WisdomTree Bloomberg U.S. Dollar Bullish Fund

USDU

Over the past few years, investors have become increasingly sophisticated. Not only do they understand the benefits of expanding their holdings beyond traditional asset classes, but they also better understand the impact that currencies can have on their international investments. However, in some instances, they may not fully appreciate the role the U.S. dollar can play in their portfolios.

The truth is that simply being exposed to the U.S. dollar (through a portfolio of dollar-denominated investments) does not mean your portfolio will rise when the dollar appreciates against other currencies. For a U.S. investor, a scenario in which their U.S. stock portfolio goes up 8%, while the dollar rises 2% against other currencies, still results in an 8% return. In order to capitalize on an appreciating dollar, an investor needs to have investment exposure that is directly tied to the dollar's movement relative to the other currencies. A popular way for banks and large institutions to do this is through investments in currency forward[1] or future positions[2] structured to gain from a rise in the dollar relative to another currency. While currency markets are highly liquid, retail investors can find it difficult and expensive to manage a portfolio of individual currency positions; exchange-traded products can be used to democratize this exposure and deliver it more cost effectively.

The WisdomTree Bloomberg U.S. Dollar Bullish Fund (USDU) seeks to provide a broad, dynamic and effective way to gain exposure to the U.S. dollar against a basket of foreign currencies, all in a 1940 Act[3] exchange-traded fund (ETF). The Fund targets a specified basket of currencies, as dictated by the liquidity and trade-based methodology of the Bloomberg Dollar Index family, and its objective is to provide total returns, before expenses, that exceed the performance of the Bloomberg Dollar Total Return Index.

In pursuing this goal, the Fund combines a portfolio of currency forward positions with similarly sized investments in short-term, high-quality fixed income instruments. This produces the risk/reward profile of a short-term, U.S. government bond fund with a currency overlay. Movements in the spot currency rates drive the volatility[4] of the Fund, while income is derived from the bonds and net interest rates embedded in the currency forwards (i.e., U.S. short rate less foreign rate). We analyze the uniqueness of each of these components, starting with the currency basket and the methodology of the Bloomberg Dollar indexes.

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[1] Currency forward: A binding contract in the foreign exchange market that locks in the exchange rate for the purchase or sale of a currency in the following one month.
[2] Forward contracts: Agreements to buy or sell a specific currency at a future date at an agreed-upon rate.
[3] Refers to the Investment Company Act of 1940, legislation that defines responsibilities and limitations placed on public investment funds.
[4] Volatility: A measure of the dispersion of actual returns around a particular average level.

Viewing the Dollar in a Different Light

The world is changing, and both developed and emerging markets play an important role in the global economy and the true value of the U.S. dollar. Constructing a basket of currencies to face off against the dollar requires a focus on both liquidity[5] and trade relevance and needs regular assessment to evolve with the global economy.

The Bloomberg Dollar Index family, which includes the Bloomberg Dollar Spot Index (BBDXY) as well as the Total Return Index (BBDXT), was designed to better measure the U.S. dollar.

BBDXY tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar, while BBDXT tracks the total return performance of the same basket, incorporating not only the movements in the currency, but also the short-term U.S. interest rates and net interest rates between the currencies.

Index Methodology

The Bloomberg Dollar indexes follow a strict, rules-based process aimed at capturing important currencies with the greatest liquidity and largest trade flows with the U.S.

Currency Selection	1. Identify the top 20 currencies in terms of global trading activity versus the U.S. dollar (as defined by the Federal Reserve in its Broad Index of the Foreign Exchange Value of the Dollar) 2. Identify the top 20 currencies in terms of global foreign exchange volume (from the BIS Triennial Central Bank Survey) 3. Build a union of the Top 10 currencies from each list after removing currencies pegged to the U.S. dollar (e.g., the Hong Kong dollar or Saudi riyal). *Essentially to be considered, a currency must be ranked in the Top 20 for each factor and in the Top 10 for one of the two lists.*
Final Weightings	The final index weights are derived by: + Estimating weights for the selected currencies by averaging the weights for trading activity and foreign exchange volume + Capping the exposure of the Chinese yuan to 7% and distributing the extra weight to other currencies on a pro-rata basis[6] + Removing currency positions with weights of less than 2% and distributing their weights to other currencies on a pro-rata basis
Rebalancing	On an annual basis each June, the index reconstitutes to capture the current top currencies in terms of global trading activity and global FX volume.[7]

[5] 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.

