

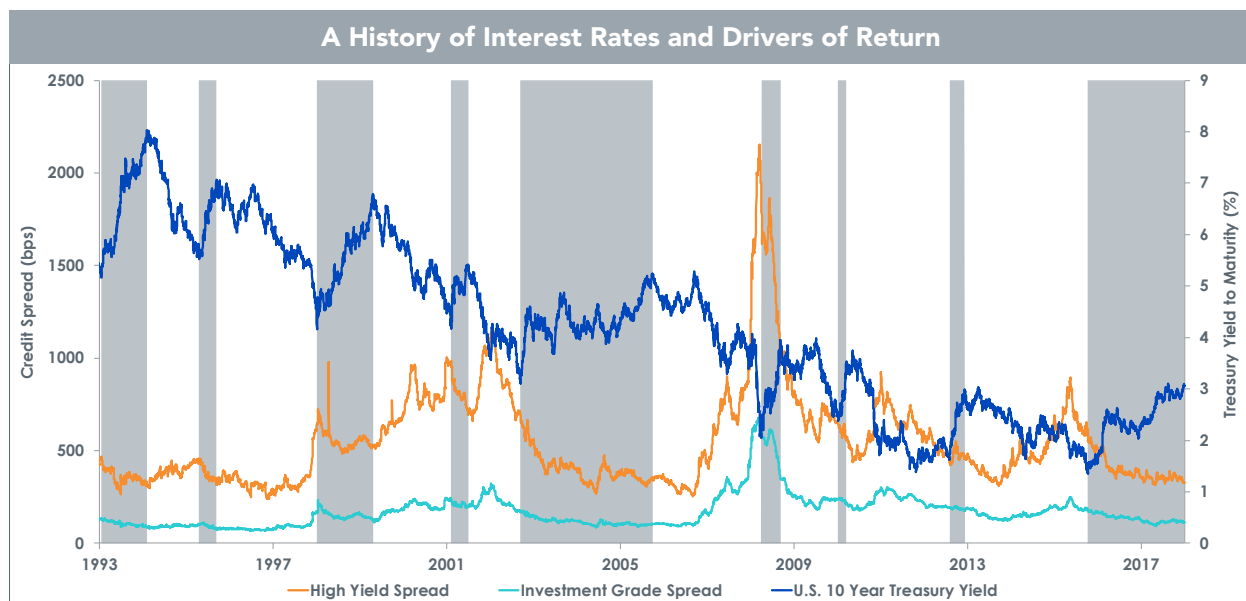
# WisdomTree Interest Rate Hedged High Yield Bond Fund

# HYZD

The U.S. high-yield bond market has been one of the best-performing subsets of the fixed income investable universe over the past five years.<sup>1</sup> As economic conditions in the U.S. have continued to improve and investors have sought to add more risk to their portfolio after 2008, the perception of credit risk<sup>2</sup> in the market has continued to decline, leading to the strong performance track record.

As one means of potentially capitalizing on the current market environment, we believe a zero duration<sup>3</sup>, high yield bond strategy may provide a valuable means of immunizing portfolios against higher interest rates while still generating income from traditional bond exposures.

The WisdomTree Interest Rate Hedged High Yield Bond Fund (HYZD) can help investors preserve the coverage and breadth of their current investments while reducing their overall exposure to interest rate risk. By bundling this institutional style of approach to portfolio management in an exchange-traded fund (ETF), we believe that these products may provide investors with yet another tool to help reduce the interest rate risk of their overall portfolio while supplementing high income levels.



High-Yield Spread: The difference between yields on high-yield bonds as represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Credit Spread: The portion of a bond's yield that compensates investors for taking credit risk. Basis Point (bps): 1/100th of 1 percent. Yield to Maturity: The total returns of a bond received by an investor when a bond is held to maturity. U.S. 10-Year Treasury Yield: The yield to maturity of a generic U.S. 10-year Treasury Bond. Past performance is not indicative of future results.

<sup>1</sup> Sources: Bloomberg as of 9/30/2018.

<sup>2</sup> Credit risk: The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

<sup>3</sup> Duration: A measure of a bond's sensitivity to interest rates movements. Specifically, a duration of 5.5 years indicates that for a 1.00% rise in interest rates, the bond value would be expected to drop approximately 5.5%. Longer duration is indicative of greater sensitivity to interest rates.

