

# Commodity exposure the smart way

Published May 31, 2024

## Luca Berlanda

Associate Director, Quantitative Research at WisdomTree in Europe

## Key Takeaways

- Broad commodities, led by precious metals, have rebounded strongly since March 2024, fuelled by geopolitical tensions and disruptions in oil supply.
  - Precious and industrial metals have shown resilience amidst global economic recovery and manufacturing growth, supported by tight supply chains.
  - Launched in 2021, the WisdomTree Broad Commodities UCITS ETF (PCOM) has been designed to give investors smart exposure to commodities by incorporating physical gold and silver.
  - Physical precious metals consistently outperformed their synthetic counterpart. As a result, PCOM showed a consistent overperformance against its main competitors, contributing notably to its enhanced returns.
- 
- [Related Products WisdomTree Broad Commodities UCITS ETF – USD Acc Find out more](#)

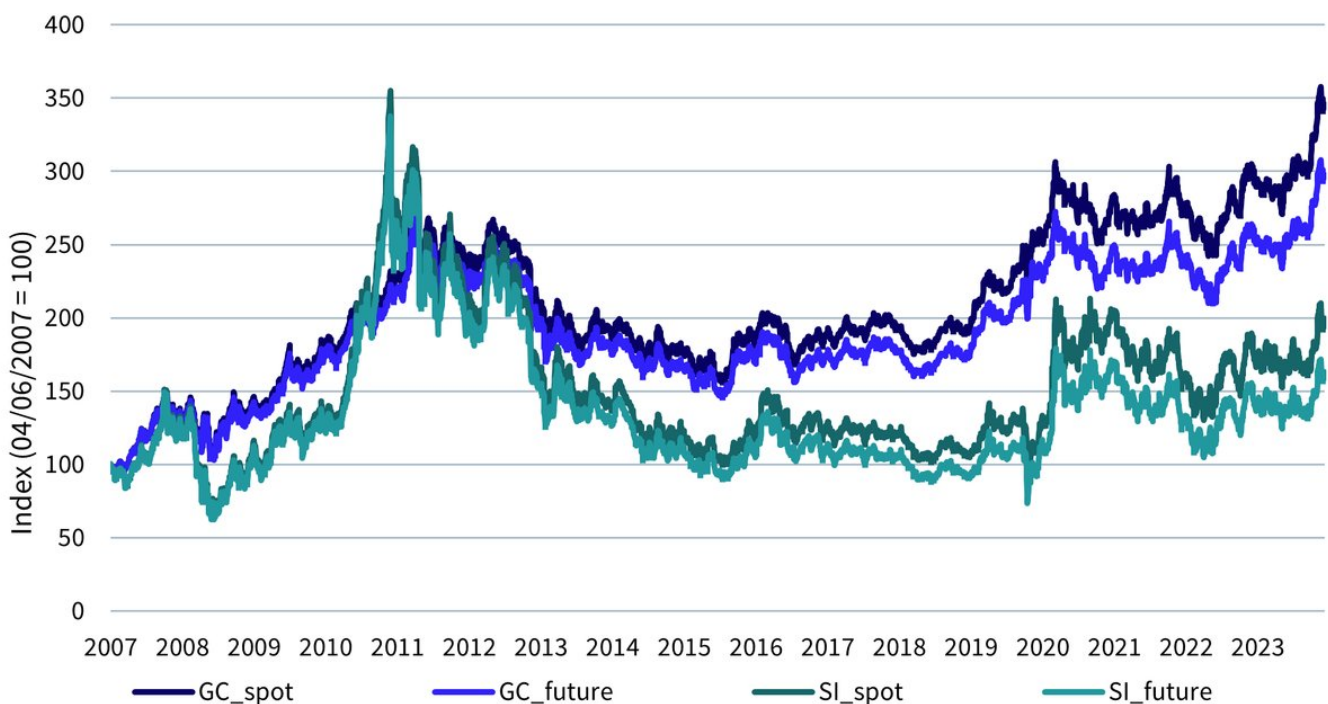
Broad commodities have had a renaissance moment since the middle of March 2024, wiping out the prior six-months of losses. The rebound has been led by precious metals but has been joined by industrial metals and energy. Elevated geopolitical risks have propelled gold to an all-time high. The escalating war between Israel and Iran threatens to disrupt the flow of oil over and above the disturbances around the Red Sea, which has driven a premium in oil prices. While the geopolitical tensions have hurt other cyclical assets, like equities, commodity prices have proven to be resilient given that the tensions threaten their supply.