[6] The weight of the Chinese Yuan was increased from 3% to 7% in the rebalance in June 2022, given the increased accessibility and liquidity of the currency, as well as the increased presence of Yuan denominated securities within global asset class benchmarks, such as the Bloomberg Global Aggregate Index.

[7] The annual rebalance of the index was shifted to June from December in 2022, due to ensure timely access to updated trade information from the Federal Reserve. The announcement was made in October 2021. Previous to this announcement the index was rebalanced every December.

The best way to illustrate the uniqueness of the Bloomberg Dollar Index methodology is to compare it to the ICE U.S. Dollar Index (DXY), which underpins the ICE U.S. Dollar Index futures contract.[8]

+ **More Representative:** The Bloomberg indexes track a more representative basket of currencies by measuring the value of the U.S. dollar not only against America's largest trading partners,[9] but also the most frequently traded[10] currencies in the world. DXY only tracks six developed market currencies with weights determined according to trade as it was in 1973.
+ **More Dynamic:** BBDXY has an annual rebalancing process that captures the changing state of currency markets. As a result, the index includes important currencies (such as the Australian dollar, which is not in DXY) that rank higher in liquidity and trading than some components of DXY. DXY's baskets and weights have not been adjusted since its inception in 1979.
+ **Less Concentrated:** BBDXY is less exposed to the euro (31.0% vs. 57.6%) and includes major emerging markets currencies such as the Mexican Peso, Chinese Yuan, Korean won, Indian Rupee and Taiwan Dollar —all major trading partners of the U.S. that are growing in global liquidity rankings.[11]

We believe the Bloomberg indexes can provide a truer sense of the value of the U.S. dollar by balancing the relative impact of trade flows and portfolio flows.

		Index Weights		Global Rankings	
Country	Currency	BBDXY	DXY	Liquidity	Trading
Eurozone	EUR	31.0%	57.6%	1	1
Japan	JPY	13.5%	13.6%	2	5
Canada	CAD	11.0%	9.1%	5	4
Great Britain	GBP	10.5%	11.9%	3	6
Mexico	MXN	9.2%	0.0%	14	3
China	CNH	7.0%	0.0%	7	2
Switzerland	CHF	5.0%	3.6%	6	8
Australia	AUD	4.8%	0.0%	4	14
S. Korea	KRW	3.3%	0.0%	11	7
India	INR	2.7%	0.0%	15	9
Taiwan	TWD	2.1%	0.0%	20	10
Sweden	SEK	0.0%	4.2%	10	24

Source: Bloomberg, as of 6/30/22 rebalance of BBDXY. Subject to change. You cannot invest directly in an index.