		Changes in Rising Rate Periods									
		10/15/1993 - 11/7/1994	1/18/1996 - 6/12/1996	10/5/1998 - 1/20/2000	11/7/2001 - 4/1/2002	6/13/2003 - 6/14/2006	6/1/2005 - 6/28/2006	12/30/2008 - 6/10/2009	10/7/2010 - 12/15/2010	5/2/2013 - 9/5/2013	7/8/2016 - 9/30/2018
Change in Yield (bps)	U.S. 5 YR Treasury	316	160	269	137	301	161	148	99	120	201
	U.S. 10 YR Treasury	287	154	263	125	195	136	189	115	137	170
Change in Spread over Treasuries (bps)	Investment Grade Bonds	-43	-28	-44	-34	-74	-12	-250	-26	-19	-69
	High Yield Bonds	-159	-143	-127	-287	-333	-78	-870	-83	9	-265

Sources: Bloomberg, WisdomTree, as of 9/30/2018. Past performance is not indicative of future results. You cannot invest directly in an index.

**THE RISK OF RISING RATES HAS INCREASED**

While the Federal Reserve (Fed) has already begun the path to raising short-term rates, longer-term interest rates could rise as well. The risk of rising rates is becoming increasingly important for fixed income investors.

- + One of the consequences of low interest rates is that many recently issued bonds are more sensitive to rises in interest rates, given their low coupons<sup>4</sup>
- + Even by reducing duration, investors could simply lose less when interest rates rise and the yield curve steepens<sup>5</sup>
- + Primary catalysts for rising interest rates may include: reduction in monetary stimulus<sup>6</sup>, inflation, rises in Fed interest rate target or political dysfunction

**ICE BOFA MERRILL LYNCH 0-5 YEAR U.S. HIGH YIELD CONSTRAINED, ZERO DURATION INDEX**

The ICE BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained, Zero Duration Index tracks the performance of the combination of a long position in short maturity U.S. high yield bonds and a short position in on-the-run U.S. Treasuries bonds<sup>7</sup> where the net interest rate exposure of the index is adjusted to a zero year duration.

**INDEX COMPONENTS**

<b>Long Portfolio</b>	Bonds included in the ICE BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained Index.
<b>Short Portfolio</b>	Comprises short positions in U.S. Treasury Bonds with an aggregate duration of 0 years. The portfolio will be rebalanced on a monthly basis.

<sup>4</sup> Coupon: The periodic interest payment made to bondholders.

<sup>5</sup> Longer-term interest rates rising at a faster pace than short-term interest rates.

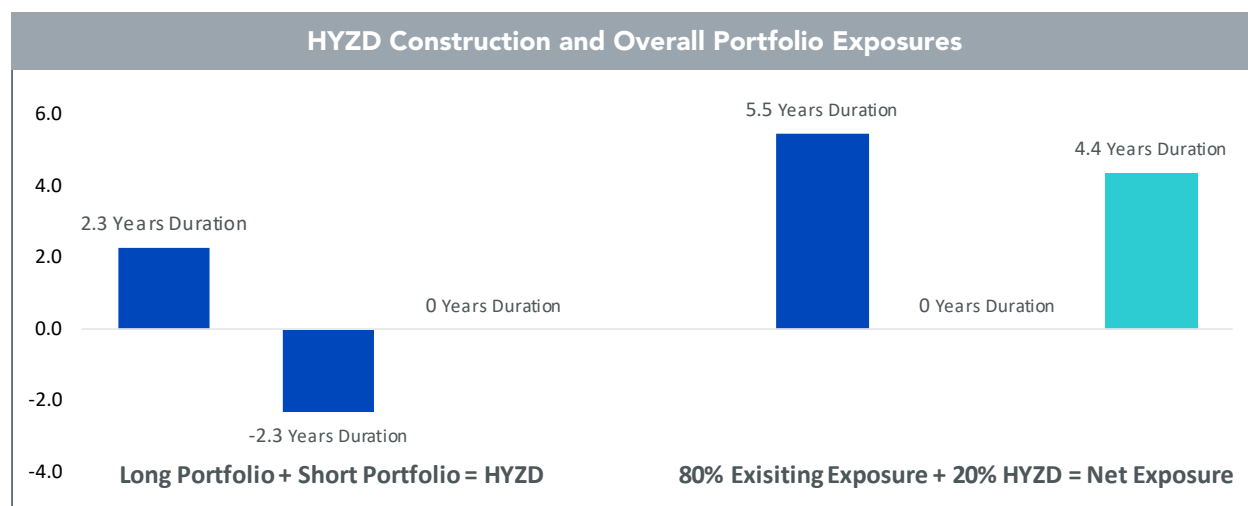
<sup>6</sup> Monetary stimulus: Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

<sup>7</sup> U.S. Treasury Bond: A debt security issued by the United States government.

