WisdomTree ETFs

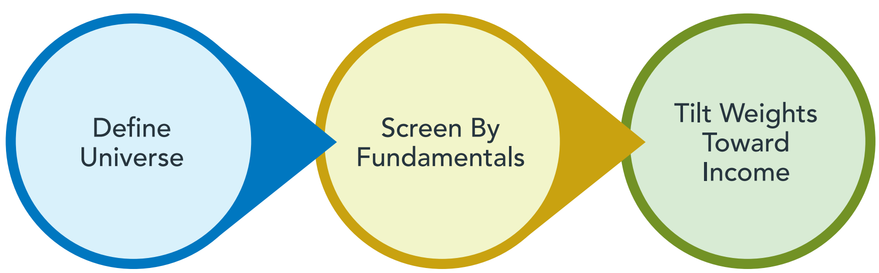
FUNDAMENTAL U.S. CORPORATE BOND FUND/ FUNDAMENTAL U.S. SHORT-TERM CORPORATE BOND FUND

WFIG/SFIG

For fixed income investors, increasing exposure to companies simply because they have issued more debt is widely acknowledged as being counterintuitive. Despite these concerns, market capitalization-weighted (market cap) indexes remain the de facto benchmark for both actively managed and index-based strategies. While they may be used to proxy the total investable universe of an asset class, in our view, market cap-weighted strategies may be suboptimal in achieving the investment objectives of today's investors. In response, WisdomTree has developed a suite of fixed income Indexes that incorporate both fundamental and valuation indicators into the selection and weighting process, which we believe offer the potential for higher return and lower volatility.

The WisdomTree Fundamental U.S. Corporate Bond Index and the WisdomTree Fundamental U.S. Short-Term Corporate Bond Index are structured to screen the available universe of investment-grade[1] corporate bonds for sufficient liquidity[2] and fundamentals[3], then tilt toward those with attractive income and valuation characteristics. These Indexes offer an intuitive alternative to market cap-based fixed income indexing and serve as the foundation for a new set of exchange-traded funds.

In developing our Indexes, WisdomTree has sought to provide a systematic, intuitive approach to fixed income investing.



1) **Define the Investable Universe:** In WisdomTree's approach, we limit our investable universe to investment grade bonds issued by U.S.-domiciled, publicly traded, companies that provided regular updates to their financial statements. By focusing solely on publicly traded companies, we were able to test the efficacy of a broad range of fundamental factors across a wide variety of market cycles.

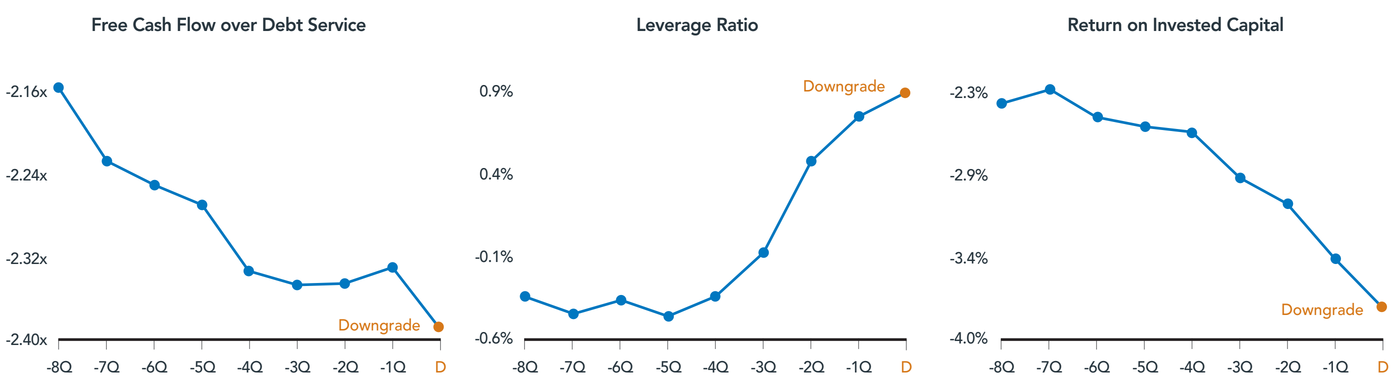
2) **Screen by Fundamentals:** With investment grade bonds, investors must be cognizant of trends in fundamentals in order to avoid overpaying. In many instances, avoiding the losers can add just as much value as identifying the winners.

[1] Investment grade: A rating given to a corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.
[2] 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 assets.
[3] Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Figure 1 below illustrates one facet of our research in which we analyzed publicly traded, U.S. domiciled investment-grade issuers that were downgraded by a major ratings agency using data from 2002 to 2016. For each company, we examined their quarterly levels of free cash flow[5] over debt service[6], leverage ratio[7], and return on invested capital[8] compared to their sector peers in the eight quarters leading up to their downgrade.

In looking at the median differences in these factors, each appeared to corroborate a similar story of financial decline that ultimately resulted in a credit ratings downgrade. In our view, these factors may help explain a significant portion of the downward trajectory of an issuer's rating over time.

