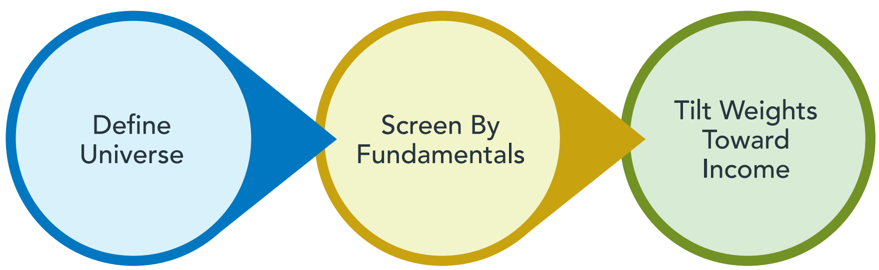
FUNDAMENTAL U.S. HIGH YIELD CORPORATE BOND FUND/ FUNDAMENTAL U.S. SHORT-TERM HIGH YIELD CORPORATE BOND FUND

WFHY/SFHY

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 returns and lower volatility.

The WisdomTree Fundamental U.S. High Yield Corporate Bond Index and the WisdomTree Fundamental Short-Term High Yield Corporate Bond Index are structured to screen the available universe of high yield[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 high yield 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. As an additional screen for liquidity, at the time of index rebalancing, the bonds must have an amount outstanding of at least $500 million for Fundamental U.S. High Yield Corporate Bond Index and at least $350 million for Fundamental U.S. Short-Term High Yield Corporate Bond Index.

2) **Screen by Fundamentals:** For high yield bonds, the balance between risk and reward can often appear tenuous. As a result, investors must be willing to accept periods of credit-induced volatility[4] as well as higher correlations[5] with equity markets. In many instances, avoiding the losers can add just as much value as finding the winners. Focusing on fundamentals gives investors the opportunity to avoid temporary losses in value due to credit ratings downgrades[6] or impairment.

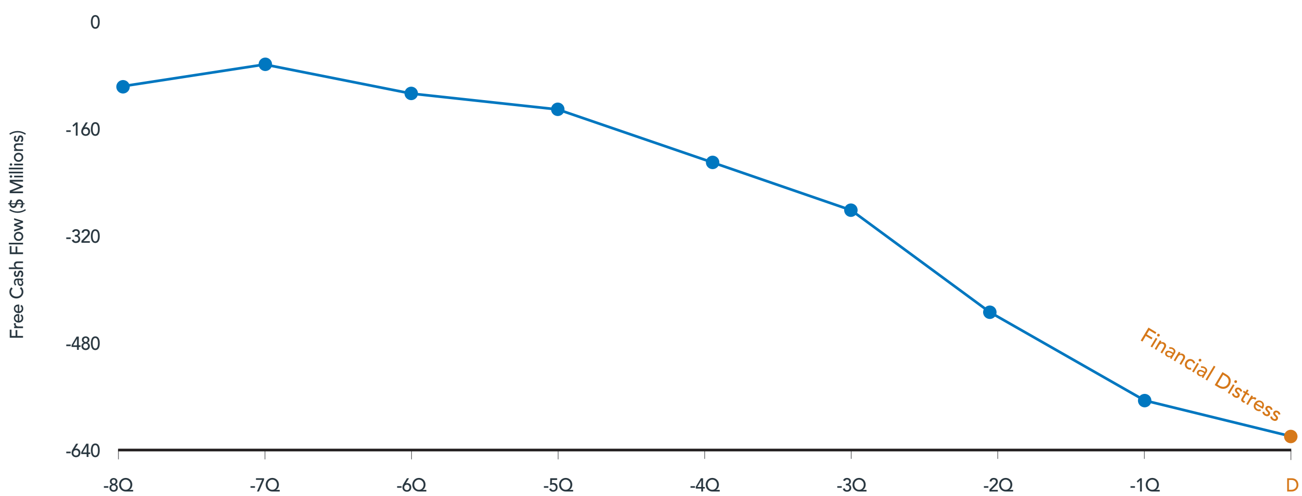
[1] High yield: Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities.
[2] Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high 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.
[4] Volatility: A measure of the dispersion of actual returns around a particular average level.
[5] 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 opposite directions.
[6] Credit downgrade: Refers to a ratings agency, such as Moody's or Standard & Poor's, lowering the rating of a company's debt.

Figure 1 below illustrates this element of our research in which we analyzed publicly traded, U.S.-domiciled, high yield issuers that fell into financial distress, defined here as having debt downgraded to a rating of C or below. We concluded that focusing on free cash flow[7] may be one of the most effective means of adding value in a high yield bond strategy.

It is important to realize that a large majority of companies in distressed situations often began with cash flow problems. Companies with inadequate or negative free cash flows can find themselves constantly under pressure to find the necessary resources to service their debts on time. If a leveraged business does not generate sufficient cash flow, its only other options to satisfy its debt obligations may be to tap short-term revolvers, raise additional debt or equity or generate cash via asset sales. With only a limited set of options, companies with sustained negative trends in cash flow may eventually become insolvent.

In our research, we examined the trends in free cash flow in the eight quarters preceding financial distress for those publicly traded, U.S. domiciled high yield issuers that became financially distressed from using data from 2006 to 2016. Figure 1 below shows the average free cash flow of those issuers over the preceding eight quarters. Unsurprisingly, deteriorating free cash flow, particularly in the four quarters preceding a downgrade or default, was a hallmark of trouble.