**IMPACT OF ZERO DURATION ALLOCATIONS IN INVESTOR PORTFOLIOS**

When incorporated into a core fixed income portfolio, HYZD could offer several positive attributes to the portfolio in the context of a rising rate environment. In addition to the high income component, the offsetting interest rate exposure of the short positions in nominal Treasury Bonds could offer a significant reduction in the interest rate risk of the overall portfolio, as seen in the next chart. Also, should there be an improvement in the U.S. economy, it may be likely that the various issuers' credit fundamentals have improved, driving down credit spreads and potentially resulting in positive price appreciation in the bonds.

So how does the zero duration fund work? HYZD essentially combines a long position in cash bonds from the BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained Index with a short position in Treasury bonds and/or Treasury futures to target the zero duration exposure. Investors can use the portfolio as a stand-alone tool for combatting rising interest rates or as a means of mitigating interest rate risk associated with other interest rate sensitive assets in their portfolio.



Long Portfolio: ICE BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained Index. Short Portfolio: Short position in U.S. Treasury Bonds. Sources: BofA Merrill Lynch, WisdomTree, as of 9/30/2018

**POTENTIAL TRADE-OFFS**

Although the Fund seeks to target a duration of zero years, a rate increase of 100 basis points does not necessarily guarantee a zero impact on the price of the Fund. Given its investments in non-investment grade bonds, the Fund will be adversely impacted by a deterioration in credit quality. Also, it may be possible that the targeted short exposure does not completely mitigate the interest rate exposure of the long bond positions. Additionally, should rates remain constant (or fall), the strategy may underperform a long-only portfolio. However, in today's low opportunity cost environment, we believe that the potential risk of rising rates outweighs the potential losses in carry<sup>8</sup> from putting on this exposure.

<sup>8</sup> Carry: The amount of return that accrues from investing in fixed income or currency forward contracts.

**HYZD—BENEFITTING FROM RISING RATES WITH INCOME**

The WisdomTree Interest Rate Hedged High Yield Bond Fund (HYZD) seeks to track the price and yield performance, before fees and expenses, of the ICE BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained, Zero Duration Index.

<b>WisdomTree Interest Rate Hedged High Yield Bond Fund Quick Facts</b>	
<b>Ticker</b>	HYZD
<b>Exchange</b>	NASDAQ
<b>Expense Ratio</b>	0.43%
<b>Structure</b>	Open-end ETF. Registered under the Investment Company Act of 1940.
<b>Exposure</b>	Combination of cash bonds with short positions in Treasury Bonds and/or U.S. Treasury futures contracts.
<b>Objective</b>	The Fund seeks to provide total returns, before expenses, that correspond to the performance of the ICE BofA Merrill Lynch 0-5 Year U.S. High Yield Constrained, Zero Duration Index.
<b>Duration Target</b>	0.0 Years
<b>Rebalancing</b>	The Fund adjusts the interest rate hedge on a monthly basis.

**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 HYZD, contact your WisdomTree representative or visit [WisdomTree.com](http://WisdomTree.com).**

**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 866.909.9473 or visit WisdomTree.com. Investors should read the prospectus carefully before investing.**

There are risks associated with investing, including possible loss of principal. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. The Fund seeks to mitigate interest rate risk by taking short positions in U.S. Treasuries, but there is no guarantee this will be achieved. 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.

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. The Fund may engage in "short sale" transactions where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. 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. Due to the investment strategy of certain Funds, they 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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ICE BofA Merrill Lynch 0-5 Year US High Yield Constrained Index: Tracks the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. ICE BofA Merrill Lynch 0-5 Year US High Yield Constrained, Zero Duration Index: Tracks the performance of the combination of a long position in short maturity US high yield bonds and a short position in on the run US Treasuries where the net interest rate exposure of the index is adjusted to a zero duration. Market values of long and short positions are rebalanced at month-end.

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WTGM-1338