THE LONG PORTION OF WISDOMTREE'S LONG/SHORT STRATEGY

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10/24/2016

WisdomTree launched the WisdomTree Dynamic Long/Short U.S. Equity Fund (DYLS) late last year to give investors a way to dial down their exposure to the U.S. equity market when fundamentals deteriorate. Heading into 2016, the Index that DYLS seeks to track, the WisdomTree Dynamic Long/Short U.S. Equity Index, provided a market-neutral exposure: it counterbalanced its long positions by shorting S&P 500 Index futures for the month of January and February. Starting on March 2 and through the month of September, the strategy has been 100% long. So how has the long portion of this strategy performed in 2016?

Total Returns as of 9/30/2016

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Index	WT Index Inception	Feb 2016	Year-to-Date	Since Inception
WisdomTree Dynamic Long/Short U.S. Equity	11/10/2015	2.97%	12.75%	11.87%
WisdomTree Dynamic Long U.S. Equity	11/10/2015	2.71%	9.64%	6.95%
S&P 500		-0.13%	7.84%	6.39%

Sources: WisdomTree, Bloomberg, as of 9/30/2016.

Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

With 180 basis points (bps) of outperformance over the S&P 500 Index year-to-date, the WisdomTree Dynamic Long U.S. Equity Index–the long portion of the WisdomTree Dynamic Long/Short U.S. Equity Index–has shown its potential to generate alpha. Since its inception in November 2015, the long portion of the Index has beaten the S&P 500 by 56 basis points. How did the Index achieve this?

Two factors–growth and value–determine which companies are selected, and one factor–volatility–drives their weight in the WisdomTree Dynamic Long U.S. Equity Index. 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 stock's volatility multiplied by its beta, in effect rewarding lower-volatility stocks with greater weights and refreshing those weights through a quarterly rebalance. This weighting methodology, along with sector constraints, helps the long Index correlate with the broader movement of the market while also providing the potential for some measure of downside protection.

For example, in February, the month that saw the bottom of the S&P 500 and the peak of the VIX year-to-date, the WisdomTree Dynamic Long U.S. Equity Index outperformed the S&P

500 by over 280 bps. Put another way, the WisdomTree Dynamic Long U.S. Equity Index 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.

Despite the efficacy of the WisdomTree Dynamic Long U.S. Equity Index, one must remember that it is actually only one half of a "Dynamic Duo." On a monthly basis, a hedging indicator will inform the WisdomTree Dynamic Long/Short U.S. Equity Index how much net equity exposure it wants to take on, be it 100%, 50% or 0% (market neutral). *This is done by maintaining the long portion of the portfolio and shorting S&P 500 Index futures to achieve the indicated net equity exposure.* It helps to think of the hedging indicator as a signal for potentially higher, medium or lower beta to the S&P 500 Index—higher beta being 100% net equity exposure, medium beta being 50% net equity exposure, and lower beta being 0% net equity exposure. The key drivers for 100% net equity exposure 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 market-neutral position, while a mixture of readings would advise the Index to proceed with caution, or 50% net equity exposure. It is important to note that if the monthly signal is 50% net equity exposure or market neutral at a time when the market is rallying, the WisdomTree Dynamic Long/Short U.S. Equity Index will likely experience less of that upside gain. Likewise, if the signal is 100% net equity exposure when the market is falling, it could experience losses in line with those of the S&P 500 Index.

Conclusion

The WisdomTree Dynamic Long/Short U.S. Equity Index provides an interesting take on "active" downside protection. By maintaining long exposure to what we believe is a fundamentally sound, low-volatility-weighted basket of stocks, the potential for alpha always exists. Yet by using a monthly hedging indicator and changing net equity exposure by shorting S&P 500 Index futures, the beta of the strategy to the S&P 500 can change on a monthly basis, providing the potential for downside protection. We believe that as long as the hedging indicator continues to be accurate more often than not, the WisdomTree Dynamic Long/Short U.S. Equity Index has the potential to generate higher risk-adjusted returns and to complement broader equity exposure as an alternative allocation strategy.

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You cannot invest directly in an index.

DEFINITIONS

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

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).

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.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

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).

Basis point : 1/100th of 1 percent.

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.

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.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

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

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.

Price-to-cash flow (P/CF) ratio : Share price divided by cash flow per share. Lower numbers indicate an ability to access greater amounts of cash flows 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.