

WisdomTree Research

Fundamental High Yield Indexes Rebalance [November 2018]

WisdomTree Fundamental U.S. High Yield Corporate Bond Index (WFCHY)

WisdomTree Fundamental U.S. Short-term High Yield Corporate Bond Index (WFCHYS)

WisdomTree Fundamental U.S. High Yield Corporate Bond Indexes are structured to screen the available universe of non-investment-grade corporate bonds for sufficient liquidity and fundamentals, and then tilt toward those with attractive income and valuation characteristics.

On November 30, 2018, the WisdomTree Fundamental U.S. High Yield Corporate Bond Index (WFCHY) and the WisdomTree Fundamental U.S. Short-term High Yield Corporate Bond Index (WFCHYS) were rebalanced in accordance with the [Index methodologies](#). Respectively, the Indexes serve as the underlying benchmarks for the WisdomTree Fundamental U.S. High Yield Corporate Bond Fund (WFHY) and the WisdomTree Fundamental U.S. Short-Term High Yield Corporate Bond Fund (SFHY).

KEY REBALANCE HIGHLIGHTS

- With the November 2018 rebalance, the index yield and duration increased modestly for WFCHY and WFCHYS.
- During the rebalance, WFCHY and WFCHYS offered yields and durations comparable to its market cap benchmark, with strategic over-weights in Consumer Staples and Technology, and under-weights in Energy.
- Post-rebalance, all sectors had minimal free cash flow changes.
- The next semi-annual rebalance for both Indexes is scheduled for May 2019.

WisdomTree Research

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INDICATIVE INDEX STATS

Across both Indexes, post-rebalance, the yields were higher and the durations were longer. The number of constituents also grew for both Indexes after rebalancing.

INDEX STATISTICS	Projected Index		Current Index		Benchmark	
	WFCHY	WFCHYS	WFCHY	WFCHYS	H0A0	HUCC
Yield to Worst	7.03%	6.93%	6.85%	6.71%	7.26%	7.38%
Duration	4.3	2.7	4.2	2.4	4.1	2.6
Minimum Par Size (\$Mil)	500	350	500	350	250	250
Issuer Cap	2%	3%	2%	3%	-	2%
# of Bonds	481	262	471	224	1838	803

Sources: WisdomTree, Bloomberg, Merrill Lynch, with data as of 11/30/2018. H0A0: BofA Merrill Lynch U.S. High Yield Index, which tracks the performance of U.S. dollar denominated below investment grade corporate debt securities issued in the U.S. HUCC: BofA Merrill Lynch 1-5 Year U.S. High Yield Constrained Index, which tracks the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. 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. Projected Index represents the projected index after rebalance. Current index represents the latest index before rebalance.

INDEX SECTOR BREAKDOWNS

With the rebalance, WFCHY observed increased weights in Industrials (+1.7%) and Technology (+1.7%), and reduced weights in Financials (-2.4%) and Communications (-1.1%) after rebalancing. WFCHYS observed increased weights in Technology (+1.7%), Materials (+1.4%) and Financials (+1.1%), and reduced weights in Communications (-3.9%), Healthcare (-1.0%), and Consumer Discretionary (-0.5%) after rebalancing.

Most Significant Sector Changes After Rebalance

WFCHY			WFCHYS		
Top 3 Exposure Increases			Top 3 Exposure Increases		
1	Industrials	1.7%	1	Technology	1.7%
2	Technology	1.7%	2	Materials	1.4%
3	Health Care	0.8%	3	Financials	1.1%
Top 3 Exposure Reductions			Top 3 Exposure Reductions		
1	Financials	-2.4%	1	Communications	-3.9%
2	Communications	-1.1%	2	Health Care	-1.0%
3	Materials	-0.5%	3	Consumer Discretionary	-0.5%

Sources: WisdomTree, Bloomberg, with data as of 11/30/2018. Exposures subject to change.

