



Advantages of 1940 Act Funds

There are many exchange-traded products on the market today—but they may not all be true “exchange-traded funds” (ETFs). Although the term ETF is now used as sort of a catchall, in reality, only those exchange-traded investments registered under the Investment Company Act of 1940 are truly ETFs. But why does it matter?

THE INVESTMENT COMPANY ACT OF 1940

The '40 Act, as it is often called, is quite simply one of the most important pieces of legislation in investing and contains the primary regulations that govern mutual funds and ETFs. The act was passed to help ensure that investment managers act in their investors' best interests. It was designed to provide protections to investors after massive speculation and fraudulent investments contributed to the stock market crash of 1929.

The '40 Act requires investment companies (and funds) to:

- + Register with the Securities and Exchange Commission (SEC) in order to provide oversight
- + Meet strict anti-fraud rules
- + Not use excessive leverage (borrowing to increase investment return potential) or short selling (borrowing shares to sell), which can both increase investment risks significantly
- + Disclose their holdings, strategies and financial conditions on a regular basis

True ETFs are registered under the Investment Company Act of 1940 with certain SEC rule exemptions that enable their shares to be traded on the secondary market. As mentioned earlier, however, not all exchange-traded products are covered by these protections. For example, certain 3x-leveraged investments (specifically those that borrow or issue debt in order to invest \$3 for every \$1 in fund assets) may be loosely referred to as ETFs, but strictly speaking, they are not. They may be registered as exchange-traded products under the Securities Act of 1933,¹ but they won't offer investors the same protections as ETFs with '40 Act registration.

¹ The Securities Act of 1933 was established as a result of the stock market crash of 1929. The legislation had two main goals: to ensure more transparency in financial statements so investors can make informed decisions about investments; and to establish laws against misrepresentation and fraudulent activities in the securities markets.



ADVANTAGEOUS CAPITAL GAINS RULES

While the '40 Act offers protections for all ETFs, they can be particularly meaningful for investors interested in gaining some exposure to emerging markets or alternative asset classes such as currencies and commodities. Consider that:

- + The structure helps to reduce the risks of these asset classes by providing a diversified fund approach.
- + ETFs can provide an extra layer of liquidity.²
- + Alternative investments can often have complicated tax consequences. For example, hedge fund investors must wait for their K-1 form in order to file their taxes. ETFs have no such requirement—and can actually be used to help manage taxes.
- + ETFs protect investors from excessive use of leverage, short selling and over-concentration.
- + Hedge funds and other alternative strategies typically do not disclose their holdings or their strategy to investors, whereas ETFs are transparent on a daily basis.

Furthermore, on average, ETFs also offer lower fees compared to alternatives such as mutual funds, and have no investment minimums and are available for anyone to purchase at any time.

When considering different exchange-traded investment options, it may be wise to consider whether or not the fund is truly an ETF that offers the protections of the Investment Company Act of 1940.

²Liquidity: 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

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 866.909.9473, or visit WisdomTree.com to view or download a prospectus. Investors should read the prospectus carefully before investing.

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 or sector and/or Funds that emphasize investments in smaller companies may experience greater price volatility. Emerging market, currency, fixed income and alternative investments include additional risks. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs. Please see prospectus for discussion of risks.

Neither WisdomTree Investments, Inc., or its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax advice. All references to tax matters or information provided in this material are for illustrative purposes only and should not be considered tax advice and cannot be used for the purpose of avoiding tax penalties. Investors seeking tax advice should consult an independent tax advisor.

This material discusses general and/or typical ETF or mutual fund attributes, and not all ETFs or mutual funds share each applicable attribute.

WisdomTree Funds are distributed by Foreside Fund Services, LLC.

© 2018 WisdomTree Investments, Inc.

“WisdomTree” is a registered mark of WisdomTree Investments, Inc.

WisdomTree.com ■ 866.909.9473