FIGURE 1: TRAILING 8Q MEDIAN OF FUNDAMENTAL FACTOR LEVELS COMPARED TO SECTOR PEERS PRIOR TO DOWNGRADE [December 31, 2002 – March 31, 2016]



Sources: WisdomTree, FactSet, 12/31/02 - 3/31/16. Past performance is not indicative of future results.

The three fundamental factors we have utilized for the creation of our investment-grade Indexes are:

+ **Free Cash Flow (FCF) Over Debt Service:** Three-year annual weighted average of free cash flow over debt service, where debt service is calculated as short-term debt plus interest payments plus lease payments.
+ **Leverage Ratio:** Leverage ratio is defined as the last four-quarter average of total debt over total assets.
+ **Return on Invested Capital (ROIC):** ROIC is defined as the trailing three-year average of net income[9] over shareholder's equity plus long-term debt.

[4] Credit downgrade: Refers to a ratings agency, such as Moody's or Standard & Poor's, lowering the rating of a company's debt.
[5] Free cash flow: A measure of how much cash is left in the company after taking into account all the necessary expenses, including net capital expenditures.
[6] Debt service: Represented by the sum of a company's short-term debt, interest payments and lease payments. It is the cash that is required for a particular point in time to cover debt, interest and lease payments.
[7] Leverage ratio: Companies rely on both equity and debt to finance their operations. A leverage ratio is a measurement that looks at how much capital comes in the form of debt.
[8] Return on invested capital: A profitability ratio that measures how much return an investment generated for those who have provided capital (i.e., shareholders and bondholders).
[9] Net income: A company's total earnings (or profit), which are calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses.

Within the Index methodology, we compute a composite factor score by combining the ranks of each company within broad sectors (industrials, financials and utilities). To avoid overfitting[10] and smooth timing differences for each company, the fundamental score is the average of each company's factor score.

FIGURE 2: FUNDAMENTAL FACTOR SCORE BY QUINTILES [December 31, 2002 – March 31, 2016]

Investment Grade Credits: Fundamental Factor Score by Quintile Buckets					
	Q1: Best Scores	Q2	Q3	Q4	Q5: Worst Scores
Annualized Return	5.6%	5.3%	5.8%	5.6%	**4.7%**
Annualized Volatility	5.2%	5.5%	5.6%	6.1%	**6.8%**
Annualized Sharpe Ratio	1.1	1.0	1.0	0.9	**0.7**
Beta	0.9	1.0	0.9	1.1	**1.1**

Source: WisdomTree, FactSet. Past performance is not indicative of future results.

Not surprisingly, the bottom 20% bucket performed poorly both in terms of lower annualized return and higher annualized volatility. Put another way, if we remove this bucket from the Index, the remaining basket of credit is expected to have better absolute returns and exhibit lower volatility. These results also provide insight as to why we want to eliminate the weaker performers instead of attempting to identify the outperformers: The performance from bucket Q1 to Q4 reveals a comparable risk/return profile.

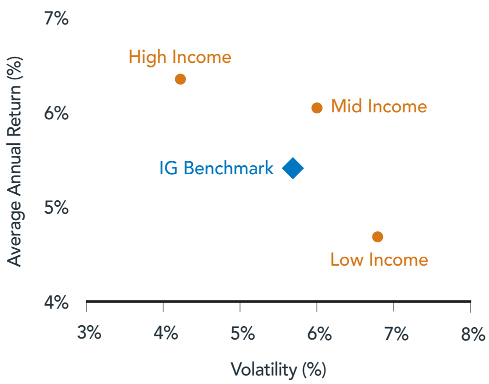
While our analysis has primarily been focused on improving risk-adjusted returns[11], many investors ultimately buy bond strategies for income. Tilting toward higher-quality bonds often involves a sacrifice in incremental spread, a principal determinant of yield. During a risk-on period where spreads tighten[12] aggressively, bonds with weaker fundamentals can sometimes rally sharply, generating significant outperformance compared to a fundamentally focused approach. To address this potential issue, we reweight the bonds that remain after our fundamental screen, in order to tilt towards income.

3) Tilt Weights Toward Income: Tilting toward income[13] is one way that the strategy is able to add "good" risk back into the portfolio. The previously mentioned yield deficit can largely be offset by the fact that we are not indifferent to the remaining credits after the fundamental cut. Each bond in the portfolio offers unique value and income characteristics that can be exploited through the tilting of security weights. To quantify this step, we calculate an income score for each bond.

[10] Overfitting: Occurs when a statistical model's results show random error or noise instead of an actual underlying relationship.
[11] Risk-adjusted return: Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.
[12] Spread tightening: Represents a decline in the amount of compensation bondholders require to lend to risky borrowers. When spreads tighten, the market is implying that borrowers pose less risk to lenders.
[13] Income: Income in this context represents the yield of a bond. Yield is defined as the income return on an investment. Refers to the interest or dividends received from a security that typically would be expressed annually as a percentage of the market or face value.

