

WisdomTree Dynamic Currency Hedged International Equity Fund

DDWM

A NEW CHAPTER: DYNAMIC CURRENCY-HEDGED EQUITIES

Approximately 50% of the world's equity opportunity set is outside of the United States, and the majority of that is in developed international stocks, from 22 markets.¹ This is a truly dynamic opportunity set, and it offers a rich hunting ground of income-generating stocks from which to build an index.

Traditionally, venturing outside the United States has involved two investments:

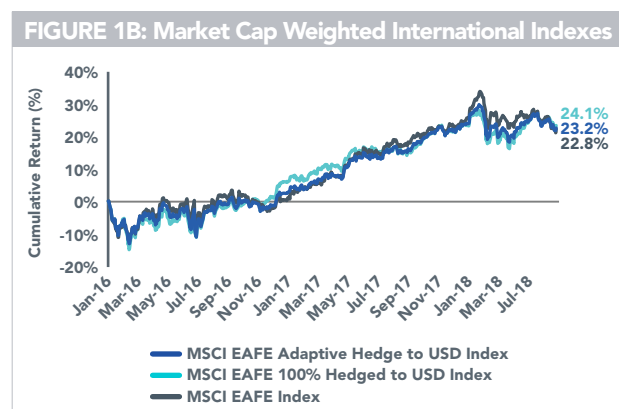
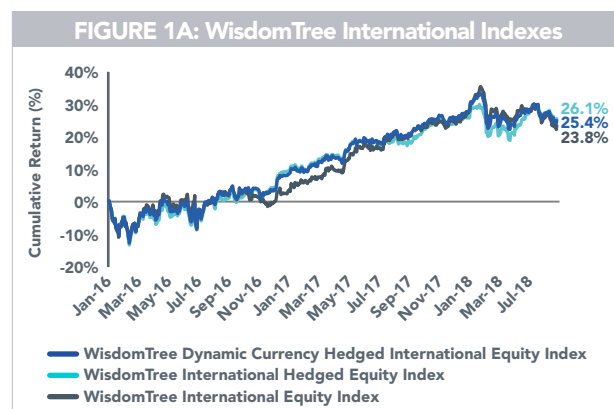
- + The equities, frequently the focus of interest
- + The currencies, an additional layer and frequently not as much of a focus as the equities

The WisdomTree Dynamic Currency Hedged International Equity Fund (DDWM) enables investors to access international equities with a dynamic currency hedge.²

PROMISING REAL-TIME RESULTS

The real-time performance of the WisdomTree Dynamic Currency Hedged International Equity Index shows a promising start, especially compared to either the unhedged, fully hedged or adaptively hedged series of market capitalization-weighted benchmarks from MSCI.

But even when we look at the same underlying stocks in the WisdomTree Index family, the dynamic hedged approach has been able to add value. This period was characterized by large swings in the U.S. dollar versus a number of major currencies—the euro, the British pound and the Japanese yen in particular. Despite this currency volatility and despite having currency hedge ratios that ranged from being moderately currency hedged to mostly hedged since its inception, the WisdomTree Dynamic Currency Hedged International Equity Index has performed as expected with returns between the fully hedged approach and the unhedged approach.



Sources: WisdomTree, MSCI, for the period 12/31/15–6/30/18. The start date was chosen to reflect the beginning of the Fed's interest rate hiking cycle. 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.

¹ Source: Bloomberg. Based on the MSCI ACWI Index universe, a broadly recognized global benchmark, as of 6/30/18.

² Dynamic currency hedge: Strategy in which a currency hedge can be varied (as opposed to targeting a constant level) and change over the course of time.

UNDERSTANDING THE FOUNDATION: WISDOMTREE'S EQUITY APPROACH

We think the first step to understand these new strategies lies in learning about the methodologies of the equity Indexes upon which they are built. The critical element of this rules-based methodology is that the approach is not meant to be selective, but rather to include a very broad spectrum of dividend-paying stocks within each universe.

