

# GDMN: THE EFFICIENT ALTERNATIVE

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With historically low global [interest rates](#) but high [inflation](#), investors are seeking portfolio diversifiers to [hedge](#) macro risks—allocating to gold and gold miners may be well-suited as a short- and long-term solution.

Today, WisdomTree launched the [WisdomTree Efficient Gold Plus Gold Miners Strategy Fund \(GDMN\)](#) as a key addition to our Efficient Family of ETFs. GDMN is a unique strategy that blends gold futures and gold miners equities to seek to extract the best traits from both asset classes to help investors diversify and hedge macroeconomic risks.

## The Case for Comprehensive Gold Exposure

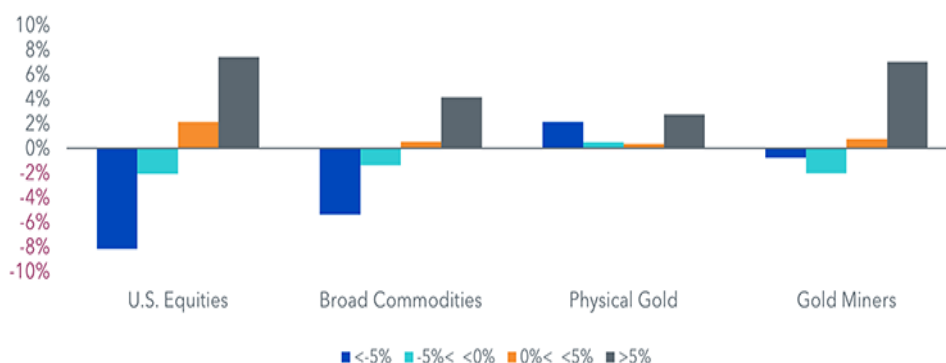
Investors often allocate to gold during cycles of turbulence as a tactical move to hedge against financial, geopolitical or inflation risks.

During the 20 worst quarters for the [S&P 500 Index](#), gold outperformed by an average of 18.2%.<sup>1</sup> In Q1 2020, during the onset of the COVID-19 pandemic, gold returned +6.22% compared to -19.6% for the S&P 500 Index.<sup>2</sup>

Gold is not just a defensive asset class. It has performed well across multiple cycles, specifically during periods of strong economic activity with high inflation. During expansionary periods, gold has served as an inflation hedge, with gold price appreciation often coinciding with economic growth.

Gold miners have been a disappointing investment over the last two decades, with high volatility and subpar returns, but the rise in gold prices is improving the outlook for gold miners' profitability. Importantly, gold miners also offer attractive dividend yields amid the backdrop of a rising rate environment. The characteristics of gold miners are between equities and gold—they have historically been more highly correlated with equities than gold, but their exposure has dampened drawdowns relative to equities and boosted positive performance relative to gold.

## Asset Performance Across Equity Market Cycles (2004-2021)



Sources: The above chart shows average performance over distinct equity market cycles, including cycles where equities return below -5%, between -5% and 0%, between 0% and 5%, and above 5%. WisdomTree, Bloomberg, S&P, K. French Library, from September 2004 to October 2021. Calculations are based on monthly returns in U.S. dollars. U.S. Equities are represented by the S&P 500 Gross Total Return Index; Broad Commodities are represented by the Bloomberg Commodity Index; Physical Gold is represented by the LBMA Gold Price PM Index; and Gold Miners are represented by gold and silver mining companies as defined by K. French in his data library.

## Efficient Access to Comprehensive Gold Exposure – The WisdomTree Approach

Historically, there are multiple ways to access exposure to gold: physical gold or gold futures and businesses that focus on gold mining activities.

Investors [bullish](#) on gold will often allocate to both the physical precious metal and the equities of miners in separate trades to get comprehensive exposure to the metal. *This approach requires two separate outlays of capital.*

Recognizing the capital intensity of this approach, WisdomTree launched the [WisdomTree Efficient Gold Plus Gold Mine](#)

rs Strategy Fund (GDMN). [GDMN](#) is a capital-efficient investment strategy that provides exposure to a modified [market capitalization-weighted basket](#) of global gold miners with gold [futures](#) exposure stacked on top.

