



# **WisdomTree Hedged Commodity Securities Limited**

**Registered No: 109413**

**Report and Financial Statements for the  
Year ended 31 December 2019**

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**Directors**

Stuart Bell  
Christopher Foulds  
Steven Ross  
Peter Ziemba

**Administrator**

R&H Fund Services (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Registered Office**

Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Registrar**

Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey, JE1 1ES

**Manager**

WisdomTree Management Jersey Limited  
(formerly ETFS Management Company (Jersey) Limited)  
Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Trustee**

The Law Debenture Trust Corporation plc  
Fifth Floor  
100 Wood Street  
London, EC2V 7EX  
United Kingdom

**Commodity Contract Counterparty**

Merrill Lynch International  
2 King Edward Street  
London, EC1A 1HQ  
United Kingdom

**Commodity Contract Counterparty**

Citigroup Global Markets Limited  
Citigroup Centre  
Canada Square, Canary Wharf  
London, EC14 5LB  
United Kingdom

**Auditor**

Ernst & Young LLP  
Liberation House  
Castle Street  
St Helier  
Jersey, JE1 1EY

**Jersey Legal Advisers**

Mourant Ozannes  
22 Grenville Street  
St Helier  
Jersey, JE4 8PX

**Company Secretary****R&H Fund Services (Jersey) Limited**

Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

The directors of WisdomTree Hedged Commodity Securities Limited ("HCSL" or the "Company"), formerly ETFS Hedged Commodity Securities Limited until a change of name on 26 September 2019, submit herewith the annual report and financial statements of the Company for the year ended 31 December 2019.

### Directors

The names and particulars of the directors of the Company during and since the end of the financial year are:

Gregory Barton	(Resigned 15 March 2019)
Stuart Bell	(Appointed 28 October 2019)
Christopher Foulds	(Appointed 15 April 2020)
Hilary Jones	(Resigned 15 April 2020)
Steven Ross	
Peter Ziemba	

### Directors' Interests

No director has an interest in the Ordinary Shares of the Company as at the date of this report.

### Principal Activities

The Company's principal activity is the issue and listing of currency-hedged commodity securities ("Currency-Hedged Commodity Securities").

Currency-Hedged Commodity Securities are financial instruments designed to track the price of individual commodity futures contracts or baskets of commodity futures contracts for which the effects of foreign exchange risks are hedged, and give investors an exposure similar to that which could be achieved by managing a long fully cash collateralised unleveraged position in futures contracts of specific maturities, less applicable fees. However, unlike managing a futures position, Currency-Hedged Commodity Securities involve no need to roll from one futures contract to another, no margin calls, and no other brokerage or other costs in holding or rolling futures contracts (although security holders incur other costs in holding Currency-Hedged Commodity Securities). No trading or management of futures contracts is required by the Company.

Currency-Hedged Commodity Securities are backed by commodity contracts ("Commodity Contracts") with terms corresponding to the terms of Currency-Hedged Commodity Securities. The Issuer gains exposure to the movements in the Bloomberg Commodity Indices by holding corresponding Commodity Contracts. The Company is currently party to two facility agreements, one with Citigroup Global Markets Limited ("Citigroup") and one with Merrill Lynch International ("Merrill Lynch") (together the "Commodity Contract Counterparties"), enabling the Company to create and cancel Commodity Contracts on an ongoing basis.

Each time Currency-Hedged Commodity Securities are issued or redeemed, matching Commodity Contracts between the Company and a Commodity Contract Counterparty are created or cancelled by the Company.

The price of each class of Currency-Hedged Commodity Security is calculated on a daily basis and reflects movements in the Bloomberg Commodity Index relevant to that class since the previous day, adjusted by any applicable fees. Therefore, the return for a particular class of Currency-Hedged Commodity Security will primarily be based on the performance of the relevant Bloomberg Commodity Index.

**Principal Activities (continued)**

Each currency-hedged commodity index is calculated by reference to the corresponding un-hedged commodity index and provides a hedge against movements in the exchange rate between the US Dollar and the currency of denomination of that commodity index, which is rebalanced on a daily basis. As the Company issues securities which provide exposure to the daily movements in one of the currency-hedged Bloomberg Commodity Indices and the Company gains exposure to the movements in that Bloomberg Commodity Index by holding corresponding Commodity Contracts, the Company is not required to undertake any currency hedging activities.

The Company earns a management fee and a licence allowance based upon the number of Currency-Hedged Commodity Securities in issue. These fees are expressed as an annual percentage, calculated on a daily basis and reflected in the Net Asset Value ("NAV") of the Currency-Hedged Commodity Securities on a daily basis, and paid monthly in arrears.

The Company has entered into a service agreement with WisdomTree Management Jersey Limited ("ManJer" or the "Manager"), whereby ManJer is responsible for supplying or procuring the supply of all management and administration services required by the Company, (including marketing) as well as the payment of costs relating to the listing and issue of Currency-Hedged Commodity Securities. In return for these services, the Company has an obligation to remunerate ManJer with an amount equal to the aggregate of the management fee, licence allowance and the creation and redemption fees (the "ManJer Fee"). As a result, amounts in respect of the management fee and licence allowance fees are transferred directly to ManJer by the Commodity Contract Counterparties under the terms of the Commodity Contracts and ManJer receives creation and redemption fees directly from Authorised Participants. Accordingly there are no cash flows through the Company.

**Review of Operations**

The most recent Prospectus was issued on 31 May 2019. As at 31 December 2019, the Company had the following number of classes, in aggregate, of Currency-Hedged Commodity Securities in issue and admitted to trading on the following exchanges:

	<b>London Stock Exchange</b>	<b>Borsa Italiana</b>	<b>Deutsche Börse</b>
Classic and Longer Dated GBP-Hedged Commodity Securities	3	-	-
Classic and Longer Dated EUR-Hedged Commodity Securities	-	17	11
<b>Total Currency-Hedged Commodity Securities</b>	<b>3</b>	<b>17</b>	<b>11</b>

As at 31 December 2019, the fair value of assets under management amounted to USD 276.3 million (2018: USD 185.6 million). The Company recognises its financial assets (Commodity Contracts) and financial liabilities (Currency-Hedged Commodity Securities) at fair value in the Statement of Financial Position.

During the year, the Company generated income from creation and redemption fees, management fees and licence allowance as follows:

	<b>2019 USD</b>	<b>2018 USD</b>
Creation and Redemption Fees	158,993	175,789
Management Fees and Licence Allowance	1,033,068	1,280,213
<b>Total Fee Income</b>	<b>1,192,061</b>	<b>1,456,002</b>

Under the terms of the service agreement with ManJer, the Company accrued expenses equal to the management fees, licence allowance and creation and redemptions fees, which, after taking into account other operating income and expenses, resulted in an operating result for the year of USD Nil (2018: USD Nil).

**Review of Operations (continued)**

The gain or loss on Currency-Hedged Commodity Securities and Commodity Contracts is recognised in the Statement of Profit or Loss and Other Comprehensive Income in line with the Company's accounting policy.

The Company has entered into contractual obligations to issue and redeem Currency-Hedged Commodity Securities at set prices on each trading day. These prices are based on an agreed formula published in the Prospectus, and are equal to the published NAVs of each class of Currency-Hedged Commodity Security.

IFRS 13 requires the Company to identify the principal market and to utilise the available market price within that principal market. The directors consider that the stock exchanges where the Currency-Hedged Commodity Securities are listed to be the principal markets and as a result the fair value of the Currency Securities is the on-exchange price as quoted on those stock exchanges demonstrating active trading. As a result of the difference in valuation methodology between Commodity Contracts and Currency-Hedged Commodity Securities there is a mis-match between accounting values, and the results of the Company reflect a gain or loss on the difference between the Contractual Value of the Commodity Contracts and the market price of Currency-Hedged Commodity Securities. This gain or loss would be reversed on a subsequent redemption of the Currency-Hedged Commodity Securities and cancellation of the corresponding Commodity Contracts. This is presented in more detail in note 7 to these financial statements. The Company's exposure to risk is discussed in note 11 to the financial statements.

**Going Concern**

The nature of the Company's business dictates that the outstanding Currency-Hedged Commodity Securities may be redeemed at any time by the holder and in certain circumstances may be compulsorily redeemed by the Company. As the redemption of Currency-Hedged Commodity Securities will always coincide with the cancellation of an equal amount of Commodity Contracts, no net liquidity risk is considered to arise. All other expenses of the Company are met by ManJer. The directors are closely monitoring the advice and developments relating to the spread of COVID-19, particularly with its impact on ManJer, its assets under management, and therefore its related revenue streams, in respect of fulfilling the obligations under the services agreement. The directors consider the Company to be a going concern.