FIGURE 2: Disciplined Rules-Based Methodology Applied On An Annual Basis

Methodology		
Eligible Universe	Component companies must be incorporated and list their shares on one of the major stock exchanges in the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Japan, Australia, New Zealand, Hong Kong, Israel or Singapore.	
Liquidity	Component companies must meet minimum market cap and liquidity screens to be eligible. An additional calculated volume factor is also applied to help improve liquidity.	
Weighting	The initial weight of a component in the Index is based on each component's Dividend Stream (derived by multiplying the U.S. dollar value of the company's annual gross dividend per share by the number of common shares outstanding for that company) divided by the total Dividend Stream of the index.	
Index Focus	Index Name	Index Selection Criteria
Broad Market	WisdomTree International Equity Index	All companies that pass the initial screening requirements are included in the Index.

CORE PRINCIPLES OF DIVIDEND WEIGHTING

Another key element of the methodology is that it is rebalanced to relative value³ on an annual basis:

- + Decreasing Exposure:** Companies whose stock prices increase compared to their peers while their dividend growth rates are lower than their peers' will typically have their weight reduced in WisdomTree Indexes. In a market capitalization-weighted⁴ index, however, the primary driver of weight is the relative price change.
- + Increasing Exposure:** Companies whose relative stock prices fall while their dividends are flat or growing will typically see increased weight in WisdomTree Indexes. In a market cap-weighted index, however, the lower price would result in a lower weight.

We deconstructed the Indexes and their market cap-weighted benchmark into quartiles⁵ based on the dividend yields⁶ to illustrate this phenomenon and show why it is typical to see higher dividend yields for the WisdomTree Indexes compared to the market capitalization-weighted benchmark:

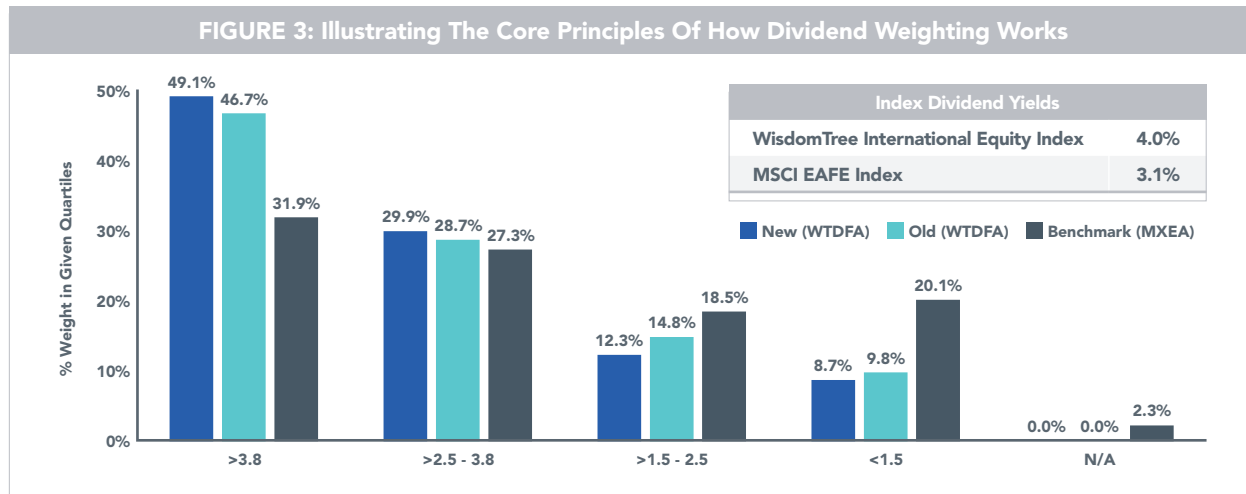
- + Pushing Weight Toward Higher-Yielding Stocks:** Approximately half of the weight of the Index is in the highest-dividend-yield quartile for the dividend-focused approaches.
- + Most Stocks Pay Dividends:** It's also interesting to note that, even in the market capitalization-weighted benchmarks, most stocks are dividend-payers—over 90% of the market capitalization of the MSCI EAFE Index.

³ Relative value: The relationship between a particular attribute, e.g., a dividend, and the firm's share price compared to that of another firm.

⁴ Market capitalization-weighted: Market cap = share price x number of shares outstanding. Firms with the highest values receive the highest weights.

