WisdomTree Cboe S&P 500 PutWrite UCITS ETF

PUTW

The S&P 500 (SPX) is one of the most widely followed indexes for US stock market exposure. And many investors have an investment (or two) that track it. But when volatility rises, investors search for ways to reduce volatility while maintaining—or enhancing—their returns. Now, investors have the option to do that in one simple investment that can complement their existing holdings.

The WisdomTree Cboe S&P 500 PutWrite UCITS ETS (PUTW) Strategy seeks investment results that, before fees and expenses, generally correspond to the performance of the Cboe S&P 500 PutWrite Index (PUT).

INVESTMENT STRATEGY

The approach invests in one and three-month treasury bills, and sells or "writes" S&P 500 put options. The number of put options sold is chosen to ensure full collateralization, meaning the total value of the treasury account must be equal to the maximum possible loss from the final settlement of the put options at expiration.

In addition:

+ Options are written "at the money"
+ Options with one-month to expiry are written monthly, instead of quarterly or longer, to capture more gross premium
+ Options are European style, so they can only be exercised at maturity
+ The total expense ratio (TER) is 0.38%

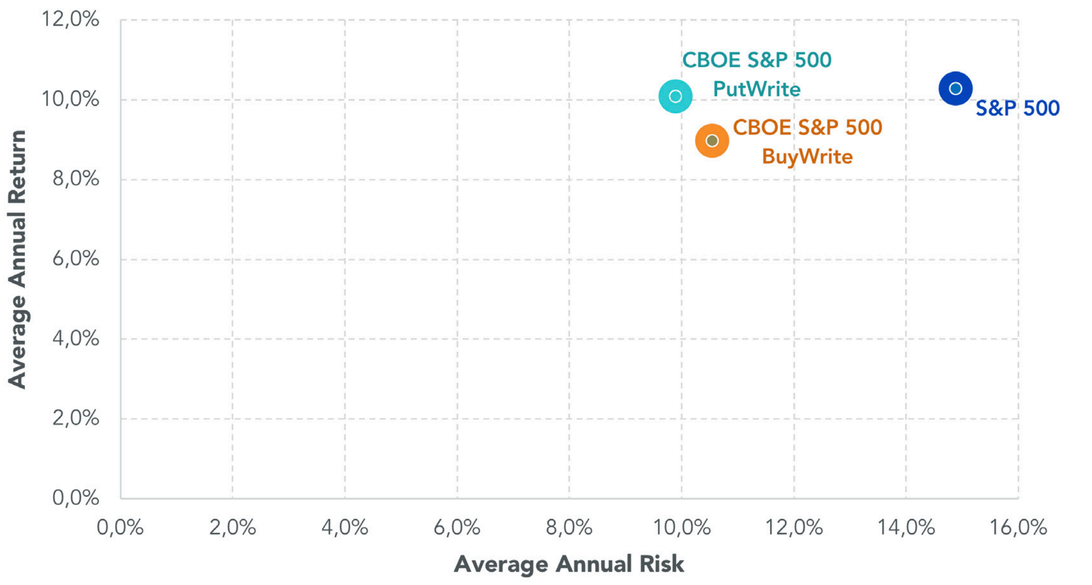
POTENTIAL FOR LESS RISK THAN THE S&P 500

The premium income the strategy generates from selling puts can help mitigate any negative performance of the S&P 500. Historically PUT had lower risk than the S&P 500:

+ PUT return was on par with that of the S&P 500, but with only about two third of the volatility
+ PUT had a higher Sharpe ratio than the S&P 500

This can be seen in Figure 1.

