

WisdomTree Chinese Yuan Strategy Fund

CYB

THE CHINESE CURRENCY MARKET HAS EVOLVED. SO HAS CYB.

The Chinese government's move in March 2014 to allow the yuan to vary within a 2.00% trading band¹ represented another step in the evolution of the yuan as an international currency—and helps strengthen what we believe is already a solid economic case for investing in the currency of this up-and-coming global leader. Consider that China

- + is the world's largest country, with a population of 1.39 billion, and is currently experiencing increasing urbanization and a growing middle class;²
- + has a currency that the International Monetary Fund (IMF) believes to be undervalued (relative to the U.S. dollar) by nearly 46% on a purchasing power parity (PPP)³ basis;
- + has strong economic and currency fundamentals⁴ and is currently targeting 6.8% annual gross domestic product (GDP) growth.

As we will show, the WisdomTree Chinese Yuan Strategy Fund (CYB) has evolved with new ways of achieving exposure to the Chinese yuan, and it retains the flexibility to continue to adapt due to its unique status as an actively managed currency fund.⁵

INCREASED FOCUS ON CHINA'S INTERNAL ECONOMY

The Chinese government would ultimately like to see greater internationalization⁶ of the yuan and less dependence on the U.S. dollar for international transactions. Given China's massive role in international trade, government officials aim to make the yuan the reserve currency⁷ of the East, with all the low funding-cost benefits that go along with that status.

Additionally, the level of the yuan plays a pivotal role in the Chinese government's stated intention to transform the economy from externally driven to internally focused and consumer based. A higher yuan means greater purchasing power and, perhaps, a higher standard of living for the growing middle class.

¹ Trading band: The Chinese government manages the value of its currency by allowing it to float against the U.S. dollar by a predetermined amount each day.

² International Monetary Fund (IMF), 2017.

³ Purchasing power parity (PPP): Academic concept stating that exchange rates should adjust so that equivalent goods and services cost the same across countries after accounting for exchange-rate differences.

⁴ International Monetary Fund (IMF), 2017.

⁵ Actively managed funds do not seek to track an underlying index when making investment decisions. Actively managed funds rely on portfolio manager discretion as opposed to index methodologies to make investment decisions.

⁶ As reported by the official press agency of the People's Bank of China, Xinhua News, August 29, 2012.

⁷ Reserve currency: A currency held in significant quantities by governments and corporations as a store of value.

Although this Fund invests in very short-term, investment grade instruments, the Fund is not a "money market" fund and it is not the objective of the Fund to maintain a constant share price.

THE EVOLUTION OF CHINA'S CURRENCY MARKET

The Chinese government has pursued internationalization through many steps toward greater liberalization, tradability and convertibility.⁸ We believe these steps may spur currency appreciation over time and more accurately reflect China's standing as a leading world economy:

- + New agreements with trading partners—China has worked to establish new relationships in which cross-border trades can be settled in yuan (Australia, Brazil, Hong Kong, South Korea, Chile, Argentina and the Philippines are just a few examples).
- + Currency cross with non-U.S. dollar currencies—There are now nine currencies that trade relative to the yuan: euro, Japanese yen, Hong Kong dollar, British pound, Australian dollar, Canadian dollar, Malaysian ringgit and Russian ruble, mitigating the need for incorporating a third currency to facilitate trade settlement (such as the U.S. dollar).
- + Development of the CNH market—The advent and development of the CNH (Chinese yuan in Hong Kong) market will help foreign investors looking to gain yuan exposure and will help promote the internationalization of the currency. Other countries, especially those in China's immediate vicinity, can build foreign exchange reserves and transact in CNH without China being required to open up its capital account⁹ completely and expose itself to the potentially destabilizing effects of "hot money."¹⁰ China continues to expand offshore yuan trading to other financial centers such as Taiwan and Singapore.
- + Wider trading bands—The widening of the band to 2.00% may increase short-term volatility¹¹ and help tighten the relationships between various exchange rates¹² in China.

EXPANDING SOURCES OF INCOME

The big development for those seeking yuan exposure has been the metamorphosis of the access vehicles. Traditionally, exposure to China's currency has entailed a cost for access through the premiums¹³ paid on non-deliverable forward contracts¹⁴ (NDFs) on Chinese yuan (CNY forwards), which were the only option for U.S. investors to gain exposure.

⁸ Currently, the Chinese government restricts the flow of capital across international borders into or out of mainland China.

⁹ Capital account: Sometimes referred to as the financial account—second component of a country's balance of payments that reflects the net change in the nation's ownership of assets.

¹⁰ Hot money: Short-term positions taken by speculators in an investment security or economy that seeks to profit from temporary distortions in the market.

¹¹ Volatility: A measure of the dispersion of returns about a particular average.