This “return stacking” framework seeks to provide exposure to two separate allocations, to gold and gold miners, in a single trade with better capital efficiency.

Our strategy construction is simple. For every \$100, the Fund seeks to invest approximately \$90 in the gold miners’ basket and \$90 in gold futures, for \$180 of total gold-oriented exposure.



#### Pure-Play Gold Miners Equity Basket

- Global universe
- Companies deriving 50% or more of their revenue from Gold Mining activities
- Market capitalization-weighted
- \$90 invested in equity exposure for every \$100 invested



#### Gold Futures

- U.S. listed gold futures contracts
- \$90 of gold futures overlay the \$90 of equity exposure and \$10 of cash collateral



#### Cash Collateral

- Invested in high-quality, short-term U.S. money market securities
- \$10 is kept in short-term collateral that earns returns comparable to U.S. Treasury bills.



#### Leverage

- Accounting leverage<sup>1</sup> of 1.8x

Source: WisdomTree

<sup>1</sup> Accounting leverage refers to the fact that the total asset exposure of the strategy is enhanced to 1.8x. Enhancing or magnifying gains and losses and causing the Fund to be more volatile than if it had not been leveraged and entails a heightened risk of loss.

### GDMN – The Efficient Alternative

The WisdomTree house view calls for elevated inflation levels over the coming 3–5 years, and gold is one commodity that could provide a valuable inflation hedge. [GDMN](#) offers the potential to enhance overall risk exposures in portfolios with macro and inflation hedges.

Most importantly, [GDMN](#) seeks to provide comprehensive exposure to gold in an innovative and capital-efficient manner. [GDMN](#) offers exposure to both gold and gold miners in a single strategy that requires less capital than would be needed to purchase gold, and gold equities or gold miner ETFs, in two separate transactions.

<sup>1</sup> Sources: WisdomTree, Bloomberg. In U.S. dollars. Data for the period December 31, 1967, to October 31, 2021, using quarterly data. Gold is proxied by the LBMA Gold Price PM Index, and the S&P 500 is proxied by the S&P 500 Gross Total Return Index. Past performance is not indicative of future results. You cannot invest directly in an index.

<sup>2</sup> Sources: WisdomTree, Bloomberg. In U.S. dollars. Data for the period December 31, 2020, to March 31, 2021, using quarterly data. Gold is proxied by the LBMA Gold Price PM Index, and the S&P 500 is proxied by the S&P 500 Gross Total Return Index. Past performance is not indicative of future results. You cannot invest directly in an index.

#### Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment losses.

There are risks associated with investing, including possible loss of principal. The Fund is actively managed and invests in U.S.-listed gold futures and global equity securities issued by companies that derive at least 50% of their revenue from the gold mining business (“Gold Miners”). The Fund’s use of U.S.-listed gold futures contracts will give rise to leverage, magnifying gains and losses and causing the Fund to be more volatile than if it had not been leveraged. Moreover, the price movements in gold and gold futures contracts may fluctuate quickly and dramatically, have a historically low correlation with the returns of the stock and bond markets. By investing in the equity securities of Gold Miners, the Fund may be susceptible to financial, economic, political, or market events that impact the gold mining sub-industry, including commodity prices and the success of exploration projects. The Fund may invest a significant portion of its assets in the securities of companies of a single country or region, including emerging markets, and thus, the Fund is more likely to be impacted by events and political, economic, or regulatory conditions affecting that country or region, or emerging markets generally. The Fund’s investment strategy will also require it to redeem shares for cash or to otherwise include

cash as part of its redemption proceeds, which may cause the Fund to recognize capital gains. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

**Related Funds**

- + [WisdomTree U.S. Efficient Core Fund](#)
- + [WisdomTree International Efficient Core Fund](#)
- + [WisdomTree Emerging Markets Efficient Core Fund](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

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You cannot invest directly in an index.

## **DEFINITIONS**

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.

**Inflation** : Characterized by rising price levels.

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**S&P 500 Index** : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Bullish** : a position that benefits when asset prices rise.

**Market capitalization-weighting** : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Baskets** : The composition of an ETF in terms one creation/redemption unit.

**Futures/Futures Contract** : Reflects the expected future value of a commodity, currency or Treasury security.