

OUR TOP- AND BOTTOM-PERFORMING ETFs OF 2016

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At the end of 2016, WisdomTree had 94 U.S. listed exchange-traded funds (ETFs) focused on markets around the world. Knowing which performed the best and worst over given time frames can provide valuable insight for investors.

- The Worst Performers offer insight into what could be some of the more [contrarian](#) ideas out there, additionally providing opportunities for potential [mean reversion](#) if, in fact, these strategies can rebound.
- The Best Performers offer insight into where the more recent momentum has been stronger. If the catalysts for stronger performance are believed to be sustainable, there may be investors who want to take advantage of the ongoing trends.

Average Annual Returns for WisdomTree’s Best & Worst Performing ETFs in 2016

Fund	Fund Information			NAV Returns					Market Price Returns				
	Ticker	Exp. Ratio	Inception Date	1-Year	3-Year	5-Year	10-Year	Since Fund Inception	1-Year	3-Year	5-Year	10-Year	Since Fund Inception
WisdomTree Japan Hedged Financials Fund	DXJF	0.48%	4/8/2014	-7.25%	N/A	N/A	N/A	6.29%	-5.86%	N/A	N/A	N/A	6.78%
WisdomTree Japan Hedged Health Care Fund	DXJH	0.48%	4/8/2014	-6.40%	N/A	N/A	N/A	18.31%	-5.70%	N/A	N/A	N/A	18.74%
WisdomTree Chinese Yuan Strategy Fund	CYB	0.45%	5/14/2008	-3.98%	-2.74%	-0.46%	N/A	0.42%	-4.28%	-2.89%	-0.57%	N/A	0.24%
WisdomTree Europe Quality Dividend Growth Fund	EUDG	0.58%	5/7/2014	-3.94%	N/A	N/A	N/A	-4.39%	-3.71%	N/A	N/A	N/A	-4.58%
WisdomTree Europe Local Recovery Fund	EZR	0.48%	10/29/2015	-2.40%	N/A	N/A	N/A	-2.39%	-1.64%	N/A	N/A	N/A	-2.90%
WisdomTree Global Hedged SmallCap Dividend Fund	HGSD	0.43%	11/19/2015	24.26%	N/A	N/A	N/A	20.26%	19.84%	N/A	N/A	N/A	20.37%
WisdomTree SmallCap Earnings Fund	EES	0.38%	2/23/2007	29.96%	7.26%	15.67%	N/A	8.32%	29.94%	7.28%	15.60%	N/A	8.30%
WisdomTree U.S. SmallCap Quality Dividend Growth Fund	DGRS	0.38%	7/25/2013	30.60%	8.22%	N/A	N/A	11.56%	30.53%	8.20%	N/A	N/A	11.49%
WisdomTree SmallCap Dividend Fund	DES	0.38%	6/16/2006	31.06%	10.01%	16.62%	7.48%	8.64%	31.09%	10.00%	16.49%	7.48%	8.63%
WisdomTree Brazilian Real Strategy Fund	BZF	0.45%	5/14/2008	35.24%	-0.25%	-2.41%	N/A	0.54%	35.15%	-0.31%	-2.57%	N/A	0.32%

Source: WisdomTree, with data as of 12/31/16.

WisdomTree’s Best & Worst Performing ETFs of 2016



Source: WisdomTree, with data measured in terms of net asset value total returns from 12/31/15 to 12/31/16.

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.

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Searching for Mean Reversion Potential among 2016’s Worst Performers

• **Japan:** The [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#) and the [WisdomTree Japan Hedged Health Care Fund \(DXJH\)](#) stand out as the two worst-performing ETFs at WisdomTree in 2016. In the case of DXJF, the full-year performance of -7.25% masks one of the most [volatile](#) years we’ve seen across global equity markets in some time. For example, DXJF was down approximately 40% from December 31, 2015, to July 8, 2016, but then it was up approximately 55% from July 8, 2016, to the end of the year.¹ If people believe in the 1) continued interest rate divergence between the United States and Japan and 2) Japan’s policies of [quantitative easing](#) and fiscal stimulus, then it’s quite possible that DXJF can continue to perform well.

• **China’s Currency vs. the U.S. dollar:** It’s important to note that the Chinese government is still managing its exchange rate, but it is no longer doing it chiefly to the U.S. dollar, instead utilizing a basket of currencies that represents

China's major trading partners. However, it's notable that the onshore [renminbi](#) had one of its worst years (down 6.50% vs. the U.S. dollar) in some time.² Within the [WisdomTree Chinese Yuan Strategy Fund \(CYB\)](#), some of this impact was muted by the fund's [embedded income yield](#), derived from the fact that China's short-term [interest rates](#) are higher than those in the United States. Looking forward, the largest potential uncertainty with regard to China in 2017 would be any direct shorter-term actions taken by President Trump's new administration. In these early weeks, we can already see the Chinese government taking steps to stem currency depreciation.

