WisdomTree International Multifactor Fund
WisdomTree Emerging Markets Multifactor Fund

DWMF/ EMMF

THE CASE FOR INTERNATIONAL AND EMERGING MARKETS MULTIFACTOR FUNDS

WisdomTree aspires to be at the forefront of innovative ways to marry the benefits of the ETF structure with goals associated with active[1] managers, such as outperforming market cap-weighted[2] indexes over the long run.

In 2017, WisdomTree launched a domestic multifactor strategy to target factors well researched in the academic literature. We believe our bottoms-up method for combining factors helps maximize the potential for higher absolute and risk-adjusted returns[3] in a unique fashion—and real-time performance of this strategy has been quite good among all the multifactor approaches.

WisdomTree is expanding this strategy and providing investors with access to its multifactor approach with two new active ETFs: the WisdomTree International Multifactor Fund (DWMF) and the WisdomTree Emerging Markets Multifactor Fund (EMMF).

GOING BEYOND BETA FOR ALPHA

The very first ETFs—and the majority of those that followed—were based on market capitalization-weighted indexes. Broad market indexing and ETFs have gained a large and growing share of the asset management marketplace due to investors' desire to lower the costs of investing. In addition, study after study has found it difficult for traditional active managers to overcome the higher fees they often charge.

Believing in a passive, low-cost approach, WisdomTree in 2006 launched a suite of fundamentally weighted[4] indexes and ETFs that were designed to address a central drawback of market cap-weighted indexing: that traditional cap weighting incorporates no sense of rebalancing back to relative value[5], and thus becomes unduly exposed to all major asset pricing bubbles.

[1] Active: Funds that attempt to outperform the market by selecting securities a portfolio manager believes to be the best.
[2] Market capitalization weighting: Market cap = share price x number of shares outstanding. Firms with the highest values receive the highest weights.
[3] Risk-adjusted returns: Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.
[4] Fundamental weighting: A type of equity index in which components are chosen based on fundamental criteria as opposed to market capitalization. Fundamentally weighted indexes may be based on fundamental metrics such as revenue, dividend rates, earnings or book value.
[5] Relative value: The relationship between a particular attribute (e.g., a dividend) and the firm's share price compared to that of another firm.

Alongside the consistent drive toward index investing, there has also been a growing adoption of factor-based portfolio strategies. The research in the academic community has centered its focus on value[6], quality[7], low volatility[8], momentum[9] and size[10] factors.

In WisdomTree's original factor ETFs from 2006, WisdomTree provided exposure to four of the five well-regarded factors, with the exception of momentum. Factor analysis would illustrate that our small-cap dividend ETF, the WisdomTree U.S. SmallCap Dividend Fund (DES), has provided exposure to small caps[11] (size), value, quality and low beta[12] (low volatility). These original WisdomTree factor ETFs were designed to be broad-based, scalable solutions with low levels of tracking error[13] compared to more traditional market capitalization-weighted benchmarks.

While WisdomTree believes broad beta benchmarks—both market capitalization weighted and fundamentally weighted—should continue to gain share at the expense of expensive active management, we also think there is a place in portfolios for higher-alpha[14]-seeking investment strategies that are priced reasonably and at relatively low fees compared to traditional active management.

A NEW BREED OF ACTIVE?

Vanguard, which is most commonly thought of as the most formidable competitor in the drive toward low-cost indexing, also believes in active management—with offerings that date back to its founding in 1975. The primary variable that stacks odds in Vanguard's favor—in addition to finding the right managers who have the patience to stick with their strategies—is the low costs of its funds. Vanguard's long-term track record in actively managed funds—with one Vanguard study in 2017 showing that its active funds beat more than 95% of the competition over the previous 10 years—also suggests it is possible for active managers to hit the top of their categories with the right mix of investment strategy, discipline and cost structure.[15]