⁵ Quartile: Statistical measure that groups a series of values into four groups after ranking them from lowest to highest. The first quartile will have the lowest values, whereas the fourth quartile will have the highest.

⁶ Dividend yield: Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.



Sources: WisdomTree, FactSet, as of 5/31/2018, screening date of the WisdomTree International Equity Index, and 6/25/2018 after the close of the reconstitution of the Index. Past performance is not indicative of future results. You cannot invest directly in an Index. New (WT DFA) refers to index constituents and weights as of the reconstitution date while Old (WT DFA) refers to index constituents and weights prior to the index screening date.

MARRYING THE EQUITIES WITH THREE SIGNALS THAT BEST CAPTURE CURRENCY TRENDS

Now that the case has been laid for WisdomTree’s approach to fundamentally weighted equities, it is time to introduce our approach to the currency risk embedded in an international equity portfolio. WisdomTree partnered with Record Currency Management (Record) to use its currency research and currency signals in order to dynamically hedge currency exposures within international equity indexes. Because it is very difficult to know which of the signals will have the greatest influence on currency’s performance against the US dollar from month to month, the signals are equally weighted at one-third each in terms of contribution to the overall index hedge ratio.⁷

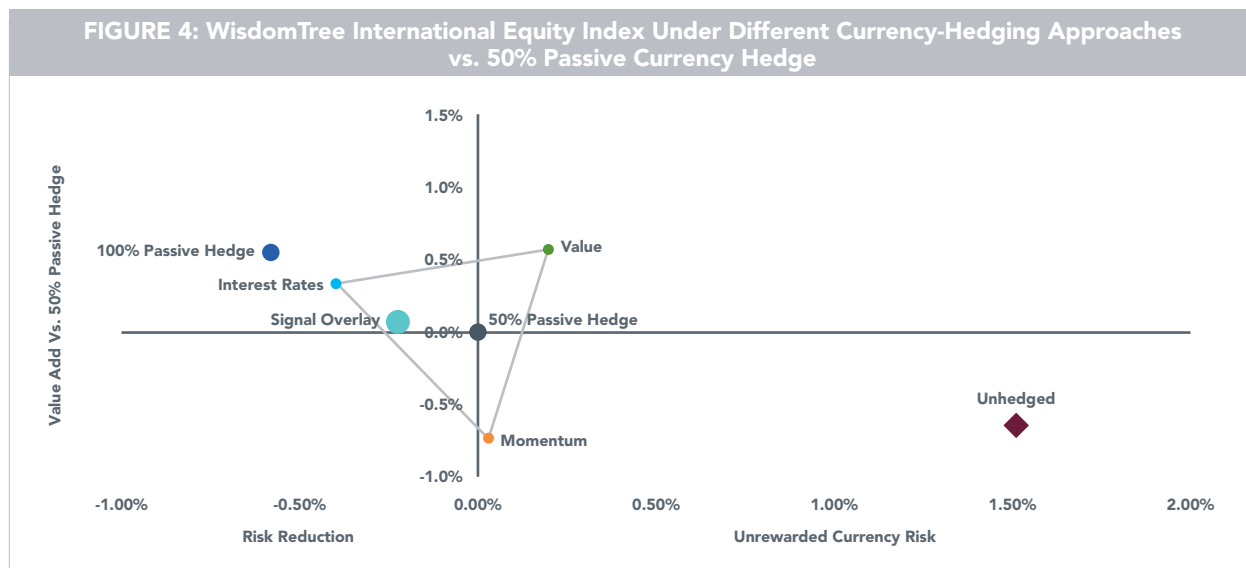
- + Momentum:** 33.3% of the total hedge ratio is determined by momentum, or price activity of the currency. Simply put, a downward trend in the currency would signal to put on the hedge, whereas an upward or appreciating trend would signal to take it off. When the 10-day moving average of the currency’s spot price versus the U.S. dollar is weaker than the 240-day moving average (i.e., the targeted currency is depreciating), the hedge ratio of 33.3% is applied for this signal.
- + Interest Rate (Frequently Referred to as “Carry”):** 33.3% of the total hedge ratio is determined by measuring the difference in interest rates, as implied in one-month foreign exchange (FX) forwards,⁸ between each currency and the U.S. dollar. If the implied interest rate⁹ in the United States is higher than that within the targeted currency, a further 33.33% hedge ratio is applied for this signal.
 - This interest rate factor also typically decreases the cost to hedge by hedging currency exposure only when being paid to do so.
- + Value:** The final 33.3% of the total hedge ratio is determined by a value signal that utilizes the concept of purchasing power parity (PPP)¹⁰ in order to define a measure of relative value for a currency against the U.S. dollar.
 - If a currency becomes more than overvalued by 20% and thus hedged at 33.33% on the value signal, it shifts to 16.67% hedged once it crosses below the PPP level. It then remains at 16.67% hedged until it crosses above or below the 20% over/under-valued barrier again.
 - If a currency becomes more than 20% undervalued and thus hedged at 0% on the value signal, it shifts to 16.67% hedged once it crosses above its PPP level. It then remains at 16.67% hedged until it crosses above or below the 20% over/under-valued barrier again.

