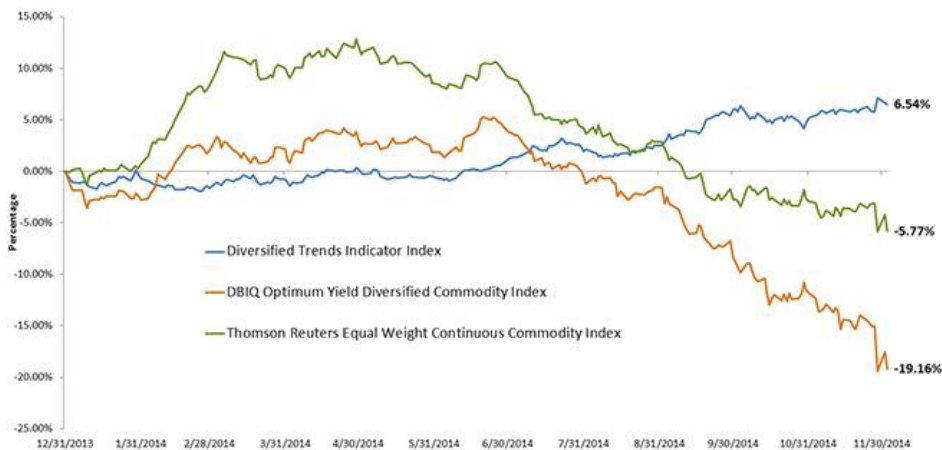


# HOW FLEXIBLE IS YOUR ALTERNATIVE EXPOSURE?

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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 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 exposure are performing well and adding to their portfolio returns, but many have trouble understanding why they even own these assets when they are underperforming. This year, that questionable asset class has been commodities, which have come under pressure year-to-date as a result of slow global growth, a rising U.S. dollar and falling oil prices. If this trend persists, we feel that commodity indexes that provide [long](#)-only exposure may be missing out on an opportunity. One asset class that has been utilized by institutional investors as a way to achieve diversification and performance potential in almost any market is managed futures. Unlike long-only investments, managed futures employ long/[short](#) strategies designed to profit from both rising and falling markets. Also, many managed futures are not confined to commodities futures but can also invest in currencies or [interest rate](#) futures. The ability to go long or short commodities, non-U.S. currencies and [U.S. Treasuries](#) has provided managed futures a performance edge year-to-date. The graph below illustrates the year-to-date performance of the [Diversified Trends Indicator™ \(DTI®\)](#) against some popular commodity indexes, to highlight the performance difference. **Year-to-Date** **Index** **Performance**



Sources: WisdomTree, Bloomberg, 12/31/13-12/2/14. Past performance is not indicative of future results. You cannot invest directly in an index. Short-term performance is not a good indication of future performance, and investors should not expect such performance to be repeated.

*For definitions of indexes in the chart please visit our [glossary](#).* • Exposure to Oil Had a Large Impact on Returns—Because oil has declined so dramatically year-to-date, by over 32%, the larger an index’s exposure to oil, the lower the overall return.<sup>1</sup> The [DBIQ Optimum Yield Diversified Commodity Index](#) places more weight in what it classifies as the most heavily traded and important physical commodities, so it had a larger weight to oil over the period compared to the [Thomson Reuters Equal Weight Continuous Commodity Total Return](#)

[Index](#), which employs an equal weighting methodology. A unique feature of the DTI® is its ability to go long or flat oil, but never short. Since August, the index has been flat (meaning no exposure) to oil, allowing it to largely avoid the decline in oil prices. If the price trend reverses, the index has the ability to go long oil, and it could benefit from a rebound in prices.

• **Diversification Beyond Commodities Helped Drive Returns for DTI®**—One of the most persistent trends year-to-date has been the strength of the U.S. dollar against other developed currencies. The flexibility for DTI® to go long or short non-U.S. currencies and U.S. Treasuries, beyond just commodities, has provided a further performance edge. DTI®'s performance has benefited from being long both [Treasury bonds](#) and [Treasury notes](#), as interest rates have fallen in the U.S. year-to-date. DTI®'s performance also has benefited from being short the Japanese yen since August and short the euro since June. WisdomTree believes that we are still in the early innings for dollar strength, and this trend should continue into 2015 and beyond.

**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 feel that an ETF structure can provide:

- Low fees of only 95 [basis points](#)<sup>2</sup>
- Intraday liquidity
- Full transparency of strategy and holding, displayed daily on [wisdomtree.com](#)
- No investment minimums, sales loads or [redemption](#) fees
- No K-1 filing<sup>3</sup>

<sup>1</sup>Source: Bloomberg, 12/31/13-12/02/14. Refers to West Texas Intermediate Crude Oil Spot Price. <sup>2</sup>Ordinary brokerage commissions apply. <sup>3</sup>Schedule K-1 is a tax document issued for an investment in partnership interests.

#### 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 non-correlation) 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 may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The Fund should not be used as a proxy for taking long-only (or short-only) positions in commodities or currencies. The Fund could lose significant value during periods when long-only indexes rise (or short-only indexes decline). The Fund's investment objective is based on historic price trends. There can be no assurance that such trends will be reflected in future market movements. 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. In markets without sustained price trends or markets that quickly reverse or "whipsaw," the Fund may suffer significant losses. 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. Alpha Financial Technologies, LLC ("AFT") has developed, maintained and owns rights to the methodology that is employed in connection with the Diversified Trends Indicator™ (DTI®). DTI® is a registered mark of AFT. The Fund is not sponsored,

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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](#).

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**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.

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## DEFINITIONS

**Hedge fund**: A hedge fund resembles a pooled investment vehicle administered by a professional management firm. It is often structured as a limited partnership or limited liability company. Hedge funds invest in a diverse range of markets and use a wide variety of investment styles and financial instruments.

**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.

**Risk**: Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

**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.

**U.S. Treasury Bond**: a debt security issued by the United States government.

**DBIQ Optimum Yield Diversified Commodity Index**: is a rules-based index composed of 14 commodities drawn from the Energy, Precious Metals, Industrial Metals and Agriculture sectors.

**Thomson Reuters Equal Weight Continuous Commodity Total Return Index**: is a broad-based commodity index consisting of 17 different commodities. Each of the commodities is continuously rebalanced and a Treasury bill return is added to the return from the commodities to reflect interest earned on margin.

**Treasury notes**: A debt obligation issued by the United States government that matures in less than 30 year.

**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.

**Creation and Redemption Process**: The process whereby an ETF issuer takes in and disburses baskets of assets in exchange for the issuance or removal of new ETF shares.