The income score considers the level of incremental income[14] offered by each bond with respect to multiple risk factors, including potential for default and interest rate risk[15]. The income score is compared relative to sector peers and then used to tilt the portfolio. Our goal is to increase the income/return potential of the Index while retaining elements of the risk reduction potentially achieved by the fundamental cut.

FIGURE 3: HIGH, MID & LOW INCOME SCORES [December 31, 2002 – March 31, 2016]



Annualized Risk and Returns for IG Corporate Bonds

	Ann. Ret	Ann. Vol	Sharpe	Beta
Benchmark	5.4%	5.7%	0.96	1.0
High Income Score	6.4%	4.2%	1.50	0.7
Mid Income Score	6.1%	6.0%	1.02	1.0
Low Income Score	4.7%	6.8%	0.71	1.1

Sources: WisdomTree, FactSet. Past performance is not indicative of future results. IG Benchmark returns represented by the BofA Merrill Lynch US Corporate Index.

SUMMARY

As a result of our analysis, WisdomTree has launched a family of indexes based on these methodologies. The tables below outline the inclusion criteria and methodology behind the WisdomTree Fundamental U.S. Corporate Bond Index and the WisdomTree Fundamental U.S. Short-Term Corporate Bond Index.

Universe	Fundamental Factors	Fundamental Cut	Liquidity Cut	Income Tilt[16]
• Public Issuers♦ • USD Denominated • U.S. Country of Domicile	• Free Cash Flow Over Debt Service • Leverage Ratio • Return on Invested Capital	Cut Worst 20% Factor Score by Sector	N/A	OAS * (1 - PD) ——— log (Effective Duration)

Source: WisdomTree.

Index	Ticker	Min Size	Issuer Cap	Rating	Term	Term
WisdomTree Fundamental U.S. Corporate Bond Index	WFCIG	$350M	5%	Investment Grade	Years-to-Maturity >= 1	Quarterly Feb, May, Aug, Nov
WisdomTree Fundamental U.S. Short-Term Corporate Bond Index	WFCIGS	$350M	5%	Investment Grade	Years-to-Maturity between [1, 5]	Quarterly Feb, May, Aug, Nov

Source: WisdomTree.

[14] Option-adjusted spread: the portion of a bond's yield that compensates investors for assuming credit risk.
[15] Interest rate risk: the risk that an investment's value will decline due to an increase in interest rates.
[16] PD denotes Probability of Default, estimated by the Merton Model.

INTRODUCING THE WISDOMTREE FUNDAMENTAL U.S. CORPORATE BOND FUNDS: THE FUTURE OF SMART BETA FIXED INCOME

To provide tradable access to the WisdomTree Fundamental U.S. Corporate Bond Index and the WisdomTree Fundamental U.S. Short-Term Corporate Bond Index, we have launched the WisdomTree Fundamental U.S. Corporate Bond Fund (WFIG) and the WisdomTree Fundamental U.S. Short-Term Corporate Bond Fund (SFIG).

WisdomTree's Fundamental U.S. Corporate Bond Funds offer an intuitive alternative to market-cap based fixed income investing. In our view, each Fund rests solidly in the middle of the continuum defined by active management with full discretion and existing market-cap weighted strategies. While the funds are created using a mechanical process, their methodologies may reflect many of the elements of an active manager's investment process. Each strategy seeks to favor more solid fundamentals and then tilt based on market-determined valuations.

Developing strategies that are more cognizant of investor concerns and more in line with their objectives ultimately provides a more intuitive investment experience. At its core, screening for quality, tilting toward income is simply a systematic return-to-basics investing.

WISDOMTREE FUNDAMENTAL U.S. CORPORATE BOND FUND AND WISDOMTREE FUNDAMENTAL U.S. SHORT-TERM CORPORATE BOND FUND

FUND QUICK FACTS

Ticker: WFIG, SFIG
Exchange: BATS
Expense Ratio: 0.18%
Structure: Open-end ETF.
Objective: The Funds seek to track the price and yield performance, before fees and expenses, of the WisdomTree Fundamental U.S. Corporate Bond Index and the WisdomTree Fundamental U.S. Short-Term Corporate Bond Index, respectively.
Primary Exposures: U.S. dollar-denominated, investment grade fixed income.

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures and/or uncommon access to provide investors with the potential for income, performance, diversification and more.

For more information or to invest in WFIG or SFIG, contact your representative or call 866.909.WISE (9473).

WFIG and SFIG are new and have limited operating history.

Unless otherwise stated, data source is WisdomTree.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.WISE (9473), or visit wisdomtree.com to view or download a prospectus. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance. These factors include use of commodity futures contracts. 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 value of the shares of the Fund relate directly to the value of the futures contracts and other assets held by the Fund, and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. The Fund is not an investment company within the meaning of the Investment Company Act of 1940, as amended, and is not subject to the regulations thereunder. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Barclays U.S. Aggregate Index: Represents the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage- and asset-backed securities.

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