In summary, the currency hedge is dynamic, and the hedge ratio will be set on a monthly basis. For any individual currency, hedge ratios can be adjusted to 0%, 16.67%, 33.33%, 50%, 67.67%, 83.33% or 100%. Of course, for broad international strategies with multiple currencies involved, the adjustments for each currency’s exposure could lead to a much wider array of hedge ratios for the aggregate currency exposure of the Index.

⁷ Hedge ratio: The specified percentage of currency exposure being hedged, with 0% indicating that none of the currency exposure is being hedged and 100% indicating that all of the currency exposure is being hedged.
⁸ Foreign exchange (FX) forwards: A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date.
⁹ Implied interest rate (or carry): The amount of return that accrues from investing in fixed income or currency forward contracts.
¹⁰ 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.

EVALUATING HEDGE SIGNALS: REAL TIME RESULTS

When considering the value proposition of different approaches to currency hedging, one must first choose an appropriate starting point from which to evaluate performance. We use a 50% passive currency hedge as the baseline due to its middle approach between a 100% passive currency hedge and being unhedged (also referred to as 0% currency hedge). In doing so, we can evaluate the volatility reduction attained by reducing currency risk through the different currency hedging approaches.



Source: WisdomTree, Record 10/31/15–6/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

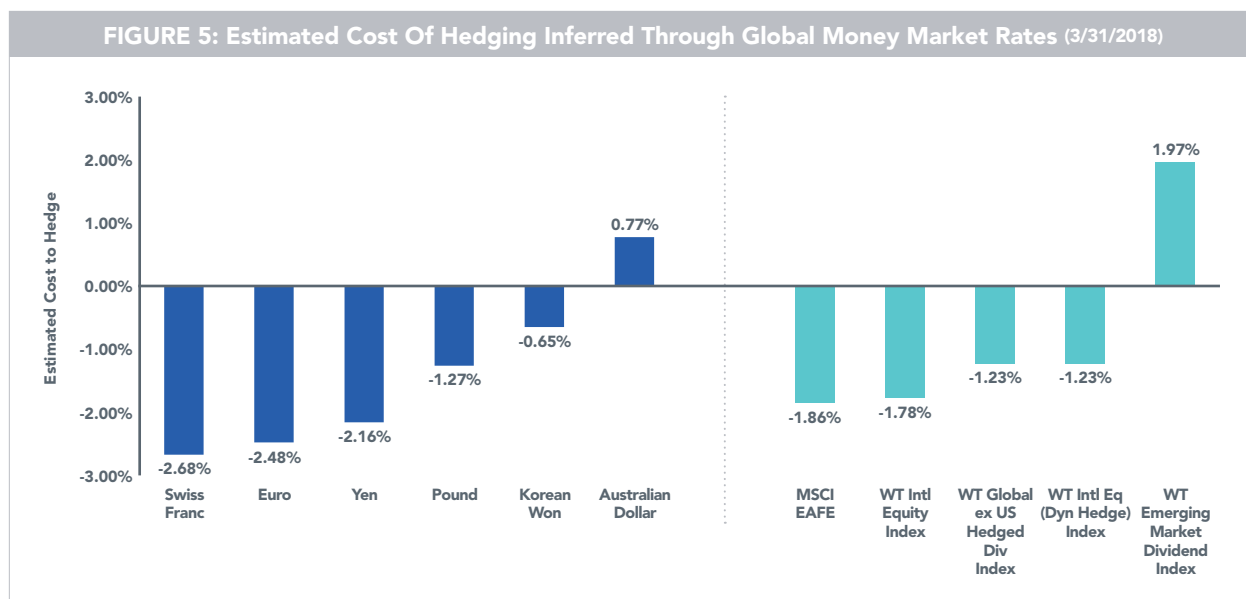
WHAT A DYNAMIC APPROACH ADDED

Since the inception of the WisdomTree Dynamic Currency Hedged International Equity Index, the period shown above, we have seen the Dynamic Hedge exhibit a number of promising performance points.

- + Risk Reduction:** The proper way to think about this chart is with the unhedged approach to the right taking on the full unrewarded currency risk. Meanwhile, the 100% passive currency hedge sits far to the left side as it seeks to hedge 100% of the currency risk and thus resulting in the greatest risk reduction. As one can see, the Dynamic Currency Hedge managed to capture much of the risk reduction that the 100% passive approach captured.
- + Higher Returns:** What is perhaps more striking is that the Dynamic Currency Hedge managed to capture the risk reduction while adding value over the 50% Passive Hedge.

DEBUNKING A CURRENCY-HEDGING MYTH

One common misconception that investors have about currency hedging is that it is “expensive” to hedge foreign currency risk. As we show on the following page, this is not always true as many currencies not only have low hedging costs but, in many cases, investors may actually receive a net benefit from implementing a currency hedge.



Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.

IT PAID TO HEDGE

Short-term interest rates around the world are constantly being pushed around by ever-changing macroeconomic conditions. Based on how the forward currency contracts are priced, if the U.S. dollar short-term interest rate is higher than that of the targeted currencies, hedging those currencies against the U.S. dollar resulted in being paid positive interest rate differentials.

This was also not just true for recent periods. Research shows that for much of history over the last 30 years¹¹ the U.S. had higher interest rates, on average, than these foreign markets. Therefore, this conclusion is not just tied to current interest rate developments.

BUILDING DYNAMIC CURRENCY HEDGING ON BROAD-BASED DEVELOPED INTERNATIONAL EQUITIES

International markets represent many investment opportunities, but international currencies can add uncompensated risk—and can sometimes hurt or help equity performance. Within the current U.S.-listed ETF landscape, there are options that seek to deliver unhedged, 50% hedged and 100% hedged exposure to the movements of foreign currencies against the U.S. dollar while holding international equities. The WisdomTree Dynamic Currency Hedged International Equity Fund (DDWM) represents an important evolution in currency-hedged strategies, providing you with the following:

- + The opportunity to capitalize on developed international equities
- + The ability to benefit from a signal overlay (designed by industry expert Record) that determines when to hedge
- + The opportunity to reduce a drag on equity performance

¹¹ Based on research provided by Record Currency Management.

Overlay Ratio				
Currency	Momentum Signal Hedge Ratio	Interest Rate Hedged Ratio	Value Signal Hedge Ratio	Total Hedge Ratio
AUD	33.33%	33.33%	16.67%	83.33%
CHF	33.33%	33.33%	33.33%	100.00%
EUR	33.33%	33.33%	0.00%	66.67%
GBP	33.33%	33.33%	16.67%	83.33%
JPY	0.00%	33.33%	16.67%	50.00%
NOK	33.33%	33.33%	33.33%	100.00%
NZD	33.33%	33.33%	16.67%	83.33%
SEK	33.33%	33.33%	16.67%	83.33%

Sources: WisdomTree, Record, as of 6/30/18.

DDWM at a Glance

Ticker: DDWM

Exchange: BATS

Expense Ratio: 0.40%, contractually waived to 0.35% through October 31, 2018.

Structure: Open-end ETF.

Rebalancing: DDWM is built to track the WisdomTree Dynamic Currency Hedged International Equity Index, before fees and expenses. The Index has an annual constituent screening and rebalancing process focused on dividends. The currency signals that contribute to the hedge ratio of the currencies in the index are assessed monthly and the hedge ratio of a currency in the index, therefore may be adjusted at a monthly frequency within a range of 0% to 100%.

