at any time during any trading day, the affected ETP will automatically be subject to a compulsory redemption on that day. The intra-day price is currently defined to be able to occur at any time between 8.00 a.m. and 2.30 p.m. New York Time on a Trading Day.

As part of this proposal, the issuer is suggesting to amend the definition of 'Intra-day Price' in to cover any time during a Trading Day (i.e. a day when the exchange for the underlying commodity futures contracts is open for trading) and not just between 8.00 a.m. and 2.30 p.m. New York Time. This could make sure the security prices floored at zero at any time during a Trading Day.

What index changes can be made by the issuer?

The Issuer proposes to include a right to substitute a different individual commodity index, upon 5 Business Days' notice to the investors. The Issuer has the right to choose this index, but it must relate to the same individual commodity as the current individual commodity index, be based on a similar methodology with the futures contracts potentially having different expiry dates to the existing index, and at the time of the index switch, there is no impact on the price of the affected ETPs.

Market dynamics are ever changing and can acutely affect the investability of a given asset, especially when there are structural issues challenging the normal functioning of the relevant markets. This was especially evident during the recent oil crisis where negative oil prices in the futures market on 20th April 2020 were precipitated by a lack of storage for WTI Crude Oil deliveries due in May 2020.

Handling such events often necessitates changes in the nature of a holding. With respect to the affected ETPs, the way to change their exposure to such market events is by changing the relevant individual commodity index. Decreasing the time required to make this change allows the issuer to be more responsive to market conditions. We believe the proposed timeline strikes the right balance between responsiveness and notice to our investors.

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