**Future Developments***Referendum of the United Kingdom's ("UK's") membership of the European Union (the "EU Referendum")*

Pursuant to the European Referendum Act 2015, a referendum on the United Kingdom's membership of the EU was held on 23 June 2016 with the majority voting to leave the EU. On 29 March 2017, the UK Government exercised its right under Article 50 of the Treaty of the European Union. The UK left the EU on 31 January 2020, subject to a withdrawal agreement between the UK and the other EU member states which provides for a transition period lasting until December 2020 during which EU law continues to apply to the UK as if it were a member state may take place without any transitional arrangements in place.

The Company is domiciled in Jersey, outside of the EU, and the Currency-Hedged Commodity Securities are distributed in the EU under the EU Prospectus Directive which requires their offering to the public to be approved by an EU Member State regulator. To date, the Company has chosen the UK Financial Conduct Authority ("FCA") as its member state regulator for these purposes. Request is then made to the FCA, as the chosen Member State regulator, for the passporting of the offering across the EU, once again, under the Prospectus Directive.

The Company is working with an alternate EU Member State regulator to obtain approval of its prospectus and request passporting for its offering to maintain the Company's access to relevant markets post the departure of the UK from the EU. As the Currency-Hedged Commodity Securities already comply with the European wide requirements of the Prospectus Directive, this is not expected to cause any disruption or alteration to the terms or nature of the Currency-Hedged Commodity Securities.

The Currency-Hedged Commodity Securities continue to comply with all applicable laws and regulations. The directors regularly assess the impact on the Company of the ongoing withdrawal process and consider that the decision to select an alternate EU Member State regulator substantially mitigates the key risks to the Company.

## Future Developments (continued)

### *Coronavirus disease (COVID-19)*

On 11 March 2020, the Director-General of the World Health Organisation (“WHO”) announced that the WHO had assessed the worldwide outbreak of COVID-19 as a pandemic. National governments and supranational organisations in multiple states have taken steps designed to protect their populations from COVID-19, including requiring or encouraging home working, the cancellation of sporting, cultural and other events and restricting or discouraging gatherings of people. COVID-19 has created market turmoil and increased market volatility generally. The steps outlined above, and public sentiment, may affect both the volatility and prices of commodities and hence the prices of the Securities, and such effects may be significant and may be long-term in nature.

The directors are closely monitoring the advice and developments relating to the spread of COVID-19, which is fluid and rapidly changing. The WisdomTree group has, and continues to implement measures to maintain the ongoing safety and well-being of employees, whilst continuing to operate business as usual.

### *Oil Markets*

In particular, as a result of the market turmoil, on 20 April 2020 the price of Crude Oil WTI futures traded at negative prices.

On 24 April 2020, Bloomberg announced a change to the Roll Period for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>. According to the announcement from Bloomberg, the Roll Period for changing the Lead Future from July to September for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup> was scheduled to take place in June 2020. Bloomberg has announced that this Roll Period will now take place in May 2020, a month earlier than scheduled. Beginning on 8 May 2020 and ending on 14 May 2020, Bloomberg will roll the Designated Month Contract for the Lead Future from July to September for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>.

Following an analysis of the potential impact of the price of Crude Oil WTI futures, the Company decided that a significant increase in the number of relevant Currency-Hedged Commodity Securities in issue may impact on the Commodity Contract Counterparties' ability to hedge the exposure under the relevant Commodity Contracts in these particularly volatile markets. Having regard to the interests of existing Security Holders in the relevant Currency-Hedged Commodity Securities, rather than potential future Security Holders, a decision was made to focus the attention of the Commodity Contract Counterparties on providing (and hedging) the current exposures rather than taking on additional exposures during this volatile period. As a result, on 4 May 2020 the Company released an announcement to the Stock Exchanges that with effect from 2.30pm (London) the Company would temporarily no longer accept applications from Authorised Participants for new Currency-Hedged Commodity Securities of the following classes:

- WisdomTree WTI Crude Oil - EUR Daily Hedged (Ticker: ECRD, ISIN: JE00B44F1611); and
- WisdomTree WTI Crude Oil - GBP Daily Hedged (Ticker: PCRD, ISIN: E00B6RV6N28).

The two classes of Currency-Hedged Commodity Securities named above collectively being the “Affected Securities”. The Affected Securities each provide exposure to the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>.

Whilst the Company is currently not accepting applications in the Affected Securities, the Company is continuing to accept redemptions in the Affected Securities, and trading of the Affected Securities on Stock Exchanges continues. The market price of Currency-Hedged Commodity Securities is a function of supply and demand amongst investors wishing to buy and sell Currency-Hedged Commodity Securities and the bid-offer spread that the market makers are willing to quote. The action taken by the Company directly impacts the supply of those Affected Securities and therefore may impact the market price.

The Company is continually assessing the market conditions and will make a further announcement in due course when Applications in the Affected Securities will be accepted again. As a result of the continuing assessment of market conditions, the Company may be required to react to external events that could potentially impact other Currency-Hedged Commodity Securities in issue.



**Future Developments (continued)***Oil Markets (continued)*

Whilst it is not currently possible to predict future market conditions and therefore determine if any further action may be required, the action that may be required includes, but is not limited to, temporarily not accepting applications for Currency-Hedged Commodity Securities, temporarily suspending Currency-Hedged Commodity Securities from trading on Stock Exchanges or a Compulsory Redemption of Currency-Hedged Commodity Securities. Other than the actions outlined above, the Company has not initiated any of these further actions to date. Any such action will be undertaken in accordance with the constitutive documents of the Currency-Hedged Commodity Securities. Furthermore, there are mechanisms within the constitutive documents of the Currency-Hedged Commodity Securities that enable the Counterparties to request a Compulsory Redemption in certain circumstances as set out and explained within the prospectus.

The board of directors (the "Board") are not aware of any other developments that might have a significant effect on the operations of the Company in subsequent financial periods not already disclosed in this report or the attached financial statements.

**Risk Management**

Each Currency-Hedged Commodity Security is a debt instrument whose redemption price is linked to the performance of the underlying hedged commodity index. The Currency-Hedged Commodity Securities are issued under limited recourse arrangements whereby the holders have recourse only to the value of the Commodity Contracts attributable to the class of security they hold and not to the Company. In addition, since any such price movements are wholly attributable to the Currency-Hedged Commodity Security holders, the Company has no residual exposure to price movements of the Commodity Contracts. From a commercial perspective, the gains or losses on the liability represented by the Currency-Hedged Commodity Securities are matched economically by corresponding losses or gains attributable to the Commodity Contracts (see detail above regarding the accounting mis-match). The Company does not retain any net gains or losses or net risk exposures. Further details surrounding the value of Currency-Hedged Commodity Securities and the Commodity Contracts are disclosed in note 11.

Movements in the price of the underlying hedged commodity index, and thus the value of the Currency-Hedged Commodity Securities, may vary widely which could have an impact on the demand for the Currency-Hedged Commodity Securities issued by the Company. These movements are shown in notes 6 and 7.

The Company has exposure to country and currency risk as the Currency-Hedged Commodity Securities provide investors with exposure to exchange rate movements between the US Dollar, Australian Dollar, Euro and Pound Sterling. However, the directors do not consider the Company to have a significant net exposure to country and currency risk arising from the current economic uncertainties facing a number of countries around the world as the gains or losses on the liability represented by the Currency-Hedged Commodity Securities are matched economically by corresponding losses or gains attributable to the Commodity Contracts.

**Dividends**

There were no dividends declared or paid in the year (2018: USD Nil). It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

**Employees**

The Company does not have any employees. It is the Company's policy to use the services of specialist subcontractors or consultants as far as possible.



## Directors' Remuneration

No director has a service contract with the Company. The directors of the Company who are employees within the WisdomTree Investments, Inc group do not receive separate remuneration in their capacity as directors of the Company. R&H Fund Services (Jersey) Limited ("R&H" or the "Administrator") receives a fee in respect of the directors of the Company who are employees of R&H.

The following directors' fees have been paid by ManJer on behalf of the Company for the year:

		2019 GBP	2018 GBP
Gregory Barton	(Resigned 15 March 2019)	Nil	Nil
Stuart Bell	(Appointed 28 October 2019)	Nil	Nil
Hilary Jones	(Resigned 15 April 2020)	8,000	1,315
Steven Ross		8,000	8,000
Peter Ziemba		Nil	Nil

## Auditor

The Independent Auditor, Ernst & Young LLP were appointed during the year and a resolution to re-appoint them will be proposed at the next Board meeting of the directors.

## Corporate Governance

There is no standard code of corporate governance in Jersey. The operations, as previously described in the directors' report, are such that the directors have determined that the Company is not required to apply, and has elected not to voluntarily apply, the UK Corporate Governance Code.

As the Board is small, there is no nomination committee and appointments of new directors are considered by the Board as a whole. The Board does not consider it appropriate that directors should be appointed for a specific term. Furthermore, the structure of the Board is such that it is considered unnecessary to identify a senior non-executive director.

The constitution of the Board is disclosed on page 2. The Board meets regularly as required by the operations of the Company, but at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review.

