

Reviewing Top and Bottom Performers Year-to-Date

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Having a broad cross section of Funds across global markets and asset classes gives us perspective on how markets are behaving. Depending on whether one wants to look for positive momentum trends continuing or for a reversal in negative sentiment from the list of poor performers, this review of the top five and bottom five performers in the WisdomTree family could be useful for midyear portfolio check-ups and rebalances. For standardized performance of WisdomTree Funds, [click here](#).

Top 5 YTD Returns as of 6/30/2017				
Category	Fund	Ticker	Inception Date	NAV Performance
EQUITY	WisdomTree China ex-State-Owned Enterprises Fund	CXSE	9/19/2012	34.64%
EQUITY	WisdomTree Emerging Markets ex-State-Owned Enterprises	XSOE	12/10/2014	22.79%
EQUITY	WisdomTree India Earnings Fund	EPI	2/22/2008	21.33%
EQUITY	WisdomTree Europe Domestic Economy Fund	EDOM	10/29/2015	20.72%
EQUITY	WisdomTree Europe Quality Dividend Growth Fund	EUDG	5/7/2014	19.39%

Bottom 5 YTD Returns as of 6/30/2017				
Category	Fund	Ticker	Inception Date	NAV Performance
CURRENCY STRATEGIES	WisdomTree Bloomberg U.S. Dollar Bullish Fund	USDU	12/18/2013	-6.44%
ALTERNATIVE	WisdomTree Managed Futures Strategy Fund	WDTI	1/5/2011	-5.53%
ALTERNATIVE	WisdomTree Continuous Commodity Index Fund	GCC	1/24/2008	-3.46%
EQUITY	WisdomTree U.S. SmallCap Dividend Fund	DES	6/16/2006	-1.23%
EQUITY	WisdomTree U.S. SmallCap Quality Dividend Growth Fund	DGRS	7/25/2013	-1.12%

Source: WisdomTree, 6/30/17.

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.

Top Five Performers

In the top five performers list, we see international markets represented exclusively, with a minimum return of nearly 20% required to make this list. The single best performer was the [WisdomTree China ex-State-Owned Enterprises Fund, CXSE](#), followed closely by the same ex-state-owned enterprises strategy applied to the broader total emerging market universe, [XSOE](#).

A key differentiator for both of WisdomTree's Ex-State-Owned Enterprise Funds is a shift in weight toward consumer and technology sectors, and away from the state-owned companies that often are financial sector and energy companies. This has played out well, particularly in China, where CXSE's performance is dramatically different from its cap-weighted counterparts from either MSCI or FTSE. While MSCI made news by announcing the A-shares China stock inclusion in its emerging market indexes at this year's review, I believe the bigger story is the sector differentials caused by our ex-state-owned enterprises methodology, which has been a more important factor in driving performance recently.

India also has been a strong performer for WisdomTree in 2017—[EPI](#), which represents a broad cross section of Indian markets, came in at no. 3 on the year-to-date (YTD) list. India has benefited from a strong leader in Prime Minister Narendra Modi, [who is pushing the country to modernize its economy with aggressive changes](#) that included rendering 86% of the cash in its society worthless—a bid to cut off corruption and informal parts of society that avoided taxation. This move also helped recapitalize banks as it forced people to deposit cash into the formal sector. Coming in the second half of this year, India will have changes to tax policy, which ultimately will lead to a better flow of goods across the country, but may lead to chaos in complying with a new system in the short run. WisdomTree's earnings-weighted indexing approach for EPI helps manage valuation risks, and by including a broad cross section of the Indian markets—with heavier emphasis on mid- and small-cap stocks than traditional index providers focus on large caps—EPI, we believe, represents one of the better long-run exposures to emerging market growth.

