

## 2023 Capital Gain Distribution FAQs

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### 1. What is a capital gain?

A capital gain is the profit that results from selling a capital asset, such as a stock, for more than was paid to acquire it. All funds which elect to be treated as regulated investment companies (RICs) are required by IRS regulations to distribute their capital gains (as well as any investment income such as dividends and interest) to shareholders at least annually. All WisdomTree's Digital Funds are treated as RICs. Capital gain and income distributions are subject to tax (if not held in tax-deferred accounts such as IRAs).

### 2. What factors can cause a fund to make a capital gain distribution?

The Digital Funds may incur capital gains due to but not limited to:

- Selling investments to rebalance the portfolio.
- Selling investments to meet redemptions in markets.
- Realizing gains on securities, such as securitized debt and senior loan securities, and derivative instruments, such as options or forwards.
- Taxable corporate action events on securities held within a Digital Fund.

### 3. Does the size of a fund have an impact on a capital gain distribution?

Yes. Gains are proportionately distributed according to the number of shares fund holders own on the capital gain distribution record date. As a fund's shareholder base grows, the tax impact of gains per share diminishes. Conversely, a shrinking shareholder base amplifies the per share tax impact of gains.

#### **4. How can a fund's fiscal year-end affect its capital gains?**

In order to offset current or future capital gains, funds may take steps to seek to generate capital losses, such as implementing any redemptions in whole or in part in cash to sell securities that generate a loss. If gains are realized toward the end of a fund's fiscal year, the fund has less time to seek to take any such actions. All RICs are required by IRS regulations to distribute substantially all of their net investment income and capital gains to shareholders at least annually. Also, funds are subject to an "excise tax" unless they distribute by calendar year-end substantially all of their capital gains incurred during the twelve-month period ending October 31<sup>st</sup>—so if gains are realized close to October 31<sup>st</sup>, the fund has less time to seek to take actions that might reduce gains.

#### **5. How could there be a capital gain distribution if the net asset value (NAV) of the fund has decreased during the year?**

Capital gain distributions reflect the sum of net realized gains and losses from all the sales of individual securities and other investments, and other realized gain and loss recognition occurrences in a fund during the relevant tax periods. Therefore, even if the overall value of the securities in a fund's portfolio have decreased during the period due to unrealized losses, and consequently the fund's NAV as well, the sale of the securities that occurred during the period can still result in realized capital gains that are distributable to fund shareholders since unrealized losses on securities cannot be offset against realized gains.

#### **6. What is the difference between short-term and long-term capital gains?**

The IRS does not tax all capital gains equally; the tax rate can vary depending on how long the asset was held before it was sold. Realized gains on assets that were held for more than a year qualify as long-term capital gains and can benefit from a reduced tax rate. Realized gains on assets that were held for one year or less are considered a short-term capital gain—these are taxed as ordinary income and do not receive preferential tax treatment.

**The information above is not intended as tax advice.** The tax consequences of Fund distributions vary by individual taxpayer. You should consult your tax professional or financial advisor for more information regarding your tax situation.

**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 1-212-801-2080, or visit [wisdomtree.com/investments](http://wisdomtree.com/investments) to view or download a prospectus. Read the prospectus carefully before you invest.**

There are risks associated with investing, including possible loss of principal. Blockchain technology is a relatively new and untested technology, with little regulation. Potential risks include vulnerability to fraud, theft, or inaccessibility, and future regulatory developments effect its viability. A Fund focusing its investments on certain sectors increases its vulnerability to any single economic or regulatory development, which may result in greater share price volatility. U.S. Treasury obligations may provide relatively lower returns than those of other securities. Changes to the financial condition or credit rating of the U.S. government may cause the value to decline. Fixed income securities are subject interest rate, credit, inflation, and reinvestment risks. Generally, as interest rates rise, the value of fixed-income securities falls. Cybersecurity attacks affecting the Funds' third-party service providers, App, blockchain network, or the issuers of securities in which the Funds invest may subject the Funds to many of the same risks associated with direct cybersecurity breaches. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

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WMF-456550