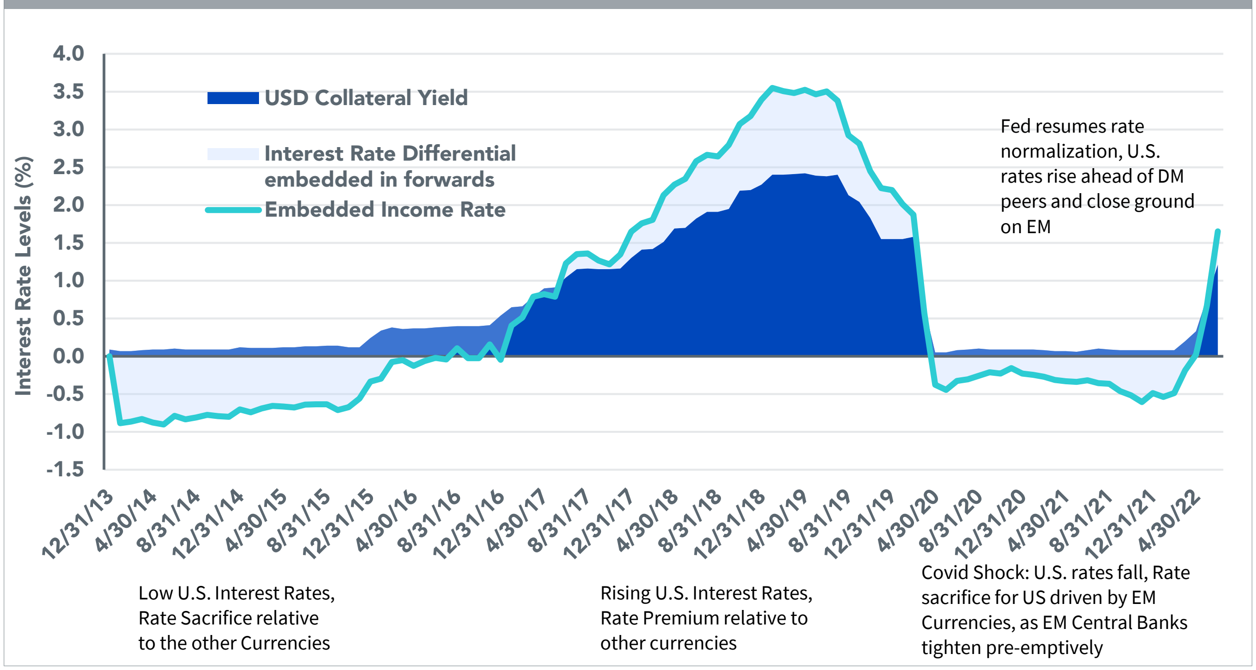
[8] The ICE U.S. Dollar Index futures contract is a leading benchmark for the international value of the U.S. dollar and the world's most widely recognized traded currency index. In a single transaction, the DXY enables market participants to monitor moves in the value of the U.S. dollar relative to a basket of world currencies, as well as hedge their portfolios against the risk of a move in the dollar. U.S. Dollar Index futures are traded for 21 hours a day on the ICE platform.
[9] Based on annual trade data compiled by the Federal Reserve.
[10] Based on the Bank for International Settlements (BIS) Triennial Survey of Foreign Exchange and OTC Derivatives Markets, as of 12/31/19.
[11] Based on the BIS Triennial Survey, as of 12/31/19.

The Importance of Relative Interest Rates

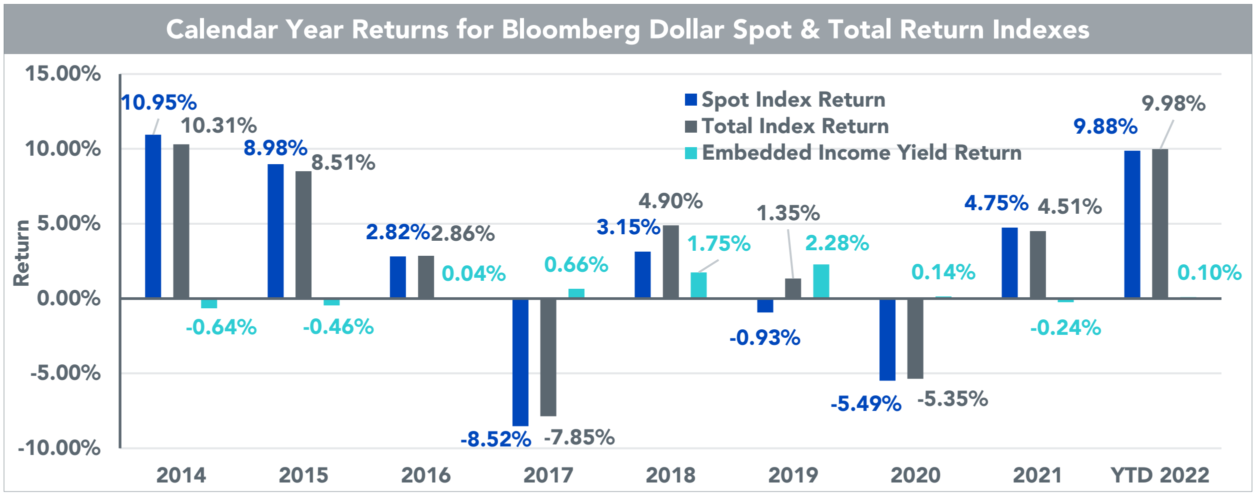
The influence of interest rates on performance is driven by interest earned on the collateral and the net interest rates of the U.S. dollar relative to other currencies, as embedded in the currency forward positions. When US short interest rates are high and provide a relative advantage over the average interest rates of the other currencies, interest rates drive a significant portion of the return. Lower interest rates in terms of level and relation to the interest rates of other currencies reduce the likely contribution to returns. Since the launch of the index and strategy, we have seen both dynamics. The zero interest rate policy periods (that occurred from the launch until late 2015 and the post Covid period) saw little return from US Short interest rates with a drag from higher rates in EM, while tightening periods (2016-2018) saw greater contributions from US Short rates and a potential boost from higher relative rates.