## Internal Control

During the year the Company did not have any employees or subsidiaries, and there is no intention that this will change. The Company, being a special purpose company established for the purpose of issuing Currency-Hedged Commodity Securities, has not undertaken any business, save for issuing and redeeming Currency-Hedged Commodity Securities, entering into the required documents and performing the obligations and exercising its rights in relation thereto, since its incorporation. The Company does not intend to undertake any business other than issuing and redeeming Currency-Hedged Commodity Securities and performing the obligations and exercising its rights in relation thereto.

The Company is dependent upon ManJer to provide management and administration services to it. ManJer is licensed under the Financial Services (Jersey) Law 1998 to conduct classes U and Z of Fund Services Business. ManJer outsources the administration services in respect of the Company to R&H. Documented contractual arrangements are in place with the Administrator which define the areas where the authority is delegated to them. The performance of the Manager and Administrator are reviewed on an ongoing basis by the Board through their review of periodic reports.

ManJer provides management and other services to both the Company and other companies issuing commodity and index tracking securities.

The Board having reviewed the effectiveness of the internal control systems of the Manager and R&H, and having a regard to the role of its external auditor, does not consider that there is a need for the Company to establish its own internal audit function.

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**Audit Committee**

The Board has not established a separate audit committee; instead the Board has met to consider the financial reporting by the Company, the internal controls, and relations with the external auditor. In addition the Board reviews the independence and objectivity of the auditor.



**Steven Ross**

Director

Jersey

15 May 2020

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

With regard to the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors confirm that to the best of their knowledge that:

- the financial statements for the year ended 31 December 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by law and in accordance with IFRS as issued by the IASB; and
- the Directors' Report gives a fair view of the development and performance of the Company's business, including financial position and the important events that have occurred during the year, and their impact on these financial statements, together with a description of the principal risks and uncertainties they face.

Additional information on other financial and operational risks and uncertainties faced by the Company are disclosed in note 11 of these financial statements. Detail of the wider macroeconomic risks faced by the Company are disclosed in the Directors' Report.

By order of the Board



**Steven Ross**

Director

Jersey

15 May 2020

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED**

### **Opinion**

We have audited the financial statements of WisdomTree Hedged Commodity Securities Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its result for the year then ended;
- ▶ have been properly prepared in accordance with International Financial Reporting Standards; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Overview of our audit approach**

Key audit matters	<ul style="list-style-type: none"> <li>▶ Valuation of Financial Assets at fair value through profit and loss - Commodity Contracts</li> <li>▶ Valuation of Financial Liabilities at fair value through profit and loss - Currency-Hedged Commodity Securities</li> </ul>
Materiality	▶ Overall materiality of US\$2.8m which represents 1% of total assets.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED (continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Risk</b>	<b>Our response to the risk</b>	<b>Key observations communicated to the Board</b>
<p><b>Valuation of Financial Assets at fair value through profit and loss - Commodity Contracts</b></p> <p><b>USD 276,343,230 (2018: USD 185,294,440)</b></p> <p><i>Refer to the Accounting policies (page 22); and Note 6 of the Financial Statements (page 25)</i></p> <p>Risk that investment values are misstated or that valuations are incorrectly calculated.</p> <p>The Commodity Contracts held comprise a range of commodity derivatives that are used by the Company to provide holders of issued securities with exposure that is designed to track the price of commodity futures for which the effects of foreign exchange risks are hedged.</p> <p>The Commodity Contracts are carried at fair value as a Financial Asset.</p> <p>The risk comprises the risk of errors in both the valuation methodology applied (including the risk that the valuation methodology has not been determined in accordance with the terms of the applicable prospectus) and in the source and timing of valuation inputs utilised.</p> <p>The balance of Commodity Contracts represents in excess of 99% of the company's total assets as at 31 December 2019 (2018: 99%) and therefore any error in valuation approach could be significant.</p>	<p>Our response to the risk comprised:</p> <p>An assessment of the company's systems and controls implemented in respect of commodity contract valuation.</p> <p>Review of predecessor audit workpapers to understand the strategy and approach to testing valuation in the prior period.</p> <p>Obtaining independent confirmation, from the contract counterparty, of the Commodity Contracts held as at the reporting date.</p> <p>Agreement of the valuation methodology applied to the definition set out in the prospectus and validation of key inputs used to derive the value of the Commodity Contracts. This included agreement of the price of referenced futures contracts to external pricing sources as at 31 December 2019.</p> <p>Recalculation of the value of a sample of Commodity Contracts held at 31 December 2019, representing 94% of the total value of Commodity Contracts held.</p>	<p>There were no matters identified during our audit work on valuation of Commodity Contracts that we wanted to bring to the attention of the Board of Directors of the company.</p>

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED (continued)**

Risk	Our response to the risk	Key observations communicated to the Board
<p><b>Valuation of Financial Liabilities at fair value through profit and loss - Currency-Hedged Commodity Securities</b></p> <p><b>USD 275,836,894 (2018: USD 185,062,695)</b></p> <p><i>Refer to the Accounting policies (page 22); and Note 7 of the Financial Statements (page 26)</i></p> <p>Risk that values of securities in issue are misstated or that valuations are incorrectly captured.</p> <p>The Currency-Hedged Commodity Securities in issue comprise a range of financial instruments that provide holders with exposure that is designed to track the price of commodity futures for which the effects of foreign exchange risks are hedged.</p> <p>The Currency-Hedged Commodity Securities are carried at fair value as a Financial Liability.</p> <p>The risk comprises the risk of errors in both the valuation methodology applied and in the source and timing of valuation inputs utilised.</p> <p>The balance of Currency-Hedged Commodity Securities represents in excess of 99% of the company's total liabilities as at 31 December 2019 (2018: 99%) and therefore any error in valuation approach could be significant.</p>	<p>Our response to the risk comprised:</p> <p>An assessment of the company's systems and controls implemented in respect of commodity security valuation.</p> <p>Review of predecessor audit workpapers to understand the strategy and approach to testing valuation in the prior period.</p> <p>Assessed the appropriateness of the valuation methodology applied, comprising the use of traded security prices to value the Energy Securities, against relevant IFRS requirements.</p> <p>Independently obtained security prices using external pricing sources at the balance sheet date.</p> <p>Recalculation of the value Currency-Hedged Commodity Securities held at 31 December 2019, by multiplying the security price by the security balance in issue. This represented 100% of the total value of Currency-Hedged Commodity Securities in issue.</p>	<p>There were no matters identified during our audit work on valuation of Currency-Hedged Commodity Securities that we wanted to bring to the attention of the Board of Directors of the company.</p>

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED (continued)**

### **Emphasis of matter – Effects of COVID-19**

We draw attention to Note 2, Note 11(f)(i) and Note 13 of the financial statements, which describes the economic and social disruption the company is facing as a result of COVID-19 which is impacting financial markets and creating greater volatility in commodity prices. Our opinion is not modified in respect of this matter.

### **An overview of the scope of our audit**

#### **Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### **Changes from the prior year**

We have identified no changes in the scope of the audit compared to the prior year. The primary accounting and administrative activities for the Company were conducted in the same geographical locations and by the same service providers as in the prior year and as a result our work was conducted as a single audit process.

#### **Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the company to be US\$2.8 million (2018: US\$0.94 million), which is 1% (2018: 0.5%) of Total Assets. We believe that Total Assets provides us with an appropriate basis for audit materiality as Total Asset value reflects the relevant exposure of holders of issued securities to the underlying asset base.

As our first period of appointment as auditor the basis above has been determined based on our understanding of the current business and its ownership and operation in the current year, including the level at which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

In particular we have considered both the nature of the exposure to asset performance being obtained by security holders and the expectations of the users of the financial statements by observing the basis applied across existing WisdomTree exchange traded issuer products.

The entity is structured such that the security holders interests are reflected as a liability, but provide exposure to net assets invested, with the 1% being considered appropriate in the context of such net asset exposure.

The basis is also consistent with other audited WisdomTree exchange traded issuer platforms in Europe, where 1% of assets has historically been applied as the basis for materiality, so we have reflected this established level of user expectation for WisdomTree issuer vehicles.

During the course of our audit, we reassessed initial materiality and noted no factors leading us to amend materiality levels from those originally determined at the audit planning stage.



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED (continued)**

**Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2018: Not reported) of our planning materiality, namely US\$1.4m (2018: Not reported). We have set performance materiality at this percentage due to this being our initial year of appointment as auditor.

