CONCERNED ABOUT VOLATILITY IN 2016? THINK ABOUT THE QUALITY FACTOR

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It is that time when we are getting bombarded with various outlooks for the year ahead in the markets. There is no shortage of uncertainty:

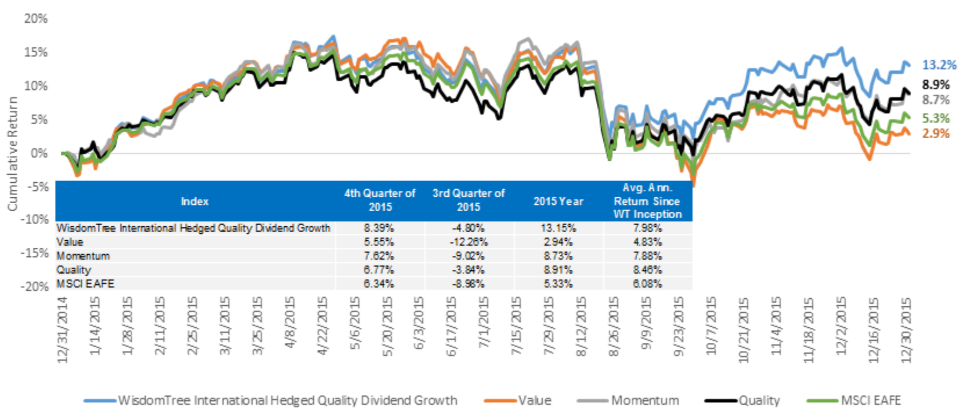
- 2016 is a presidential election year in the United States, and there is no incumbent candidate. Historically, U.S. equity markets[1] have experienced greater turbulence during these types of election years.
- 2015 saw oil prices start at approximately $50 per barrel and end at $37 per barrel—a nearly 30% decline.[2] Political tensions between Iran and Saudi Arabia have become more intense, again creating more uncertainty about the direction of oil.
- The U.S. dollar is coming off a period of dramatic gains in the previous 12 to 18 months.[3] Will that appreciation against foreign currencies slow or continue apace?

These are only some of the sources of uncertainty that are influencing markets in early 2016. However, a few themes from 2015, in our opinion, could remain important in 2016:

- A stronger U.S. dollar makes imports from foreign firms into the U.S. more competitive, a favorable factor for international stocks.
- Hedging exposure to foreign currency fluctuations against the U.S. dollar remains important, as we continue to believe that currency offers a form of uncompensated risk.
- As markets deal with uncertainty, we continue to believe that higher-quality companies—particularly those with lower leverage—may be better positioned to respond to changing conditions.

Bottom Line: For those concerned about the potential for developed international equity market volatility in the near term, we find it informative to look at a recent market “stress test” period, the third quarter of 2015, in which “quality” distinctly outperformed other smart beta factors like momentum and value.[4]

How the Quality Factor Outperformed in 2015



Index	4th Quarter of 2015	3rd Quarter of 2015	2015 Year	Avg. Ann. Return Since WT Inception
WisdomTree International Hedged Quality Dividend Growth	8.39%	-4.80%	13.15%	7.98%
Value	5.55%	-12.26%	2.94%	4.83%
Momentum	7.62%	-9.02%	8.73%	7.88%
Quality	6.77%	-3.84%	8.91%	8.46%
MSCI EAFE	6.34%	-8.98%	5.33%	6.08%

Sources: Bloomberg, MSCI. Average annual return since WisdomTree inception is from 12/2/13 to 12/31/15, which covers the period of live performance for the WisdomTree International Hedged Quality Dividend Growth Index. Value refers to the MSCI EAFE Enhanced Value Index. Momentum refers to the MSCI EAFE Momentum Index. Quality refers to the MSCI EAFE Quality Index. Returns for the MSCI Indexes are measured in local currency terms so as not to be impacted by fluctuations of developed international currencies against the U.S. dollar. Past performance is not indicative of future results. You cannot invest directly in an index.