Unless otherwise stated, data source is WisdomTree. Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but it can hurt when the foreign currency appreciates against the U.S. dollar. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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. Please read the prospectus carefully before you invest.

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 or economic uncertainty. The Fund invests in derivatives in seeking to obtain a dynamic currency hedge exposure. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Derivatives used by the Fund may not perform as intended. A Fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. The composition of the Index underlying the Fund is heavily dependent on quantitative models and data from one or more third parties, and the Index may not perform as intended. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits), even if notified of the possibility of such.

This Fund is not sponsored, endorsed, sold or promoted by Record Currency Management Limited ("Record"), and Record makes no representation or warranty, expressed or implied, to the owners of these Funds regarding any associated risks or the advisability of investing in the Funds.

WisdomTree Dynamic Currency Hedged International Equity Index: A fundamentally weighted index that measures the performance of dividend-paying companies in the industrialized world, excluding Canada and the United States, and is designed to remove from index performance the impact of changes to the value of foreign currencies compared to the U.S. dollar with a hedge ratio ranging from 0% to 100% on a monthly basis. The Index comprises companies incorporated in 15 developed European countries, Japan, Australia, New Zealand, Hong Kong, Israel and Singapore. Companies are weighted in the Index based on annual cash dividends paid. **WisdomTree International Equity Index:** A fundamentally weighted index that measures the performance of dividend-paying companies in the industrialized world, excluding Canada and the United States, that pay regular cash dividends and that meet other liquidity and capitalization requirements. It comprises companies incorporated in 15 developed European countries, Japan, Australia, New Zealand, Hong Kong, Israel and Singapore. Companies are weighted in the Index based on annual cash dividends paid. **MSCI EAFE Index:** A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan. **MSCI EAFE Small Cap Index:** A free float-adjusted market capitalization-weighted equity index that captures small-cap representation across developed market countries around the world, excluding the U.S. and Canada. **WisdomTree Dynamic Currency Hedged International SmallCap Equity Index:** A fundamentally weighted index that measures the performance of the small-capitalization segment of the dividend-paying market in the industrialized world outside the U.S. and Canada and is designed to remove from index performance the impact of changes to the value of foreign currencies compared to the U.S. dollar with a hedge ratio ranging from 0% to 100% on a monthly basis. The Index comprises the companies that make up the bottom 25% of the market capitalization of the WisdomTree International Equity Index after the 300 largest companies have been removed. Companies are weighted in the Index based on annual cash dividends paid. **WisdomTree International Hedged Equity Index:** A fundamentally weighted Index that measures the performance of dividend-paying companies in the industrialized world, excluding Canada and the United States, that pay regular cash dividends and that meet other liquidity and capitalization requirements while at the same time neutralizing exposure to fluctuations of the foreign currencies relative to the U.S. dollar. The Index is designed to have higher returns than an equivalent non-currency hedged investment when the foreign currencies are weakening relative to the U.S. dollar. Conversely, the Index is designed to have lower returns than an equivalent unhedged investment when the foreign currencies are rising relative to the U.S. dollar. The Index is comprised of companies incorporated in 15 developed European countries, Japan, Australia, New Zealand, Hong Kong, Israel and Singapore. Companies are weighted in the Index based on annual cash dividends paid. **MSCI EAFE 100% Hedged to USD Index:** Represents a close estimation of the performance that can be achieved by hedging the currency exposures of its parent index, the MSCI EAFE Index, to the USD, the "home" currency for the hedged index. The index is 100% hedged to the USD by selling each foreign currency forward at the one-month forward weight. The parent index is composed of large and mid-cap stocks across 21 developed markets countries, and its local performance is calculated in 13 different currencies, including the euro. **MSCI EAFE Adaptive Hedge to USD Index:** Represents a close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the MSCI EAFE Index, to the USD, the "home" currency for the hedged index. The parent index is composed of large and mid-cap stocks across 21 developed markets countries. The hedge ratio is the ratio (proportion) of each currency weight in the index that will be hedged each month and is calculated as the average of the four indicator-level hedge ratios calculated for each of the four currency indicators (value, momentum, carry and volatility).

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

WTGM-1159