

WisdomTree Barclays Yield Enhanced U.S. Aggregate Bond Fund

AGGY

With nearly \$4 trillion¹ benchmarked against the Bloomberg Barclays U.S. Aggregate Index (Agg), many investors view the Agg as a broad approximation of a generic U.S. investment-grade² bond portfolio. Historically, the index's underlying securities have made up a large portion of an investor's core bond portfolio. In more normal interest rate environments, an investor's core bond holdings could be counted on as a way to generate income and help mitigate volatility³ from other riskier asset classes. However, in today's markets, U.S. Treasuries remain at near record low yields while rising in prominence in the Agg. In fact, U.S. Treasuries now represent 37% of the Agg, with nearly 22% of the Index composed of U.S. Treasuries maturing in fewer than five years.⁴ For investors seeking income, concentrating positions in this segment of the market appears contrary to their investment objectives. In response, many investors have begun looking outside the Agg to boost income potential. While we subscribe to this view, doing so ultimately incurs additional risk. In response to these challenges, we would also suggest looking within the Agg universe to enhance income.

In order to address investors' desire for income, WisdomTree worked with Bloomberg Barclays to take a different approach to core fixed income. The Bloomberg Barclays U.S. Aggregate Enhanced Yield Index (Agg Enhanced Yield) uses a rules-based approach to reallocate across subcomponents in the Agg, seeking to enhance yield while maintaining a similar risk profile. Yield can typically be increased by shifting exposure along any of a number of risk dimensions, including sector exposure (Treasury, agency, credit, securitized), interest rate risk (duration) and credit risk.

AGG ENHANCED YIELD'S THREE-STEP METHODOLOGY

1. **Divide the Agg into 20 Subcomponents**
2. **Develop and Apply Constraints**
3. **Determine Index Weights**

¹ Source: Bloomberg, 12/31/2017

² Investment grade: A rating given to a municipal or corporate bond. It is a relatively favorable rating by ratings agencies, indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

³ Volatility: A measure of the dispersion of actual returns around a particular average level.

⁴ Source: Bloomberg, as of 12/31/2017

1. Divide the Agg into 20 Subcomponents

In step one, the Agg is decomposed into 20 buckets across sector, maturity⁵ and credit quality⁶. While each component retains suitable size for investability and liquidity⁷ purposes, each bucket may present a unique combination of risk and reward.

| | | Years to Maturity | | |
|--------|-------------|--|----------------------------------|---|
| | | 1-5 Years | 5-10 Years | 10+ Years |
| Sector | Government | Treasury 1-5 | Treasury 5-10 | Treasury 10+ |
| | | Agency 1-5 | Agency 5-10 | Agency 10+ |
| | Credit | Credit 1-5 Baa | Credit 5-10 Baa | Credit 10+ Baa |
| | | Credit 1-5 A | Credit 5-10 A | Credit 10+ A |
| | | Credit 1-5 Aaa-Aa | Credit 5-10 Aaa-Aa | Credit 10+ Aaa-Aa |
| | Securitized | Commercial Mortgage-Backed Securities (CMBS) | Asset Backed Securities (ABS) | Government National Mortgage Association (GNMA) 30s |
| | | Conventional Mortgage-Backed 30s | Conventional Mortgage-Backed 15s | |

Credit rating determined using Bloomberg's index rating methodology. Commercial mortgage-backed security (CMBS): A security whose value is composed of a pool of commercial mortgages. Asset-backed security (ABS): A fixed income security whose value or cash flows depend on the value of another asset, such as a loan, lease or receivable. Government National Mortgage Association (GNMA) security: A security whose value is composed of a pool of mortgages that are guaranteed by the Government National Mortgage Association. Mortgage-backed security (MBS): A fixed income security that is composed of multiple underlying mortgages.

⁵ Maturity: The amount of time until a loan is repaid.

⁶ Credit quality: A measure of a borrower's potential risk of default.

⁷ 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.

2. Develop and Apply Constraints

The following constraints are added to control risk and concentration while limiting turnover:

- + **Tracking Error Constraints:** Tracking error volatility (TEV)⁸ of the Agg Enhanced Yield Index relative to the Agg would be less than 0.35% (35 basis points [bps]) each month.
- + **Duration Constraints:** The duration of the Index cannot be more than one year greater than that of the Agg.
- + **Sector and Subcomponent Constraints:** The weight of major and minor sectors (Treasuries, credit and securitized bonds) cannot deviate by more than 20% from their weights in the Agg. The total notional weight of each of the Baa subcomponents (U.S. Credit 1-5 Years Baa, U.S. Credit 5-10 Years Baa, U.S. Credit 10+ Years Baa) cannot deviate from their weights in the Agg by more than 20%.
- + **Turnover Constraints:** Portfolio turnover due to monthly rebalancing⁹ is capped at 5%. When this condition cannot be met, the turnover limit is increased incrementally by 1% until a solution is found.

3. Determine Index Weights

On a monthly basis, weights of the Index are reallocated across the 20 subcomponents to maximize yield while adhering to the four constraints. These weights are then applied at the individual issue level, such that the weight is the product of the subcomponent's determined weight and the security's weight within the subcomponent.