• **Zooming in on the 2015 "Stress Test":** As has been the case historically in markets, the road to outperformance is typically paved by limiting downside moves during tough market environments. In the third quarter of 2015, the MSCI EAFE Index was down nearly 9%. Both the WisdomTree International Hedged Quality Dividend Growth and the MSCI EAFE Quality Indexes were down substantially less. On the other hand, the value and momentum-focused slices of the MSCI EAFE Index underperformed the broader market (the MSCI EAFE Index) during this period. • **What Does the Longer-Term Data Tell Us?** While the December 2, 2013, inception date of the WisdomTree International Hedged Quality Dividend Growth Index inhibits much in the way of long-term analysis, the MSCI EAFE Quality Index does in fact have data extending back to December 1, 1975. Over this period, through December 31, 2015, we saw that there were 71 rolling three-month periods in which the MSCI EAFE Index was down more than 5.0%. During those periods, the MSCI EAFE Quality Index outperformed the MSCI EAFE Index, on average, by about 2.5%. Interestingly, during periods in which the MSCI EAFE Index was not down by more than 5.0%, the performance of the two Indexes was quite similar. The third quarter of 2015 was no exception, and we believe this indicates longer-term potential to see outperformance of the quality factor during particularly tough markets.[5] **"Quality" Can Mean Different Things to Different Indexes** The WisdomTree International Hedged Quality Dividend Growth Index does not focus on the quality factor in quite the same way as the MSCI EAFE Quality Index does, but we can see that in 2015 both of these Indexes outperformed the broad market, and both went down less than the broad market in the third quarter. But for the full year, the WisdomTree Index distinctly outperformed. What factors were most responsible for this difference? • **Sectors:** The WisdomTree International Hedged Quality Dividend Growth Index was, on average, more than 20% under-weight to the Financials sector for 2015 compared to the MSCI EAFE Index, and the Financials that were included substantially outperformed those in the MSCI EAFE Index. This Index was also more than 3% under-weight to the Energy sector, which was a helpful under-weight. • **Regions:** We saw approximately 10% to 15% better performance among United Kingdom and eurozone stocks in the WisdomTree International Hedged Quality Dividend Growth Index compared to the MSCI EAFE Index stocks in those regions. Those are also two of the largest regional exposures in the Indexes, totaling about 50% weight. **What to Expect in 2016** There is no way to know what 2016 will bring in the way of performance, but, as we mentioned, some of the key drivers behind the WisdomTree International Hedged Quality Dividend Growth Index's strong 2015 remain in place, and if markets do get volatile, historical analysis does in fact suggest that in tough markets the quality factor has the potential to outperform. [1]Refers to U.S. companies listed on U.S. stock exchanges. Source: Professor Jeremy Siegel, "Stocks for the Long Run," updated to 2015.[2]Source: Bloomberg, with oil price specified as the price per barrel of West Texas Intermediate Crude oil on dates 12/31/14 and 12/31/15. [3]Source: Bloomberg, with U.S. dollar specified as the Federal Reserve U.S. Trade-Weighted Major Currencies U.S. Dollar Index [4]Source: MSCI. Comparison is among the MSCI EAFE Momentum , the MSCI EAFE Quality and the MSCI EAFE Enhanced Value Indexes, with returns all measured in local currency for period 6/30/15– 9/30/15. [5]Source: MSCI, with data from 12/1/1975 to 12/31/2015.

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You cannot invest directly in an index.

DEFINITIONS

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.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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 tim.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Smart Beta : A term for rules-based investment strategies that don't use conventional market-cap weightings.

Momentum Factor : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

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 Quality Index : The index captures large and Mid cap representation across 21 Developed Market countries around the world, aims to represent the performance of quality, value and low volatility factor strategies.

West Texas Intermediate (WTI) : A grade of crude oil used as a benchmark in oil pricing.

Federal Reserve U.S. Trade-Weighted Major Currencies U.S. Dollar Index : measures the effective exchange rate between the US Dollar and its major trading partner.

MSCI EAFE Momentum : aims to reflect the performance of the Momentum factor with a simple and transparent methodology within the EAFE universe.

MSCI EAFE Enhanced Value Indexes : aims to reflect the performance of the Value factor with by focusing on companies with favorable price to book, price to forward earnings, and enterprise value to cash flow numbers within the EAFE universe.