FIGURE 1: RISK & RETURN STATISTICS

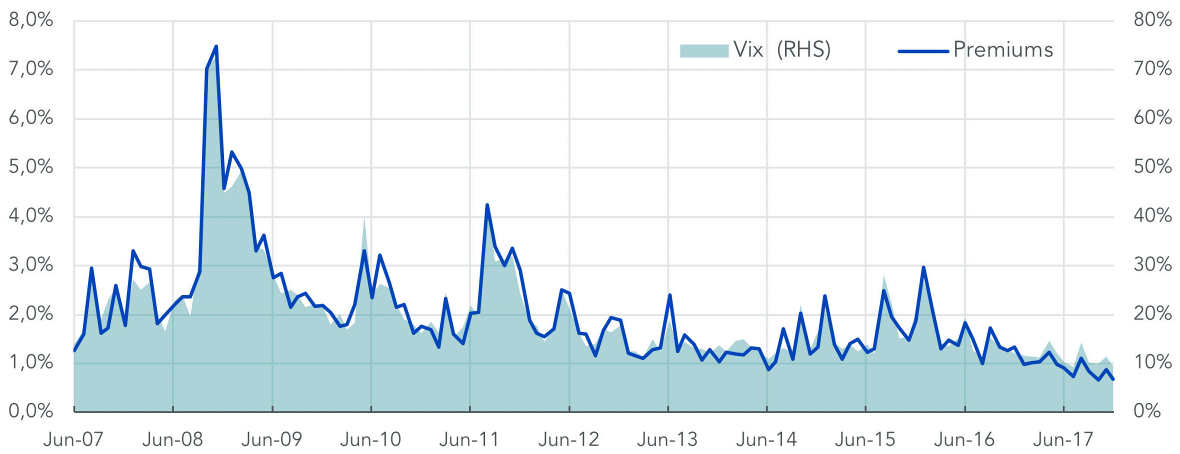


Sources: WisdomTree, Bloomberg. Period: 30 Jun 1986 to 31 Dec 2017. S&P 500 Index data on a gross basis. You cannot invest directly in an index. Includes backtested data.
Past performance is not indicative of future results.

A PREMIUM OPPORTUNITY

The amount of premiums the strategy receives is tied to the implied volatility of the S&P 500, or, put another way, how volatile investors expect the S&P 500 to be. As you can see below, since 2008, monthly gross premiums from the PUT Index are highly correlated to the Cboe S&P Volatility Index level. Although premium income has fallen over the past few years along with volatility, the income potential for the strategy is still attractive given current low levels of interest rates.

FIGURE 2: RELATIONSHIP BETWEEN VOLATILITY AND PREMIUMS

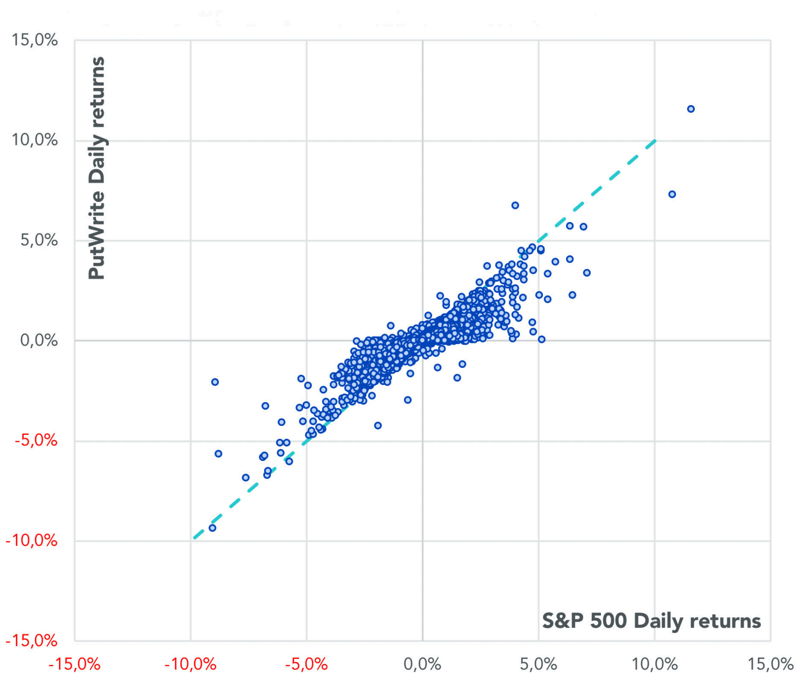


Sources: WisdomTree, Cboe, Bloomberg. Period: 15 Jun 2007 to 31 Dec 2017. You cannot invest directly in an index. Premium data is only available for the live PUT Index history as of this writing. ***Past performance is not indicative of future results.***

PUT INDEX HISTORICALLY PROVIDED A MEASURE OF DOWNSIDE PROTECTION

Returns for this strategy will largely be driven by the premiums received. Since there is no underlying equity ownership of the S&P 500, it does not benefit from increases in equity prices. However, the premiums can function to provide some measure of downside risk mitigation. In Figure 3, the dots indicate the returns of the PUT Index and the S&P 500. As you can see, when the S&P 500 delivered negative returns (lower left quadrant), the PUT Index outperformed the S&P 500 the majority of the time, as its returns were less negative than those of the S&P 500.

