INTRODUCING A DYNAMIC BEARISH LIQUID ALTERNATIVE SOLUTION

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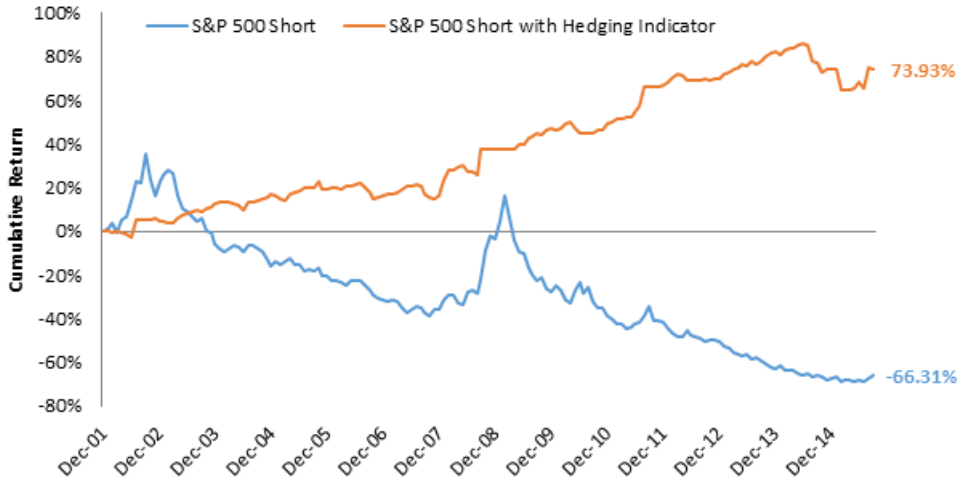
Many investors allocate their portfolios to traditional asset classes only—namely equity and fixed income, investing on a long-only basis. And unless investors have a premonition and really good timing, their portfolios usually suffer during bear markets. On the other hand, short portfolios have the potential to profit from negative price movements, but as John Maynard Keynes has been attributed with saying, "The market can stay irrational longer than you can stay solvent." So while equity markets do have bear cycles, allowing an investor to potentially profit from going short, it may be prudent to have the flexibility to adjust your short position. Also, over long periods, the expected return of equities is positive, making it difficult to profit from a long-term, net-short position. A dynamic bearish strategy is designed to be net short or market neutral (equal long and short positions) when the market environment is judged to be poor or mixed, and net long when the environment is deemed more attractive. We believe this may be a better long-run strategy than being 100% net short over the long term. Figure 1 below illustrates the power of being flexible by comparing a dynamic short strategy against a strategy that remains 100% net short, both layered on top of the S&P 500 Index: • **Dynamic Bearish Outperformed—**Applying a dynamic short strategy to the S&P 500 Index based on the hedging indicator resulted in returns of almost 74%, while shorting the S&P 500 resulted in a loss of more than 66% over the period.

Figure 1: Incorporating a Dynamic Hedge Ratio



Source: WisdomTree, 12/31/01–9/30/15. You cannot invest directly in an index. Past performance is not indicative of future results. Note: This does not represent the returns to the WisdomTree Dynamic Long/Short U.S. Equity Index nor does it represent a back test of that Index.

Introducing the WisdomTree Dynamic Bearish U.S. Equity Index We believe this new Index can provide a passive dynamic bear approach—generating alpha at the core through quantitative and fundamental stock selection—while also having the ability to hedge market risk or profit from market pullbacks. Unlike traditional long-only indexes, the Index includes both long and short components, with the short percentage changing monthly, depending on market characteristics. **Generating Alpha at the Core** The long portion of the Index comprises approximately 100 stocks with the best grades (as defined below), is weighted to reward lower-volatility stocks and is rebalanced quarterly [1]. • **Fundamental Selection —**Stocks are graded on a combination of growth and value indicators, and the most attractive stocks within each sector are selected for inclusion. Each sector has its own unique factor scoring system. A subset of the variables analyzed

includes:

- **Valuation Factors—**dividend yield, price-to-operating cash flow, price-to-book ratio, price-to-sales ratio and others

- **Growth and Quality Factors—**Return on equity, return on capital, return on assets, operating income over sales, operating income growth and others

- **Sector Weighting—**The Indexes target a *sector-neutral allocation* compared to the largest 500 U.S. stocks by market capitalization. The number of stocks in each sector is based on the sector weight of the 500 largest U.S. companies. For instance, if the Information Technology sector represents 20% of the market cap of those 500 companies, then 20 Information Technology stocks (20% of 100) would be selected for the Index, and their collective weight in the index would also be 20%.[2]