With the U.S. funding rate firmly above 1% and U.S. interest rates exceeding the weighted average of the short rates of the currency basket, we believe income has again become an important contributor to near-term returns.

Interest Rate Components of the Bloomberg Dollar Bullish Strategy



Source: Bloomberg, as of 12/31/19 rebalance. USDU inception date 12/18/2013.



Source: Bloomberg, as of 6/30/22 rebalance. Past performance is not indicative of future results. 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. Embedded Income Yield Return: Represents the annualized rate of return generated by a fund's investments in both fixed income securities and derivatives exclusive of interest rate changes and movement in foreign exchange spot rates. The calculation is intended to capture the fund's potential to earn income return over the following year given current holdings and market conditions. The embedded income yield will differ from the portfolio's yield to maturity, due to the incorporation of derivatives in the embedded income yield. Embedded income yield and portfolio yield to maturity may differ from a fund's actual distribution and SEC yield and do not reflect fund expenses.

Investment Implications in a Diversified Portfolio

There are several use cases for the Fund in a diversified portfolio. The Fund can offer an investor the potential to tactically position for an appreciation in the dollar relative to other currencies. This could be particularly valuable in a risk-off,[12] flight-to-quality environment. As a currency hedge, the Fund can help investors offset unwanted currency exposure with their global equity positions without liquidating their equity positions. Similar currency hedging attributes exist when USDU is used to complement an unhedged global bond position with an additional benefit of reigning in overall interest rate risk.[13]

[12] Risk-on/risk-off: Refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.
[13] Interest rate risk: The risk that an investment's value will decline due to an increase in interest rates.

USDU—A Smart Way to Access the Potential Appreciation of the U.S. Dollar

+ Designed to provide exposure to the U.S. dollar relative to its influential trading partners
+ A representative investment based on market liquidity and global trade
+ A dynamic annual and monthly rebalancing process
+ A broad-based U.S. dollar investment with both developed and emerging markets exposure
+ No K-1 filings[14]
+ Low fees of only 50 basis points (bps)[15]

WisdomTree Bloomberg U.S. Dollar Bullish Fund Quick Facts	
Ticker	USDU
Exchange	New York Stock Exchange (NYSE)
Expense Ratio	50 bps
Structure	Open-end ETF. Registered under the Investment Company Act of 1940.
Exposure	U.S. dollar-denominated, investment-grade[16] fixed income combined with an overlay of currency forwards.
Objective	The Fund seeks to provide total returns, before fees and expenses, that exceed the performance of the Bloomberg Dollar Total Return Index.
Primary Exposure	Treasury bills and other investment-grade money market securities, combined with short-term currency forward contracts of developed and emerging markets currencies.
Portfolio Maturity	90 days or less.
Rebalancing	Annual currency selection process each June to establish currency target weights. Rebalances back to target weights on a monthly basis.

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures and uncommon access to provide investors with the potential for income, performance, diversification and more.

For more information about USDU, contact your WisdomTree representative or visit WisdomTree.com.

[14] K-1: A tax document used to report the incomes, losses and dividends of a person's interest in an entity.
[15] Ordinary brokerage commissions may apply. Basis point: 1/100th of 1 percent.
[16] Investment-grade: A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's, indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.9473 or visit WisdomTree.com. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Fund focuses its investments in specific regions or countries, thereby increasing the impact of events and developments associated with the region or country, which can adversely affect performance. 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.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. While the Fund attempts to limit credit and counterparty exposure, 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. The Fund's investment in repurchase agreements may be subject to market and credit risk with respect to the collateral securing the repurchase agreements and may decline prior to the expiration of the repurchase agreement term. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting such issuers. Unlike typical exchange-traded funds (ETFs), there are no indexes that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Although the Fund invests in very short-term, investment-grade instruments, the Fund is not a "money market" fund, and it is not the objective of the Fund to maintain a constant share price. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

ICE U.S. Dollar Index (DXY): a geometrically averaged calculation of six currencies weighted against the U.S. dollar. Current exposures include the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

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