

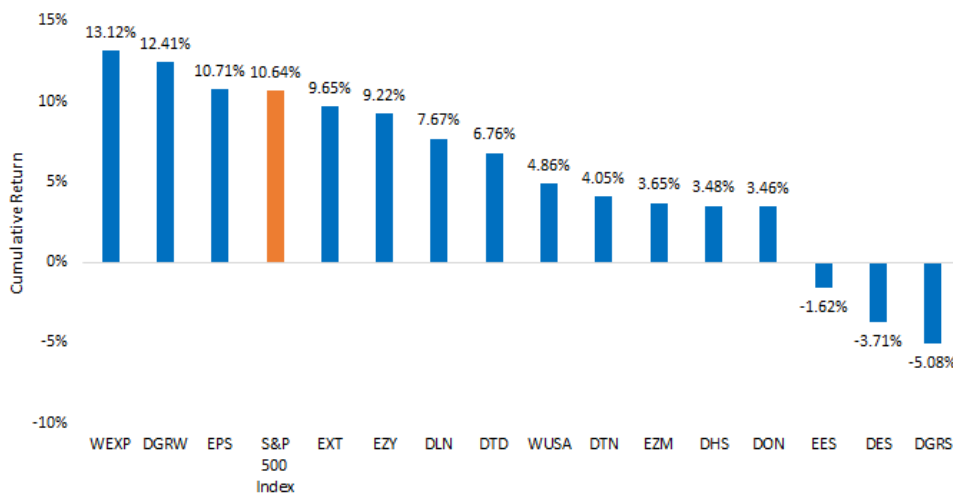
# UNDERSTANDING THE DRIVERS OF U.S. EQUITIES IN 2017

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One of the best aspects that WisdomTree brings to the table is the sheer breadth of investment strategies. If we think in terms of U.S. equities, as an example, there are 15 exchange-traded funds (ETFs) tracking the returns of 15 proprietary Indexes.

What IS (and ISN'T) working at a particular time tells us important information about the U.S. equity market.

## WisdomTree's U.S. Equity ETFs in 2017



Sources: WisdomTree, Bloomberg. Period is from 12/31/16 to 8/28/17. Returns are shown in total return NAV terms. To be shown, ETFs must track Indexes of U.S. equities and must have been live as of 12/31/16.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

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.

Fund/Index Name	Fund Information			NAV Returns (%)						Market Price Returns (%)					
	Ticker	Exp. Ratio	Inception Date	YTD	1-Year	3-Year	5-Year	10-Year	Since Fund Inception	YTD	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree U.S. Export and Multinational Fund	WEXP	0.33%	7/21/15	12.04%	22.55%	N/A	N/A	N/A	10.41%	12.15%	22.74%	N/A	N/A	N/A	10.34%
WisdomTree U.S. Quality Dividend Growth Fund	DGRW	0.28%	5/22/13	11.59%	18.94%	10.51%	N/A	N/A	12.22%	11.61%	19.10%	10.52%	N/A	N/A	12.24%
WisdomTree U.S. Earnings 500 Fund	EPS	0.28%	2/23/07	9.21%	21.86%	9.16%	14.31%	7.04%	7.23%	9.22%	22.11%	9.20%	14.37%	7.06%	7.24%
WisdomTree U.S. Total Earnings Fund	EXT	0.28%	2/23/07	8.68%	21.88%	8.87%	14.40%	7.29%	7.46%	8.62%	22.21%	8.88%	14.41%	7.29%	7.47%
WisdomTree U.S. LargeCap Value Fund	EZY	0.38%	2/23/07	7.81%	17.95%	7.16%	12.40%	5.17%	5.47%	7.91%	18.20%	7.22%	12.45%	5.19%	5.49%
WisdomTree U.S. LargeCap Dividend Fund	DLN	0.28%	6/16/06	6.51%	13.88%	8.76%	12.88%	6.35%	7.69%	6.54%	14.00%	8.79%	12.92%	6.36%	7.67%
WisdomTree U.S. Total Dividend Fund	DTD	0.28%	6/16/06	6.00%	13.79%	8.85%	13.22%	6.63%	7.91%	6.05%	13.91%	8.87%	13.24%	6.64%	7.90%
WisdomTree U.S. MidCap Earnings Fund	EZM	0.38%	2/23/07	5.44%	19.86%	6.68%	15.53%	9.10%	9.16%	5.73%	20.14%	6.76%	15.61%	9.13%	9.20%
WisdomTree U.S. Domestic Economy Fund	WUSA	0.33%	7/21/15	5.08%	12.34%	N/A	N/A	N/A	9.17%	5.36%	12.42%	N/A	N/A	N/A	9.06%
WisdomTree U.S. MidCap Dividend Fund	DON	0.38%	6/16/06	4.70%	12.16%	9.10%	15.52%	8.53%	9.44%	4.71%	12.18%	9.07%	15.52%	8.53%	9.48%
WisdomTree U.S. Dividend ex-Financials Fund	DTN	0.38%	6/16/06	4.06%	10.38%	7.14%	12.61%	6.96%	8.38%	4.11%	10.55%	7.17%	12.64%	6.98%	8.38%
WisdomTree U.S. High Dividend Fund	DHS	0.38%	6/16/06	3.07%	5.90%	8.34%	12.01%	5.43%	6.76%	3.09%	5.91%	8.34%	12.02%	5.44%	6.76%
WisdomTree U.S. SmallCap Earnings Fund	EES	0.38%	2/23/07	2.00%	26.35%	7.37%	14.41%	8.40%	8.12%	1.97%	26.36%	7.36%	14.40%	8.44%	8.09%
WisdomTree U.S. SmallCap Dividend Fund	DES	0.38%	6/16/06	-1.23%	15.93%	7.97%	14.19%	7.21%	8.11%	-1.24%	15.89%	7.94%	14.17%	7.22%	8.10%
WisdomTree U.S. SmallCap Quality Dividend Growth Fund	DGRS	0.38%	7/25/13	-1.12%	18.02%	7.32%	N/A	N/A	9.72%	-1.04%	18.09%	7.32%	N/A	N/A	9.68%
S&P 500 Index				9.34%	17.90%	9.61%	14.63%	7.18%	N/A	9.34%	17.90%	9.61%	14.63%	7.18%	N/A

