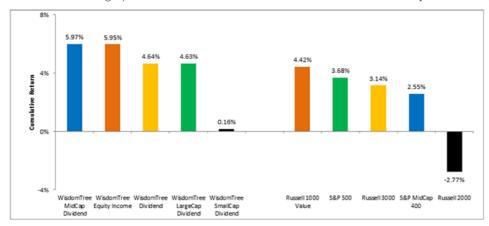
U.S. DIVIDENDS LEAD IN 2014

Christopher Gannatti — Global Head of Research 06/23/2014

2013 was characterized by a strong U.S. equity market, but we were not surprised that our U.S. dividend Indexes were unable to fully capture that strong upward move. Thus far in 2014, the picture has changed, and we've seen our dividend Indexes outpace their <u>market capitalization-weighted</u> benchmarks in **every** size segment of the market. This can be explained, in part, by the reversal in U.S. <u>momentum stocks</u>, written about <u>here</u>, as well as dividend stocks coming back to deliver strong performance. **WisdomTree's Dividend Indexes Outperformed (12/31/2013 to 5/23/2014)**



Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.

For definition of indexes in

the chart, visit our glossary. • U.S. Treasury Yields Support Dividend-Paying Stocks, Particularly Higher Yielders in WT Equity Income: In our view, one of the most critical drivers of dividend-paying stocks in the U.S., currently, is the behavior of <u>U.S. Treasury yields</u> —particularly on the <u>10-Year Treasury note</u>. From December 31, 2013, to May 23, 2014, this yield has declined from slightly over 3.00% to slightly over 2.50%. Generally speaking, Treasury yields are one of the biggest sources of competition for dividend-paying stocks in that many investors are simply looking for an income source. The lower the yield on the 10-Year note, the less competition faced by dividend-paying stocks, and we see this even if we just broadly note the performance of sectors in the S&P 500 Index. Historically, the WisdomTree Equity Income Index has tended to be strongly positioned for environments supportive of higher-yielding dividend payers, since it selects for this particular attribute from a broad universe of U.S. dividend payers. • Forgotten Mid-Caps: Over this period of strong dividend growth, the WisdomTree MidCap Dividend Index delivered the greatest outperformance over its cap-weighted benchmark, the <u>S&P MidCap 400 Index</u>. As has historically been the case, a difference in stock selection was a key driver of performance. Most notably, we had a nearly 9.3% over-weight to Utilities and an approximate 8.3% under-weight to Information Technology. • The Small-Cap Segment: What Happened to the Russell 2000? Broadly speaking, we believe that question can be answered in three words: relative value rebalancing. 2013 was a year of strong performance in small caps. At the end of the year, the WisdomTree SmallCap Dividend Index underwent its annual rebalance, specifically selling stocks that experienced strong share price performance but that did not grow dividends commensurately. The Russell 2000 Index, being market cap weighted, had no such discipline to focus back on a measure of relative valuation, and we think that managing valuation risk is one of the most crucial actions to undertake after a year defined by multiple expansion. Can Outperformance Continue? In 2013, U.S. equities performed strongly, but that performance was primarily driven by multiple expansion. After such a year, one of the most important risks to manage is valuation risk—which our U.S. dividend Indexes are built to do. Also, if U.S. Treasury yields rise more slowly than initially expected, these types of stocks could remain important generators of income. Unless otherwise noted, data source is Bloomberg.



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You cannot invest directly in an index.



DEFINITIONS

Market capitalization-weighting: 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.

Momentum Stocks: Stocks characterized by high sensitivity to sentiment and perception of potential, with lower sensitivity to actual business operation.

Treasury yield: The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

U.S. 10 Year Treasury Note: A debt obligation issued by the United States government that matures in 10 years.

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.

WisdomTree Equity Income Index: Measures the performance of the 30% highest-yielding dividend-paying equities within the WisdomTree Dividend Index, weighted by indicated cash dividends.

WisdomTree MidCap Dividend Index: A fundamentally weighted index that measures the performance of the mid-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the top 75% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.

S&P MidCap 400 Index: provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

Russell 2000 Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

WisdomTree SmallCap Dividend Index: A fundamentally weighted index measuring the performance of the small-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the bottom 25% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The Index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.

Valuation risk: The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.

Multiple expansion: Term for a rising P/E ratio, meaning that share prices are rising faster than earnings are growing.

