Capital Gains Distribution FAQs

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1. What is a capital gain?

A capital gain is the profit that results from selling a capital asset, such as a stock, for more than was paid to acquire it. Capital gains tax is a type of tax levied on these gains. All funds which, elect to be treated as regulated investment companies (RICs), are required by IRS regulations to distribute their capital gains to shareholders at least annually. All of WisdomTree's Funds are treated as RICs.

2. How do ETFs typically offer better tax efficiency when it comes to capital gains?

Many ETFs use an in-kind, securities for securities delivery process when growing and shrinking in size. This is different from a portfolio manager buying and selling securities, and therefore creates fewer taxable events in the portfolio of the fund. At the end of the year, the gains and losses from all the individual security trades and other investments in a fund are added up according to the applicable tax rules, and if the fund is in a net gain position it must distribute that gain to fund holders. Gains are proportionately distributed according to the number of shares fund holders own on the capital gain distribution record date. If the fund is in a net loss position, the fund may be able to use those losses to offset future gains.

3. What factors can trigger capital gains distributions in a fund?

Even when an ETF uses in-kind creation and redemption of ETF shares, it still may incur capital gains due to other factors, including:

- Selling investments to rebalance the portfolio.
- Realizing gains on certain derivative instruments, such as options or forwards that may expire or settle with a net gain to the fund.

4. Does the size of a fund have an impact on a capital gain distribution?

Yes. Gains are proportionately distributed according to the number of shares fund holders own on the capital gains distribution record date. As a fund's asset base grows, the tax impact of gains per share diminishes. Conversely, a shrinking asset base amplifies the per share tax impact of gains.

5. How can a fund's fiscal calendar affect its capital gains?

In order to offset current or future capital gains, funds may take steps to seek to generate capital losses, such as implementing any redemptions in whole or in part in cash to sell securities that generate a loss. If gains are realized toward the end of a fund's fiscal year, the ETF has less time to seek to take any such actions. All RICs are required by IRS regulations to distribute substantially all of their net investment income and capital gains to shareholders at least annually.

6. How could there be a capital gain distribution if the NAV of the fund has decreased during the year?

Capital gain distributions reflect the sum of gains and losses from all the sales of individual securities and other investments, and other gain and loss recognition occurrences (such as the expiration or settlement of options and forwards) in a fund during the relevant tax periods. Therefore, even if the value of the securities in a fund's portfolio are currently down and consequently the ETF is as well, the sale of the securities in the fund can still result in capital gains.

7. What are the main determinants of capital gains in a WisdomTree currency-hedged fund?

WisdomTree's currency-hedged ETFs are designed to neutralize the inherent long currency exposure that comes with holding local foreign stock by entering into one-month forward contracts each month and rebalancing at month-end. If the underlying currency depreciates against the U.S. dollar, the value of the forward contracts will likely increase. WisdomTree Funds elect to have gains from forward contracts treated as capital so the fund would realize capital gains from the forward contracts. These forward contracts cannot be traded in-kind so they can increase the possibility of a capital gain.

8. What is the difference between short-term and long-term capital gains?

The IRS does not treat all capital gains equally; the tax rate can vary depending on how long the asset was held before it was sold. Assets held for more than a year qualify as long-term capital gains and can benefit from a reduced tax rate. Assets held for one year or less are considered a short-term capital gain—these are taxed as ordinary income and do not receive preferential tax treatment. In addition, certain investments receive what's commonly called 60/40 treatment where the gains are split between long- and short-term.

9. Why are WisdomTree's distributions from forward contract gains taxed at a blended 60/40 rate?

The Funds make a tax election to treat gains on forward contracts as capital (not ordinary income). Under tax rules, major currencies are eligible for 60/40 treatment.

For definitions of terms discussed in this document, please go to our Glossary.

The information above is not intended as tax advice. The tax consequences of Fund distributions vary by individual taxpayer. You should consult your tax professional or financial advisor for more information regarding your tax situation.

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. Read the prospectus carefully before you invest.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Due to the investment strategy of certain Fund's they may make higher capital gain distributions than other ETFs. Please see prospectus for discussion of risks.

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