

30 November 2018

Following recent volatility in the natural gas futures market, and with our constant focus on investors' education, we thought it would be opportune to summarise some relevant key points.

This note includes important factual information regarding the underlying mechanics of these products and the indices they are designed to track, and a worked example to provide some context during some of the most volatile days in November 2018.

The importance of an ETP's Net Asset Value (NAV) vs the 'last price' on exchange

- + The NAV of an Exchange Traded Product (ETP) is the value of its assets minus its liabilities. It is calculated once per trading day. The time of day that the NAV is struck depends on the underlying asset or index that the ETP tracks.
- + The NAV is used to compare the performance of different ETPs, as well as for accounting purposes.
- + When analysing the daily performance of any ETP, it is important to consider the NAV of a product, rather than simply looking at the 'last price', or the current market price being offered on a particular exchange by market participants.
- + The 'last price' will only show the last price at which the product traded on that exchange which is likely to be different from the product NAV and is not an accurate figure to use for comparing a product's performance vs its underlying asset or index.

BOOST NATURAL GAS 3X SHORT DAILY ETP (3NGS)

NAV timing, commodity indices, and leverage

- + The NAV is set at 20:30 CET when settlement prices of the underlying futures contracts are set, thereby providing the closing level of the NASDAQ Commodity Natural Gas Excess Return index which the product tracks
- + 3NGS is designed to provide -3 times the price movement of the underlying index from the closing level on one day to the next. Every time the NAV is struck, it should reflect -3 times the value of the NASDAQ Commodity Natural Gas Excess Return index from the previous day's NAV point.
- + The leverage resets on a daily basis at 20:30 CET in line with the corresponding futures settlement.

Borsa Italiana: Overnight exposure & price evolution

- + Although trading on Borsa Italiana ceases at 17:30 CET, this does not mean the value of securities listed there do not change during the night.
- + If you look at the prices of any listed equity, you'll notice that the opening price of a given day will be different to the closing price of the previous day. This is due to overnight changes in the price of the security.
- + This means that investors holding 3NGS overnight will be fully exposed to any overnight price movements if they hold their position from one day to the next.

Closing prices on Borsa Italiana

- + The level displayed as the closing price by Borsa Italiana will be the price that 3NGS was trading at 17:30 CET. This price is the market price, which is a reflection of the fair value of the security at that time and does not reflect the NAV.
- + When reviewing the performance of 3NGS vs the performance of Natural Gas or the underlying index, it's important to remember that all three of these are valued at 20:30 CET (the time of the futures settlement price for Natural Gas). Therefore, comparing these values to the closing level on Borsa Italiana will result in breakdown of the performance relationship due to the 3hr time difference.

Example:

- + Like Natural Gas, 3NGS is based in US Dollars, regardless of which currency listing investors choose to trade.
- + This means that a Euro-based investor's total returns will always be affected by changes in the EUR/USD exchange rate when investing in 3NGS.
- + The table below compares the NAV of 3NGS and its underlying index at the valuation point (20:30 CET) over a three day period in November:

Note: all values in USD.

Date	3NGS NAV (20:30 CET)	NASDAQ Commodity Natural Gas ER Index (20:30 CET)
13/11/2018	\$9.3070	\$295.53
14/11/2018	\$4.2507	\$349.05
15/11/2018	\$6.4764	\$288.12
16/11/2018	\$5.2848	\$305.79

Date	3NGS NAV (20:30 CET)	NASDAQ Commodity Natural Gas ER Index (20:30 CET)	Implied Leverage
14/11/2018	-54.33%	18.11%	-3
15/11/2018	-52.36%	-17.46%	-3
16/11/2018	-18.40%	6.13%	-3

Source: Bloomberg **For illustration purposes only.**

- + Over these three days, 3NGS achieved its stated objective: to provide -3 times of the price movement of the underlying index from the closing level on one day to the next.

Short & Leveraged ETP Returns

- + Leveraged products like 3NGS require the underlying exposure to be reset daily.
 - + This daily reset subjects the product's performance to a compounding effect whereby gains and losses are added to the base from which the next period's returns are calculated.
 - + In other words, because short and leveraged ETPs, like 3NGS, reset on a daily basis, the size and direction of market movements will impact returns if held for longer than a period of one day.
 - + Therefore, only sophisticated investors who are able to monitor their positions during the day should invest in short and leveraged ETPs.
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WisdomTree has produced educational guides focusing on the structure and design of ETPs:

- + ETPedia – our educational guide to ETPs
- + Short & Leveraged Guide – focusing on short & leveraged products [marketing providing Italian web link to the S&L guide]

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