As performance materiality was not separately reported by the predecessor auditor we are not able to report on any variation compared to the basis or amounts utilised in the prior year.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US\$139,200 (2018: US\$47,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

The basis of determining the amount remains consistent with that applied in the prior year at 5% of planning materiality, with the increase explained by the higher overall percentage used in determining planning materiality.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Other information**

The other information comprises the information included in the annual report set out on pages 1 to 9, including the Directors' Report set out on pages 2 to 8 and the Statement of Directors' Responsibilities set out on page 9, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- ▶ proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the financial statements are not in agreement with the company's accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WISDOMTREE HEDGED COMMODITY SECURITIES LIMITED (continued)**

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Christopher David Gordon Barry, FCA  
for and on behalf of Ernst & Young LLP  
Jersey, Channel Islands  
15 May 2020

### **Notes:**

1. The maintenance and integrity of the WisdomTree Hedged Hedged Commodity Securities Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

		<b>Year ended 31 December</b>	
	<b>Notes</b>	<b>2019 USD</b>	<b>2018 USD</b>
Revenue	3	1,192,061	1,456,002
Expenses	3	(1,192,061)	(1,456,002)
<b>Operating Result</b>	3	<b>-</b>	<b>-</b>
Net Gain / (Loss) Arising on Contractual and Fair Value of Commodity Contracts	6	25,333,283	(42,457,647)
Net (Loss) / Gain Arising on Fair Value of Currency-Hedged Commodity Securities	7	(25,058,692)	41,242,212
<b>Result and Total Comprehensive Income for the Year</b>		<b>274,591</b>	<b>(1,215,435)</b>
Adjustment from Market Value to Contractual Value (as set out in the Prospectus) of Currency-Hedged Commodity Securities <sup>1</sup>	2	(274,591)	1,215,435
<b>Adjusted Result</b>		<b>-</b>	<b>-</b>

The directors consider the Company's activities as continuing.

<sup>1</sup> An explanation of the non-statutory and non-GAAP adjustment is set out on page 22. This represents the movement in the difference between the agreed Contractual Value of the Commodity Contracts and the market price of Currency-Hedged Commodity Securities.

		<b>As at 31 December</b>	
	<b>Notes</b>	<b>2019</b>	<b>2018</b>
		<b>USD</b>	<b>USD</b>
<b>Assets</b>			
Commodity Contracts	6	276,343,230	185,294,440
Amounts Receivable on Commodity Contracts Awaiting Settlement	6	959,722	501,209
Amounts Receivable on Currency Hedged Commodity Securities Awaiting Settlement	7	846,512	2,141,061
Trade and Other Receivables	5	209,401	167,602
<b>Total Assets</b>		<b>278,358,865</b>	<b>188,104,312</b>
<b>Liabilities</b>			
Currency-Hedged Commodity Securities	7	275,836,894	185,062,695
Amounts Payable on Currency Hedged Commodity Securities Awaiting Settlement	7	846,512	501,209
Amounts Payable on Commodity Contracts Awaiting Settlement	6	959,722	2,141,061
Trade and Other Payables	8	209,398	167,599
<b>Total Liabilities</b>		<b>277,852,526</b>	<b>187,872,564</b>
<b>Equity</b>			
Stated Capital	9	3	3
Revaluation Reserve		506,336	231,745
<b>Total Equity</b>		<b>506,339</b>	<b>231,748</b>
<b>Total Equity and Liabilities</b>		<b>278,358,865</b>	<b>188,104,312</b>

The assets and liabilities in the above Statement of Financial Position are presented in order of liquidity from most to least liquid.

The financial statements on pages 16 to 34 were approved and authorised for issue by the board of directors and signed on its behalf on 15 May 2020.



**Steven Ross**  
Director

	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
<b>Operating Result for the Year</b>	-	-
Cash Generated from Operating Activities	-	-
<b>Net Movement in Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>
Cash and Cash Equivalents at the Beginning of the Year	-	-
Net Movement in Cash and Cash Equivalents	-	-
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>-</b>	<b>-</b>

Currency-Hedged Commodity Securities are issued through a direct transfer of cash from the Authorised Participant to the Commodity Contract Counterparties or redeemed by the direct transfer of cash by the Commodity Contract Counterparties to the Authorised Participant. As such the Company is not a party to any cash transactions. The creations and redemptions of Currency-Hedged Commodity Securities and additions and disposals of Commodity Contracts, which are non-cash transactions for the Company, are disclosed in notes 6 and 7 respectively in the reconciliation of opening to closing Currency-Hedged Commodity Securities and Commodity Contracts.

The Company has entered into a service agreement with WisdomTree Management Jersey Limited ("ManJer" or the "Manager"), whereby ManJer is responsible for supplying or procuring the supply of all management and administration services required by the Company, (including marketing) as well as the payment of costs relating to the listing and issue of Currency-Hedged Commodity Securities. In return for these services, the Company has an obligation to remunerate ManJer with an amount equal to the aggregate of the management fee, licence allowance and the creation and redemption fees (the "ManJer Fee"). As a result, amounts in respect of the management fee and licence allowance fees are transferred directly to ManJer by the Commodity Contract Counterparties under the terms of the Commodity Contracts and ManJer receives creation and redemption fees directly from Authorised Participants. Accordingly there are no cash flows through the Company.

	Notes	Stated Capital USD	Retained Earnings USD	Revaluation Reserve <sup>2</sup> USD	Total Equity USD	Adjusted Total Equity USD
<b>Opening Balance at 1 January 2018</b>		3	-	1,447,180	1,447,183	3
Total Comprehensive Income for the Year		-	(1,215,435)	-	(1,215,435)	(1,215,435)
Transfer to Revaluation Reserve	7	-	1,215,435	(1,215,435)	-	-
<sup>3</sup> Adjustment from Market Value to Contractual Value (as set out in the Prospectus) of Currency-Hedged Commodity Securities	7	-	-	-	-	1,215,435
<b>Balance at 31 December 2018</b>		<b>3</b>	<b>-</b>	<b>231,745</b>	<b>231,748</b>	<b>3</b>
Opening Balance at 1 January 2019		3	-	231,745	231,748	3
Total Comprehensive Income for the Year		-	274,591	-	274,591	274,591
Transfer to Revaluation Reserve	7	-	(274,591)	274,591	-	-
<sup>3</sup> Adjustment from Market Value to Contractual Value (as set out in the Prospectus) of Currency-Hedged Commodity Securities	7	-	-	-	-	(274,591)
<b>Balance at 31 December 2019</b>		<b>3</b>	<b>-</b>	<b>506,336</b>	<b>506,339</b>	<b>3</b>

<sup>2</sup> This represents the difference between the Contractual Value of the Commodity Contracts and the market price of Currency-Hedged Commodity Securities.

<sup>3</sup> An explanation of the non-statutory and non-GAAP adjustment is set out on page 22.

The notes on pages 20 to 34 form part of these financial statements

### 1. General Information

WisdomTree Hedged Commodity Securities Limited (the “Company”) is a company incorporated and domiciled in Jersey. The address of the registered office is Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW. The name of the Company was changed from ETFS Hedged Commodity Securities Limited on 26 September 2019.

The purpose of the Company is to provide a vehicle that facilitates the issuance and subsequent listing and trading of Currency-Hedged Commodity Securities. The Company does not make gains from trading in the underlying Commodity Contracts themselves. The Currency-Hedged Commodity Securities are issued under limited recourse arrangements whereby the Company has no residual exposure to price movements of the underlying assets, therefore from a commercial perspective gains and losses in respect of Commodity Contracts will always be offset by a corresponding loss or gain on the Currency-Hedged Commodity Securities. Further details regarding the risks of the Company are disclosed in note 11.

Exchange traded products are not typically actively managed, are significantly lower in cost when compared to actively managed mutual funds and are easily accessible to investors. No trading or management of futures contracts is required of the Company because the Company has entered into arrangements to acquire an equivalent asset exposure represented by the Currency-Hedged Commodity Securities from third parties which fully hedges the exposure of the Company.

The Company is entitled to:

- (1) a management fee and a licence allowance which are calculated by applying a fixed percentage to the contractual value of Currency-Hedged Commodity Securities in issue on a daily basis; and
- (2) creation and redemption fees on the issue and redemption of the Currency-Hedged Commodity Securities.

No creation or redemption fees are payable to the Company when investors trade in the Currency-Hedged Commodity Securities on a listed market such as the London Stock Exchange. Creation and redemption fees may also be waived with certain approved persons where applicable.

The Company has entered into a service agreement with WisdomTree Management Jersey Limited (“ManJer” or the “Manager”), whereby ManJer is responsible for supplying or procuring the supply of all management and administration services required by the Company, (including marketing), as well as the payment of costs relating to the listing and issuance of Currency-Hedged Commodity Securities. In return for these services, the Company pays ManJer an amount equal to the management fee, licence allowance and the creation and redemption fees earned (the “ManJer Fee”). As a result there are no operating profits or losses recognised through the Company.

### 2. Accounting Policies

The main accounting policies of the Company are described below.

#### Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

#### Critical Accounting Estimates and Judgements

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



## 2. Accounting Policies (continued)

### Critical Accounting Estimates and Judgements (continued)

The key accounting judgements required to prepare these financial statements are in respect of the presentation of non-statutory and non-GAAP adjustments to the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Changes in Equity, as disclosed on page 19. As a result of the mismatch in the valuation of Commodity Contracts and Currency-Hedged Commodity Securities held at fair value through profit or loss as disclosed in notes 6 and 7. The directors do not consider that any significant estimates have been applied in the preparation of these financial statements.