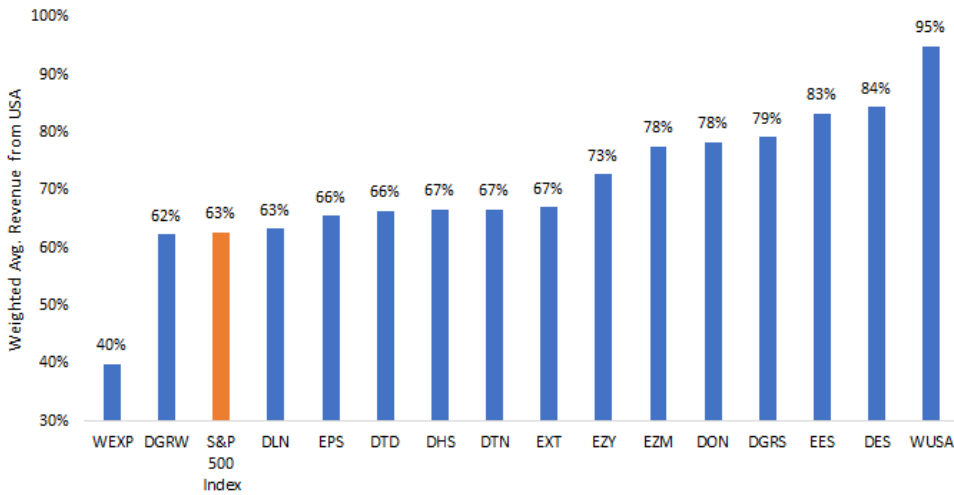
Source: WisdomTree, 6/30/17.

- What's Working:** The [WisdomTree U.S. Export and Multinational Fund \(WEXP\)](#) stands out as the strongest performer across the 15 strategies, delivering a 13% cumulative return. WEXP tracks the returns of the [WisdomTree U.S. Export and Multinational Index](#). While that Index name may seem like a mouthful, the bottom line is that it focuses on companies that derive the majority of their revenues from OUTSIDE the U.S. This means that if the U.S. dollar depreciates compared to international currencies, it creates a potentially more favorable environment for these firms, and over this period the [Bloomberg Dollar Spot Index](#) has declined 9.3%<sup>1</sup>—a veritable perfect storm. The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) is the other strategy that outperformed the [S&P 500 Index](#) over this period. In a way, its [WisdomTree U.S. Quality Dividend Growth Index](#) taps into that same multinational, large-company theme—albeit without that specific focus. Both WEXP and DGRW have had large exposure to Information Technology stocks—a strong sector over this period.
- What Isn't Working:** The [WisdomTree U.S. SmallCap Earnings Fund \(EES\)](#), the [WisdomTree U.S. SmallCap Dividend Fund \(DES\)](#) and the [WisdomTree U.S. SmallCap Quality Dividend Growth Fund \(DGRS\)](#) track the [WisdomTree U.S. SmallCap Earnings](#), [U.S. SmallCap Dividend](#) and [U.S. SmallCap Quality Dividend Growth Indexes](#), respectively. The common theme—small caps. In 2016, EES, DES and DGRS delivered 29.96%, 31.06% and 30.60% total returns, respectively, so one can clearly see the implied influence of the “Trump trade” in the 2016 results and then the cooling off of the Trump trade in the 2017 results. We think small caps have lagged so much in 2017 that if the government surprises us with a tax plan this year, there may be a reaction additional to what we saw after 2016 since investors have become just THAT pessimistic. Also notable is WUSA, tracking the [WisdomTree U.S. Domestic Economy Index](#). This is the opposite of WEXP and would more likely deliver its above-market returns in stronger-dollar environments. While that hasn't been the case in this period, it's notable to think of WEXP and WUSA offering an interesting expression of a “dollar view” in U.S. equities.