FIGURE 1: TRAILING 8Q MEDIAN OF FREE CASH FLOW LEVELS COMPARED TO INDUSTRY PEERS PRIOR TO DISTRESS [May 31, 2006 – March 31, 2016]



Source: WisdomTree, Factset 3/31/16.

[7] 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.

FUNDAMENTAL CUT ON HIGH YIELD COMPANIES

We primarily focus on the following factor for the fundamental selection of our high yield Indexes:

+ **Free Cash Flow (FCF):** Five-year annual average of free cash flow.

In our fundamental cut for high yield, credits with negative free cash flows are removed. The table below shows results for high yield bonds separated by positive versus negative FCF.

FIGURE 2: HIGH YIELD CREDITS: POSITIVE FCF VS. NEGATIVE FCF [May 31, 2006 – March 31, 2016]

High Yield Credits: Negative FCF vs. Positive FCF		
	Positive FCF	Negative FCF
Annualized Return	8.0%	6.7%
Annualized Volatility	8.5%	10.7%
Annualized Sharpe Ratio	1.0	0.7
Beta	0.9	1.2

Source: WisdomTree, Factset.

Not surprisingly, bonds with negative FCF performed poorly in terms of both lower annualized return and higher annualized volatility than bonds with positive FCF. Put another way, if we remove the bonds with negative FCF from the strategy, the remaining basket of credit is expected to have better absolute returns and exhibit lower volatility.

Moreover, concerns about liquidity have risen over the last several months. In combining a focus on larger issues with stronger fundamentals, an additional liquidity screen is applied to the investable universe after the fundamental cut. WisdomTree measures liquidity as a function of size and seasoning (time since issuance) and remove the bottom 5% of the bonds with the least desirable liquidity characteristics (small size and longer time since issuance).

However, while our analysis has primarily been focused on improving risk-adjusted returns[8], many investors ultimately buy bond strategies for income. Therefore, even though expected total returns may appear compelling, tilting toward higher quality often involves a sacrifice in incremental spread. During a rally when spreads tighten[9] aggressively, these excluded bonds may generate 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.

[8] 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.

[9] 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.

3) Tilt Weights toward Income: Tilting towards income 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.

The income score considers the level of incremental income[10] offered by each bond with respect to multiple risk factors, including potential for default. 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. Below, we highlight the total returns of high, mid and low income scores relative to market cap across a variety of market environments. The analysis proves that though we don't want to solely reduce risk, we don't want to add yield indiscriminately either.

FIGURE 3: HIGH YIELD CREDITS: INCOME SCORE BY BUCKETS [May 31, 2006 – March 31, 2016]

Calendar-Year Returns for High-Yield Corporate Bonds					
Year	Low Income Score	Mid Income Score	High Income Score	Benchmark Return	Spread Change (bp)
2006*	5.9%	8.3%	9.1%	8.0%	-15
2007	4.6%	3.7%	3.3%	2.2%	302
2008	-11.9%	-20.2%	-23.6%	-26.4%	1212
2009	24.0%	48.2%	78.3%	57.5%	-1181
2010	11.%	15.4%	19.5%	15.2%	-91
2011	7.2%	6.0%	5.1%	4.4%	178
2012	9.1%	12.9%	21.7%	15.6%	-183
2013	2.4%	4.4%	10.8%	7.4%	-126
2014	3.6%	5.5%	2.3%	2.5%	104
2015	2.2%	0.2%	-7.4%	-4.6%	191
YTD 2016	2.3%	2.9%	3.8%	3.2%	10

Source: WisdomTree, FactSet, BofA Merrill Lynch. Benchmark returns represented by the BofA Merrill Lynch High Yield Index. *Returns for 2006 start on May 31, 2006 due to data availability.

[10] Option-adjusted spread: the portion of a bond's yield that compensates investors for assuming credit risk.

SUMMARY

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

Universe	Fundamental Factors	Fundamental Cut	Liquidity Cut	Income Tilt[11]
• Public Issuers♦ • USD Denominated • U.S. Country of Domicile	• Free Cash Flow	Cut all Companies with Negative Free Cash Flow	Cut Worst 5% Liquidity Score by Sector	Recovery Adjusted OAS* (1-PD)

Index	Ticker	Min Size	Issuer Cap	Rating	Term	Rebalance
WisdomTree Fundamental U.S. High Yield Corporate Bond Index	WFCHY	$500M	2%	High Yield	Years-to-Maturity >= 1	Semi-Annually May, Nov
WisdomTree Fundamental U.S. High Yield Short Term Corporate Bond Index	WFCHYS	$350M	3%	High Yield	Years-to-Maturity between [1, 5]	Semi-Annually May, Nov

Source: WisdomTree. You cannot invest directly in an index.

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

To provide tradable access to WisdomTree's Fundamental High Yield Corporate Bond Indexes, we have launched the WisdomTree Fundamental U.S. High Yield Corporate Bond Fund (WFHY) and the Fundamental U.S. Short-Term High Yield Corporate Bond Fund (SFHY).

WisdomTree's Fundamental U.S. High Yield 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 for income is simply a systematic return-to-basics investing.

[11] PD denotes Probability of Default, estimated by the Merton Model.

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

FUND QUICK FACTS

Ticker: WFHY, SFHY
Exchange: BATS
Expense Ratio: 0.38%
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. High Yield Corporate Bond Index and the WisdomTree Fundamental U.S. Short-Term High Yield Corporate Bond Index, respectively.
Primary Exposures: U.S. dollar-denominated, high yield 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).

WFHY and SFHY 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.

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 WTGM-1324