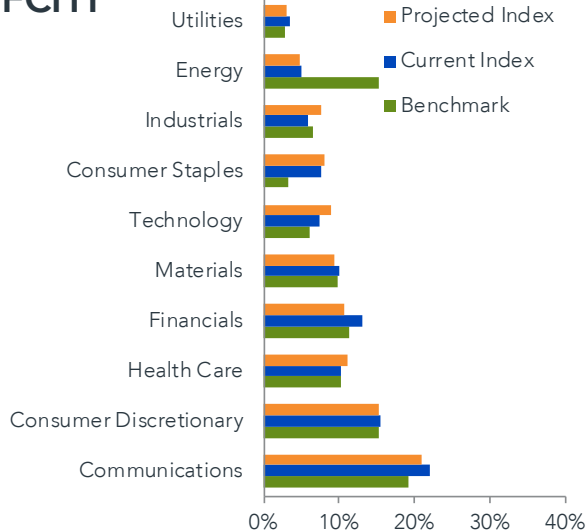
Compared to the market cap benchmark, WFCHY is significantly under-weight in Energy (-10.5%) and over-weight in Consumer Staples (+4.8%), and Communications (+2.9%), while WFCHYS is under-weight in Energy (-7.9%) and over-weight in Technology (+3.9%), and Consumer Staples (+3.7%).

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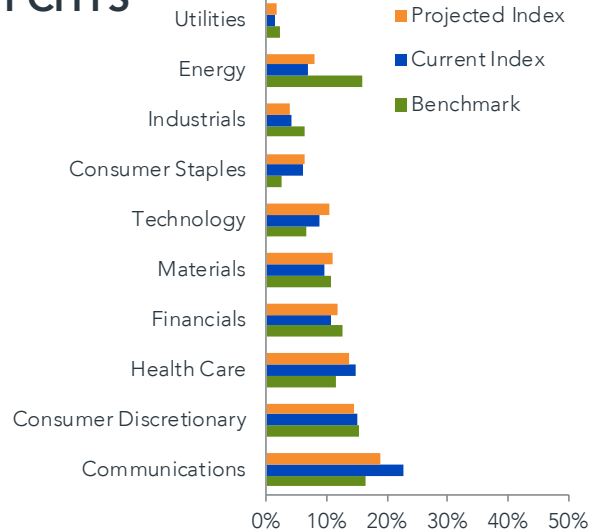
Fundamental High Yield Indexes Rebalance [November 2018]

Sector Breakdown Comparisons, Before and After Rebalance

WFCHY



WFCHYS

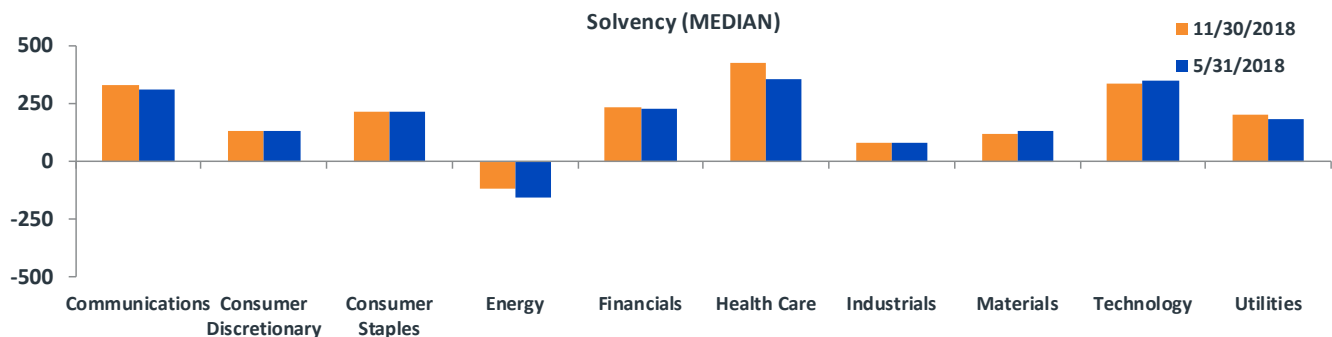


Sources: WisdomTree, Bloomberg, Merrill Lynch, with data as of 11/30/2018. Exposures subject to change. WFCHY benchmark represented by H0A0. WFCHYS benchmark represented by HUCC.

CHANGES IN FUNDAMENTAL FACTORS

For non-investment-grade corporate bond Indexes, we use free cash flow as a measure of solvency. Our research highlighted that cash flow problems were a common flash point among companies falling into distressed conditions. Companies with inadequate or negative free cash flows are under constant pressure to find the necessary resources to service their debts on time. Without sufficient cash flow, leveraged businesses can service their obligations with only a small set of options: tap short-term revolvers, raise additional debt or equity, or generate cash via asset sales. With this limited set of options, companies with sustained negative trends in cash flow may eventually become insolvent.