**Bottom Line of 2017: Taxes & Geographic Revenue**

We can look under the hood of 2017's performance thus far:

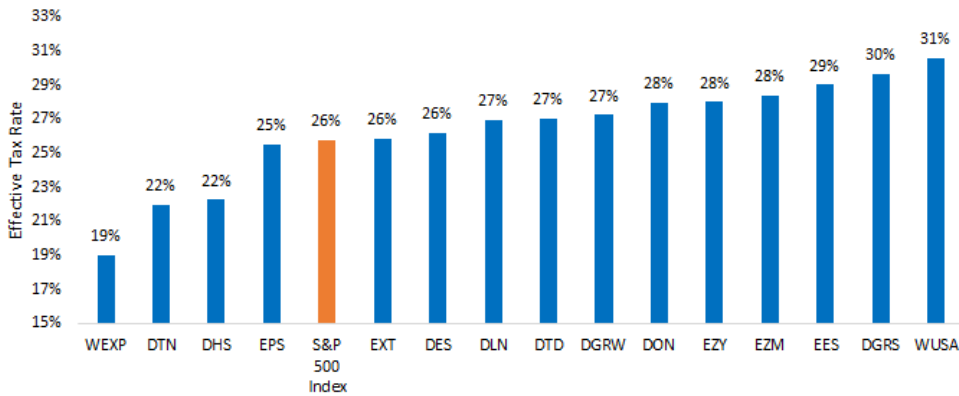
**Geographic Revenue Picture: Certain Strategies with Larger Companies and Less Revenue from Inside the U.S. Have Been Strong**



Sources: WisdomTree, Bloomberg, FactSet, with data as of 6/30/17. You cannot invest directly in an index. Subject to change.

- WEXP is tracking an Index that is designed to focus on exporters, which explains why its weighted average revenue from within the U.S. (40%) is so differentiated from basically all of the other Indexes. DGRW, the other outperformer over the S&P 500 Index shown earlier, also derives less revenue from within the U.S. than the S&P 500 Index.
- DGRS, EES and DES derive a LOT of weighted average revenue from within the U.S. In a stronger-dollar environment, that might be an advantage for these strategies over the S&P 500 Index. In the 2017 weaker-dollar environment, it has not been an advantage.

**Effective Tax Rates Have Favored Large-Cap Funds with Revenues Outside the U.S.**



Sources: WisdomTree, Bloomberg, FactSet, with data as of 6/30/17. Subject to change.

- WEXP had the lowest effective tax rate of all the strategies shown. With all of the discussions occurring with respect to tax policy, this has been such an important factor in 2017. Given that this basket of companies is already below the consensus 25% level (what people think might happen with corporate tax policy) and close to the 15% level (what President Trump campaigned on), this has been an advantage. It's notable that the [WisdomTree U.S. Domestic Economy Fund \(WUSA\)](#) (with 95% of its weighted average revenue from INSIDE the U.S.) had the highest effective tax rate of the strategies shown. Like we indicated with small caps, WUSA may be an interesting strategy if the government surprises us with a corporate tax plan before the end of 2017.

**WEXP & WUSA Represent Effective Tools for the Current Environment**

One of the best aspects of the U.S.-listed ETF market is the innovation. Instead of thinking about the S&P 500 Index for

U.S. equity exposure, investors can now think about geographic revenues and effective tax rates, and fine-tune their approaches to each of these characteristics while reforms are being discussed.

<sup>1</sup>Source: Bloomberg, with period from 12/31/16 to 8/28/17.

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You cannot invest directly in an index.

## DEFINITIONS

**Bloomberg Dollar Spot Index (BBDXY)** : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

**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.

**Effective tax rate** : The average tax rate at which a corporation's pre-tax profits are taxed, taking into account all forms of taxation paid by the company.