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WisdomTree Enhanced Commodity Ex-Agriculture UCITS ETF



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The WisdomTree Enhanced Commodity Ex-Agriculture UCITS ETF (WXAG) tracks the Morgan Stanley RADAR ex Agriculture & Livestock Total Return Index (MSRXAL) which serves as an alternative to the Bloomberg Commodity ex-Agriculture and Livestock Index (BCOMXAL). Similar to the BCOMXAL, this index (and accordingly the fund) does not provide exposure to agricultural commodities. However, it aims to systematically enhance the risk-return profile by selecting optimal maturities along the futures curves to improve carry and broaden the commodity set by including platinum and palladium. Additionally, the index aims to enhance performance by adjusting the weights of commodities in favour of those that have historically exhibited the highest roll yield.

Broad commodities offer a unique solution



Portfolio Diversifier - Commodities behave differently from equities and bonds. They have a low correlation to these other asset classes, which makes them a potential diversifier to a portfolio.



Inflation hedge - Commodities prices tend to move in tandem with inflation. While many other cyclical assets like equities react to 'expected inflation' (inflation expectations formed by strength of the economy and monetary growth), commodities also tend to respond well to 'unexpected inflation' (inflation driven by unanticipated supply or demand shocks).



Cyclical asset - Most commodities are seen as cyclical assets and therefore are a way for investors to play an economic recovery. Demand for energy and metals often rise during periods of economic growth. Even gold, which is thought of as a defensive asset most of the time, can perform very well in times of strong economic growth (a period often coupled with high inflation).



Benefits from US Dollar depreciation - Commodities which are typically priced in US dollars tend to rise when the US dollar depreciates. If there is a structural weakness in the US dollar, commodities could become beneficiaries.

Bloomberg Commodity ex-Agriculture and Livestock Total Return Index

Widely seen as the industry benchmark for non-agricultural commodities, the Bloomberg Commodity ex-Agriculture and Livestock (BCOMXAL) Total Return Index offers investors access to 13 commodities spread across energy, industrial metals and precious metals. Commodities and weights within this index were chosen by the Bloomberg Committee on the basis of liquidity and economic significance¹.

Morgan Stanley RADAR ex-Agriculture & Livestock Index

The WXAG tracks the **Morgan Stanley RADAR ex-Agriculture & Livestock Index**. The Index is designed to provide a broad and diversified UCITS compliant² commodity exposure, tracking the performance of a basket of commodities indices covering 3 sectors: energy, industrial metals, and precious metals. The Index uses **S&P GSCI Dynamic Roll mono-indices** to get exposure for the underlying commodities except platinum and palladium, where front month S&P GSCI indices are used.

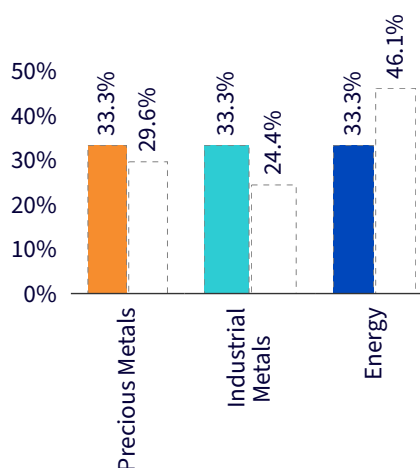
Target weight allocation based on fundamentals and roll yield

The WXAG product target weights determination follows both a **qualitative/fundamental** approach and a **quantitative** approach.

The three main sectors (Energy, Industrial Metals and Precious Metals) are **equally weighted** quarterly (see Figure 1). These weightings have been determined following a risk-return analysis of commodities returns in a multi-asset environment.

The target weight of each index component is static and is based on long-term backwardation³ expectation: the target weights were guided by average realised **roll yield** that was measured based on data from the beginning of 2000 to March 2015 for each commodity (see Figure 2).