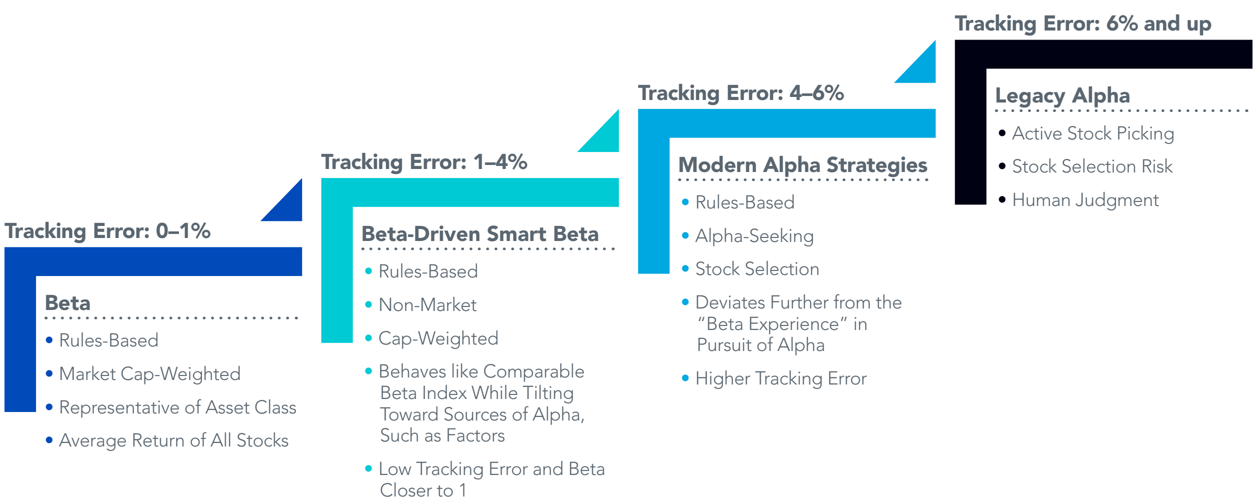
If an investor is searching for alpha, employing a low-tracking-error strategy will limit the value added over the market that can be achieved. An investor clearly has to be willing to suffer through periods of underperformance in higher alpha, higher active share[16]-oriented investment strategies. The general maxim of investing holds true here: The less "active risk," the less the potential for the active reward.

[6] Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the value factor, which associates these stock characteristics with excess returns versus the market over time.
[7] Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets and operating profitability. This term is also related to the quality factor, which associates these stock characteristics with excess returns versus the market over time.
[8] Low volatility: Characterized by lower standard deviation of price over time. This term is also associated with the low volatility factor, which associates lower-volatility stocks with better risk-adjusted returns versus the market over time.
[9] Momentum: Characterized by assets with recent price increase trends over time. This term is also associated with the momentum factor, which associates these stock characteristics with excess return versus the market over time.
[10] Size: Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the size factor, which associates smaller market cap stocks with excess returns versus the market over time.
[11] Small caps: New or relatively young companies that typically have a market capitalization of $200 million to $2 billion.
[12] Beta: Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark.
[13] Tracking error: Can be discussed as both the standard deviation of excess return relative to a specific benchmark, or absolute excess return relative to a specific benchmark.
[14] Alpha: A risk-adjusted measure of the so-called "excess return" on an investment. It is a common measure of assessing an active manager's performance, as it measures the return in excess of a benchmark index or "risk-free" investment.
[15] See, for instance, Vanguard infographic "The keys to active management success," 5/23/17.
[16] Active share: The percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

SEGMENT THE HYBRID "FACTOR APPROACH": HIGH AND LOW ALPHA/TRACKING ERROR STRATEGIES

Many investment managers discuss the asset management spectrum ranging from passive on one end to active on the other. Smart beta and factor strategies, being a hybrid of both, usually lay in the middle—with a goal of outperforming the market like active strategies but achieved with a rules-based approach like passive investing.

WisdomTree believes a further refinement of this passive-to-active spectrum is important to consider—that is, how much tracking error one is willing to tolerate in the quest for alpha?



Tracking error numbers are meant to serve as a guideline and not exact measurements.

MODERN ALPHA STRATEGIES

In a quest to build our higher tracking error and more active strategies, WisdomTree believes it is important to balance the risks that come with more active mandates. These risks include:

+ **Balance of Factors:** Are you over-weight certain factors that become meaningfully out of favor for a long stretch of time? For instance, WisdomTree believes in the long-run efficacy of the value factor, yet in the past decade, value indexes have lagged growth indexes in nearly every market globally, with Japan as one of the only notable exceptions. A strategy that just tilts to value, therefore, has had a meaningful headwind over this period.
+ **Sector and Country Bets:** Are you meaningfully under-weight or over-weight certain sectors or countries that are a result of your factor tilts? For instance, minimum-volatility and high-dividend indexes have an inherent over-weight to bond proxy sectors like Utilities, Telecommunications and Real Estate. A country like China and its tech sector has experienced some of the highest growth in emerging markets and as a result has among the lowest earnings yields. A value index may be chronically under-weight a country like China.

