INTRODUCING A NEW APPROACH TO CURRENCY EXPOSURE IN EMERGING MARKETS

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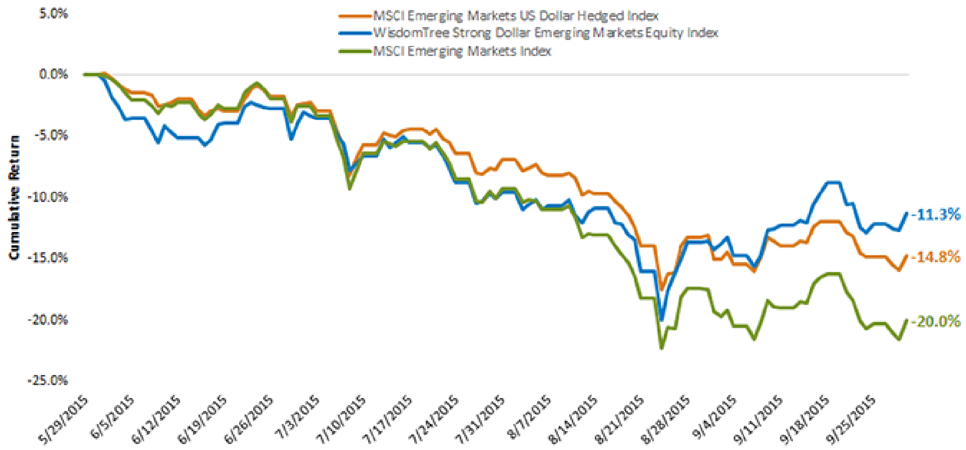
During the first nine months of 2015, it was difficult to overstate the impact that currency depreciation against the U.S. dollar had on emerging market equity performance. Using the example of the MSCI Emerging Markets Index we saw a negative impact of 8.33%. On the more extreme end, the Brazilian real lost nearly one-third of its value against the U.S. dollar.[1] **Traditional Currency-Hedged Strategies May Face Headwind** As the U.S. dollar strengthens, currency-hedged exchange-traded funds (ETFs) have been growing in popularity. But there is one area where these may not make sense—in emerging markets. Hedging emerging market currencies can be expensive, as the forward contracts used to apply a short position are priced predominantly based on the differences in interest rates between the home currency (the U.S. dollar) and the target currency (emerging market currencies). And as the U.S. still has an essentially zero interest rate policy and many emerging markets have substantially higher short-term interest rates, any short position in a forward contract is obligated to pay this difference. **WisdomTree Introduces a New Index** Given the higher cost in emerging markets, WisdomTree sought to mitigate the risk of currency depreciation against the U.S. dollar through the Index construction process. The new WisdomTree Strong Dollar Emerging Markets Equity Index focuses on: • **Stock Selection:** At the annual Index screening, companies cannot belong to the Energy, Financials, Materials, Telecommunication Services or Utilities sectors. Additionally, eligible companies need to derive at least 15% of their revenues from the United States. • **Constituent Weighting:** At the annual Index screening, the Index is designed to tilt weight toward firms whose returns have had a higher correlation to changes in the value of the U.S. dollar—in other words, less weight to the stocks most hurt by a rising U.S. dollar. The stocks most vulnerable to a rising U.S. dollar tend to be companies with a lot of debt in U.S. dollars as well as commodity-oriented companies. **Bottom Line:** Instead of utilizing a currency-hedged approach, the WisdomTree Strong Dollar Emerging Markets Equity Index seeks to mitigate the risk of a strengthening U.S. dollar through its stock selection and resulting country, sector and underlying currency exposures inherent to this approach. **Analyzing Performance Out of the Gate** The true test is in how this methodology actually performs in real time. While the WisdomTree Strong Dollar Emerging Markets Equity Index has only been live for a short period, we think the initial results—delivered during a period of U.S. dollar strength—have been notable. In effect, it is our view that there are two main benchmarks of emerging markets equity performance for comparison: • **MSCI Emerging Markets US Dollar Hedged Index:** This index applies the currency-hedging methodology with forward contracts that we discussed earlier. It is important to see if the WisdomTree Strong Dollar Emerging Markets Equity Index was able to outperform it during a time of significant U.S. dollar strength. • **MSCI Emerging Markets Index:** This is one of the most widely followed benchmarks for equity performance in emerging markets, and it can function as a gauge to show how emerging market equities and currency are performing in combination. **A Challenging Environment for Emerging Market Equities**



