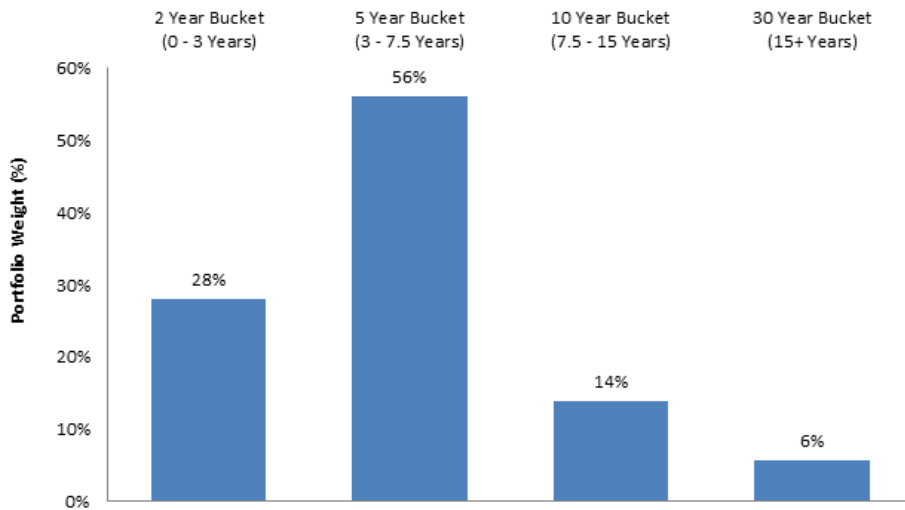


BUNDLING RISING RATE STRATEGIES WITH EXCHANGE TRADED FUNDS

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In our view, exchange-traded funds (ETFs) can provide powerful tools for fixed income investors both big and small. Even some of the most sophisticated investment managers have used ETFs to gain broad-based exposure to certain subsets of the fixed income market. This is perhaps most applicable in [high-yield](#) and emerging market debt. ETFs allow investors a way to efficiently access a basket of bonds as opposed to attempting to buy or sell each security on its own. With this same approach in mind, WisdomTree has sought to bundle institutional-caliber strategies to mitigate [interest rate risk](#) in an easy-to-access ETF wrapper. As highlighted below, the mechanics of these approaches seek to address the risk of rising rates head on. One common concern about traditional approaches to rising rates is that the portfolios' underlying investment characteristics change in the name of trying to reduce risk. By altering the coupon type or shifting to the very front of the [yield curve](#), investors must change their portfolio's DNA. In our approach to rising rates, we have sought to maintain traditional bond exposures while modifying exposure to interest rate risk. In doing so, we sought to create portfolios that investors are familiar with and that provide them with the risk management tools they seek. The [Barclays U.S. Aggregate Index](#) is the most recognized fixed income index in the world, with over \$4 trillion in assets benchmarked to it.¹ In partnering with BofA Merrill Lynch, we were able to access a commonly followed investment strategy of high-yield bonds [maturing](#) within five years. However, in a rising rate environment, both investment-grade and high-yield bonds are likely to underperform. In response, we sought to create two different risk profiles for each strategy: • Zero [duration](#) indexes, which seek to offset the interest rate exposure in the long bond portfolio • Negative duration indexes, whereby the overlay strategy is constructed to target a duration below zero, creating an index that could potentially benefit from a rising rate environment. In both approaches, investors are given the flexibility to mitigate interest rate risk in the same way that they currently manage [credit risk](#) via ETFs. On the day the [Federal Reserve \(Fed\)](#) began [tapering](#) its asset purchase program, WisdomTree launched the [Barclays U.S. Aggregate Bond Zero Duration Fund \(AGZD\)](#), the [Barclays U.S. Aggregate Bond Negative Duration Fund \(AGND\)](#), the BofA Merrill Lynch High Yield Bond Zero Duration Fund ([HYZD](#)) and the BofA Merrill Lynch High Yield Bond Negative Duration Fund ([HYND](#)) to help investors maintain bond exposure while mitigating risk. As a result, the performance impact of the Fed's shift in policy can be easily observed through the performance of these strategies. **Interest Rate Risk Is More Than a Number** While some investors seek to quantify interest rate risk via a single duration number, it is important to note that interest rates seldom move in parallel shifts across the yield curve. As illustrated below, traditional fixed income strategies have a large percentage of their exposure to securities at the short end of the yield curve. In the case of the Barclays U.S. Aggregate Index, over 80% of the portfolio falls within the 0–5-year duration bucket.²

Barclays	U.S.	Aggregate	Index
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Source: Barclays, as of 8/31/14. You cannot invest directly in an index. Subject to change.