Figure 1: WXAG Sector Weights vs. BCOMXAL Sector Weights

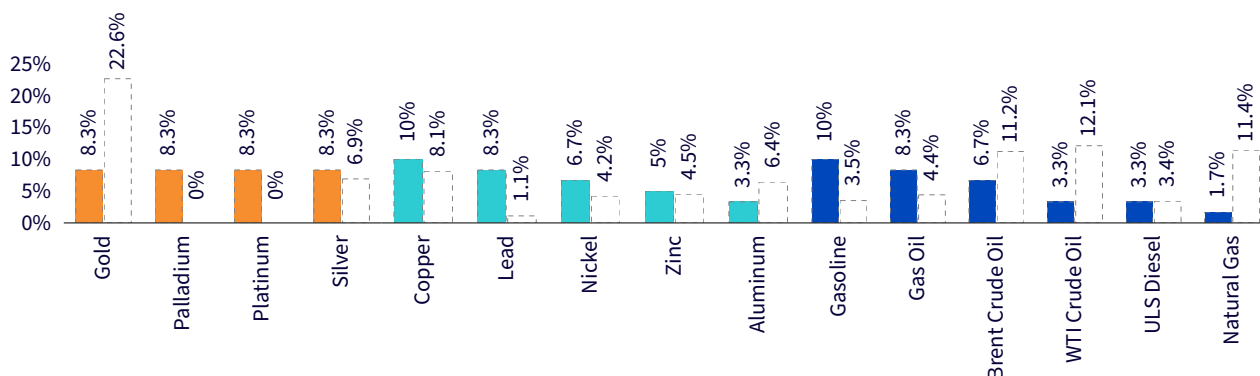


Source: WisdomTree, Bloomberg, June 2023. The coloured bars refer to the MSRXL sector target weights, while the dashed empty ones refer to the BCOMXAL sector target weights. **Historical performance is not an indication of future performance, and any investments may go down in value.**

- 1 Two thirds of the consideration is placed on liquidity of the underlying commodity, while one third is placed on the economic significance.
- 2 The assessment of UCITS compliance is made solely by WisdomTree and not made in reliance on any representations, warranties, undertakings or statements by Morgan Stanley or any of its affiliates.
- 3 A commodity is in backwardation when the price of a distant futures contract is lower than the price of a nearer future.

Based on liquidity, further adjustments were made by allocating weights to more liquid commodities even if the average roll yield was slightly lower. Additionally in the energy sector, weights were tilted more towards products made from crude oil such as gasoline over crudes⁴.

Figure 2: WXAG Target Weights vs. BCOMXAL Target Weights



Source: WisdomTree, Bloomberg, June 2023. The coloured bars refer to the MSRXL commodities target weights, while the dashed empty ones refer to the BCOMXAL commodities target weights. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Enhancing the risk/return profile by using the S&P GSCI Dynamic Roll mono-indices

Traditional commodity investing on the futures curve

First-generation commodity indices like the Bloomberg Commodity Index (BCOM) invest on the close end of the futures curves, obeying a fixed schedule. Because futures contracts expire, maintaining a continuous exposure to commodities requires ‘rolling’ the contract exposure as they approach expiry. Furthermore, as the price of a future converges towards the spot price as it nears expiry, we often see a drag on performance when the futures curve is upward sloping.

Carry is an essential component of return when investing in commodities. Enhanced strategies focusing on carry improvement generally outperform their front month counterpart, with the additional benefit of lowering the strategy’s volatility.

What roll optimisation can do for commodity investing

The Morgan Stanley RADAR ex-Agriculture & Livestock Index goes beyond this simple roll mechanism and selects maturities with the objective of maximising carry. Enhancing on maturity selection, the S&P GSCI Dynamic Roll mono-indices offer the opportunity to get exposure to commodities with a much-improved risk-return profile.

⁴ In precious metals, due to illiquidity in platinum and palladium, the Index gave them the same weight as gold and silver even though historically they have had a higher roll yield.

The S&P GSCI Dynamic Roll mono-indices

The indices adopt a highly dynamic approach, looking at liquidity each month, on each commodity’s futures curve to determine which maturities are liquid enough to be investable. It then selects the most optimal contract on the futures curve that can minimise this drag when the curve is upward sloping and maximise the benefit when the curve is downward sloping. By doing this monthly, the approach can respond quickly to changes in the shapes of futures curves.

Over long periods, this “optimised roll yield” approach can improve the index return. It also tends to reduce volatility because choosing futures contracts further along the curve means the strategy is less exposed to spot price movements, enhancing the risk-return profile over the long term.

WXAG as an investment proposition

- The index optimises the risk-return profile of a commodities ex-agriculturals exposure by increasing the weight of those commodities that have exhibited a higher roll yield.
- The index adopts a highly dynamic approach looking at liquidity each month.
- Over time an optimised roll yield can improve index return.
- Selection of futures contracts further along the curve can reduce volatility as the strategy is less exposed to spot price movements.

Fund Information: WisdomTree Enhanced Commodity ex-Agriculture UCITS ETF

Share Class	Base Currency	Ticker	Exchange	ISIN	BBG Code	Listing Currency	TER%
Unhedged Acc	USD	WXAG	LSE	IE00BDVPNS35	WXAG LN	USD	0.35
		WXAG	Xetra	IE00BDVPNS35	WXAG GY	EUR	0.35
		WXAG	SIX	IE00BDVPNS35	WXAG SW	USD	0.35
EUR Hedged Acc	EUR	EXAG	Xetra	IE00BDVPNV63	EXAG GY	EUR	0.35

TER: Total Expense Ratio.

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