

GETTING SMARTER IN YOUR EUROPEAN ALLOCATION

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European markets, have disappointed investors this year, to put it mildly. This offers all the more reason to re-engage with portfolio allocations and dissect which factors have been driving returns and if investors' current allocations can deliver the best possible exposure to the markets. While sentiment regarding Europe has been negative all year and returns have been a drag on global allocations, the [WisdomTree Europe Hedged Equity Index](#) is not only up 420 [basis points \(bps\)](#) year-to-date against its [currency-hedged, market cap-weighted](#) peer, it has actually outperformed its unhedged equivalent, the [MSCI EMU Index](#), by 280 bps at a time when the euro appreciated and helped the unhedged counterpart. Over the last year and the last three years, the WisdomTree Index has also been able to beat both the hedged and unhedged ["beta benchmark"](#) alternatives. What has been the key to WisdomTree's success in Europe? **WisdomTree Europe Hedged Equity Index**

Index	WT Index Inception	Average Annual Total Returns as of 8/31/2016			
		YTD	1-Year	3-Year	Since WT Inception
WisdomTree Europe Hedged Equity	7/2/2012	1.85%	3.09%	9.09%	13.13%
MSCI EMU 100% Hedged to USD		-2.35%	-0.96%	8.32%	11.98%
MSCI EMU		-0.95%	-2.51%	2.17%	8.20%

Sources: WisdomTree, Bloomberg as of 8/31/2016

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Performance

Besides the fact that the WisdomTree Europe Hedged Equity Index only selects [dividend](#) payers and weights them by their share of dividends paid, we believe the exporter tilt embedded in WisdomTree's Index methodology has contributed to the historical outperformance. Requiring that companies within the Index generate at least 50% of their revenue from outside Europe, we believe, has three natural benefits: **1) A Stronger Connection to Global Growth** At a time when global growth seems to be outpacing that of Europe, tilting toward companies that derive at least 50% of their revenue globally gives the WisdomTree Index, we believe, an advantage over market cap-weighted indexes. With these companies' revenue streams being less affected by slowdowns in domestic demand, they may provide a better alternative when global [gross domestic product \(GDP\)](#) growth advances faster than growth within Europe. We estimate that approximately one-third of the revenue from the constituents of the WisdomTree Europe Hedged Equity Index comes from Europe. Emerging markets make up an equal contribution of revenue, and a rebound in stocks in emerging markets is supporting related exposures in Europe. **2) Differentiated Sector Bets (Under-Weight in Financials)** An important aspect of tilting toward exporters is the differentiated sector weights that result, compared to the MSCI EMU Index. The WisdomTree Index is currently over-weight in such sectors as Consumer Staples, Consumer Discretionary and Industrials. At the same time, the exporter tilt causes a significant under-weight in the Financials sector relative to cap weighting. Through 2016, we have seen this under-weight in Financials average roughly 8%. The WisdomTree Index has 0% exposure to Italian banks versus the 2% allocated by the MSCI EMU Index. To put the significance of these under-weights into perspective, year-to-date, European financials are down 14%, while Italian financials are down 37% measured in euros. Because the WisdomTree Index [rebalances](#) annually back to the dividends companies pay, rather than their market value, WisdomTree's rules-based methodology also holds out the potential to rebalance back to where the relative value may be, across the sectors and countries within the eurozone. **3) A Hedged Index That Tilts toward Exporters** Finally, we believe that currency-hedged indexes that tilt toward companies that stand to benefit from a depreciating currency intuitively make a lot of sense. What is comforting is

that even in a year when the euro has appreciated against the U.S. dollar, the stock and sector “bets” made by the WisdomTree methodology have managed to generate enough [alpha](#) to outperform even the MSCI EMU Index, which has benefited from the appreciation of the euro in 2016. Should the dollar strengthen against the euro from this point forward—either because the [Federal Reserve](#) raises interest rates, or the ECB expands its program of monetary easing in the future—the fact that the WisdomTree Hedged Equity Index hedges out foreign currency exposure could serve as another source of relative return. **Conclusion** With reports that European growth and sentiment is stalling, we believe that long-term investors in Europe should use this occasion to tilt their allocations toward European multinationals better positioned to capitalize on global growth and a depreciating euro. While future movements in the European currency are hard to predict, our research suggests that taking currency risk in Europe is not advised over longer-term holding periods. Put another way, currency exposure in Europe is a source of risk with no expected long-term return. For investors wanting to learn more about the ETF tracking the WisdomTree Europe Hedged Equity Index, the [WisdomTree Europe Hedged Equity Fund \(HEDJ\)](#), click here. *Unless otherwise noted, data source is Bloomberg, as of 8/31/2016.*

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There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

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You cannot invest directly in an index.

DEFINITIONS

Basis point : 1/100th of 1 percent.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

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.

MSCI EMU Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of the markets in the European Monetary Union.

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.

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

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.