

WTI CRUDE OIL ETC (CRUD)

July 2020

In 2020 we have seen unprecedented levels of volatility in WTI crude oil contracts. In order to mitigate some of this volatility in the future and to protect investors in our products, WisdomTree Commodity Securities Limited (the Issuer) has made 2 changes to WisdomTree WTI Crude oil ETC ("CRUD").

- + Implement a Zero floor
 - This change was approved on 8 July 2020 by the security holders
- + Change the index from Bloomberg WTI Crude Oil Sub-Index (BCOMCL) to Bloomberg WTI Crude Oil Multi-Tenor Excess Return Index (BCLMTER).
 - This change was approved on 28 July 2020 by the security holders.

A new index for WisdomTree WTI Crude Oil ETP

BLOOMBERG WTI CRUDE OIL MULTI-TENOR EXCESS RETURN INDEX

The Bloomberg WTI Crude Oil Multi-Tenor Excess Return Index (the "Second Generation Index", ticker: **BCLMTER Index**) aims to track the performance of an equal-weight basket of three WTI Crude Oil futures contracts, which are rebalanced on a monthly basis. The "Second Generation Index" also has the zero floor and cannot go negative.

By tracking the Second Generation Index instead of the Bloomberg WTI Crude Oil subindex (the "First Generation Index") CRUD can:

- + Deliver an oil exposure which is diversified across multiple futures contracts, instead of only one. This would improve the liquidity of the product and reduce the concentration in a given future contract.
- + Improve its resilience to extreme scenarios and negative oil prices. For the new index to trade at zero, the average price of 3 futures contracts would need to drop below zero compared to only 1 futures contract dropping below zero with the First Generation Index.
- + Remain closely correlated to the returns of the front-month futures. The simulated correlation between the Second Generation Index and the First Generation Index is 98.5%¹ historically.
- + Reduce roll costs when the oil futures curve is in contango and reduce volatility by investing slightly further away from the front of the futures curve on average.

¹ Source: WisdomTree, Bloomberg. 1st January 2010 to 4th June 2020. **You cannot invest directly in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value.**

- + Reduce holdings turnover, with 33% index turnover per month on average versus the First Generation Index's 50%², improving further the liquidity of the product and minimizing the impact of the product rolling on the market.

The WisdomTree WTI Crude Oil ETP's costs and fees would remain unchanged.

Index Methodology

The **Second Generation** Index aims to hold an equal weight basket of three WTI Crude Oil futures contracts on the curve.

To maintain the long position of the basket, contracts are rolled from the 6th through the 10th Business Day of each calendar month using the roll schedule in Figure 1.

The notional amount to be bought for the three futures contracts is calculated on a monthly basis at the close of the 4th Business Day of each calendar month.

FIGURE 1: ROLL SCHEDULE FOR THE FIRST AND SECOND GENERATION INDEX

Calendar month	WTI Active / Front month futures contract	Bloomberg WTI Crude Oil sub-index (BCOMCL)		Bloomberg WTI Crude Oil Multi-Tenor Index (BCLMTER)	
		Roll from 6th – 10th business days		Roll from 6th – 10th business days	
Jan	Feb > Mar	Mar		Mar > Apr	Apr > May
Feb	Mar > Apr	Mar > May		Apr > May	May > Jun
Mar	Apr > May	May		May > Jun	Jun > Jul
Apr	May > Jun	May > Jul		Jun > Jul	Jul > Aug
May	Jun > Jul	Jul		Jul > Aug	Aug > Sep
Jun	Jul > Aug	Jul > Sep		Aug > Sep	Sep > Oct
Jul	Aug > Sep	Sep		Sep > Oct	Oct > Nov
Aug	Sep > Oct	Sep > Nov		Oct > Nov	Nov > Dec
Sep	Oct > Nov	Nov		Nov > Dec	Dec > Jan
Oct	Nov > Dec	Nov > Jan		Dec > Jan	Jan > Feb
Nov	Dec > Jan	Jan		Jan > Feb	Feb > Mar
Dec	Jan > Feb	Jan > Mar		Feb > Mar	Mar > Apr

Source: WisdomTree. June 2020. For illustrative purpose only. Using normal roll schedules. 2020 roll schedule would differ due to announced changes to BCOMCL Index.

The Second Generation Index was launched on June 4th 2020.

The full methodology can be found at the link below

<https://data.bloomberglp.com/professional/sites/10/Bloomberg-WTI-Crude-Oil-Multi-Tenor-Index-Methodology.pdf>

Simulated Historical Performance

Using the historical simulation, the Second Generation Index has outperformed the First Generation Index over the last 10 years while reducing the volatility.

Year to Date, the Second Generation Index would have benefitted from being positioned slightly further along on the curve to outperform the First Generation index and reduce the volatility as well.

² Source: WisdomTree, Bloomberg. The New index rolls 100% of the holdings every other month.

FIGURE 2: SIMULATED AND LIVE PERFORMANCE OF THE FIRST AND SECOND GENERATION INDEX

	Second Generation Index	First Generation Index
YTD Performance	-43.7%	-60.2%
YTD Volatility	95.4%	116.8%
Annualised Performance (Since Inception)	-12.6%	-17.5%
Annualised Volatility (Since Inception)	35.6%	39.1%

Source: WisdomTree, Bloomberg. 1st January 2010 to 4th June 2020. **You cannot invest directly in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value.**

The correlation of daily returns between the Second Generation Index and the First Generation Index remains relatively high at 98.5% over the full historical period. Focusing on 1-year periods in Figure 3³, we see that the 1-year correlation of daily returns also remains high, oscillating between 96.5% and 100%.

FIGURE 3: 1Y ROLLING CORRELATION BETWEEN THE SECOND AND FIRST GENERATION INDEX



Source: WisdomTree, Bloomberg. 1st January 2010 to 4th June 2020. Using daily returns and calculating over 252 business days for each period. **You cannot invest directly in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value.**

³ Source: WisdomTree, Bloomberg. 1st January 2010 to 4th June 2020. You cannot invest directly in an index. Above numbers include backtested data. Historical performance is not an indication of future performance and any investments may go down in value.

Detailed Index Comparison

Index Comparison	The Second Generation Index Bloomberg WTI Crude Oil Multi-Tenor ER Index	The First Generation Index Bloomberg WTI Crude Oil ER subindex
Index Holdings	Holds 3 futures contracts equal weighted (outside of roll periods)	Holds 1 futures contract only (outside of roll periods)
	Holds always the same 3 futures contracts on the curve thanks to the monthly rebalancing.	Holds 1 futures contract which is sometimes first, sometimes second and sometimes third on the curve depending on the time of the year. On some days in 2020, the futures contract held by the index could be as close as 10 days from expiry ⁴ .
Index rolling	Rolls every month	Rolls every two months
	Every roll is for a third of its holdings	Every roll is for all of its holdings
	Rolls over 5 business days (6th to 10th Business days). Buys and sells 6.7% of all its holdings on each roll day. Avoid the impact on liquidity of the classic BCOMCL roll as it rolls the contract a month in advance.	Rolls over 5 business days (6th to 10th Business days). Buys and sells 20% of all its holdings on each roll day.
Handling of negative prices	Owens 3 futures contracts, further away on the curve so likelihood of negative index is reduced. The end-of-day index value is floored at zero and would terminate at zero same day.	Owens a single futures contract up to the moment where it is the front month futures contract and only 10 days or so from expiry. Can go negative intra-day and can close negative for one day. Thereafter it would terminate the next trading day at the negative value.

⁴ Illustrative. Using the 2020 calendar year and the classic roll schedule of both indices.

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