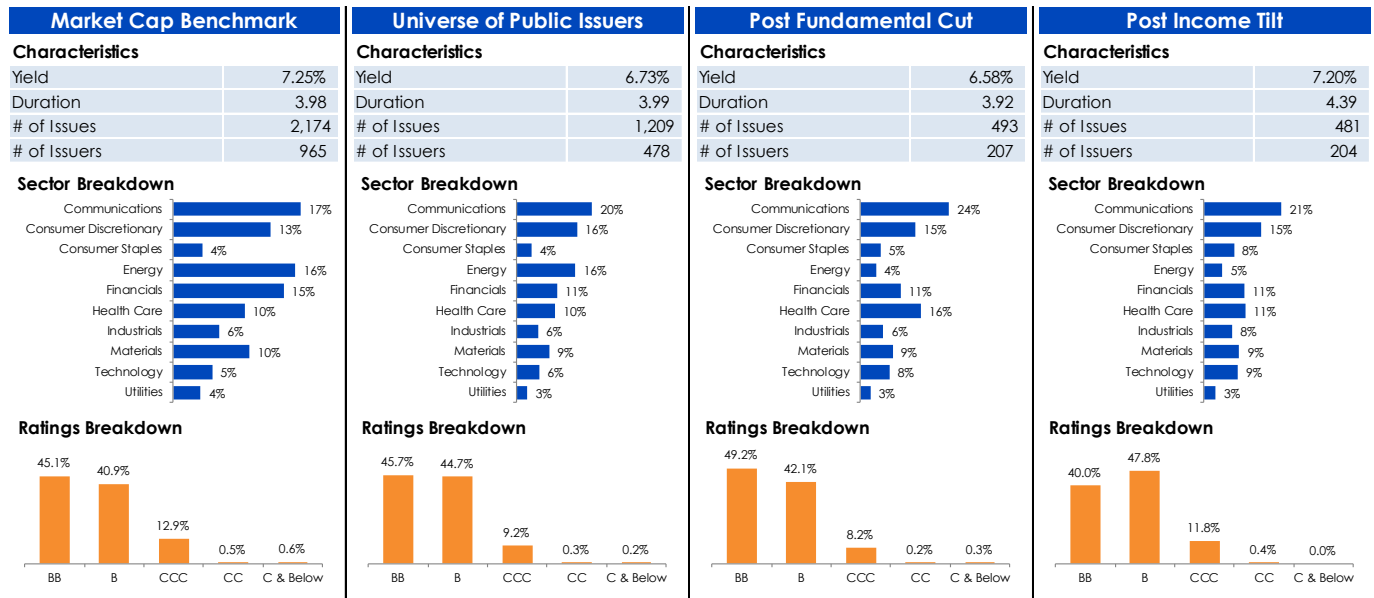
Over the past three months, we have observed few changes in overall solvency across all sectors.



Sources: WisdomTree, FactSet, Bloomberg, with data as of 11/30/2018. Subject to change.

UNIVERSE BREAKDOWN SHOWCASING REBALANCE PROCESS

In the panels below, we show the indexing process for WFCHY. To recap, we start with a broad non-investment-grade corporate universe with minimum size and years-to-maturity constraints, and keep only the public companies with positive fundamental factors. For each broad sector, we then tilt toward the bonds with the best income characteristics. Because of the quality bias, the post-cut portfolio has a lower average yield than the broad universe, but the tilt step enhanced the yield of the final portfolio.



Sources: WisdomTree, Bloomberg, data as of 11/23/18, the weight determination date of the rebalance process. Past performance is not indicative of future results. You cannot invest directly in an index. Market Cap Benchmark defined as the Bloomberg U.S. High Yield Index, a rules-based market value-weighted index engineered to measure the high-yield, fixed-rated, taxable corporate bond market. Universe of Public Issuers represents a subset of the Market Cap Benchmark that excludes those with private parent companies. Post Fundamental Cut is the portfolio that remains after cutting away those with negative Free Cash Flow and poor liquidity. The Post Income Tilt represents the final index after adding in the income tilt. Exposures subject to change.

WisdomTree Research

Fundamental High Yield Indexes Rebalance [November 2018]

Glossary:

Cash Flow: a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. Effective duration is a calculation used to approximate the actual, modified duration of a callable bond. It takes into account that future interest rate changes will affect the expected cash flows for a callable bond.

Credit Quality is the underlying credit worthiness of a bond, reflecting its risk of default. Credit quality is typically represented by the credit ratings of a bond that are assigned by rating agencies such as Moody's or Standard & Poor's.

Yield to worst: The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

Investment Grade: A rating given to a municipal or 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.

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.

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

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.

Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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 associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer’s ability to make such payments will cause the price of that bond to decline. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund’s portfolio investments. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile

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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

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