FIGURE 3: DAILY RETURN PUTWRITE VS. S&P 500

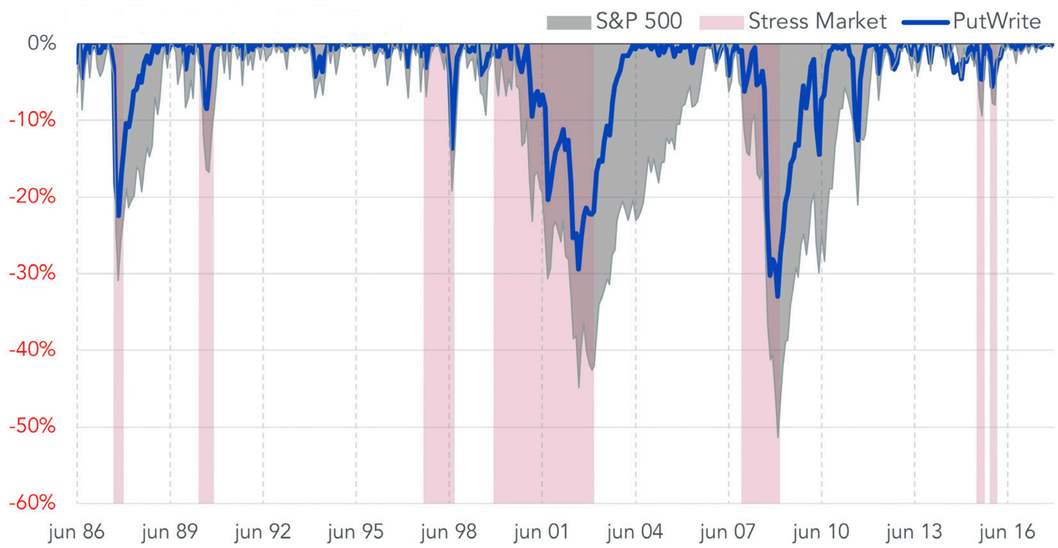


Sources: WisdomTree, Bloomberg. Period: 30 Jun 1986 to 31 Dec 2017. S&P 500 Index data on a gross basis. You cannot invest directly in an index. Includes backtested data. ***Past performance is not indicative of future results.***

CONNECTING THE DAILY DATA TO THE LONGER-TERM DRAWDOWNS AND BEAR MARKETS

Now, daily data is one thing, but the real story is drawing these out into the longer-term downside protection that was seen during bear markets. What we can see in Figure 4 is that, during the drawdowns that reached their maximums in 2003 and 2009, this strategy truly delivered in that it went down substantially less than the S&P 500 Index.

FIGURE 4: ILLUSTRATING THE PUT-WRITING STRATEGY DURING THE WORST S&P 500 DRAWDOWNS



Sources: WisdomTree, Bloomberg. Period: 30 Jun 1986 to 31 Dec 2018. S&P 500 Index data on a gross basis. You cannot invest directly in an index. Includes backtested data. ***Past performance is not indicative of future results.***

WHAT SETS THIS STRATEGY APART?

+ Access to an index developed by Cboe Global Markets, Inc. (Cboe), a leader in option investing, in a publicly listed ETF.
+ Potential to earn additional income from premiums generated by selling put options.
+ Potential for enhanced risk-adjusted returns compared to the S&P 500 or a similar covered call strategy.
+ Ability to benefit from implied volatility typically being higher than realized volatility.

WHY INVEST IN THIS STRATEGY?

+ Put writing has been used by professional investors for decades as a solution to increase the yield and lower the volatility of equity returns over various market cycles.
+ "At-the-money" put writing strategies on the S&P 500 have historically exhibited better risk-adjusted returns than the S&P 500.
+ Premium income can help mitigate the negative performance of investing in the S&P 500 alone.
+ Gross premiums from selling "at-the-money" puts on the S&P 500 have historically been higher than gross premiums received from selling "at-the-money" calls.
+ Even though more investors are familiar with call writing, historically, put writing significantly outperformed call writing.

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