Silver has followed on gold's coattails higher. A resilient global economy where manufacturing appears to be making a rebound has certainly helped silver, as well as industrial metals. Industrial metal producers have reacted to prior weak prices by decelerating capital expenditure and, in some cases, closing production. Several nickel producers in Australia, for example, have shut down operations. Copper smelters in China have coordinated to reduce production amid a lack of ore availability. The visible signs of tightness are helping metal prices form a base and rise from it. The contango in gold and silver remains stable, despite the signs of metal tightness. That is partly because the above-ground stock (including investment in bullion) is large.

## A smart exposure to precious metals

In 2021 WisdomTree launched a product with the aim of offering an enhanced way to get exposure to commodities: the [WisdomTree Broad Commodities UCITS ETF \(PCOM\)](#). Offering an innovative solution, this ETF is designed for investors seeking to improve their commodities performance while minimising tracking errors against the Bloomberg Commodity Total Return Index (BCOMTR Index). PCOM's proposition is simple. It replaces the synthetic gold and silver exposure of the Bloomberg Commodity Index (BCOM) with a physical one. Operationally, the fund combines a synthetic exposure to the ex-precious metals' component of the Bloomberg Commodity Index and a physical exposure to gold and silver through investments in physically backed ETPs. Find out more about the structure of the product in [our blog](#).

## Figure 1: The physical premium



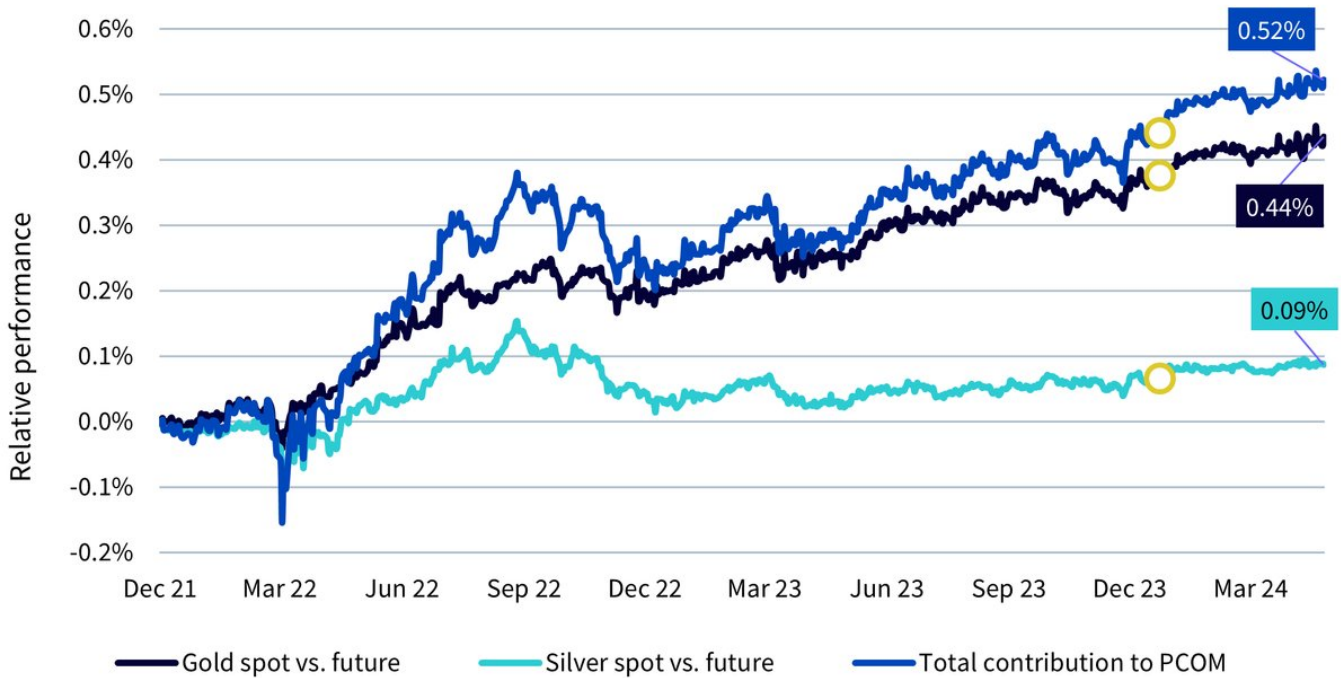
Source: Bloomberg, WisdomTree. Start date: 04/06/2007; end date: 30/04/2024. **Historical performance is not an indication of future results and any investments may go down in value.**

In our [previous analysis](#), we showed how, over the past 15 years, a gold and silver physical investment would have outperformed its synthetic counterpart and did so consistently. Figure 1 shows the historical outperformance of the spot price of gold and silver compared to a fully-funded synthetic exposure for investment. Since 2007, physical gold and silver consistently outperformed synthetic gold and silver, and they did so across very different market regimes. The historical physical overperformance has been, on average, +0.96% for gold and +1.28% for silver, which maps to an additional performance for PCOM of roughly 17 bps per year<sup>1</sup>.

