RED LIGHT, GREEN LIGHT: TURNING NET EQUITY EXPOSURE ON AND OFF

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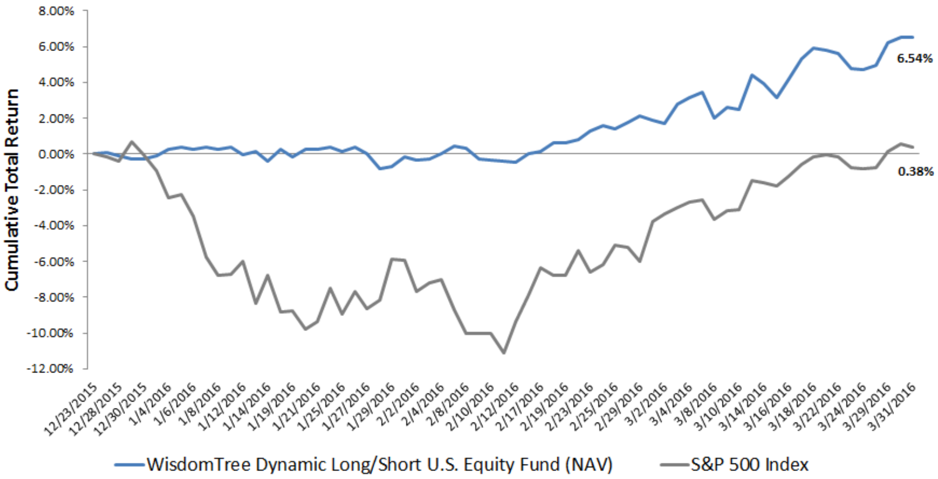
Hedge funds have long used long-short strategies—going long some positions while shorting others—in an attempt to maximize return and minimize risk. Yet these strategies may feel out of reach to the broader investment community. In an effort to fill a void in the exchange-traded fund (ETF) landscape, WisdomTree recently created a rules-based Index that taps into some of the power of long-short strategies and launched an ETF to track it. DYLS, the WisdomTree Dynamic Long/Short U.S. Equity Fund, just completed its first live quarter. The exposures it took on during that quarter and the alpha it has thus far generated compared to the S&P 500 Index reflect well how the strategy works and why it may serve a role in investor portfolios going forward. Since the Fund went live in December 2015, it has managed to outperform the S&P 500 by more than 600 basis points (bps) by limiting the drawdowns investors experienced in January and February. **DYLS (NAV) vs. the S&P 500 Index, 12/23/15–3/31/16**



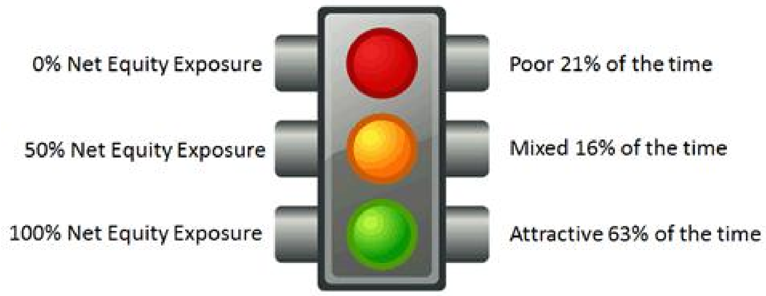
	Fund Information			Total Return as of 3/31/2016 NAV (%)	Total Return as of 3/31/2016 Market Price (%)
Fund/Index Name	Ticker	Expense Ratio	Fund Inception Date	Since Fund Inception	Since Fund Inception
WisdomTree Dynamic Long/Short U.S. Equity Fund	DYLS	0.48%	12/23/2015	6.54%	6.42%
WisdomTree Dynamic Long/Short U.S. Equity Index				6.82%	6.82%
S&P 500 Index				0.38%	0.38%

Sources: WisdomTree, Bloomberg, as of 4/14/16.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