For example, if a Treasury note maturing in three years has a 10% weight within the 1-5 Years Treasury subcomponent, the calculated weight of 12% allocated to the Treasury 1-5 subcomponent would result in a weight of 1.2% at month-end. Returns and statistics are calculated based on the constituents for the coming month. The Agg Enhanced Yield is rebalanced monthly.

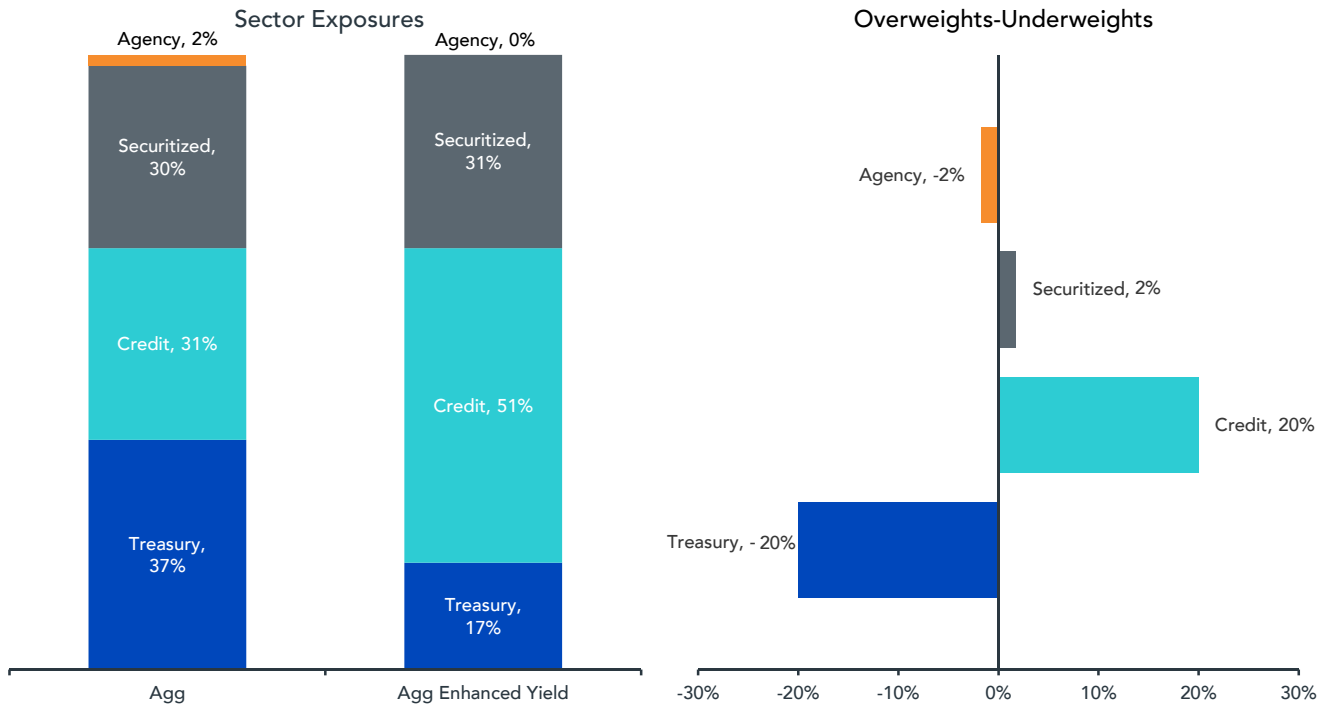
THE RESULT

As of 12/31/2017, the Agg Enhanced Yield delivered an additional 47 bps of yield compared to the Agg with a similar volatility profile. In our view, this mechanical approach enhances the desirable characteristics of the Agg, while also enhancing the income potential of the strategy. For investors needing to hit minimum income targets, this modification of the Agg could help them achieve their objectives. For managers concerned about the high-yield bond market, this approach also provides higher income potential in an investment-grade portfolio.