- **Europe:** The [WisdomTree Europe Quality Dividend Growth Fund \(EUDG\)](#) had its largest single market exposure to the United Kingdom in 2016. On the one hand, investors did see the [FTSE 100 Index](#) reaching record highs, but a crucial element to those highs was that the headwind of a depreciating British pound was avoided. Since EUDG tracks the returns of an [unhedged](#) index, the greater than 16% depreciation of the British pound was a significant headwind for performance.³ The challenge for the [WisdomTree Europe Local Recovery Fund \(EZR\)](#) was the large exposure to the European Financials sector. In the first half of 2016, the negative interest rate world created a point of stress for European Financials. Then, in the second half, there were more [idiosyncratic risks](#): 1) Deutsche Bank was widely focused upon due to settlement discussions with the U.S. Department of Justice, and then 2) Italian banks were widely focused on as a result of the Italian referendum. At some point, we believe that these large headwinds for European equity performance could dissipate, but the exact timing could be tricky.

Can the Momentum of 2016's Top-Performing ETFs Continue?

- **Commodity Currencies:** The [WisdomTree Brazilian Real Strategy Fund \(BZF\)](#), WisdomTree's top-performing ETF in 2016, exemplifies a broader trend for [commodity currencies](#) against the U.S. dollar. In 2015, this would have been among WisdomTree's worst-performing strategies, since the Brazilian real lost approximately one-third of its value during that year.⁴ In 2016, the price per barrel of oil largely stabilized and commodities came back a bit. Single emerging market currency exposures may not be for all investors out there, but BZF as the top-performing fund at WisdomTree in 2016 provides a worthwhile example of what mean reversion looks like in a more general sense.

- **U.S. Small-Cap Stocks:** The [WisdomTree SmallCap Earnings Fund \(EES\)](#), the [WisdomTree U.S. SmallCap Quality Dividend Growth Fund \(DGRS\)](#), the [WisdomTree SmallCap Dividend Fund \(DES\)](#), and even the [WisdomTree Global Hedged SmallCap Dividend Fund \(HGSD\)](#) round out the rest of the five best-performing ETFs at WisdomTree in 2016, all for the same reason: exposure to U.S. small-cap stocks. The single largest catalyst for performance in this market segment was President-elect Donald Trump's surprise victory. His quest to "make America great again" has led to immediate expectations of better economic growth, something to which small-cap stocks could be particularly sensitive. Also, plans to cut corporate tax rates—if enacted—could impact small-cap stocks to a greater degree than [large caps, since large caps tend to have lower effective tax rates](#) to begin with. After January's inauguration, we will see how closely policy implementation matches up with market expectations.

¹Sources: WisdomTree, Bloomberg, with data measured in terms of net asset value total returns over specified periods.

²Sources: WisdomTree, Bloomberg, with data measured from 12/31/15 to 12/31/16.

³Sources: WisdomTree, Bloomberg, with data measured from 12/31/15 to 12/31/16 for the depreciation of the British pound against the U.S. dollar.

⁴Sources: WisdomTree, Bloomberg, with data measured from 12/31/14 to 12/31/15 to capture the depreciation of the Brazilian real vs. the U.S. dollar in 2015.

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DEFINITIONS

Contrarian : Practice of seeing what the majority of market participants are focused on and attempting to look in the complete opposite direction.

Mean reversion : The concept that a series of returns has a tendency to return to its average level over longer periods, even if shorter periods can exhibit wide swings.

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

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Renminbi (RMB) : is the official currency of the People’s Republic of China.

Embedded Income Yield : Represents the annualized rate of return generated by a fund’s investments in both fixed income securities and derivatives exclusive of interest rate changes and movement in foreign exchange spot rates. The calculation is intended to capture the Fund’s potential to earn income return over the following year given current holdings and market conditions. The embedded income yield will differ from the portfolio’s yield to maturity, due to the incorporation of derivatives in the embedded income yield. Embedded income yield and portfolio yield to maturity may differ from a Funds actual distribution and SEC yield and do not reflect Fund expenses.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

FTSE 100 Index : A market capitalization-weighted index measuring the performance of the 100 largest companies listed on the London Stock Exchange.

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.

Idiosyncratic risk : Risk that pertains to a specific asset which can be minimized through diversificatio.

Commodity currency basket : represents a blend of eight forward currency contracts from commodity-producing countries.