WHY CORRELATIONS BETWEEN ASSET CLASSES MATTER

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Strategic allocation models typically carve out a portion of an investment portfolio for alternative investments, such as commodities, hedge funds, private equity or managed futures. These alternative asset classes can provide exposure to less correlated assets, theoretically increasing returns and lowering risks over the long term. Of course, investors are glad when these types of exposures are performing well and adding to their portfolio returns, but many have trouble understanding why they even own these assets when they are underperforming. With the S&P 500 Index up more than 200% since the 2009 lows and near all-time highs, many investors have questioned why they own anything besides the S&P 500 Index[1]. It is always easy to be a Monday-morning quarterback, but it is surprising to us that many have forgotten the importance of true diversification. Although we do not believe the markets are headed for a substantial correction or a repeat of 2008, we do think it is important for investors to learn from the past. One of the most crucial outcomes from 2008 was that many investors became more aware of the importance of downside protection and true diversification. Traditional allocations, as it turned out, generally did not provide enough diversification, and as the markets unwound, correlations between traditional asset classes increased. **Managed Futures May Provide Diversification** As during the 2008 sell-off, correlations can also increase during positively trending markets, which is what we have witnessed over the past few years, ultimately decreasing the diversification benefits traditional allocations may provide. Institutional investors have long utilized managed futures strategies as a way to achieve diversification and performance potential in almost any market. Consider some of the benefits managed futures may provide: • Blending assets that are non- or negatively correlated to traditional assets provides diversification. • Unlike long-only investments, managed futures employ long/short strategies designed to potentially profit from both rising and falling markets. • They have the potential to perform in both inflationary and deflationary environments. • Many managed futures are not confined to commodities futures but can also invest in currencies or interest rate futures.
Diversified Trends Indicator™ (DTI®) 10-Year Correlations to Top 5 Broad-Based

	Diversified Trends Indicator Index	Barclays U.S. Aggregate	S&P GSCI	MSCI EAFE	MSCI Emerging Markets	S&P 500
Diversified Trends Indicator Index	1.00	-0.20	0.13	0.15	-0.08	-0.17
Barclays U.S. Aggregate	-0.20	1.00	-0.07	0.13	0.14	0.03
S&P GSCI	0.13	-0.07	1.00	0.60	0.61	0.50
MSCI EAFE	-0.09	0.13	0.60	1.00	0.89	0.88
MSCI Emerging Markets	-0.08	0.14	0.61	0.89	1.00	0.78
S&P 500	-0.17	0.03	0.50	0.88	0.78	1.00

Sources: WisdomTree, Zephyr StyleADVISOR, 6/30/05–6/30/15. You cannot invest directly in an index. Past performance is not indicative of future results.

Indexes *For definitions of indexes in the chart, visit our glossary.* • **Low Correlations to**

Broad-Based Indexes: Over the past 10 years, the Diversified Trends Indicator™ (DTI®) Index had a correlation of -0.20 and -0.17 to the Barclays U.S. Aggregate Index and the S&P 500 Index, respectively. Typically, the lower or more negatively correlated asset classes are to each other, the more diversification benefit. To put these numbers in perspective, the MSCI EAFE Index had a correlation of 0.13 and 0.88 to the Barclays U.S. Aggregate Index and the S&P 500 Index, respectively. The MSCI Emerging Markets Index had a correlation of 0.14 and 0.78 to the Barclays U.S. Aggregate Index and the S&P 500 Index, respectively. • **Performance during a Crisis:** The DTI Index was up 8.29% over the 2008 calendar year, impressive when compared to the S&P 500 Index return of -37.00%. During October 2008, the DTI Index was up 10.41%, compared to the S&P 500 Index return of -16.79%.[2] **An Established Strategy—Now in the Exchange-Traded Fund (ETF) Structure** Traditionally, to access managed futures strategies, individuals would have to make significant investments with hedge funds or commodity trading advisors (CTAs)—an expensive proposition. These investments typically charge a 20% performance fee on top of a 2% annual fee. Additionally, CTAs generally lack transparency, have limited liquidity and can introduce single-manager risk. The WisdomTree Managed Futures Strategy Fund (WDTI) is managed using a quantitative, rules-based strategy designed to provide returns that correspond to the performance of the DTI Index. These are some of the advantages we believe an ETF structure can provide: • Low fees of only 95 basis points (bps) • Intraday liquidity • Full transparency of strategy and holding • No investment minimums, sales loads or redemption fees • No K-1 filing [1]Sources: WisdomTree, Bloomberg, as of 7/23/15. [2]Source: Bloomberg.

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Diversification does not eliminate the risk of experiencing investment loss.

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You cannot invest directly in an index.

DEFINITIONS

Commodity : A raw material or primary agricultural product that can be bought and sold.

Managed futures : An alternative investment strategy in which futures contracts are used as part of the investment strategy.

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.

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.

Downside : Currency depreciation.

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).

Inflation : Characterized by rising price levels.

Deflation : The opposite of inflation, characterized by falling price levels.

Interest Rate Futures : An interest rate future is a financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. It is a particular type of interest rate derivative.

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

Transparency : The extent to which investors have ready access to any required financial information about a company, such as price levels, market depth and audited financial reports.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Basis point : 1/100th of 1 percent.

Redemption Fee : A fee collected by selling an investment before a specified time. Also referred to as an "exit fee", "back-end load" or "contingent deferred sales charge".