- **Balance Benefits of Diversified Factor Approach:** In a strategy designed to add alpha, an investor must take meaningful stock selection risk. Employing factor diversification to improve the merits of stock selection signals was a key element shaping WisdomTree's thinking on a more "active" methodology.
- **Currency Management Overlay:** WisdomTree has worked with Record Currency Management (Record) to use its currency research and signals to dynamically hedge currency exposures in international equity strategies. In international investing, currencies can contribute a significant proportion of overall returns and volatility, making exposure to currency an important factor driving international results.

UNIQUE, MULTIFACTOR ACTIVE ETFS

WisdomTree's multifactor strategies not only take significant tilts away from pure market cap weighting with 1) more concentrated stock selection rules and 2) a flatter factor and risk-based weighting methodology more akin to equal weighting, but there is also an active overlay from the purely model-based output.

The active overlay: WisdomTree's quantitative team seeks to apply risk analysis of our raw factor model. When certain factor bets creep into the model portfolio and make the balance of risks tilt too much in one factor's direction, we can adjust the portfolio to be more balanced across our factors.

Our research shows there are times when a pure indexing approach can lead to unbalanced factor exposures or sector concentration risk resulting from extreme sector weights—even when indexes are designed to equally weight a diverse set of factors.

Innovations in our new active approach include:

- Unique blending of fundamental and technical[17] factors to create a proprietary stock selection and weighting model.
  - **WisdomTree's fundamental factor screens: value and quality**
  - **WisdomTree technical factor screens: momentum and correlation**

Including value, quality and momentum as factors in a portfolio will not be surprising to people. The low correlation factor is a new one for some people, although we have witnessed other quantitative managers publish on this factor recently as well. This low correlation factor is related to low volatility and the low beta phenomenon.

[17] Technical indicators: Technical indicators attempt to predict the future price levels, or simply the general price direction, of a security by looking at past patterns.

The metrics we evaluate to create a factor score for each company are listed below. The specific metrics will be common to many similar approaches, but we believe our more active formula for how we apply these factor tilts helps set us apart from other publicly disclosed index methodologies.

Value Factor

+ Sales-to-Price, Book-to-Price, Earnings-to-Price, Estimated Earnings-to-Price, EBITDA-to-Enterprise Value, Operating Cash Flow-to-Price

Quality Factor

+ Static observations and trends of Return on Equity, Return on Assets, Gross Profits over Assets, Cash Flow over Assets

Momentum Factor

+ Risk-adjusted total returns over historical periods (6 and 12 months)

Low Correlation Factor

+ Incorporates diversification potential of stocks that are less correlated to the market

Fundamental Factors   Technical Factors

FACTOR PERFORMANCE ATTRIBUTION

Our respective MSCI market cap benchmarks for developed international and emerging markets, the MSCI EAFE and MSCI Emerging Markets Indexes, can be used to show how WisdomTree's factor definitions have performed over time. Every company in these benchmarks is given a numerical factor score for each of the fundamentals factors (value and quality) and technical factors (low correlation and momentum). Once scored, constituents are ranked and assigned to one of three portfolios, Good/OK/Bad, created by dividing each benchmark universe into thirds.

Below we can see that the portfolio of top value scores (Good) in the MSCI EAFE Index has historically outperformed the portfolio of worst value scores (Bad) on both an absolute and risk-adjusted basis. This same trend is present when looking across the rest of the factors in both developed international and emerging markets.

Summary Statistics 1/1/2002–6/30/2018

	Avg. Ann. Return	Std Dev	Beta	Sharpe Ratio	Tracking Error	Information Ratio	Correlation
MSCI EAFE Value Factor (Good)	7.35%	17.92%	1.07	0.34	3.46%	0.38	0.98
MSCI EAFE Value Factor (OK)	6.03%	16.20%	0.97	0.30	2.70%	0.00	0.99
MSCI EAFE Value Factor (Bad)	5.46%	15.11%	0.88	0.28	4.44%	-0.13	0.96
MSCI EAFE Quality Factor (Good)	7.64%	15.11%	0.87	0.42	5.26%	0.30	0.95
MSCI EAFE Quality Factor (OK)	6.31%	16.01%	0.95	0.32	3.35%	0.08	0.98
MSCI EAFE Quality Factor (Bad)	4.42%	17.53%	1.03	0.18	4.19%	-0.39	0.97
MSCI EAFE Momentum Factor (Good)	7.40%	12.68%	0.70	0.48	7.16%	0.19	0.91
MSCI EAFE Momentum Factor (OK)	6.81%	16.09%	0.95	0.35	3.62%	0.21	0.98
MSCI EAFE Momentum Factor (Bad)	4.70%	22.39%	1.29	0.15	8.31%	-0.16	0.95
MSCI EAFE Low Correlation Factor (Good)	7.11%	13.51%	0.75	0.43	6.95%	0.15	0.91
MSCI EAFE Low Correlation Factor (OK)	7.22%	16.51%	0.98	0.36	3.13%	0.38	0.98
MSCI EAFE Low Correlation Factor (Bad)	4.34%	20.92%	1.23	0.15	6.44%	-0.26	0.97
MSCI EAFE	6.04%	16.52%	1.00	0.29	0.00%	0.00	1.00