¹² Each day, the People's Bank of China provides a daily fixing rate for USD/CNY in mainland China. In Hong Kong, the Hong Kong Treasury Markets Association computes a daily fixing rate for USD/CNH. This essentially creates two related but distinct currency exchange rates.

¹³ A premium can develop in a forward contract if there is more demand than supply. As a result, buyers of these contracts might not experience the same amount of price appreciation implied in the spot market.

¹⁴ Non-deliverable forward currency contract: An agreement to buy or sell a specific currency at a future date at an agreed-upon rate that is settled in U.S. dollars.

Over the last 3 years, the CNH market has started to provide positive interest rate carry¹⁵ in addition to currency appreciation—creating the potential for investors to achieve a positive return even if currency appreciation slows:

- + The most liquid option for transacting in CNH has been the CNH deliverable forward market¹⁶. Given that investors can take delivery of the currency at expiration, this forward market functions like a true interest rate forward market—enabling traders and hedgers to sell the spot currency¹⁷ forward to lock in an interest rate.
- + Banks have been increasingly willing to offer time deposits denominated in CNH, providing further potential for positive interest rate returns. The primary risk to CNH time deposit exposure is increased counterparty risk¹⁸, as allocations to CNH time deposits are fully exposed to default risk of banks; by contrast, with CNY or CNH forward contracts, only the profit and loss are exposed to counterparty credit risk. Monitoring of CNH time deposits thus involves additional credit risk profiling, and WisdomTree believes diversification of this exposure is paramount.
- + Growth of the “Dim Sum” Bond¹⁹ Market is providing another way to gain exposure to the yuan while receiving interest income. The primary risk of this market is the credit profile of the issuers.

THE EVOLUTION OF CYB

The rules and means of gaining exposure to the yuan have evolved dramatically since the inception of the WisdomTree Chinese Yuan Strategy Fund on May 14, 2008.

As an actively managed Fund, CYB has the flexibility to capitalize on the long-term structural changes in the market and the short-term opportunities that may yet arise. Greater flexibility in the yuan, as well as the means of access, has already started to reduce and even reverse the premiums paid in CNY forwards. Over the past year, CYB has sought to take advantage of these new CNH instruments—and the potential income they provide.

Currently, the Fund takes a balanced approach to asset allocation across the available options while seeking to be attentive to risk mitigation (volatility of instruments and diversifying counterparty exposure) and reward maximization (returns).

The strategy has enabled CYB to outperform the CNY spot currency market over the previous year, evidence of the enhanced income and reduced premiums paid in traditional CNY forwards:

- + The average embedded income yield²⁰ for instruments in CYB throughout 2013 was 1.61%, improving to 2.06% in 2014, 4.10% in 2015, 4.00% in 2016, and 3.36% in 2017.
- + CYB has outperformed the Chinese yuan by 4.78% over the last year, and an average of 3.33% annually over the previous 3 years.

¹⁵ Interest rate carry: Represents the rate of return from an investment, assuming that foreign exchange rates remain constant.

¹⁶ Deliverable forward contract: An agreement to exchange a currency at a future date at an agreed-upon rate. At maturity, one counterparty delivers the previously agreed-upon amount of currency to the other.

¹⁷ Spot currency: The foreign exchange rate of a currency available for immediate delivery.

¹⁸ Counterparty risk: The risk to each party of a contract that the other side will be financially unable to fulfill its obligations.

¹⁹ Dim Sum Bond: Fixed income securities denominated in Chinese yuan in Hong Kong.

²⁰ Embedded income yield represents the annualized rate of return generated by a fund's investment in forward currency contracts and U.S. government securities. The calculation is intended to show the yield of the fund's portfolio without the impact of currency exchange rates on the fund's investments and assumes that foreign exchange rates remain constant. Embedded income yield differs from a fund's actual yield and does not reflect fund expenses.

Although this Fund invests in very short-term, investment grade instruments, the Fund is not a “money market” fund and it is not the objective of the Fund to maintain a constant share price.

Cumulative Total Returns (as of December 31, 2017)								
	Total Return NAV (%)				Market Price (%)			
	1-Mo.	3-Mo.	YTD	Since Inception (5/14/2008)	1-Mo.	3-Mo.	YTD	Since Inception (5/14/2008)
WisdomTree Chinese Yuan Fund (CYB)	1.83%	3.28%	11.85%	15.96%	1.56%	2.35%	12.17%	14.53%
Chinese Yuan (CNY)	1.38%	2.35%	7.07%	7.35%	1.38%	2.35%	7.07%	7.35%
JP Morgan Emerging Local Markets Index Plus (ELMI+) China (JPPUCH)	2.06%	3.22%	12.61%	28.95%	2.06%	3.22%	12.61%	28.95%