Source: Bloomberg, for period from 5/29/2015 to 9/30/2015. Period corresponds to the live history of the WisdomTree Strong Dollar Emerging Markets Equity Index. Past performance is not indicative of future results. Performance, especially for very short periods, should not be the sole factor in making your investment decision. You cannot invest directly in an index.

• **Short Period Shows Interesting Results:** Over the period during which the WisdomTree Strong Dollar Emerging Markets Equity Index has been live, the U.S. dollar has appreciated by about 6% against the currencies broadly represented in the MSCI Emerging Markets Index. • The WisdomTree Strong Dollar Emerging Markets Equity Index outperformed both the MSCI Emerging Markets Index and the MSCI Emerging Markets US Dollar Hedged Index over this period. **How Was Outperformance Achieved over This Period?**[2] • Big Differences in Sector Exposure: We see about 35% of the exposure in the Information Technology sector as of September 30, 2015—a large over-weight. Other large over-weights compared to the MSCI Emerging Markets Index were in the Consumer Discretionary, Industrials and Health Care sectors. Then, of course, there is the fact that the WisdomTree Strong Dollar Emerging Markets Equity Index is designed to avoid exposure[3] to the Materials and Energy sectors, representing average weights of about 6.7% and 8.0% weight within the MSCI Emerging Markets Index respectively. Over this period, the Energy sector was the worst performer in the MSCI Emerging Markets Index—down about 25%, and the Materials sector was not far behind, down about 22%. • **Big Differences in Country/Currency Exposure:** South Korea and Taiwan are very large over-weights—about 35% weight each, representing more than 20% over-weight exposure each, compared to the MSCI Emerging Markets Index—and it's worth noting that these currencies only depreciated about 6.5% to 7.0% over the period. On the other hand, some of the worst-performing currencies over this period were the Russian ruble (down 19.9%), the Brazilian real (down 19.5%), the Malaysian ringgit (down 16.6%) and the South African rand (down 12.3%). These currencies comprised about 20% of the MSCI Emerging Markets Index, but they comprised only about 8.7% of the WisdomTree Strong Dollar Emerging Markets Equity Index. **Introducing the [WisdomTree Strong Dollar Emerging Markets Equity Fund (EMSD)](#)** EMSD is the ETF that is designed to track the performance of the WisdomTree Strong Dollar Emerging Markets Equity Index before fees and expenses. At WisdomTree, we are excited to launch this innovative approach to thinking about the impact of currency on equity returns for emerging markets stocks.

[1]Source for entire paragraph: Bloomberg, for period from 12/31/14 to 9/30/2015. [2]Sources for bullet points: Bloomberg, Standard & Poor's, with data as of 9/30/15. Any data referencing a "period" refer to 5/29/15– 9/30/15. [3] Subsequent to Index screening it is possible that a current constituent may spin off a subsidiary company that may be classified as an Energy or Materials firm. Spin-off firms that remain in the Index do not get removed between Index rebalances due to their sector classification.

Important Risks Related to this Article

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. Funds focusing on a single sector generally experience greater price volatility. Investments in emerging, offshore 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. A Fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. 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.

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

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

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.

Forward contracts : Agreements to buy or sell a specific currency at a future date at an agreed upon rate.

Short (or Short Position) : The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

MSCI Emerging Markets U.S. Dollar Hedged Index : represents a close estimation of the performance that can be achieved by hedging the currency exposures of its parent index, the MSCI EM Index, to the USD, the "home" currency for the hedged index.