But what about the performance since the launch of the ETF? As shown in Figure 2, the enhancement added 52 bps to the product performance, which is in line (and even slightly better) with what our previous

analysis suggested. That seldom happens in the investment world, where investment strategies often 'fail to replicate' out of sample.

## Figure 2: The physical enhancement



Source: Bloomberg, WisdomTree. Start date: 03/12/2021; end date: 30/04/2024. The yellow dot represents the beginning of 2024. **Historical performance is not an indication of future results and any investments may go down in value.**

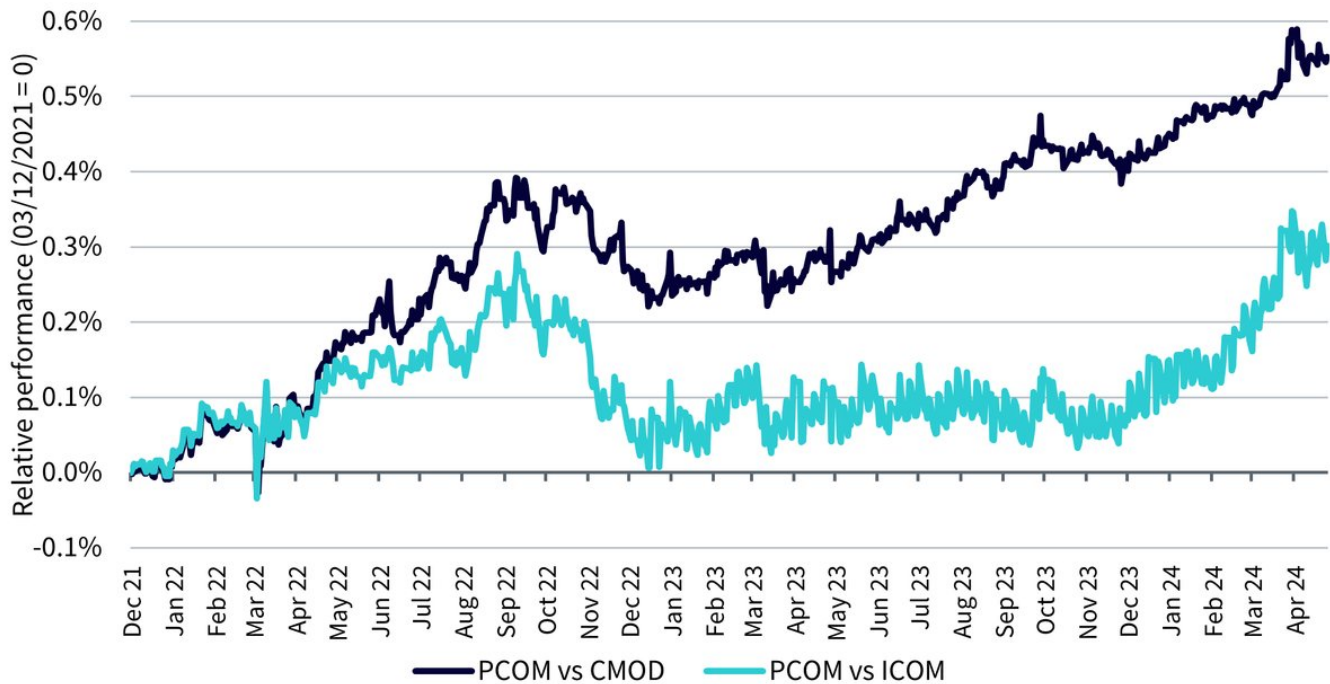
## PCOM vs. competitors

This translated into an overperformance of PCOM vs its two main competitors by assets under management (AUM), namely:

- The iShares Diversified Commodity Swap UCITS ETF (ICOM)
- The Invesco Bloomberg Commodity UCITS ETF (CMOD)

Unlike PCOM, these two “traditional” products invest in a fully futures-based basket of commodities tracking the Bloomberg Commodity Index. Figure 3 shows the relative performance of PCOM vs ICOM and CMOD.

