

THE WISDOMTREE MANAGED FUTURES INDEX: AN INTRODUCTION

Jeremy Schwartz – Global Chief Investment Officer
07/01/2016

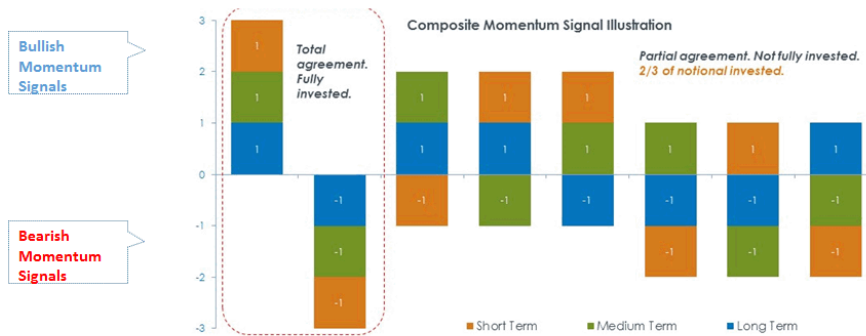
As of July 1, the [WisdomTree Managed Futures Strategy Fund \(WDTI\)](#) began tracking a new, proprietary Index, the [WisdomTree Managed Futures Index](#). Managed futures as a strategy is meant to provide diversification to a portfolio through the ability to go [long](#) or [short](#) various commodities, currencies and [interest rates futures contracts](#). During times of heightened uncertainty, and especially following strong [bull](#) markets in both equities and fixed income, managed futures strategies can play an integral role in providing [noncorrelated](#) and differentiated exposures to help lower overall portfolio [volatility](#). Given the market environment in 2016, with uncertainty prevailing and what looks like a range-bound equity market, managed futures allocations may be especially timely.

Long/Short Positioning Managed futures strategies typically incorporate a price [momentum](#) signal to determine how to allocate the positions, either long or short. When commodities are rising—and trends are positive—a managed futures strategy typically would go long that commodity; when commodities are falling—and trends are negative—a managed futures strategy typically would go short that commodity. In developing its new Index methodology, WisdomTree looked to innovate in both the signal to determine the trend in the commodities—that is, the selection of which commodities should receive exposure—and how to scale the weight of the positions depending on the uniformity or conviction in the underlying price trends.

On Signal Time Horizon: A number of managed futures strategies will focus on one specific time horizon—say the trailing 12-month period or trailing six-month period—in determining whether to be long or short a specific commodity. There are benefits and drawbacks when it comes to short-term signals compared to long-term signals. WisdomTree created a composite momentum signal that incorporates three time horizons: a short-term horizon (three months), a medium-term horizon (six months) and a long-term horizon (12 months). The three signals are evaluated, and when two of the signals agree or all three signals agree, the position will be established as being either long or short the asset in question. A rising trend on this composite momentum signal indicates a long position, while a falling trend on this composite momentum signal indicates a short position.

Scaling Position Size: We believe that when all three time horizons (three, six and 12 months) agree on which direction the commodity is trending, there is a higher conviction in the signal, and a long position is established at full allocation. When only two of the three signals agree on a direction for that commodity, one innovation in this new WisdomTree Index is to scale position size to two-thirds of the notional amount that would be allocated to that position. Given that investors might look at different time horizons in establishing trends, WisdomTree’s research showed that when there was not universal agreement of the short-term, medium-term and long-term trends or signals, scaling weight down could help reduce the risk and enhance return potential of the Index.

Incorporating Multiple Time Horizons: Scaling Position Size According to Conviction in Trend Composite Momentum Signal Illustration

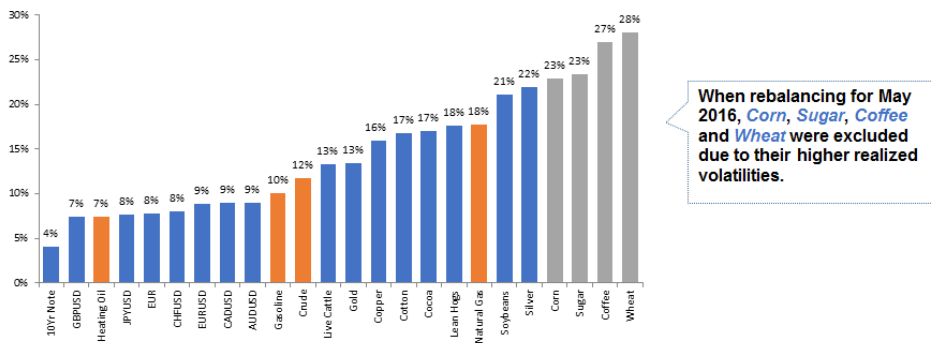


- When momentum signals do not indicate totally investing, the CMS scales down the position size (both long and short) while maintaining the directional bet indicated by the majority of the signals.
- 6% would be allocated to an asset when all three momentum signals are aligned. When 2 of 3 signals align, only 4% is allocated to that position (2/3 notional allocation) and that 4% weight is what we call the 'effective weight'.

A composite momentum signal is a signal that is composed of other signals that are originated separately and joined to form the composite signal. The composite momentum signal framework (CMS) incorporates three momentum signals across different time horizons to create a composite momentum signal.

Further, our research showed that one of the great risks to managed futures strategies is the whipsaw risk, in which a position is established based on recent trends but commodity volatility whipsaws into a different direction. Scaling position size based on the composite momentum framework described above is one element to help reduce that risk, but we have further sought to reduce the risk of being caught on the wrong side of the trend by removing the commodities with the highest volatility over the last 36 months from the universe and allocations. Our research showed that commodities with the highest volatility were some of the weakest performers for applying a long/short momentum approach. The chart below reveals the standard deviation, or volatility, over the last 36 months of the various commodities, currencies and interest rates included in the WisdomTree Managed Futures Index. The four highest-volatility commodities are excluded from the Index for the upcoming month. Those commodities currently are corn, sugar, coffee and wheat.

Realized Volatilities of Assets in the Investment Universe (%) Monthly Data, Last 36 Months under CMS framework as of 06/28/2016



Sources: WisdomTree, Bloomberg, as of 6/28/16.

In a future blog post, we will take an in-depth look at how the new WisdomTree Managed Futures Strategy Fund (WDTI) is positioned in the current market environment. Until then, you can view the live WisdomTree Managed Futures Index constituents here.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. An investment in this Fund is speculative and involves a substantial degree of risk. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance, as well as its correlation (or noncorrelation) to

other asset classes. These factors include use of long and short positions in commodity futures contracts, currency forward contracts, swaps and other derivatives. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effects of varied economic conditions.

The Fund generally does not make intramonth adjustments and therefore is subject to substantial losses if the market moves against the Fund's established positions on an intramonth basis. The Fund is actively managed; thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Diversification does not eliminate the risk of experiencing investment losses. Investments in commodities may be affected by overall market movements, changes in interest rates and other factors such as weather, disease, embargoes and international economic and political developments. Commodities and futures are generally volatile and are not suitable for all investors.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Long (or Long Position): The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

Short (or Short Position): The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position).

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

Bullish: a position that benefits when asset prices rise.

Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Momentum Factor: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

Whipsaw Risk: A position is established based on recent trends but volatility whipsaws into a different direction.

Composite Momentum Framework: is a framework that incorporates three momentum signals across different time horizons to create a composite momentum signal.

Standard deviation: measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.