Sources: WisdomTree, Zephyr StyleADVISOR, FactSet, as of 6/30/18. Past performance is not indicative of future results. You cannot invest directly in an index. Sharpe ratio: Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable. Standard deviation: A measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk," in that there is more of a chance the actual return observed is farther away from the average return. Information ratio: A risk-adjusted return measure calculated by taking the excess return against the benchmark and dividing by the tracking error.

Summary Statistics 1/1/2002–6/30/2018

	Avg. Ann. Return	Std Dev	Beta	Sharpe Ratio	Tracking Error	Information Ratio	Correlation
MSCI EM Value Factor (Good)	15.00%	23.52%	1.08	0.58	5.51%	0.86	0.97
MSCI EM Value Factor (OK)	9.50%	20.51%	0.95	0.40	3.86%	-0.19	0.98
MSCI EM Value Factor (Bad)	7.30%	20.09%	0.91	0.30	5.77%	-0.51	0.96
MSCI EM Quality Factor (Good)	12.11%	19.24%	0.87	0.56	5.89%	0.32	0.96
MSCI EM Quality Factor (OK)	13.19%	19.87%	0.91	0.60	4.99%	0.59	0.97
MSCI EM Quality Factor (Bad)	5.18%	22.35%	1.03	0.18	5.03%	-1.01	0.97
MSCI EM Momentum Factor (Good)	13.68%	17.89%	0.80	0.70	6.86%	0.50	0.95
MSCI EM Momentum Factor (OK)	9.08%	21.64%	1.01	0.36	3.48%	-0.33	0.99
MSCI EM Momentum Factor (Bad)	9.80%	25.37%	1.16	0.34	7.22%	-0.06	0.97
MSCI EM Low Correlation Factor (Good)	12.86%	18.90%	0.85	0.61	6.25%	0.42	0.96
MSCI EM Low Correlation Factor (OK)	9.69%	22.31%	1.03	0.38	4.58%	-0.12	0.98
MSCI EM Low Correlation Factor (Bad)	10.15%	24.17%	1.09	0.37	6.96%	-0.01	0.96
MSCI Emerging Markets	10.24%	21.22%	1.00	0.42	0.00%	0.00	1.00

Sources: WisdomTree, Zephyr StyleADVISOR, FactSet, as of 6/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

SCREENING FOR OUR ETFS

To create the portfolios for our international and emerging markets multifactor ETFs, the following discipline is applied:

+ **Active Selection:** WisdomTree's stock selection universe starts with the 800 largest market capitalization stocks in each respective region. From this universe, WisdomTree selects the top 200 stocks with the highest combined factor score. Taking one-fourth of the starting universe—from a stock selection standpoint—is a fairly "active" cut of the universe. We did not find value or additional consistent alpha for going any deeper into more narrow stock selection rules like 100 stocks instead of 200.
+ **Risk and Return Weighting:** WisdomTree utilizes not just a factor score—a stock's alpha signal—as part of the weighting process, but also a stock's volatility[18] level. This incorporates a concept of risk-adjusted return as a key driver of weights in our portfolios.
+ **Sector and Country Bands:** One of the key potential risks WisdomTree identified in factor investment strategies is how many such strategies wind up with large sector or country bets compared to the market. These bets may help or hurt over given market cycles. WisdomTree, in looking to add stock selection value through a diversified factor selection model, wanted to minimize the risk of diluting our alpha signals as a result of mismatched sector or country weights relative to the market. Yet we also found that our factor models have some implicit signaling in terms of country and sector tilts, and so we will allow some constrained deviation on a country and sector basis away from the pure market index.