Average Annual Total Returns (as of December 31, 2017)											
	Exp. Ratio	NAV Returns (%)					Market Price Returns (%)				
		1-Yr.	3-Yr.	5-Yr.	10-Yr.	Since Inception (5/14/2008)	1-Yr.	3-Yr.	5-Yr.	10-Yr.	Since Inception (5/14/2008)
WisdomTree Chinese Yuan Fund (CYB)	0.45%	11.85%	1.24%	1.34%	N/A	1.55%	12.17%	1.24%	1.30%	N/A	1.42%
Chinese Yuan (CNY)		1.36%	0.63%	0.63%	N/A	0.36%	1.03%	0.52%	0.52%	N/A	0.38%
JP Morgan Emerging Local Markets Index Plus (ELMI+) China (JPPUCH)		1.23%	0.68%	0.68%	N/A	0.54%	1.23%	0.68%	0.68%	N/A	0.54%

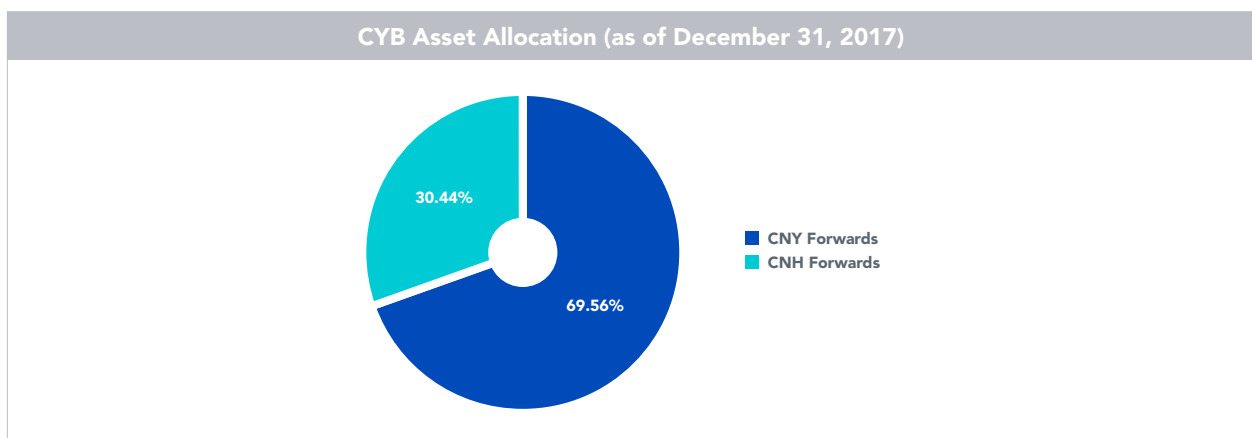
SEC 30-Day Yield: 0.61%, the yield figure reflects the dividends and interest earned during the period, after the deduction of the Fund's expenses. This is also referred to as the "standardized yield."

Source: WisdomTree.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

As illustrated in the chart below, the Fund currently diversifies between CNY non-deliverable forwards, CNH deliverable forwards and CNH time deposits. The average days to maturity for the instruments 82.7 days, a little under 3 months, and the embedded income yield was 2.83%.



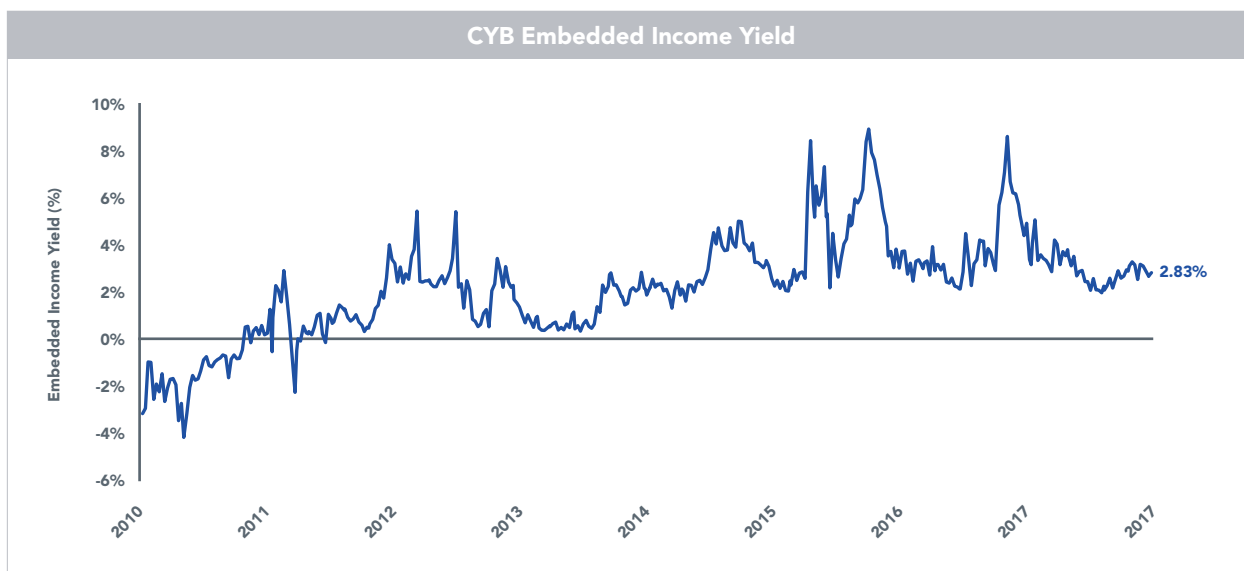
Source: WisdomTree. Subject to change.