### Going Concern

The nature of the Company's business dictates that the outstanding Currency-Hedged Commodity Securities may be redeemed at any time by the holder and in certain circumstances may be compulsorily redeemed by the Company. Generally only security holders who have entered into an authorised participant agreement with the Company ("Authorised Participant") can submit applications and redemptions directly with the Company. As the redemption of Currency-Hedged Commodity Securities will always coincide with the cancellation of an equal amount of Commodity Contracts, no net liquidity risk is considered to arise. All other expenses of the Company are met by ManJer. The directors are closely monitoring the advice and developments relating to the spread of COVID-19, particularly with its impact on ManJer, its assets under management, and therefore its related revenue streams, in respect of fulfilling the obligations under the services agreement in place. The directors consider the Company to be a going concern for the foreseeable future and have prepared the financial statements on this basis.

### Accounting Standards

#### (a) *Standards, amendments and interpretations adopted in the year:*

In preparing the financial statements the Company has adopted all new or revised Standards and Interpretations in issue and effective for the year, none of which are considered to have resulted in a significant effect on these financial statements.

#### (b) *Standards, amendments and interpretations not applicable to the Company:*

The following standards that have been revised, issued and became effective but are not considered applicable to the Company:

- IFRS 3 Business Combinations
- IFRS 10 Consolidated Financial Statements
- IFRS 16 Leases
- IAS 12 Income Taxes
- IAS 19 Employee Benefits Employee Benefits
- IAS 23 Borrowing Costs
- IAS 28 Investments in Associates and Joint Ventures

#### (c) *New and revised IFRSs in issue but not yet effective:*

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021)
- Annual Improvements to IFRS (impacting IFRS 3, IFRS 7, IFRS 8, IAS 1 and IAS 8)

The directors do not expect the adoption of the above standards, amendments and interpretations that are in issue but not yet effective will have a material impact on the financial statements of the Company in future periods.

The directors have considered other standards and interpretations in issue but not effective and concluded that they would not have a material impact on the future financial periods when they become available.

## 2. Accounting Policies (continued)

### Currency-Hedged Commodity Securities and Commodity Contracts

#### i) *Issue and Redemption*

The Company has entered into facility agreements with Citigroup Global Markets Limited ("Citigroup") and Merrill Lynch International ("Merrill Lynch") (collectively the "Commodity Contract Counterparties"). The facility agreements permit the Company to create and cancel Commodity Contracts at prices equivalent to Currency-Hedged Commodity Securities issued or redeemed on the same day. Each time a Currency-Hedged Commodity Security is issued or redeemed by the Company a corresponding number and value of Commodity Contracts are created or cancelled with the Commodity Contract Counterparties.

Financial assets and liabilities are recognised and de-recognised on the transaction (trade) date.

#### ii) *Pricing*

The Commodity Contracts are priced by reference to certain currency-hedged commodity indices calculated and published by Bloomberg L.P. and Bloomberg Finance L.P. (together "Bloomberg") and a multiplier calculated by the Company and agreed with the Commodity Contract Counterparties. The multiplier takes into account the daily accrual of the management fee, licence allowance and swap spread as well as the incremental capital enhancement component of the Currency-Hedged Commodity Security, and is the same across all Currency-Hedged Commodity Securities of the same type (i.e. all Classic Currency-Hedged Commodity Securities use the same multiplier). This price is calculated based on the formula set out in the Prospectus, and is referred to as the 'Contractual Value' and is considered to be the fair value of the Commodity Transactions.

IFRS 13 requires the Company to identify the principal market and to utilise the available market price within that principal market. The directors consider that the stock exchanges where the Currency-Hedged Commodity Securities are listed to be the principal markets and as a result the fair value of the Currency-Hedged Commodity Securities is the on-exchange price as quoted on those stock exchanges demonstrating active trading. The Currency-Hedged Commodity Securities are priced using the closing mid market price on the Statement of Financial Position date.

Consequently a difference arises between the value of Commodity Contracts (at Contractual Value) and Currency-Hedged Commodity Securities (at market value) presented in the Statement of Financial Position. This difference is reversed on a subsequent redemption of the Currency-Hedged Commodity Securities and cancellation of the corresponding Commodity Contracts.

#### iii) *Classification at fair value through Profit or Loss*

Each Currency-Hedged Commodity Security and Commodity Contract comprises a financial instrument whose redemption or cancellation price is linked to the performance of the relevant commodity index adjusted by the applicable fees and expenses.

The Commodity Contracts are mandatorily classified as financial assets at fair value through profit or loss upon initial recognition under IFRS 9 based on the business model and contractual terms.

The Currency-Hedged Commodity Securities held are classified as financial liabilities measured at fair value through profit or loss as, upon initial recognition under IFRS 9, as they are irrevocably designated by the entity as such.

This is considered to result in more relevant information, as it eliminates, or significantly reduces, a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. In this case the policy applied enables gains or losses on both the Currency-Hedged Commodity Securities and Commodity Contracts to be recorded in the Statement of Profit or Loss and Other Comprehensive Income.

Through the mis-matched accounting values, the results of the Company reflect a gain or loss which represents the movement in the cumulative difference between the Contractual Value (based on the formula set out in the Prospectus) of the Commodity Contracts and the market price of Currency-Hedged Commodity Securities. This gain or loss is transferred to a Revaluation Reserve which is non-distributable. The results of the Company are adjusted through the presentation of a non-statutory and non-GAAP movement entitled 'Adjustment from Market Value to Contractual Value (as set out in the Prospectus) of Currency-Hedged Commodity Securities'.

## **2. Accounting Policies (continued)**

### **Commodity Contracts and Securities Awaiting Settlement**

The issue or redemption of Currency-Hedged Commodity Securities, and the creation or sale of Commodity Contracts, is accounted for on transaction date. Where settlement pricing is applied, the transaction will not settle until two days after the transaction date. Where transactions are awaiting settlement at the period end, the monetary value of the Commodity Contracts and Currency-Hedged Commodity Securities due to be settled is separately disclosed within the relevant assets and liabilities on the Statement of Financial Position. The fair value of these receivables and payables is considered equivalent to their carrying value.

### **Other financial assets and liabilities**

Other financial assets and liabilities are non-derivative financial assets and liabilities including trade and other receivables and trade and other payables with a fixed payment amount and are not quoted in an active market. After initial measurement the other financial assets and liabilities are subsequently measured at amortised cost using the effective interest method less any allowance for expected credit losses. The effective interest method is a method of calculating the amortised cost of an instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Impairment losses, including reversals of impairment losses and impairment gains, are presented in the statement of profit or loss and other comprehensive income.

### **Reserves**

A revaluation reserve and a retained earnings reserve are maintained within equity. All profit or loss is taken to the retained earnings reserve at the end of the accounting period to which it relates and the gain or loss relating to the mis-match of accounting values is transferred to the non-distributable revaluation reserve.

### **Revenue Recognition**

The Company derives its revenue from contracts with customers for the transfer services over time (in respect of management fees), and at a point in time (in respect of creation and redemption fees). Revenue is measured based on a consideration of the amount to which the Company expects to be entitled, excluding discounts, rebates, and other sales taxes or duty. All other income and expenses are recognised on an accruals basis.

#### *i) Management Fees*

Management fees are calculated and recognised on a daily basis by applying a fixed percentage to the contractual value of Commodity Securities in issue in accordance with the terms of the securities issued. Accrued management fees are invoiced and settled on a monthly basis.

#### *ii) Creation and Redemption Fees*

Fees for the issue and redemption of Commodity Securities are recognised at the fair value of the consideration expected to be received, on the date on which the transaction becomes legally binding. Accrued creation and redemption fees are invoiced and settled on a quarterly basis.

### **Foreign Currency Translation**

The financial statements of the Company are presented in the currency in which the Commodity Contracts entered into to support the Currency-Hedged Commodity Securities issued by the Company are denominated (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in United States Dollar, which is the functional currency of the Company, and the presentational currency of the financial statements.

Monetary assets and liabilities denominated in foreign currencies at the period end date are translated at rates ruling at that date. Creation and redemption fees are translated at the average rate for the month in which they are incurred. The resulting differences are accounted for through profit or loss.

## 2. Accounting Policies (continued)

### Segmental Reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Operating Decision Maker ("CODM") in order to allocate resources to the segments and to assess their performance. The CODM has been determined as the board of directors. A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Company has not provided segmental information as the Company has only one business or product group, classic and longer dated Currency-Hedged Commodity Securities, and one geographical segment which is Europe. In addition the Company has no single major customer from which greater than 10% of revenue is generated. All information relevant to the understanding of the Company's activities is included in these financial statements.