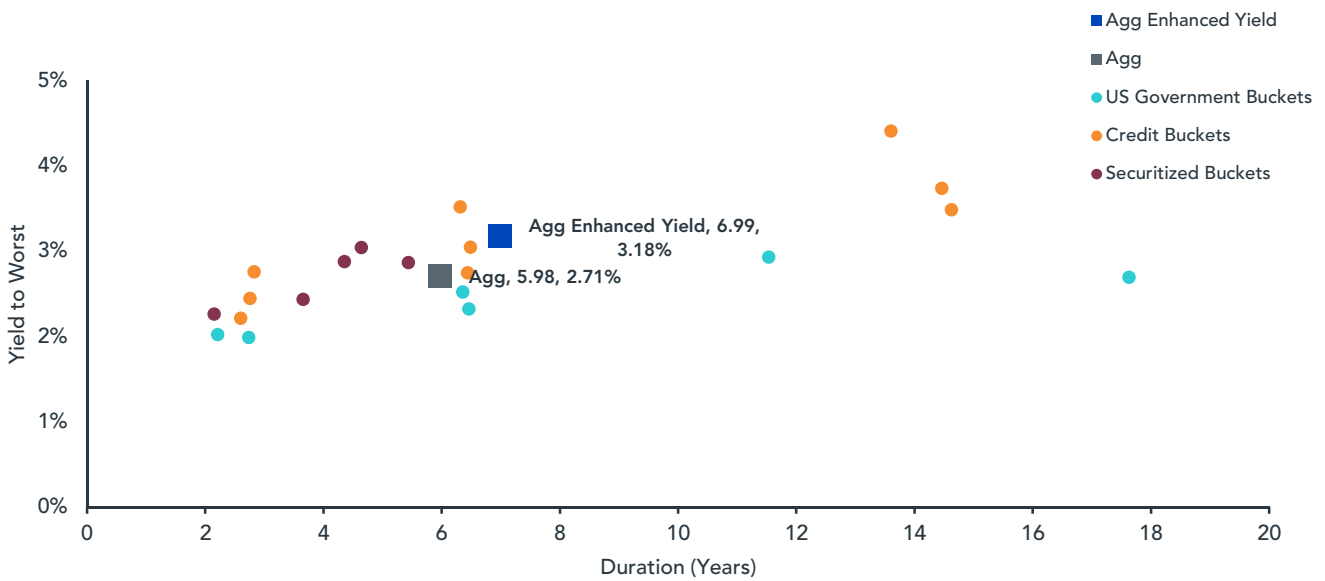
⁸ Tracking error volatility: The volatility of the difference between the performance of a portfolio and its benchmark. In this case, the portfolio is the Agg Enhanced Yield Index.

⁹ Rebalance: An index is created by applying a certain set of selection and weighting rules at a certain frequency.

SNAPSHOT OF THE AGG ENHANCED YIELD RELATIVE TO THE AGG [As of 12/31/2017]



Yield and Duration Comparison, December 31, 2017



Source: WisdomTree, as of 12/31/2017. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. Yield to worst is the rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

HOW TO IMPLEMENT WITHIN A PORTFOLIO

Incorporating Agg Enhanced Yield into a broad-based fixed income portfolio can be beneficial not only as a replacement, but also as a complement. Using the Agg to represent core bond holdings, blending in the Agg Enhanced Yield in varying proportions could have a meaningful impact on a portfolio's yield without drastically altering existing risk and exposure characteristics.

YIELD AND DURATION FOR BLENDS OF AGG AND AGG ENHANCED YIELD [12/31/2017]

| | 100% Agg | 75% Agg / 25% Agg Enhanced Yield | 50% Agg / 50% Agg Enhanced Yield | 25% Agg / 75% Agg Enhanced Yield | 100% Agg Enhanced Yield |
|----------|----------|----------------------------------|----------------------------------|----------------------------------|-------------------------|
| Yield | 2.71% | 2.83% | 2.95% | 3.06% | 3.18% |
| Duration | 5.98 | 6.23 | 6.49 | 6.74 | 6.99 |

SECTOR BREAKDOWN FOR BLENDS OF AGG AND AGG ENHANCED YIELD [12/31/2017]

| | 100% Agg | 75% Agg / 25% Agg Enhanced Yield | 50% Agg / 50% Agg Enhanced Yield | 25% Agg / 75% Agg Enhanced Yield | 100% Agg Enhanced Yield |
|-----------------|----------|----------------------------------|----------------------------------|----------------------------------|-------------------------|
| Credit | 33% | 37% | 42% | 47% | 51% |
| Securitized | 30% | 30% | 31% | 31% | 31% |
| U.S. Government | 37% | 32% | 27% | 22% | 17% |

Sources: Bloomberg, WisdomTree, as of 12/31/2017. 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. Percentages for some of the charts above may not total 100 due to rounding.

INTRODUCING WISDOMTREE BARCLAYS YIELD ENHANCED U.S. AGGREGATE BOND FUND (AGGY)

To provide tradable access to the Agg Enhanced Yield, WisdomTree launched the WisdomTree Barclays Yield Enhanced U.S. Aggregate Bond Fund (AGGY). By sourcing opportunities within the Agg, AGGY offers the opportunity to enhance the income potential of a core bond portfolio, while continuing to benefit from the diversification of a multi-sector portfolio.

WisdomTree Barclays Yield Enhanced U.S. Aggregate Bond Fund Quick Facts

Ticker: AGGY

Exchange: NYSE

Expense Ratio: 0.20%, contractually waived to 0.12% through December 31, 2018.

Structure: Open-end ETF.

Objective: The Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Barclays U.S. Aggregate Enhanced Yield Index

Primary Exposure: U.S. dollar-denominated, investment-grade fixed income.

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

For more information about AGGY, contact your WisdomTree representative or visit WisdomTree.com

This Fund is new and has limited operating history. You cannot invest directly in an Index.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.WISE (9473) or visit wisdomtree.com. 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. 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. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Bloomberg 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. Bloomberg Barclays U.S. Aggregate Enhanced Yield Index: A constrained, rules-based approach that reweights the sector, maturity and credit quality of the Barclays U.S. Aggregate Index across various subcomponents in order to enhance yield.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

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