In constructing our [rising rate strategies](#), we first identify the sensitivities of the [long](#) portfolio to interest rate risk. As part of this process, the sensitivities are quantified. Then a mirror image of interest rate exposures is constructed within the [hedge](#) to help immunize the bond positions from fluctuations in rates. In the case of the negative duration strategies, these portfolios “overhedge” their long exposure through selling longer duration securities to target the desired exposure without [leverage](#). As shown in the table below, the primary difference between zero and negative duration strategies is the concentration of short positions at the longer end of the yield curve. **Duration Statistics and Breakouts for “Rising Rate” Indexes**

As of 8/31/14	Duration (years)	0-2 Years	2.01-5 Years	5.01-10 Years	10+ Years
Barclays US Aggregate Index (LBIUSTRUU)	5.61	27.65%	55.97%	13.78%	5.70%
Barclays US Aggregate Zero Duration Index (BAZDTRUU)	0.00	-27.65%	-55.97%	-13.78%	-5.70%
Barclays US Aggregate Negative 5 Duration (BUAFTRUU)	-5.00	-	-15.17%	-64.83%	-20.00%
	Duration (years)	0-6 Months	6 Months-2 Years	2.01-5 Years	5+ Years
BofA Merrill Lynch 0-5 Year US High Yield Constrained Index (HUCD)	2.16	21.69%	51.95%	26.21%	-
BofA Merrill Lynch 0-5 Year US High Yield Constrained, Zero Duration Index (HZCD)	0.00	-21.69%	-51.95%	-26.21%	-
BofA Merrill Lynch 0-5 Year US High Yield Constrained, -7 Duration Index (H7CD)	-7.00	-	-	-18.32%	-72.31%

Sources: Barclays, BofA Merrill Lynch, as of 8/31/14. Subject to change. 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. Past performance is not indicative of future results.

For definitions of indexes in the chart, please visit our [glossary](#). While the timing of changes in Fed policy remains uncertain, we believe that ETFs provide an important tool for helping to manage interest rate risk. Through our approach, we allow investors to maintain their existing bond exposure while mitigating their overall exposure to interest rate risk. ¹Source: Barclays, as of 12/31/13.

²Source: Barclays, as of 8/31/14.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Non-investment-grade debt securities (also known as 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 duration Funds seek 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 duration Funds may engage in “short sale” transactions of U.S. Treasuries, 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 duration Funds. While the duration Funds attempt to limit credit and counterparty exposure, the value of an investment in the duration Funds may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of each Fund's portfolio investments. Investors should anticipate that due to the negative duration target, those Funds will be highly sensitive to interest rate changes. The higher (whether positive or negative) a bond fund's duration, the greater its sensitivity to interest rates changes, and fluctuations in value, whether positive or negative, will be more pronounced. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. Due to the investment strategy of certain funds, they may make higher capital gain distributions than other ETFs. Securities with floating rates can be less sensitive to interest rate changes than securities with fixed interest rates, but they may decline in value. The issuance of floating rate notes by the U.S. Treasury is new and the amount of supply will be limited. Fixed income securities will normally decline in value as interest rates rise. 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. Please read each Fund's prospectus for specific details regarding each Fund's risk profile. Barclays Capital Inc. and its affiliates ("Barclays") are not the issuer or producer of the Funds, and Barclays has no responsibilities, obligations or duties to investors in the Funds. These Barclays Indexes are a trademark owned by Barclays Bank PLC and licensed for use by WisdomTree with respect to the WisdomTree trust as the issuer of the Funds. Barclays' only relationship with WisdomTree is the licensing of these Barclays Indexes, which is determined, composed and calculated by Barclays without regard to WisdomTree or the Funds. While WisdomTree may for itself execute transaction(s) with Barclays in or relating to these Barclays Indexes in connection with the Funds that investors acquire from WisdomTree, investors in the Funds neither acquire any interest in these Barclays Indexes nor enter into any relationship of any kind whatsoever with Barclays upon making an investment in the Funds. The Funds are not sponsored, endorsed, sold or promoted by Barclays, and Barclays makes no representation or warranty (express or implied) to the owners of the Funds, the issuer or members of the public regarding the advisability, legality or suitability of the Funds or use of these Barclays Indexes or any data included therein. Barclays shall not be liable in any way to the issuer, investors or to other third parties in respect of the use or accuracy of these Barclays Indexes or any data included therein or in connection with the administration, marketing, purchasing or performance of the Funds. Merrill Lynch, Pierce, Fenner & Smith Incorporated and its affiliates ("BofA Merrill Lynch") indexes and related information, the name "BofA Merrill Lynch" and related trademarks are intellectual property licensed from BofA Merrill Lynch and may not be copied, used or distributed without BofA Merrill Lynch's prior written approval. The licensee's products have not been passed on as to their legality or suitability and are not regulated, issued, endorsed, sold, guaranteed or promoted by BofA Merrill Lynch. BOFA MERRILL LYNCH MAKES NO WARRANTIES AND BEARS NO LIABILITY WITH RESPECT TO THE INDEXES, ANY RELATED INFORMATION, ITS TRADEMARKS OR THE PRODUCT(S) (INCLUDING, WITHOUT LIMITATION, THEIR QUALITY, ACCURACY, SUITABILITY AND/OR COMPLETENESS). ALPS Distributors, Inc., is not affiliated with BofA Merrill Lynch or Barclays.

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High Yield : Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

Interest rate risk : The risk that an investment’s value will decline due to an increase in interest rates.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

Maturity : The amount of time until a loan is repaid.

Duration : A measure of a bond’s sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Tapering : A shift in monetary policy by which the Federal Reserve would begin decreasing the amount of bonds it purchases.

Bloomberg Barclays Rate Hedged U.S. Aggregate Bond Index, Zero Duration : Combines long positions in the Barclays U.S. Aggregate Index with short positions in U.S. Treasury Bonds to provide a duration exposure of 0 years. Market values of long and short positions are rebalanced at month-end.

Barclays Rate Hedged U.S. Aggregate Bond Index, Negative Five Duration : Combines long positions in the Barclays U.S. Aggregate Bond Index with short positions in U.S. Treasury Bonds to provide a duration exposure of -5 years. Market values of long and short positions are rebalanced at month-end.

Long (or Long Position) : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

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.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.