### Prior Year Disclosure Restatement

As at 31 December 2018, the financial statements did not appropriately reflect the allocation of the Currency-Hedged Commodity Securities between levels within the Fair Value Hierarchy disclosures. Following a reassessment of the market activity of the Currency-Hedged Commodity Securities the Company has re-presented these disclosures. As this disclosure restatement has no impact on the amounts previously reported in the Statement of Financial Position, the directors do not consider it necessary to present an additional column within the Statement of Financial Position. Furthermore, the directors do not consider it necessary to present a reconciliation of the opening balances in respect of this disclosure as such information is not considered to significantly influence the users of these financial statements. For additional information highlighting the impact of the restatement as well as the updated disclosures, please refer to note 11.

## 3. Operating Result

Operating result for the year comprised:

	Year ended 31 December	
	2019 USD	2018 USD
Creation and Redemption Fees	158,993	175,789
Management Fees	937,414	1,161,675
Licence Allowance	95,654	118,538
<b>Total Revenue</b>	<b>1,192,061</b>	<b>1,456,002</b>
ManJer Fees	(1,192,061)	(1,456,002)
<b>Total Operating Expenses</b>	<b>(1,192,061)</b>	<b>(1,456,002)</b>
<b>Operating Result</b>	<b>-</b>	<b>-</b>

Audit Fees for the year of GBP 20,560 will be met by ManJer (2018: GBP 20,000).

## 4. Taxation

The Company is subject to Jersey Income Tax. During the year the Jersey Income Tax rate applicable to the Company is zero percent (2018: zero percent).

5. Trade and Other Receivables

	As at 31 December	
	2019 USD	2018 USD
Management Fee and Licence Allowance	167,420	123,767
Creation and Redemption Fees	41,978	43,832
Receivable from Related Party	3	3
	<b>209,401</b>	<b>167,602</b>

The fair value of these receivables is equal to the carrying value. The Trade and Other Receivables are due to be recovered within 12 months of the year end.

6. Commodity Contracts

	As at 31 December	
	2019 USD	2018 USD
Net Gain / (Loss) Arising on Contractual and Fair Value of Currency-Hedged Commodity Contracts	<b>25,333,283</b>	<b>(42,457,647)</b>
Commodity Contracts at Fair Value	<b>276,343,230</b>	<b>185,294,440</b>

As at 31 December 2019, there were certain amounts of Commodity Contracts awaiting settlement in respect of the creation or redemption of Currency-Hedged Commodity Securities with transaction dates before the year end and settlement dates in the following year:

- The amount receivable on Commodity Contracts as a result of unsettled redemptions of Currency-Hedged Commodity Securities is USD 959,722 (2018: USD 501,209).
- The amount payable on Commodity Contracts as a result of unsettled creations of Currency-Hedged Commodity Securities is USD 846,512 (2018: USD 2,141,061).

The below reconciliation of changes in the Commodity Contracts includes only non-cash changes.

	Year ended 31 December	
	2019 USD	2018 USD
<b>Opening Commodity Contracts</b>	<b>185,294,440</b>	<b>420,691,340</b>
Additions	317,004,492	458,470,741
Disposals	(250,255,917)	(650,129,781)
Management Fee	(1,033,068)	(1,280,213)
Change in Fair Value	25,333,283	(42,457,647)
<b>Closing Commodity Contracts</b>	<b>276,343,230</b>	<b>185,294,440</b>

**7. Currency-Hedged Commodity Securities**

Whilst the Currency-Hedged Commodity Securities are quoted on the open market, the Company's liability relates to its contractual obligations to issue and redeem Currency-Hedged Commodity Securities at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAVs of each class of Currency-Hedged Commodity Security. Therefore, the actual contractual issue and redemption of Currency-Hedged Commodity Securities occur at a price that corresponds to gains or losses on the Commodity Contracts. As a result the Company has no net exposure to gains or losses on the Currency-Hedged Commodity Securities and Commodity Contracts.

The Company measures the Currency-Hedged Commodity Securities at their market value in accordance with IFRS 13 rather than their Contractual Value (as described in the Prospectus). The market value is deemed to be the prices quoted on stock exchanges or other markets where the Currency-Hedged Commodity Securities are listed or traded. However Commodity Contracts are valued based on the agreed formulae set out in the Prospectus.

The fair values and movements in unrealised gains/losses during the year based on prices available on the open market as recognised in the financial statements are:

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Net (Loss) / Gain Arising on Fair Value of Currency-Hedged Commodity Securities	<b>(25,058,692)</b>	<b>41,242,212</b>
Currency-Hedged Commodity Securities at Fair Value	<b>275,836,894</b>	<b>185,062,695</b>

The contractual redemption values and movements in unrealised losses/gains during the year based on the contractual settlement values are:

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Change in Contractual Redemption Value for the Year	<b>(25,333,283)</b>	<b>42,457,647</b>
Currency-Hedged Commodity Securities at Contractual Redemption Value	<b>276,343,230</b>	<b>185,294,440</b>

The gain or loss on the difference between the agreed Contractual Value of the Commodity Contracts and the market price of Currency-Hedged Commodity Securities would be reversed on a subsequent redemption of the Currency-Hedged Commodity Securities and cancellation of the corresponding Commodity Contracts.

The mismatched accounting values are as shown below and represent the non-statutory and non-GAAP adjustment presented in the Statement of Profit or Loss and Other Comprehensive Income:

	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
Net Gain / (Loss) Arising on Contractual and Fair Value of Currency-Hedged Commodity Contracts	25,333,283	(42,457,647)
Net (Loss) / Gain Arising on Fair Value of Currency-Hedged Commodity Securities	(25,058,692)	41,242,212
	<b>274,591</b>	<b>(1,215,435)</b>



**7. Currency-Hedged Commodity Securities (continued)**

As at 31 December 2019, there were certain Currency-Hedged Commodity Securities awaiting settlement in respect of creations or redemptions with transaction dates before the year end and settlement dates in the following year:

- The amount receivable as a result of unsettled creations of Currency-Hedged Commodity Securities is USD 846,512 (2018: USD 2,141,061).
- The amount payable as a result of unsettled redemptions of Currency-Hedged Commodity Securities is USD 959,722 (2018: USD 501,209).

The below reconciliation of changes in the Commodity Securities, being liabilities arising from financing activities, includes only non-cash changes.

	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
<b>Opening Currency-Hedged Commodity Securities</b>	<b>185,062,695</b>	<b>419,244,160</b>
Additions	317,004,492	458,470,741
Disposals	(250,255,917)	(650,129,781)
Management Fee	(1,033,068)	(1,280,213)
Change in Fair Value	25,058,692	(41,242,212)
<b>Closing Currency-Hedged Commodity Securities at Fair Value</b>	<b>275,836,894</b>	<b>185,062,695</b>

**8. Trade and Other Payables**

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
ManJer Fees Payable	<b>209,398</b>	<b>167,599</b>

The fair value of these payables is equal to the carrying value. The ManJer Fee Payable is due to be settled within 12 months of the year end.

**9. Stated Capital**

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>USD</b>	<b>USD</b>
2 Shares of Nil Par Value, Issued at GBP 1 Each and Fully paid	<b>3</b>	<b>3</b>

The Company can issue an unlimited capital of nil par value shares in accordance with its Memorandum of Association.

All Shares issued by the Company carry one vote per Share without restriction and carry the right to dividends. All Shares are held by WisdomTree Holdings Jersey Limited ("HoldCo"), formerly ETFs Holdings (Jersey) Limited.



## 10. Related Party Disclosures

Entities and individuals which have significant influence over the Company, either through ownership or by virtue of being a director of the Company are considered to be related parties. In addition, entities with common ownership to the Company and entities with common directors are also considered to be related parties.

*Fees charged by ManJer during the year:*

	Year ended 31 December	
	2019 USD	2018 USD
ManJer Fees	<u>1,192,061</u>	<u>1,456,002</u>

*The following balances were due to ManJer at year end:*

	Year ended 31 December	
	2019 USD	2018 USD
ManJer Fees Payable	<u>209,398</u>	<u>167,599</u>

At 31 December 2019, USD 3 is receivable from ManJer (2018: USD 3).

As disclosed in the Directors' Report, ManJer paid Directors' Fees in respect of the Company of GBP 16,000 (2018: GBP 9,315).

Steven Ross is, and Hilary Jones was until her resignation on 30 September 2019, a director of R&H Fund Services (Jersey) Limited ("R&H" or the "Administrator") and Steven Ross is a partner in Rawlinson & Hunter, Jersey Partnership, which wholly owns R&H. During the year, R&H charged ManJer administration fees in respect of the Company of GBP 36,796 (2018: GBP 32,924), of which GBP 9,796 (2018: GBP 6,250) was outstanding at the year end.

Gregory Barton, Peter Ziembra and Stuart Bell are executive officers of WisdomTree Investments, Inc.