The initial stock screening process can be summarized with this flow diagram:

Quarterly Rebalance
Start with a Broad Universe of Public Companies in Each Region

Assign Each Stock
a Composite Multifactor Score

Select Top 200 Stocks with the
Highest Multifactor Score per Region

Assign Each Stock a Volatility Score (Trailing 12-Month Volatility)
Rewarding Less Volatile Stocks

Final Rules-Based Screen
½ Weight Multifactor Score (Alpha Signal)
½ Weight Volatility Score
Sector and Country +/- 5% Bands to Mitigate Sector and Country Tilts versus
Respective Market Cap Weighted Universe

[18] Volatility: A measure of the dispersion of actual returns around a particular average level.

THE CURRENCY FACTOR: A DYNAMIC AND MORE ACTIVE APPROACH

WisdomTree also believes a factor that impacts international markets is currency risk[19], and many investors want to leave it to their active managers to make such hedging decisions for them.

In certain index investment strategies WisdomTree has in the marketplace today, we offer three currency approaches: unhedged, fully hedged[20] and dynamically hedged[21] indexes.

In these international and emerging markets active ETFs, we offer one investment approach that takes currency risk management as one of the multiple factors we are actively seeking to manage. There will be times the funds will have currency risk, and other times more of the currencies will be hedged. All those decisions are grounded by research and a factor model.

Dynamic Currency Overlay: Developed and emerging market currencies exhibit drastically different liquidity[22], risk and hedging costs. As a result, WisdomTree's research concluded that a different approach is needed across markets. Hedge ratios for developed markets will be set on a monthly basis, and emerging markets will be re-evaluated every two weeks.

+ **Developed Markets:** For any individual currency, hedge ratios can be adjusted to between 0 and 100% based on the degree of the results of three signals—carry (interest rate differentials or the cost to hedge), momentum and value (purchasing power parity).
+ **Emerging Markets:** Three momentum factors are used to determine degree in conviction of a hedged or unhedged decision for emerging markets.

Market Leader in Currency Hedging Research

+ Developed and emerging market currencies exhibit drastically different liquidity, risk, and hedging costs. As a result, WisdomTree's research concluded that a different approach is needed across markets

Developed International

Three factors act independently before being aggregated into the overall signal overlay:

+ Carry (Interest Rate Differentials)
+ Value (Purchasing Power Parity)
+ Momentum (10 and 240 day moving average (MA))

Between 0-100% hedged for each currency

Rebalance Frequency: Monthly

We believe dynamic hedging can potentially add 100-150 basis points[23] per year to unhedged, fully-hedged, ½ hedged benchmarks

Emerging Markets

Three momentum factors aggregated into a high conviction overlay:

+ Short-Term (5 and 30 day MA)
+ Medium-Term (20 and 60 day MA)
+ Long-Term (10 and 240-day MA)

Binary Hedging: 100% hedged or unhedged for each currency

Rebalance Frequency: Bi-weekly

Minimizes cost of hedging by being hedged on average only 20% of time

[19] Currency risk: The risk that an investment will decline in value due to a change in foreign exchange rates.
[20] Hedge: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.
[21] Dynamic hedge: Strategy in which a currency hedge can be varied (as opposed to targeting a constant level) and change over the course of time.
[22] 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.
[23] Basis Point: 1/100th of 1 percent.

INTRODUCING THE WISDOMTREE INTERNATIONAL AND EMERGING MARKETS MULTIFACTOR FUNDS

The next step in the smart beta evolution

WisdomTree's systematic approach to multifactor investing is designed to provide higher alpha potential with lower volatility and all the benefits of an ETF. This multifactor approach offers:

+ Access to numerous smart beta factors
+ Alpha potential across different market environments and across regions
+ Sector and country bands and seeking lower volatility than some active and multifactor approaches
+ The potential for enhanced risk-adjusted returns
+ All the benefits of the ETF structure—and more

WisdomTree International Multifactor Fund Quick Facts	
Ticker	DWMF
Exchange	NYSE
Expense Ratio	0.38%
Structure	Open-end ETF
Exposure	Developed International Equities with Dynamic Currency Overlay
Equity Rebalancing	Quarterly
Currency Hedge Rebalancing	Monthly

WisdomTree Emerging Markets Multifactor Fund Quick Facts	
Ticker	EMMF
Exchange	NYSE
Expense Ratio	0.48%
Structure	Open-end ETF
Exposure	Emerging Markets Equities with Dynamic Currency Overlay
Equity Rebalancing	Quarterly
Currency Hedge Rebalancing	Bi-Weekly

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.

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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 Emerging Markets Index: A broad market cap-weighted index showing the performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

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