## Figure 3: PCOM vs competitors



Source: Bloomberg, WisdomTree. Start date: 03/12/2021; end date: 30/04/2024. **Historical performance is not an indication of future results and any investments may go down in value.**

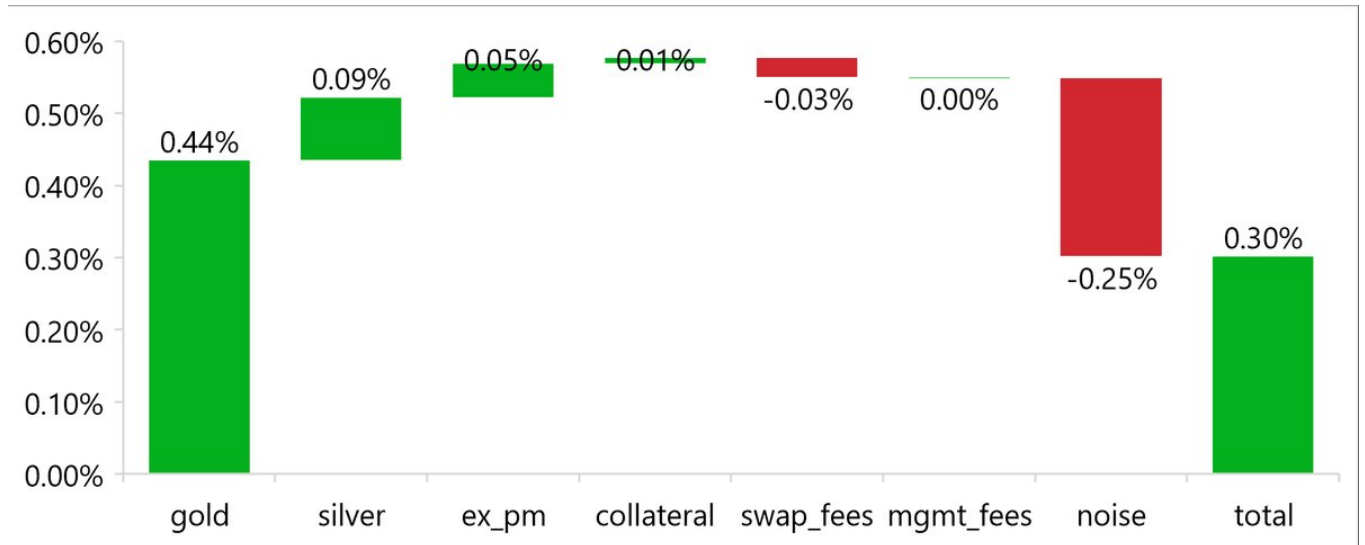
With the exception of the last quarter of 2022, PCOM's overperformance compared to its two main competitors has been fairly steady, particularly with respect to CMOD. Specifically, the relative performance vs. CMOD mirrors the total cumulative enhancement that substituting synthetic precious metals with physical ones was supposed to bring. This suggests that the investment insight brought forward in the previous paragraph is actually well implemented in PCOM. To see further how, let's take a look at the split of this relative performance.

Figures 4 and 5 show, to the best of our knowledge, the (dollar) performance attribution of PCOM's performance vs. CMOD and ICOM, respectively. The comparison assumes that the collateral of the three ETFs is the same. It starts at PCOM's inception (03/12/2022) and ends at 30/04/2024.

The biggest source of performance is spot gold, which added roughly 45 basis points (bps) to the relative performance. Then silver, +9 bps. The swap fees differential added 14 bps for CMOD and detracted 3 bps for ICOM2. To conclude, the ex-precious metals component detracted 10 bps.

