NEW SMART BETA FACTOR IN EMERGING MARKETS

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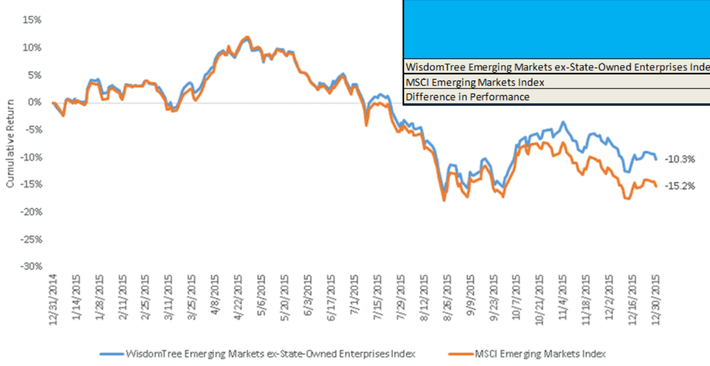
While near-term allocators to emerging markets may not be easy to find, the economic difficulties in emerging markets (EM) can function as a catalyst for rethinking how these markets can be accessed. We're finding that investors may not want to take all of the risk factors inherent to an MSCI Emerging Markets Index, traditionally the "beta benchmark" for emerging market equity investments. In other words, not all emerging markets are created equal in today's macroeconomic landscape. **Investors May Not Desire to Invest alongside Emerging Market Governments** Investors in U.S. equities typically don't see the U.S. government taking large, controlling equity positions in the largest publicly listed companies. EM governments, however, can and do tend to take control of such companies, in many cases either deeming them strategically important or looking for the source of revenue they can provide. On August 18, 2014, WisdomTree launched an Emerging Markets ex-State-Owned Enterprises Index, which has been closely tracking the concept of EM firms owned by governments for more than one year. What we find: • **The Beta Benchmark Is One-Third Exposed to Government Ownership:** We define "state-owned enterprises" as firms with a greater than 20% ownership by a state or government entity. The MSCI Emerging Markets Index is weighted fairly consistently 30% to 33%[1] toward these companies. In other words, strategies designed to track this Index are as much as one-third exposed to firms that are controlled by governments. • **Financials, Energy and Telecommunication Services Tend to Be Largest "State-Owned" Sectors:** We screen the universe of emerging markets companies annually, and as of the September 30, 2015, Index screening, more than 40% of the market capitalization of "state-owned" firms that we found was in the Financials sector. Beyond that, nearly 20% of the market capitalization was in Energy companies, and more than 10% was in Telecommunication Services. So, nearly three-quarters of the market capitalization of state-owned enterprises was in those three sectors. • More than 60% of the state-owned market capitalization was in China.[2] **Identifying Exposure to State-Owned Enterprises as a Potential Smart Beta Factor** In our view, the most important characteristic of any factor is a persistent experience of differentiated performance—either positive or negative—over time. We therefore analyzed the difference in performance between the WisdomTree Emerging Markets ex-State-Owned Enterprises Index and the MSCI Emerging Markets Index. **Emerging Market Equity Performance**

Difference in Cumulative Returns through December 30, 2015

	Since 9/30/2015	Since 6/30/2015	YTD 2015	Since 8/18/2015 Inception*
WisdomTree Emerging Markets ex-State-Owned Enterprises Index	4.00%	-13.30%	-10.30%	-19.10%
MSCI Emerging Markets Index	0.30%	-17.60%	-15.20%	-24.00%
Difference in Performance	3.70%	4.40%	4.90%	5.00%



Sources: Bloomberg, WisdomTree. Cumulative performance of the line-chart portion is meant to showcase the YTD 2015 period, specifically from 12/31/14 to 12/30/15.
[1]August 18, 2014, refers to the inception date of the WisdomTree Emerging Markets ex-State-Owned Enterprises Index.
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.

• While the MSCI Emerging Markets Index showcases a very challenging environment over the various periods that we show, it is notable that the WisdomTree Emerging Markets ex-State-Owned Enterprises Index has delivered outperformance of anywhere from 3.7% to 5.0%. We explore the reasons from both a sector and country perspective below.[3] **Sector Perspective on Ex-State-Owned Enterprises** We see the most positive contributions in relative performance in the Financials, Information Technology and Energy sectors. Within Financials, avoidance of firms in Brazil, China and even Greece is notable, in that many of these firms have faced very challenging performance environments. In Information Technology, the relative over-weight to Chinese companies—many of which list on the New York Stock Exchange—has benefited performance. In Energy, avoiding the largest companies in Brazil and China has helped relative performance. Of course, over these periods, the performance across nearly every sector in emerging markets was, in a word, challenged, so this was really a story of avoiding some of the worst performing firms as opposed to selecting companies that are actually seeing positive performance. **Country Perspective on Ex-State-Owned Enterprises** On the country level, the key to understanding the performance differences over these periods lies in understanding the China exposure. If China's equities are market capitalization weighted and state-owned enterprises are not restricted, it is no accident that the largest companies—the big banks, the big energy firms—get significant exposure. If China's equities, on the other hand, are subject to our approach of aiming to avoid exposure to state-owned enterprises, the large banks and energy firms tend to be eliminated, and information technology firms and insurance companies tend to get larger weights. The important goal is not to take a massive under-weight to China (or any country) but rather to recharacterize the exposure to avoid state-owned enterprises. **Implementing an Ex-State-Owned Enterprises Approach in Emerging Markets** The bottom line of the WisdomTree Emerging Markets ex-State-Owned Enterprises Index is that it defines an exposure to emerging market equities while aiming to take one risk—exposure to state-owned enterprises—off the table. Investors interested in learning more should look at the WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (XSOE), which is designed to track this Index before fees and expenses. [1]Source: Bloomberg, for period from 8/18/15 to 9/30/15. [2]Sources for bullets 2 and 3: Standard & Poor's, WisdomTree, with data as of 9/30/15 Index screening date. [3]Sources for sector and country segments: Bloomberg, with data looked at from 8/18/15 to 12/30/15, as well as various subperiods defined as starting on 12/31/14, 6/30/15 and 9/30/15, but all ending 12/30/15.

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DEFINITIONS

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.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

Beta benchmark : Characterized by measuring the performance of a particular universe of equities without attempting to utilize selection and weighting to generate differences in performance relative to this universe.

Publicly listed : Companies that list their shares on a stock exchange in order to facilitate their raising money in efforts to enhance the overall value of the entire company.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Annual screening date : The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

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.