## 11. Financial Risk Management

The Currency-Hedged Commodity Securities are subject to normal market fluctuations and other risks inherent in investing in securities and other financial instruments. There can be no assurance that any appreciation in the value of securities will occur, and the capital value of an investor's original investment is not guaranteed. The value of investments may go down as well as up, and an investor may not get back the original amount invested.

The Company is exposed to a number of risks arising from its activities. The information provided below is not intended to be a comprehensive summary of all the risks associated with the Currency-Hedged Commodity Securities and investors should refer to the most recent Prospectus for a detailed summary of the risks inherent in investing in the Currency-Hedged Commodity Securities. Any data provided should not be used or interpreted as a basis for future forecast or investment performance.

The risk management policies employed by the Company to manage these are discussed below.

### (a) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Company's receivables and payables are all payable on demand and generally settled on a short term basis. In addition, amounts in respect of the management fee and creation and redemption fees are transferred from the relevant counterparties directly to ManJer and there are no cash flows through the Company.

## **11. Financial Risk Management (continued)**

### *(a) Liquidity Risk (continued)*

The Currency-Hedged Commodity Securities do not have a contractual maturity date and will only be redeemed at the request of the holder of the security, with the right of refusal by the Company, or in the case of a compulsory redemption. Generally, only Security Holders who have entered into an authorised participant agreement with the Company ("Authorised Participant") can submit applications and redemptions directly with the Company.

Furthermore, there is no liquidity risk to the Company because the maturity profile of the Currency-Hedged Commodity Securities and Commodity Contracts are matched, therefore the Company does not have to wait for a longer-term contract to mature in order to pay its debts to ex-security holders. Furthermore, while the agreements with the Commodity Contract Counterparties include limits (both daily and in the aggregate) on the issue and cancellation of Commodity Contracts, the Company is not obliged to issue and redeem Currency-Hedged Commodity Securities in excess of those limits under the terms of the security agreement.

Consequently, the Company has not presented any tabular information in respect of liquidity risk.

### *(b) Credit Risk*

Credit risk primarily refers to the risk that Authorised Participants or the Commodity Contract Counterparty will default on its contractual obligations resulting in financial loss. A Security holder's ability to reclaim assets is equivalent to the assets realised by the Company, therefore limiting the credit risk of the Company in connection with the issue of the Currency-Hedged Commodity Securities. There are compulsory redemption provisions as outlined in the prospectus that can be triggered by the Company or the Commodity Contract Counterparties in certain circumstances whereby a compulsory redemption of all Currency-Hedged Commodity Securities in issue would be undertaken.

The total carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of Financial Position date. At the reporting date the Company's financial assets are detailed on the Statement of Financial Position.

The value of Currency-Hedged Commodity Securities and the ability of the Company to repay the redemption price is dependent on the receipt of such amount from the Commodity Contract Counterparties and may be affected by the credit rating attached to each Commodity Contract Counterparty. Currently the Company has two Commodity Contract Counterparties, Merrill Lynch International and Citigroup Global Markets Limited. At the reporting date the exposure to the Commodity Contract Counterparties was split approximately 87% and 13%.

In the event that a Commodity Contract Counterparty was to default, the Company would only transact with the non-defaulting Commodity Contract Counterparty. Furthermore, the Company could use the proceeds resulting from the sale of the collateral (see below) to transact with the non-defaulting Commodity Contract Counterparty to replacing the affected Commodity Contracts where possible.

To cover the credit risk under the Commodity Contracts, the Commodity Contract Counterparties are obliged to place an amount of collateral, equal to or greater than the exposure, into a pledge account with the custodian, based on the total outstanding value of the Commodity Contracts at the end of the previous trading day. The collateral held with the custodian is held in accounts in the names of the Commodity Contract Counterparties. In the event of default by a Commodity Contract Counterparty, the Company has rights which it can exercise over the collateral amounts placed in this pledge account. The realised value of the collateral may differ from the amount owed by the Currency Transaction Counterparty, as prices fluctuate intraday (i.e. from the last point the exposure and collateral were valued). Our collateral schemes apply strict margins and concentration limits to reduce the risk of such a loss, but do not completely remove it.

The Board monitors credit risk exposure in order to ensure the Company's exposure is managed. The collateral pledged with the custodian is re-assessed on a daily basis to ensure that the eligibility criteria for the collateral continues to be met on a daily basis. Should the quality of the underlying collateral change on any day, it is removed from the collateral account and replaced with collateral that meets the existing criteria.

Collateral has continued to be managed in this way throughout the current period and no changes to the eligibility criteria have been made or considered necessary in respect of the potential impact of, or developments relating to the spread of COVID-19, which is fluid and rapidly changing.

**11. Financial Risk Management (continued)***(c) Settlement Risk*

Settlement risk primarily refers to the risk that an Authorised Participant or the Commodity Contract Counterparty will default on its contractual obligations resulting in financial loss.

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash or Currency-Hedged Commodity Securities on the settlement date. The directors feel that this risk is mitigated as a result of the cash or Currency-Hedged Commodity Securities settling through the CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their contractual obligations.

Amounts outstanding in respect of positions yet to settle are disclosed in notes 6 and 7.

*(d) Sensitivity Analysis*

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the Company is exposed to at the reporting date, showing how comprehensive income and equity would have been affected by a reasonably possible change to the relevant risk variable.

The Company's rights and liabilities in respect of Commodity Contracts and Currency-Hedged Commodity Securities, respectively, relates to its contractual obligations to issue and redeem Currency-Hedged Commodity Securities at set prices on each trading day. As a result the Company's contractual and economic liability in connection with the issue and redemption of Currency-Hedged Commodity Securities is matched by movements in corresponding Commodity Contracts. Consequently, the Company does not have any net exposure to market price risk. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

*(e) Capital Management*

The primary objective of the Company's capital management policy is to ensure that it maintains sufficient resources for operational purposes. The capital being managed are the Stated Capital and Retained Earnings reserve, as presented in the Statement of Changes in Equity. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company's approach to capital management during the year.

The Company's principal activity is the listing and issue of Currency-Hedged Commodity Securities. These Currency-Hedged Commodity Securities are issued and redeemed as demand requires. The Company holds a corresponding amount of Commodity Contracts which matches the total liability of the Currency-Hedged Commodity Securities issued. ManJer supplies or arranges for the supply of all management and administration services to the Company and pays all management and administration costs of the Company. In return for these services the Company pays ManJer a fee, which under the terms of the service agreement is equal to the aggregate of the management fee, licence allowance and creation and redemption fees earned.

As all Currency-Hedged Commodity Securities in issue are supported by an equivalent amount of Commodity Contracts held with the Commodity Contract Counterparties and the running costs of the Company are paid by ManJer, the directors of the Company consider the capital management and its current capital resources are adequate to maintain the on-going listing and issue of Currency-Hedged Commodity Securities.

## 11. Financial Risk Management (continued)

### (f) Market Risk

Market risk is the risk that changes in market prices (such as foreign exchange rates, interest rates and equity prices) will affect the Company's income or the value of its financial instruments held or issued.

#### i) Price Risk

The value of the Company's liability in respect of the Currency-Hedged Commodity Securities fluctuates according to the performance of the underlying commodity indices and the risk of such change in price is managed by the Company by entering into Commodity Contracts with the Commodity Contract Counterparties which match the liability. The Company therefore bears no financial risk from a change in the price of a commodity, commodity index or currency by reference to the futures price. Refer to note 7 for the further details regarding fair values.

However there is an inherent risk from the point of view of investors as the price of commodities, and thus the value of the Currency-Hedged Commodity Securities, may vary widely due to, amongst other things, changing supply or demand, government and monetary policy or intervention and global or regional political, economic or financial events.

#### *Coronavirus disease (COVID-19)*

On 11 March 2020, the Director-General of the World Health Organisation ("WHO") announced that the WHO had assessed the worldwide outbreak of COVID-19 as a pandemic. National governments and supranational organisations in multiple states have taken steps designed to protect their populations from COVID-19, including requiring or encouraging home working, the cancellation of sporting, cultural and other events and restricting or discouraging gatherings of people.

COVID-19 has created market turmoil and increased market volatility generally. The steps outlined above, and public sentiment, may affect both the volatility and prices of commodities and hence the prices of the Securities, and such effects may be significant and may be long-term in nature.

The directors are closely monitoring the advice and developments relating to the spread of COVID-19, which is fluid and rapidly changing

The market price of Currency-Hedged Commodity Securities is (and will remain) a function of supply and demand amongst investors wishing to buy and sell Currency-Hedged Commodity Securities and the bid-offer spread that the market makers are willing to quote. This is highlighted in note 7, and below under the Fair Value Hierarchy.

#### ii) Interest Rate Risk

The multiplier used in the pricing of the Commodity Contracts or the Currency-Hedged Commodity Securities takes into account the incremental capital enhancement component of the Currency-Hedged Commodity Security, which includes the impact of interest rates. This incremental capital enhancement component of the Commodity Contracts and Currency-Hedged Commodity Securities is attributable to the security holder. As a result the Company does not have significant exposure to interest rate risk.

