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:

+ **19 October:** Shareholder vote on the proposed changes
+ **17 October:** Deadline to submit proxy voting forms (11 AM London time)

List of affected ETPs

Affected ETPs	The Original Index	The Substituted Index or Multi-Tenor Indices	ETP Bloomberg Ticker	ISIN
WisdomTree WTI Crude Oil - EUR Daily Hedged	Bloomberg WTI Crude Oil Subindex Euro Hedged Daily (BUCLDE)	Bloomberg WTI Crude Oil Multi-Tenor EUR Daily-Hedged ER Index (BCLMTERE)	00XM GY	DE000A1NZLM8
			ECRD IM	JE00B44F1611
WisdomTree WTI Crude Oil - GBP Daily Hedged	Bloomberg WTI Crude Oil Subindex Pound Sterling Hedged Daily (BUCLDP)	Bloomberg WTI Crude Oil Multi-Tenor GBP Daily-Hedged ER Index (BCLMTERP)	PCRD LN	JE00B6RV6N28
WisdomTree Brent Crude Oil - EUR Daily Hedged	Bloomberg Brent Crude Subindex Euro Hedged Daily (BUCODE)	Bloomberg Brent Crude Oil Multi-Tenor EUR Daily-Hedged ER Index (BCOMTERE)	00XT GY	DE000A1N3G19
			EBRT IM	JE00B7305Z55
WisdomTree Brent Crude Oil - GBP Daily Hedged	Bloomberg Brent Crude Subindex Pound Sterling Hedged Daily (BUCODP)	Bloomberg Brent Crude Oil Multi-Tenor GBP Daily-Hedged ER Index (BCOMTERP)	PBRT LN	JE00B766LB87
WisdomTree Natural Gas - EUR Daily Hedged	Bloomberg Natural Gas Subindex Euro Hedged Daily (BUNGDE)	Bloomberg Natural Gas Multi-Tenor EUR Daily-Hedged ER Index (BNGMTERE)	00XP GY	DE000A1NZLP1
			ENGS IM	JE00B6XF0923

What changes are being proposed?

WisdomTree Hedged Commodity Securities Limited (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 a multi-tenor index, based on the price of futures contracts on the same commodity, but is diversified across multiple futures contracts, instead of only one. This would be expected to improve the liquidity of the affected ETPs and reduce the concentration in a given futures contract.

ii) the intra-day pricing mechanics reflect a floor at zero for the substituted multi-tenor index.

iii) 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?

Tracking the Multi-Tenor Indices instead of the Original Indices would allow the Affected ETPs to:

+ provide an oil or natural gas futures contract price exposure which is diversified across multiple futures contracts, instead of only one futures contract. This would be expected to improve the liquidity of the affected ETPs and reduce the concentration in a given futures contract.

+ improve its resilience to extreme scenarios and negative oil or natural gas prices. For the Multi-Tenor Indices to trade at zero, the average price of three futures contracts would need to drop below zero compared to only one futures contract with the Original Index. The Multi-Tenor Indices provide a higher likelihood of the affected ETPs continuing to trade in the event that one of the three relevant underlying futures contracts goes negative; this continuation in trading would enable a holder of the affected ETPs to benefit from a recovery in the underlying futures price even in a situation where one of the underlying futures has gone negative.

+ remain correlated to the returns of the front-month futures contract, as per below:

    - The correlation between the Bloomberg WTI Crude Oil Subindex℠ Euro-/GBP-Hedged Daily and the Bloomberg WTI Crude Oil Multi-Tenor EUR-/GBP-Daily-Hedged ER Index has historically been 98.4%[1] and 98.4%[1], respectively.

    - The correlation between the Bloomberg Brent Crude Oil Subindex℠ Euro- /GBP- Hedged Daily and the Bloomberg Brent Crude Oil Multi-Tenor Euro- /GBP- Daily Hedged ER Index has historically been 99.6%[2] and 99.4%[3], respectively.

    - The correlation between the Bloomberg Natural Gas Subindex℠ Euro- /GBP- Hedged Daily and the Bloomberg Natural Gas Multi-Tenor Euro-Daily Hedged ER Index has historically been 97.5%[2].

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. 1 January 2010 to 3 September 2020. Numbers include back-tested data. Historical performance is not an indication of future performance and any investments may go down in value.

[2] Source: WisdomTree, Bloomberg. 1 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.

[3] Source: WisdomTree, Bloomberg. 1 October 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	Multi-Tenor 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.	Always calculated by reference to the same three futures contracts on the curve thanks to the monthly rebalancing.
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 business 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.	**For WTI and Brent Crude Oil:** Rolls over five business days (first to fifth (inclusive) General Trading Days), i.e., 6.7% of the contracts by reference to which it is calculated are "rolled" on each roll day. **For Natural Gas:** Rolls over ten business days (first to tenth (inclusive) General Trading Days), i.e., 3.3% of the contracts by reference to which it is calculated are "rolled" on each roll day. The impact on liquidity of the "classic BCOM roll" is avoided as it rolls the contracts a month in advance.
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 three futures contracts, further away on the curve so likelihood of negative index is reduced.
	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 changes are made to the "Intra-Day Price"

Accordingly, it is proposed to add a new condition to the prospectus, namely 8.7A *Compulsory Redemption of Multi-Tenor ETPs when Intra-Day Price falls to zero*, relating to each of the affected ETPs. If the intra-day price of commodity indices tracked by the affected ETP has fallen to or below zero at any time during any trading day, this might result in the affected ETP will being compulsory redeemed at zero on that day.

This provision will be in line with the handling of the negative and / or zero pricing with the substituted indices, i.e., should index level falls at or below zero due to an intraday and/or futures settlement price(s), the index level will be closed at zero and terminated same day.

We believe this would provide the ETP holders with greater clarity as to the behaviour of the affected ETPs in the event that the commodity contracts go negative.

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 a 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.

IMPORTANT INFORMATION

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