It's apparent from the chart that DYLS treaded water through the first two months of the year, while the S&P 500 was off to one of its worst starts in history. The WisdomTree Fund was able to stay afloat because it maintained a market-neutral exposure for the first two months of the year. Put another way, its long portfolio of stocks was 100% hedged by being short the S&P 500. That hedge came off in March, and as a result, DYLS has since moved broadly with the U.S. equity market, as the S&P 500 recovered. Ultimately, two key questions drive the construction of the underlying strategy: "What stocks should you own?" and "When should you be 100% exposed to them?" With respect to what stocks to own, two factors—growth and value—determine which companies are selected, and one factor —volatility—drives their weight in the DYLS portfolio. Stocks earn a growth score and a value score based on various measurements relevant to the sector they come from. Stocks with the highest scores are selected each quarter and assigned weights so that overall sector exposure is similar to the market. However, rather than weighting by a company's market value, WisdomTree sets weights based on a stocks volatility multiplied by its beta, in effect rewarding lower-volatility stocks with greater weights. This weighting methodology, along with the sector constraints, helps the "long" portion of the portfolio correlate with the broader movement of the market, while giving DYLS the potential to provide some measure of downside protection compared to the S&P 500 when equity markets decline. Put another way, DYLS combines quality and value in the selection process and low volatility in the weighting process in a sector-neutral attempt to add alpha on the "long" side of the portfolio. But over longer holding periods, the performance DYLS posts compared to the S&P 500, on both an absolute and risk-adjusted basis, will be driven by how effective it is at hedging out market risk when market fundamentals deteriorate and stocks decline in the U.S. This means that if the hedging indicator signals 50% or 0% net equity exposure as the market rallies, the WisdomTree Index would experience less of that upside gain. Conversely, if the Index is 100 percent long when stock markets fall, it will likely experience losses with the broader market. So much of the efficacy of the strategy comes down to how well the hedging signal works. To answer the second question—"When do you hedge the market?"—note the visual aid below. Because a hedging signal is generated at the end of each month, investors in DYLS can have their net equity exposure dialed down from 100% to 50% to 0%,



Sources: WisdomTree, Alpha Vee, 12/31/01–12/31/15.

depending on market conditions.
Essentially, DYLS has three "modes" informed by the hedging ratio: green for go, yellow for caution and red for market neutral. Looking over the past 15 years, the hedge ratio has been green 63% of the time, yellow 16% of the time and red 21% of the time.[1] Much like the stocks that the Index holds in its long portfolio, growth and value indicators are what decide when the Index views the market as attractive, mixed or poor. The key drivers for a green light are expanding profits, as measured by operating profit margins, net income profit margins and profit quality. In addition, value indicators —as measured by price to book and price to cash flow—also contribute to the net equity exposure decision on a month-to-month basis. These same signals moving in the opposite direction would trigger a red light, while a mixture of readings would advise the Index to proceed with caution. **Conclusion** For investors looking for ways to potentially reduce volatility in their portfolios, DYLS can complement an equity portfolio by helping maintain a long equity position while potentially increasing risk-adjusted returns. In a world in which investors are looking for alternatives to illiquid, high-fee, hedge fund-type strategies, WisdomTree democratizes the long/short approach and demystifies the process, while reducing the cost of implementing such a strategy.

[1]The hedge ratios' signals are from a universe meant to represent the broad U.S. market and are generated separately from DYLS and its underlying Index.

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You cannot invest directly in an index.

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.

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).

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

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.

Basis point : 1/100th of 1 percent.

Market neutral : Strategy that seeks to avoid market risk by hedging a percentage equal to total long exposure.

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.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

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

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

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.

Downside protection : A broad investment conception referring to the potential mitigation of risk or negative return experience.

Risk-adjusted basis : When calculating the return, we refines the return by measuring how much risk is involved in producing that return.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

Hedging Indicator : An indicator in the strategy to show when and how much to hedge the long position.

Upside : Currency appreciation.

Hedge Ratio : The specified percentage of currency exposure being hedged, with 0% indicating that none of the currency exposure is being hedged and 100% indicating that all of the currency exposure is being hedged.

Operating profit margin : Operating income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for.

Net income profit margin : Net income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for.

Price-to-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Alternative Investment : An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments typically include hedge funds, managed futures, real estate, commodities and derivatives contracts.

Illiquidity : The state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value. Illiquid assets also cannot be sold quickly because of a lack of ready and willing investors or speculators to purchase the asset. The lack of ready buyers also leads to larger discrepancies between the asset. The lack of ready buyers also leads to larger discrepancies between the asking price (from the seller) and the bidding price (from a buyer) than would be found in an orderly market with daily trading activity.