The next two positions on the top five list were both European Funds, with the domestic economy strategy and the quality dividend growth strategy. The domestic economy strategy is designed to target companies most sensitive to economic growth in the eurozone, specifically including companies that derive more than 50% of their revenue from Europe. Sectors excluded from the Index include consumer staples, health care, telecommunications and utilities, leaving the Index more heavily weighted in domestically oriented cyclical stocks in the financials, industrials and consumer discretionary sectors. With WisdomTree's Quality Dividend Growth Indexes focusing on quality screens (return on equity and return on assets), they tend to be under-weight financials more habitually and also under-weight energy in the short run. These Indexes tend to be over-weight sectors such as industrials, health care, consumer discretionary and technology. These sector shifts have paid off well in Europe. I recently wrote a piece about how [a quality approach has paid off, not just this year for European assets, but over the long-run research](#).

Bottom Five Performers

Reviewing the bottom five list, we see three of the strategies were not equity positions—as most of the global equity markets are up this year. A notable underperformer of the bunch was our commodity strategy, [GCC](#). My colleague Jeff Weniger [recently wrote a piece on asset allocation strategies that favored the worst performers over the previous five years](#). He called it the “Stinker Study” and argued that investors should embrace the Stinker. Commodities have been out of favor not only for the last five years, but again this year.

Unwinding Trump trades: Three other exchange-traded funds (ETFs) on this bottom five YTD list can be broadly described as the unwinding of Trump trades.

First, U.S. dollar weakness. One of the supporters for the European domestic economy and quality dividend growth strategies above is the tailwind from a weakening U.S. dollar. [USDU](#), our [Bloomberg U.S. Dollar Bullish Fund](#), took a 6.4% hit to start 2017 on the opposite side of that coin.²

Expectations were set very high for the prospects of tax reform at the start of the year. Perhaps now expectations have been driven so low that the market is undercounting the potential for any changes in tax policies that would boost the U.S. dollar.

Similarly, small caps were some of the strongest performers after Donald Trump's election, with a view that companies more sensitive to the prospects of the U.S. economy would benefit from a reduction in their corporate taxes more so than large caps, which have more offshore tax shields. U.S. small-cap indexes often are described as expensive on the valuation side—but looking at price-to-earnings (P/E) ratios on the two small-cap Funds that are on this bottom performers list, the [quality strategy](#), [DGRS](#), has a P/E ratio of around 17x, and the broader [small-cap dividend Fund](#), [DES](#), has a P/E ratio of 20x.³ These are reasonable multiples, especially if we get corporate tax reform that would boost earnings. These two Funds would make up my shopping list of where the conventional narrative has become too negative and discounting the prospects for meaningful changes in sentiment here.

The final ETF on this bottom five list, the [WisdomTree Managed Futures Strategy Fund](#), [WDTI](#), is one of the more challenging performers recently—like commodities discussed earlier. Managed futures strategies, particularly like those employed by [WDTI](#), utilize a trend-following strategy that takes positions long and short based on recent price momentum. These momentum trends have not been consistent recently, and there has been a whipsawing in positions after they were established. It is hard to say what events will make assets start trending again, but this is another strategy that has been out of favor for a number of years. Because it is a strategy with low correlation to equities and bonds due to the ability to go long and short, when markets are at highs, we'll be watching closely if this strategy starts to perk up again.

¹Source: "Are banks equipped to replace 2,300 crore pieces of Rs 500 and Rs 1,000 notes?" The Indian Express, 11/9/16.

²Source: WisdomTree, 12/31/16–6/30/17.

³Source: WisdomTree, 6/30/17.

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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 emerging or offshore markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Funds focusing their investments on certain sectors and/or regions increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. The Funds invest in the securities included in, or representative of, their Index regardless of their investment merit and the Funds do not attempt to outperform their Index or take defensive positions in declining markets.

Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time.

Due to the investment strategy of some of the Funds they may make higher capital gain distributions than other ETFs.

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An investment in the WDTI Fund is speculative and involves a substantial degree of risk. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance, as well as its correlation (or non-correlation) to other asset classes. These factors include use of long and short positions in commodity futures contracts, currency forward contracts, swaps and other derivatives. Derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The Fund generally does not make intra-month adjustments and therefore is subject to substantial losses if the market moves against the Fund's established positions on an intra-month basis. The Fund is actively managed thus the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager.

Please read each Fund's prospectus for specific details regarding each Fund's risk profile.