#### iii) Currency Risk

The Company has exposure to currency risk as the Currency-Hedged Commodity Securities are priced in US Dollars and hedged against exchange rate movements between the US Dollar, Australian Dollar, Euro and Pound Sterling. However, the directors do not consider the Company to have a significant exposure to currency risk arising from the current economic uncertainties facing a number of countries around the world as the gains or losses on the liability represented by the Currency-Hedged Commodity Securities are matched economically by corresponding losses or gains attributable to the Commodity Contracts.

# 11. Financial Risk Management (continued)

## (g) Fair Value Hierarchy

The levels in the hierarchy are defined as follows:

- Level 1 fair value based on quoted prices in active markets for identical assets.
- Level 2 fair values based on valuation techniques using observable inputs other than quoted prices.
- Level 3 fair values based on valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The Company is required to utilise the available market price as the Currency-Hedged Commodity Securities are quoted and traded on the open market. Where the market on which the Currency-Hedged Commodity Securities prices are quoted is determined to be active at the relevant reporting date, the Currency-Hedged Commodity Securities are classified as level 1 financial liabilities. Where the market on which the Currency-Hedged Commodity Securities prices are quoted is determined to be inactive at the relevant reporting date, the Currency-Hedged Commodity Securities are classified as level 2 financial liabilities. The Company values the Level 2 Currency-Hedged Commodity Securities using the unadjusted market price available at each reporting date. This is considered to most appropriately reflect the price at which transactions would occur as at the reporting date.

The Company's rights in respect of Commodity Contracts relate to its contractual obligations to issue and redeem Currency-Hedged Commodity Securities at set prices on each trading day. These prices are based on an agreed formula (set out in the Prospectus), and are equal to the published NAVs of each class of Currency-Hedged Commodity Security. Therefore, Commodity Contracts are classified as level 2 financial assets, as the value is calculated using third party pricing sources supported by observable, verifiable inputs.

The categorisation of the Company's assets and (liabilities) are as shown below:

	Fair Value as at 31 December		
	2019	Restated	As Reported
	USD	2018	2018
		USD	USD
<b>Level 1</b>			
Currency-Hedged Commodity Securities	(272,348,111)	(171,709,071)	(185,062,695)
<b>Level 2</b>			
Currency-Hedged Commodity Securities	(3,488,784)	(13,353,624)	-
Commodity Contracts	276,343,230	185,294,440	185,294,440
	<b>272,854,446</b>	<b>171,940,816</b>	<b>185,294,440</b>

The Currency-Hedged Commodity Securities and the Commodity Contracts are recognised at fair value through profit or loss upon initial recognition in line with the Company's accounting policy. There are no assets or liabilities classified in level 3. Transfers between levels would be recognised if there was a change in the accounting policies adopted, or should there be changes in circumstances that prevented public information in respect of Level 1 inputs from being available. Any such transfers would be recognised on the date of the change in circumstances that cause the transfer. Transfers between levels may also be recognised if the primary market on which the Currency-Hedged Commodity Securities prices are quoted was determined to be inactive at the relevant reporting date. The Company considers both the last trade date and trading volumes during the 5 trading days leading up to each reporting date to determine if the market for a particular Currency-Hedged Commodity Security is active. Transfers as a result of the analysis of the activity levels of the market are identified and recognised at each reporting date.



## **11. Financial Risk Management (continued)**

### *(g) Fair Value Hierarchy (continued)*

During the year, the Company reassessed the market activity of the Currency-Hedged Commodity Securities applying the described policy, and re-presented the values for the purposes of the Fair Value Hierarchy above. As a result of the reassessment of market activity levels for Currency-Hedged Commodity Securities in issue \$13,353,624 was transferred from Level 1 to Level 2 as at 31 December 2018. As at 31 December 2019 Currency-Hedged Commodity Securities with a fair value of \$3,023,389 were transferred from Level 1 to Level 2, and Currency-Hedged Commodity Securities with a fair value of \$12,297,909 were transferred from Level 2 to Level 1.

## **12. Ultimate Controlling Party**

In accordance with the disclosure requirements of IFRS the directors have determined that no entity meets the definition of immediate parent or ultimate controlling party. The holder of issued equity shares is HoldCo, a Jersey registered company. WisdomTree Investments, Inc is the ultimate controlling party of HoldCo.

The value of the Commodity Contracts backing the Currency-Hedged Commodity Securities is wholly attributable to the holders of the Currency-Hedged Commodity Securities.

## **13. Events Occurring After the Reporting Period**

On 11 March 2020, the WHO assessed the worldwide outbreak of COVID-19 as a pandemic. COVID-19 has created market turmoil and increased market volatility generally. In particular, as a result of the market turmoil, on 20 April 2020 the price of Crude Oil WTI futures traded at negative prices.

On 24 April 2020, Bloomberg announced a change to the Roll Period for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>. According to the announcement from Bloomberg, the Roll Period for changing the Lead Future from July to September for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup> was scheduled to take place in June 2020. Bloomberg has announced that this Roll Period will now take place in May 2020, a month earlier than scheduled. Beginning on 8 May 2020 and ending on 14 May 2020, Bloomberg will roll the Designated Month Contract for the Lead Future from July to September for the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>.

Following an analysis of the potential impact of the price of Crude Oil WTI futures, the Company decided that a significant increase in the number of relevant Currency-Hedged Commodity Securities in issue may impact on the Commodity Contract Counterparties' ability to hedge the exposure under the relevant Commodity Contracts in these particularly volatile markets. Having regard to the interests of existing Security Holders in the relevant Currency-Hedged Commodity Securities, rather than potential future Security Holders, a decision was made to focus the attention of the Commodity Contract Counterparties on providing (and hedging) the current exposures rather than taking on additional exposures during this volatile period. As a result, on 4 May 2020 the Company released an announcement to the Stock Exchanges that with effect from 2.30pm (London) the Company would temporarily no longer accept applications from Authorised Participants for new Currency-Hedged Commodity Securities of the following classes:

- WisdomTree WTI Crude Oil - EUR Daily Hedged (Ticker: ECRD, ISIN: JE00B44F1611); and
- WisdomTree WTI Crude Oil - GBP Daily Hedged (Ticker: PCRD, ISIN: E00B6RV6N28).

The two classes of Currency-Hedged Commodity Securities named above collectively being the "Affected Securities". The Affected Securities each provide exposure to the Bloomberg WTI Crude Oil Sub-Index<sup>SM</sup>.

**13. Events Occurring After the Reporting Period (continued)**

The number of securities in issue and their values in respect of the Affected Securities are as shown below:

	<b>As at 1 May 2020</b>		<b>As at 31 December 2019</b>	
	<b>Securities In Issue</b>	<b>Value USD</b>	<b>Securities In Issue</b>	<b>Fair Value USD</b>
WisdomTree WTI Crude Oil - EUR Daily Hedged	95,268,508	73,235,146	6,030,933	18,950,156
WisdomTree WTI Crude Oil - GBP Daily Hedged	15,919,111	14,645,461	397,111	1,507,312
		<b>87,880,607</b>		<b>20,457,468</b>

As at 1 May 2020, the Affected Securities represented 41.2% of the Fair Value of the Currency-Hedged Commodity Securities issued by the Company (31 December 2019: 7.4%).

Whilst the Company is currently not accepting applications in the Affected Securities, the Company is continuing to accept redemptions in the Affected Securities, and trading of the Affected Securities on Stock Exchanges continues. As described in note 11, the market price of Currency-Hedged Commodity Securities is a function of supply and demand amongst investors wishing to buy and sell Currency-Hedged Commodity Securities and the bid-offer spread that the market makers are willing to quote. The action taken by the Company directly impacts the supply of those Affected Securities and therefore may impact the market price.

The Company is continually assessing the market conditions and will make a further announcement in due course when Applications in the Affected Securities will be accepted again. As a result of the continuing assessment of market conditions, the Company may be required to react to external events that could potentially impact other Currency-Hedged Commodity Securities in issue.

Whilst it is not currently possible to predict future market conditions and therefore determine if any further action may be required, the action that may be required includes, but is not limited to, temporarily not accepting applications for Currency-Hedged Commodity Securities, temporarily suspending Currency-Hedged Commodity Securities from trading on Stock Exchanges or a Compulsory Redemption of Currency-Hedged Commodity Securities. Other than the actions outlined above, the Company has not initiated any of these further actions to date. Any such action will be undertaken in accordance with the constitutive documents of the Currency-Hedged Commodity Securities. Furthermore, there are mechanisms within the constitutive documents of the Currency-Hedged Commodity Securities that enable the Counterparties to request a Compulsory Redemption in certain circumstances as set out and explained within the prospectus.

No other significant events have occurred since the end of the reporting period up to the date of signing the Financial Statements which would impact on the financial position of the Company disclosed in the Statement of Financial Position as at 31 December 2019 or on the results and cash flows of the Company for the year ended on that date.



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