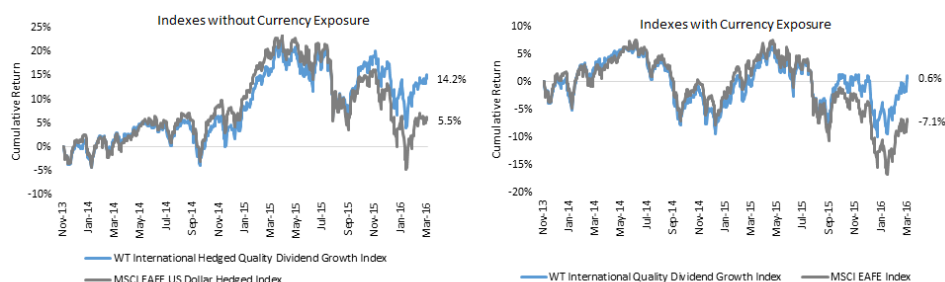


INTERNATIONAL EQUITIES: FOCUS ON QUALITY AND GROWTH

Christopher Gannatti – Global Head of Research
04/15/2016

As the first quarter of 2016 has drawn to a close, investors in developed international equities have faced challenges, to put it mildly. It is difficult to look back on this period and find any positive returns, be it looking by sectors, countries or even broad-based indexes. **WisdomTree Has Seen Outperformance by Focusing on Quality & Growth**

In late 2013, WisdomTree introduced two Indexes: • **WisdomTree International Hedged Quality Dividend Growth Index**: This Index first selects stocks based on growth (long-term earnings growth expectations) and quality (three-year average return on equity (ROE) and return on assets (ROA)). Qualifying constituents are cash dividend weighted, and currency risk is hedged. • **WisdomTree International Quality Dividend Growth Index**: This Index contains the same underlying constituents as the WisdomTree International Hedged Quality Dividend Growth Index; the sole difference is that currency is not hedged. **During a Volatile Period, Focusing on Quality and Growth Stood**



Source: Bloomberg, for period 12/2/13 to 3/31/16. 12/2/13 is the inception date of the two WisdomTree Indexes shown. 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.

Out Over this period, whether looking at the comparison to the MSCI EAFE Index with currency exposure or to the MSCI EAFE US Dollar Hedged Index, the respective WisdomTree Index outperformed. **Why the WisdomTree Indexes Outperformed** what's clear from the aforementioned line charts is that the bulk of the outperformance was generated during the September/October 2015 time frame through March 31, 2016. During a difficult period, both WisdomTree Indexes went down less than both the MSCI EAFE Index and the MSCI EAFE 100% Hedged to USD Index. As can be seen in the chart below, we believe that this was due to the combination of dividend weighting and selecting stocks based on quality and growth characteristics. We use the first quarter of 2016 for the illustration, as it was a volatile period in equity markets around the world. **The WisdomTree Index Outperformance during a Tough Quarter**

WT Index Outperformance

Both the MSCI EAFE US Dollar Hedged Index and the MSCI EAFE Index represent exposure to developed international equities, weighted by market capitalization. • Stepping beyond this universe, both the WisdomTree International Hedged Equity and the WisdomTree International Equity Indexes represent an incremental step—maintaining broad exposure to

developed international equities, but weighting them by dividends instead of by market capitalization. In each case, whether with currency exposure or not, an observer would expect less downside performance in a tough market compared to a market capitalization-weighted strategy—exactly what we saw during the first quarter of 2016. • The next step regards selecting stocks with higher growth and quality characteristics and then weighting them by the cash dividends they pay. Both the WisdomTree International Hedged Quality Dividend Growth Index and its unhedged counterpart represent the combination of this selection methodology as well as the cash dividend weighting. **Do You Want the Risk of Currency Movements?** What we have seen in the currency markets in 2016 has, in short, defied our expectations, as we would not have predicted that the Japanese yen would be one of the strongest currencies at any time in the immediate future. The Bank of Japan (BOJ) has continued its balance sheet expansion at 80 trillion yen per year, and it has even added a negative [deposit rate](#) to the mix. The euro has also been stubbornly strong, even though the European Central Bank (ECB) has lowered its deposit rate to -0.40%. Given the unpredictable nature of currency, aligned with the longer-term expectation of zero returns, our baseline view remains to hedge currency exposure. The negative deposit rates mentioned above make the case to hedge even more interesting, in that they mean an investor essentially gets paid to hedge the euro or the yen versus the U.S. dollar. With the dollar weakness in the first quarter of 2016, unhedged variants have naturally outperformed. It's possible that, by some measures, the euro and the yen were becoming more undervalued, but if these currencies return to being more driven by interest rate differentials and less by relative [valuation](#), depreciation could be in their future.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but it can hurt when the foreign currency appreciates against the U.S. dollar.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

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.

Long-Term Earnings Growth Expectations: Compilation of analyst estimates of the growth in operating earnings expected to occur over the next full business cycle, typically 3 to 5 years, sourced from Bloomberg.

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 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.

Dividend: A portion of corporate profits paid out to shareholders.

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.

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

MSCI EAFE 100% Hedged to USD Index: Achieves an index return very similar to the MSCI EAFE Index but with the addition of hedging its currency exposure.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Deposit Rate: The rate parties receive for deposits at the central bank.

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.