

# RISK AND VOLATILITY PROOFING FOR WISDOMTREE NATURAL GAS 3X DAILY LEVERAGED

## KEY QUESTIONS EXPLAINED

In 2020 we saw particularly high volatility in the price of crude oil futures contracts including an event when the WTI Crude Oil May futures contract price 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 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:

- + 05 April 2021 Deadline to submit proxy voting forms (12 PM London time) in respect of the first meeting
- + 07 April 2021: Shareholder meeting to vote on the proposed changes

If meeting is adjourned due to lack of investor participation then a second meeting will be held on the below expected timeframe, please note that votes submitted in respect of the first meeting will be also valid for the second meeting.

- + 20 April 2021: Deadline to submit proxy voting forms (12 PM London time) in respect of adjourned meeting
- + 22 April 2021: Adjourned shareholder meeting to vote on the proposed changes

## 01 List of affected ETPs

Affected ETP	The Current Index	ETP Bloomberg Ticker	ISIN
WisdomTree Natural Gas 3x Daily Leveraged	NASDAQ Commodity Natural Gas Index ER (NQCINGER)	3LNG LN	IE00BLRPRG98
		3NGL IM	IE00BLRPRG98
		3NGL LN	IE00BLRPRG98
		NGXL GY	IE00BLRPRG98

## 02 What changes are being proposed?

WisdomTree Multi Asset Issuer PLC (the "Issuer") is proposing to amend the terms of the affected ETPs to introduce the following mechanisms:

- i. An overnight restrike mechanism (see definition below) would cause a restrike mechanic to be available for the affected ETP outside of "standard trading hours".
- ii. 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.
- iii. A near zero price mechanism will enable the Swap Calculation Agent to trigger a switch of index in the event that the price of the relevant index components touches or goes below a certain threshold which is close to zero. The new index must have a substantially similar strategy to the current Index and be part of a pre-agreed, publicly shared, set of indices between the issuer and Swap Calculation Agent.

## 03 What is the Overnight restrike provision?

A restrike event seeks to protect investors in the event of extreme market movements. It is a rebalancing of the affected short and leveraged ETPs, like that which normally occurs at the end of each valuation date; although a restrike event could occur more than once per day.

Previously, restrike events were only available during standard trading hours. This proposed change would allow a similar restrike mechanic to be available outside of standard trading hours (see overview below), hence being called an "overnight restrike".

A restrike event generally occurs if the value of the relevant individual commodity index level 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.

## 04 How do restrike events work?

Once a restrike event is triggered, the affected ETPs will be rebalanced, with the 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 an intra-day 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.

Similarly, when an overnight 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 difference between the intra-day restrike mechanic within standard trading hours and the proposed overnight restrike mechanic that would occur outside of these, is that the restrike period continues until at least 3 hours after the overnight restrike event is triggered or until 15 minutes after the commencement of the standard trading hours.

Name of Affected ETP	Restrike Threshold	Standard Trading Hours
WisdomTree Natural Gas 3x Daily Leveraged	-20%	05:00 – 14:30 New York Time

## 05 What is the Discretionary Index Change?

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, subject to the following conditions:

- + The substitute index must relate to the same individual commodity as the current individual commodity index;
- + It must 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 ETP

In our view, this mechanic would allow the affected ETP to improve the resilience to extreme scenarios such as negative commodity prices and allow the affected ETP to continue trading and enable the security holders to benefit from a recovery in the underlying futures price even in a situation where the nearer term futures have gone negative.

## 06 What is the near zero price mechanic?

The Issuer proposes a "Near Zero Price Event", which allows the swap calculation agent to substitute a different index when the index components of the current index (i.e. the relevant future contract) fall to or below a pre agreed level.

Both the new index and the near zero thresholds will be agreed from time to time by the Issuer and the Swap Calculation Agent and disclosed on the Issuer's website, any changes will be notified to investors via Regulated Information Service and the Issuer's website. Please refer to the below table for the proposed level of Near Zero Price Event for the affected ETP.

Name of Affected ETP	Near Zero Price Event Level
WisdomTree Natural Gas 3x Daily Leveraged	\$1.25

## 07 Why are these changes necessary and why in such a short timeframe?

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 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

---

This material is prepared by WisdomTree and its affiliates and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any ETPs or to adopt any investment strategy. The opinions expressed are as of the date of production and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by WisdomTree, nor any affiliate, nor any of their officers, employees or agents. Reliance upon information in this material is at the sole discretion of the reader. Past performance is not a reliable indicator of future performance.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

Short and leveraged exchange-traded products are only intended for investors who understand the risks involved in investing in a product with short and/or leveraged exposure and who intend to invest on a short-term basis. Any investment in short and/or leveraged products should be monitored on a daily basis to ensure consistency with your investment strategy. You should understand that investments in short and/or leveraged exchange-traded products held for a period of longer than one day may not provide returns equivalent to the return from the relevant unleveraged investment multiplied by the relevant leverage factor. Potential losses in short and/or leveraged exchange-traded products may be magnified in comparison to investments that do not incorporate these strategies. Please refer to the section entitled "Risk Factors" in the relevant prospectus for further details of these and other risks associated with an investment in short and/or leveraged exchange-traded products. You should consult an independent investment adviser prior to making an investment in short and/or leveraged exchange-traded products in order to determine its suitability to your circumstances.