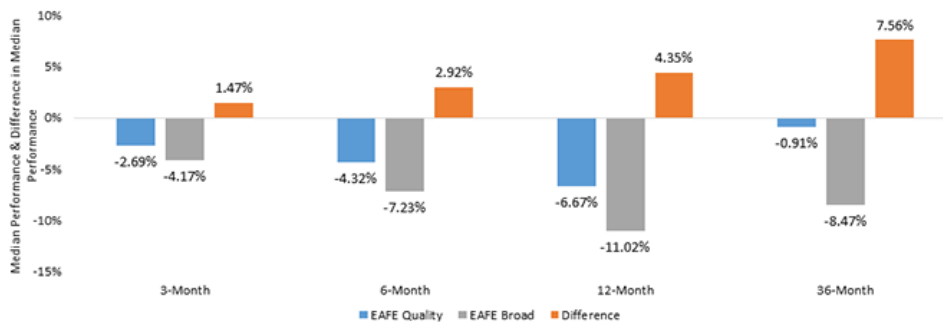


BENEFITS OF QUALITY APPARENT DURING VOLATILE Q3

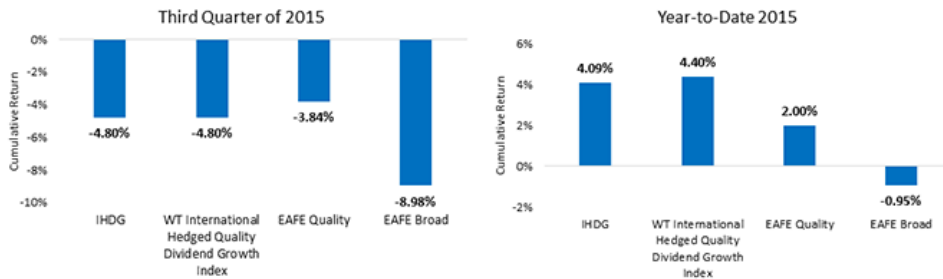
Christopher Gannatti — Head of Research, Europe
11/18/2015

We've written a lot recently about what it means to [focus on quality in equity investments](#). The third quarter of 2015—with the [volatility](#) that it brought along with it—provided what we think was an interesting short period to illustrate the benefits of a quality approach. **Bottom Line:** [Quality](#) as a factor has historically worked best during volatile periods, and this third quarter was a prime example.¹ [MSCI EAFE Quality](#) (EAFE Quality) and [EAFE](#) (EAFE Broad) Indexes, both measured in local currency terms, illustrate over a long period of analysis how this played out across time—back to December 1, 1975. We looked at rolling periods three months, six months, 12 months and 36 months in duration. Importantly, we focused our analysis on times when EAFE Broad exhibited a negative return, zeroing in on periods where performance was a bit more challenging, like what we saw in the third quarter of 2015. We also looked at [median](#) returns for these different periods, so as to mitigate the risk of outliers influencing the picture. **Median Performance in Down Markets over Specified Rolling (3-, 6-, 12- & 36-Month) Periods from 12/1/1975 to 9/30/2015**



Sources: WisdomTree, MSCI, with data from 12/1/1975 to 9/30/2015. Past performance is not indicative of future results. You cannot invest directly in an Index. Performance, especially for very short periods, should not be the sole factor in making your investment decision.

At a high level, based on what we see in the chart, there was median outperformance of EAFE Quality over EAFE Broad over each of the rolling period frequencies—3, 6, 12 and 36 months—when the return of EAFE Broad was negative. • **Big Declines of 5% or More:** Digging a little deeper into the three-month analysis, since we began our focus talking about the third quarter of 2015, there were actually 70 three-month periods from December 1, 1975, to September 30, 2015, in which the returns for the MSCI EAFE Index **declined more than 5%**. • Median outperformance of EAFE Quality in those periods was approximately **3%**, while in all other periods the median differential was essentially **zero**. • Looking again a bit further at the rolling three-month analysis, there were 126 three-month periods in which returns for EAFE Broad declined more than 1%. Median outperformance of quality in those periods was close to **2 percentage points**, while in all other rolling three-month periods, the median differential was **negative 18 basis points (bps)**, meaning that EAFE broad slightly outperformed EAFE Quality during positive environments. • This research suggests quality as a factor had some of its best returns for the EAFE universe during down markets, declining less than EAFE Broad. **The Third Quarter of 2015** Now that we know our expectations of how quality might perform in difficult markets, it's time to look at the third quarter of 2015. Importantly, the [WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#) tracks the performance of the [WisdomTree International Hedged Quality Dividend Growth Index](#) before fees and expenses. This Index represents WisdomTree's approach to quality in the developed international equities. **Zooming In on the Third Quarter and Year-to-Date Periods of 2015 (as of September 30, 2015)**



Average Annual Returns as

	Fund Information		Total Return (NAV)						Market Value						
	Ticker	Exp. Ratio	Inception Date	3-Months	Y-T-D	1-Year	3-Year	5-Year	Since Fund Inception	3-Months	Y-T-D	1-Year	3-Year	5-Year	Since Fund Inception
WisdomTree International Hedged Quality Dividend Growth Fund	IHDG	0.58%	5/7/2014	-4.80%	4.09%	4.87%	N/A	N/A	3.85%	-4.50%	4.26%	4.99%	N/A	N/A	3.44%
WisdomTree International Hedged Quality Dividend Growth Index				-4.80%	4.40%	5.02%	N/A	N/A	4.43%	-4.80%	4.40%	5.02%	N/A	N/A	4.43%
MSCI EAFE Quality Local Currency Index				-3.84%	2.00%	3.51%	10.45%	8.47%	4.41%	-3.84%	2.00%	3.51%	10.45%	8.47%	4.41%
MSCI EAFE Local Currency Index				-8.98%	-0.95%	0.80%	12.71%	7.71%	3.53%	-8.98%	-0.95%	0.80%	12.71%	7.71%	3.53%

Sources: WisdomTree, Bloomberg, MSCI, with data as of 9/30/15.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund.

Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

of September 30, 2015

Q3, the EAFE Broad was down nearly 9%, but IHDG was down merely 4.8%. This is approximately 4.2% outperformance. EAFE Quality also outperformed EAFE Broad by more than 5 percentage points. Median outperformance of EAFE Quality over EAFE Broad when EAFE Broad was negative was closer to 1.5%, so this represents a significant period, in our view. • Broadening to the year-to-date 2015 period, we see that EAFE Broad delivered a negative return of nearly 1.0%. EAFE Quality was up 2.0%, and IHDG was up nearly 4.1% over this same time frame. While we recognize that this was just one single three-month period (as well as one single year-to-date nine-month period), we still believe it to be worth noting. If people think markets could [continue to exhibit volatility](#) similar to what was seen in the third quarter of 2015, we think that looking toward quality should be of particular interest. ¹Source: Bloomberg, as of 9/30/15.

Important Risks Related to this Article

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. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. 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 effects 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. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. 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.

For more investing insights, check out our [Economic & Market Outlook](#)

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

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.

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.

EAFE : Refers to the geographical area that is made up of Europe, Australasia and the Far East.

Median : The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

Basis point : 1/100th of 1 percent.