HOW EASY IS IT TO BEAT EAFE?

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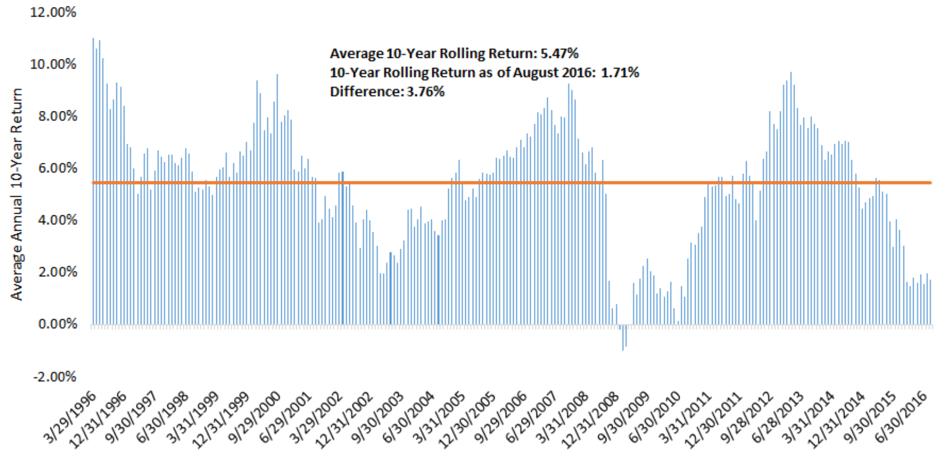
Many investors who sought the benefits of diversification by having some international equity exposure have been disappointed over the past several years. Over the last decade, for example, developed world stocks, as measured by the MSCI EAFE Index, returned just 1.7% on an annualized basis, lagging the S&P 500 Index, which returned 7.5% from August 31, 2006, to August 31, 2016. On a cumulative basis, that differential summed up to nearly 90% over 10 years. This return represented one of the worst 10-year periods for the MSCI EAFE Index in the past 30 years. The chart below shows 10-year rolling returns for the MSCI EAFE Index for all the 10-year periods going back to the one that ended in March 1996. The average 10-year return for EAFE over that period (denoted by the orange bar) was 5.5%. The 1.7% return over the last decade ranked it in the bottom decile of EAFE's 10-year returns—meaning 90% of the other observations generated higher returns. If you believe in reversion to the mean, investing after a period of historic underperformance may actually represent an opportune entry point for developed world investors.

10-Year Rolling Returns of the MSCI EAFE Index, March 1996–August 2016



Sources: WisdomTree, Bloomberg, as of 8/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

Given the MSCI EAFE's paltry returns during this period, it might seems as though it must have been easy for most actively managed international funds to beat EAFE over this period. But the truth is, of the 717 Foreign Value, Foreign Blend and Foreign Growth funds that Morningstar tracks, the MSCI EAFE *Index actually outperformed 51% of them.* So even during a period when EAFE generated low-single-digit returns that ranked in its lower decile, roughly one in two foreign funds still did not outperform the benchmark. This is one of the reasons many investors are increasingly looking to international exchange-traded funds (ETFs) as an alternative to actively managed mutual funds. One ETF that did beat EAFE over the last decade was WisdomTree's core product in this category: the WisdomTree International Equity Fund (DWM). DWM tracks an unhedged WisdomTree Index that includes virtually all the investable dividend-paying stocks in the developed world, outside the U.S. and Canada. There are typically more than 2,000 such dividend-paying stocks. Each June, WisdomTree weights each company in this Index based on the dollar value of the cash dividends it pays. After fees and expenses, DWM outperformed the MSCI EAFE Index by 45 basis points (bps) per year, beating 92% of its peers in the Foreign Large Value category tracked by Morningstar over that 10-year period. If we expand the universe to the group of 717 Large-Cap Value, Blend and Growth funds, DWM beat 63% of them in the 10 years ending June 2016, with its underlying WisdomTree Index beating two-thirds of the competition over the last decade. WisdomTree's dividend-weighted approach was able to achieve these results despite the fact that the MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 266 bps per year over this period. (For standardized returns of DWM, click here.)

Fund/Index	Morningstar Category	Percent of Peers Beaten as of 6/30/2016			
		1-Year	3-Year	5-Year	10-Year
WisdomTree International Equity Fund	Foreign Large Value	78%	85%	80%	92%
WisdomTree International Equity Index		78%	87%	81%	96%
MSCI EAFE Index		72%	74%	80%	81%
Number of Peers		387	299	248	143

Fund/Index	Morningstar Category	Percent of Peers Beaten as of 6/30/2016			
		1-Year	3-Year	5-Year	10-Year
WisdomTree International Equity Fund	Foreign Large Blend/Growth/Value	59%	67%	61%	63%
WisdomTree International Equity Index		58%	69%	63%	67%
MSCI EAFE Index		50%	54%	61%	51%
Number of Peers		1,587	1,353	1,168	717

Sources: WisdomTree, Morningstar, as of 6/30/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

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Conclusion Returns for the EAFE Index over the past decade were low in absolute terms and low relative to its own history. That 10-year underperformance relative to the S&P 500 Index may actually be signaling that this is a good time to take a fresh look at international stocks. For investors interested in a dividend-weighted ETF that has a history of generating both more dividend income and greater total returns than the EAFE Index, click for more information on DWM, the WisdomTree International Equity Fund. ***Unless otherwise noted, data source is Bloomberg, as of 8/31/2016.***

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You cannot invest directly in an index.

DEFINITIONS

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.

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.

Decile : each of ten equal groups into which a data set can be divide.

Actively managed ETFs : Investment strategy where a manager selects securities in an attempt to outperform the performance benchmark.

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.

Blend : Characterized by exposure spanning across stocks exhibiting both value and growth attributes.

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.

Unhedged : Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

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

Basis point : 1/100th of 1 percent.

MSCI EAFE Growth Index : Market capitalization-weighted subset of stocks within the MSCI EAFE Index that have higher share prices relative to their earnings or dividends per share.

MSCI EAFE Value Index : Market capitalization-weighted subset of stocks within the MSCI EAFE Index that have lower share prices relative to their earnings or dividends per share.