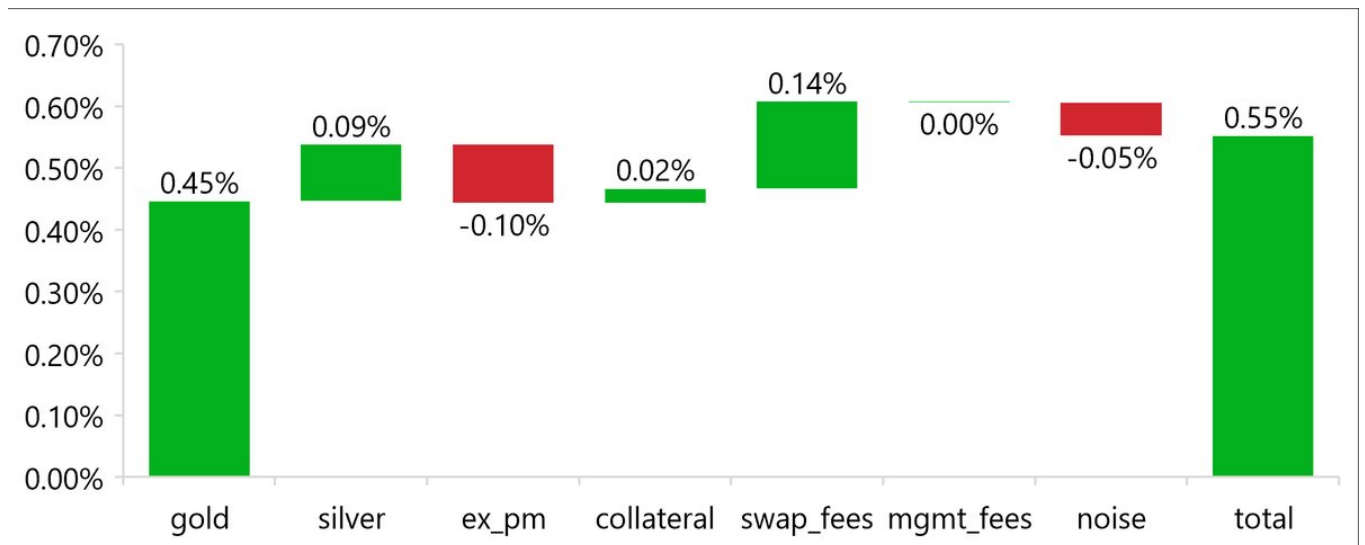
So, we would expect roughly 60 bps of outperformance for CMOD and 55 bps for ICOM. The actual number though, stands at a slightly lower mark, how it is represented by the last "noise" bar. The overperformance is still very strong: **55 bps overperformance vs CMOD and 30 bps overperformance vs ICOM.**

## Figure 4: PCOM vs ICOM



Source: Bloomberg, WisdomTree. Start date: 03/12/2021; end date: 30/04/2024. **Historical performance is not an indication of future results and any investments may go down in value.**

### Figure 5: PCOM vs CMOD



Source: Bloomberg, WisdomTree. Start date: 03/12/2021; end date: 30/04/2024. **Historical performance is not an indication of future results and any investments may go down in value.**

In the analysis above we assumed that PCOM and its competitors share the same collateral<sup>3</sup>, so we can guess that some, if not most, of the unexplained performance of this “noise” component comes from a different collateral performance. Two of the reasons for different collateral performances are:

1. Securities lending<sup>4</sup>: Where collateral securities are lent out in exchange for a fee.

2. Collateral composition, and, in particular, duration: Over the last two years, the shorter the duration of the collateral, the better the collateral would have performed.

In general, we think it prudent not to engage in securities lending to avoid unnecessary counterparty risk, and we try to keep the collateral of the products as plain as possible. The conclusion is clear: **replacing futures-based silver and gold with physical precious metals enhances performance.**

## Conclusion

Despite geopolitical tensions, broad commodities have rebounded since March 2024, driven by precious metals, industrial metals, and energy. The primary objective of PCOM is to outperform BCOM and BCOM's trackers over the long term by enhancing performance using physical precious metals instead of getting synthetic exposure. Consistently with our historical analysis, the ETF is hitting its target: physical gold and silver outperform their synthetic counterparts, and PCOM has consistently beat BCOM's tracker since its launch.

1 This number takes into account the weight of Gold and Silver within the BCOM index

2 PCOM pays 12 bps swap fee only on the ex-precious metals portion of the portfolio. For ICOM, the weighted average swap fee is reported to be 8.77 bps.

3 The "dollar attribution" methodology can give rise to a non-zero contribution even if the underlying performance is the same. That's why, even if we assumed the same performance for the collateral, the contribution is slightly positive. The same applies for the ex-precious metals component.

4 As reported on iShares website, ICOM engages in securities lending on their collateral.

## Important Risks Related to this Article

### IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.**

An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

### **WisdomTree Issuer ICAV**

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as

an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

### **WisdomTree Broad Commodities UCITS ETF**

"Bloomberg®" and the Bloomberg Commodity Index(es)<sup>SM</sup> referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by WisdomTree UK Limited and its permitted affiliates including WisdomTree Management Limited and WisdomTree Issuer ICAV (together, WisdomTree). Bloomberg is not affiliated with WisdomTree, and Bloomberg does not approve, endorse, review, or recommend the WisdomTree Broad Commodities UCITS ETF. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the index(es).

### **Notice to Investors in Switzerland – Qualified Investors**

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree¼s website: **https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports**

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.