- **Stock Weighting—**Within each sector, the Index gives higher weights to stocks that exhibit lower volatility characteristics, as measured by the stock's standard deviation and beta to the market. **Incorporating a Dynamic Hedge Ratio** The short component of the Index is determined by a hedge indicator that considers a combination of both growth and value indicators: • **Growth:** Looks at operating profit margins, net income profit margins and profit quality (or operating cash flow over operating income) • **Value:** Looks at price to book and price to cash flow Profits are a key driver of the market. So when the growth fundamentals, or profits, of the eligible index universe are deteriorating, the dynamic indicator would look to hedge the portfolio. Similarly, as valuations become more stretched, adding risk to the portfolio, the indicator would look to hedge as well. Over time, being able to limit or buffer losses during unfavorable markets has been critical to increasing portfolio returns while reducing risk. **Index Component Exposure** As we discussed, the WisdomTree Dynamic Bearish U.S. Equity Index contains both long and short components. And while the underlying eligible components will be fixed on a quarterly basis, the net exposure will change monthly based on the hedge ratios. Based on the growth and value indicators of the market, the component weights will be one of the following:[3] • **Valuation and Growth Both Attractive—**100% long and 75% short (i.e., 25% net long) • **Valuation and Growth Mixed—**100% long and 100% short (i.e., 0% net long) • **Valuation and Growth Both Poor—**100% long Treasury bills and 100% short (i.e., 100% net short equity) **Introducing the WisdomTree Dynamic Bearish U.S. Equity Fund (DYB)** The launch of DYB, the Fund designed to track the WisdomTree Dynamic Bearish U.S. Equity Index before fees and expenses, brings the opportunity to take a dynamic bearish position in U.S. equities, enabling investors to access the ability to profit from market pullbacks with all the benefits of exchange-traded funds. DYB offers investors: • A dynamic strategy designed to profit during falling markets • Diversification to traditional long-only asset classes • Access to alternative investments with no investment minimums, no sales loads, no lockup periods and no redemption fees (ordinary brokerage commissions apply) • Full transparency of strategy and holdings with intraday liquidity • No K-1 filing—and all the other benefits of ETFs [1]Components must be listed on a U.S. exchange, domiciled in the U.S., have a market cap of $2 billion and share price of at least $3 at time of screening. [2]There might not be 100 stocks due to rounding issues when determining number of stocks per sector based on market cap weighting (i.e., 19.3% sector weight results in 19 stocks, while 19.7% sector weight results in 20 stocks). [3]Due to the long component rebalancing quarterly and short component rebalancing monthly, other combinations are possible.

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You cannot invest directly in an index.

DEFINITIONS

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).

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

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).

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Hedging Indicator : An indicator in the strategy to show when and how much to hedge the long 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.

WisdomTree Dynamic Bearish U.S. Equity Index : A rules-based long/short index that includes long equity positions or long U.S. Treasury positions and short equity positions. The Long Equity Index consists of approximately 100 U.S. large- and mid-capitalization stocks that meet Index eligibility requirements and have the best combined score based on fundamental growth and value signals. Stocks are weighted in the Long Equity Index according to their volatility characteristics. The Short Equity Index consists of short positions in the largest 500 U.S. companies, weighted by market capitalization, designed to act as a market risk hedge. The Index provides a dynamic allocation of exposure to the Long Equity Index ranging from 100% to 0% while employing a variable monthly hedge ratio ranging from 75% to 100% exposure to the Short Equity Index based on a quantitative rules-based market indicator that scores growth and value market signals. During times when the market indicator shows unattractive readings on valuation and growth characteristics, the Index can move to 100% exposure to the Long Treasury Index (and accordingly no exposure to the Long Equity Index).

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

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

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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 vs the market over tim.

Dividend yields : 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.

Price-to-operating cash flow ratio : Share price divided by operating cash flow per share. Lower numbers indicate an ability to access greater amounts of cash flows per dollar invested.

Price-to-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with

the money shareholders have invested.

Return on capital : Measures a corporation's profitability by revealing how much profit a company generates relative to its capital.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Operating income over sales : Also known as operating profit margin, takes operating income, or profit after operating expenses and depreciation, divided by sales.

Operating income growth : Percentage growth of operating income, or profit after operating expenses and depreciation.

Standard deviation : 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.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Operating profit margin : Operating income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for.

Net income profit margin : Net income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for.

Operating cash flow : Measure of the amount of cash generated by a company's normal business operations, calculated by adjusting net income for items like depreciation and changes in inventory and receivables.

Operating income : Profit after operating expenses and depreciation.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

K-1 : A tax document used to report the incomes, losses and dividends of a person's interest in an entity.