As of December 31, 2017, CYB had the following aggregate exposures decomposed by currency and asset types.

Security	Maturity	Weight (%)	Contribution		Individual	
			Embedded Income Yield (%)	Days to Maturity	Embedded Income Yield (%)	Days to Maturity
Aggregate Portfolio		100.00%	2.83%	82.7		
CNH Forwards		30.44%	0.73%	24.2		
CNH Forwards	3/14/2018	24.60%	0.59%	18.0	2.40%	73
CNH Forwards	4/17/2018	5.84%	0.14%	6.2	2.45%	107
CNH Forwards		69.56%	2.10%	58.5		
CNH Forwards	2/15/2017	25.63%	0.77%	11.5	3.01%	45
CNH Forwards	3/15/2017	43.93%	1.33%	47.0	3.02%	107

Source: WisdomTree. Subject to change.

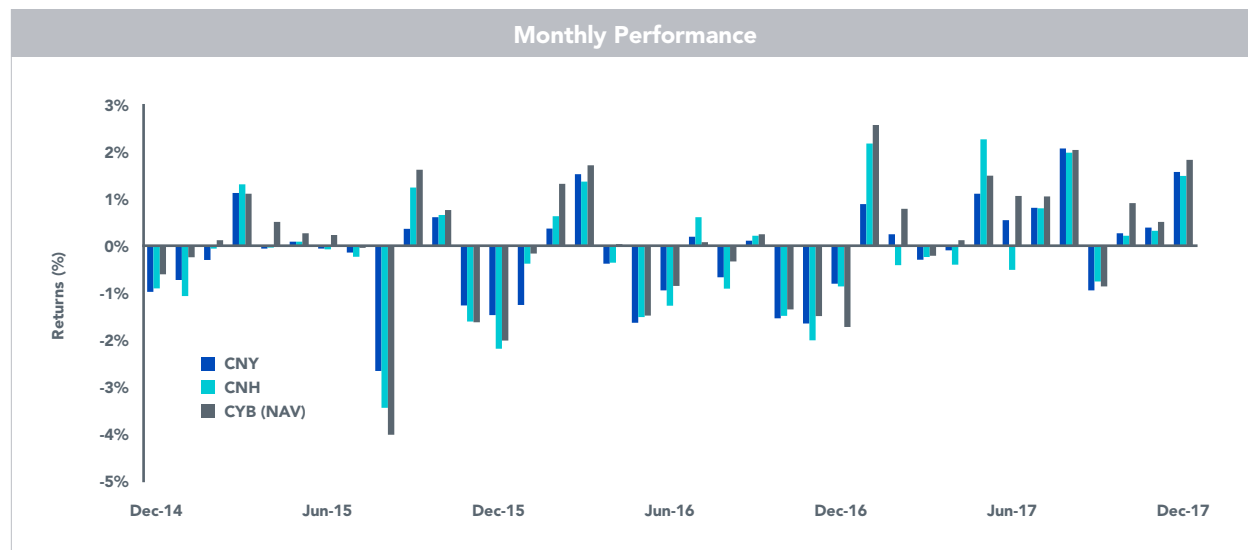
The development of the CNH market, its implications and the expectation for a reduced appreciation has had a transforming impact on the Fund's yield profile. The Fund's embedded income yield went positive amid the sell-off in September 2011 and has retained that positive income bias through most of the trading days since that time.



Source: Wisdomtree and Bloomberg, as of 12/31/2017. Past performance is not indicative of future results.

Source: WisdomTree. Subject to change.

Increased market access has enabled the Fund to outperform the Chinese yuan on-shore spot on a cumulative basis by a significant margin over the previous year, as shown in the performance table on page 4.



Sources: WisdomTree, Bloomberg 12/31/2017. Past performance is not indicative of future results.

Unless otherwise stated, data source is WisdomTree.

This information must be preceded or accompanied by a prospectus. We advise you to consider the Funds objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the fund. Please read the prospectus carefully before you invest. Call 866.909.WISE(9473) or go to wisdomtree.com for more information.

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political economic uncertainty. This Fund focuses its investments in China, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile and these investments may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Unlike typical exchange-traded funds, there are no indexes that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this 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.

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