HOW EUROPEAN COMPANIES RESPOND TO CHANGING GROWTH PROSPECTS

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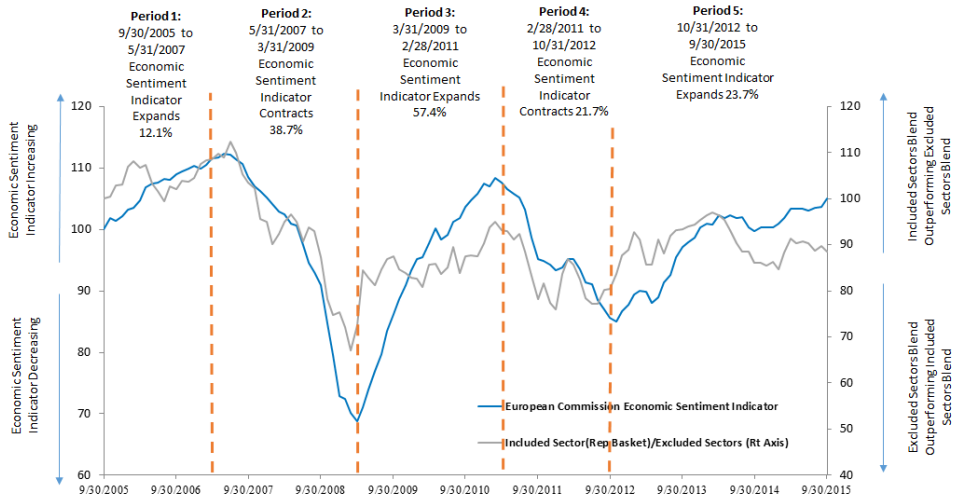
WisdomTree recently introduced the new WisdomTree Europe Local Recovery Index, which is designed to provide exposure to the more local side of the European economy by excluding companies whose business is dominated overseas as well as the more defensive sectors of the market. The Index construction process for this new Index is designed to favor more cyclical sectors and those that are more responsive to changes in the economic growth environment, using one of our favorite leading indicators of the economy: the European Commission's Economic Sentiment Indicator. **Sector Mix That Has Responded to the Economic Sentiment Indicator** While it's clear that the sectors we've included have tended toward both higher correlations to the Economic Sentiment Indicator and higher responsiveness to equity market movements when viewed in isolation, below we further our case by illustrating how our sector screens for this Index have corresponded to changes in the leading economic indicator used in the Index weighting methodology. To approach this question, we looked at two subsets of Index blends. • **Included Sectors:** The WisdomTree Europe Local Recovery Index includes stocks from the Consumer Discretionary, Energy, Financials, Industrials, Information Technology and Materials sectors. We created a blend of these sectors while maintaining sensitivity to the country exposures of the WisdomTree Europe Local Recovery Index as of September 30, 2015.[1] • **Excluded Sectors[2]:** The WisdomTree Europe Local Recovery Index excludes stocks from the Consumer Staples, Health Care, Telecommunication Services and Utilities sectors, and we created an equally weighted blend to represent a more defensively oriented positioning.[3] **Bottom Line:** If the blend of *included* sectors tends to outperform the blend of *excluded* sectors during periods when the European Commission's Economic Sentiment Indicator is increasing, it shows an effective positive relationship between the two. **Included Sectors Have Outperformed Excluded Sectors When the European Commission's Economic Sentiment Indicator Has Been Expanding**



Expansion by Economic Indicator (More than 10% Upward)						
	Start Date	End Date	% Change in Economic Indicator	Returns Given by Included Sectors	Returns Given by MSCI EMU	Returns Given by Excluded Sectors
Period 1	9/30/2005	5/31/2007	12.1%	50.3%	45.7%	37.9%
Period 2	3/31/2009	2/28/2011	57.4%	85.2%	63.9%	42.4%
Period 3	10/31/2012	9/30/2015	23.7%	55.7%	44.1%	47.8%

Contraction by Economic Indicator (More than 10% Downward)						
	Start Date	End Date	% Change in Economic Indicator	Returns Given by Included Sectors	Returns Given by MSCI EMU	Returns Given by Excluded Sectors
Period 1	5/31/2007	3/31/2009	-38.7%	-57.8%	-53.9%	-36.1%
Period 2	2/28/2011	10/31/2012	-21.7%	-11.8%	-7.7%	1.1%

Source: Bloomberg, with data covering the 10-year period ending 9/30/15. 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. • **Performance during Expansions:** Here we define expansions as periods in which the European Commission's Economic Sentiment Indicator increased by 10% or more over the previous 10 years. There were three such periods, and in each case, the blend of included sectors outperformed both the MSCI EMU Index and the blend of excluded sectors. • **Performance during Contractions:** Conversely, we define contractions as periods in which the European Commission's Economic Sentiment Indicator decreased by 10% or more over the previous 10 years. There were two such periods, and in each case, the returns of the included sectors underperformed those of both the MSCI EMU Index and the blend of excluded sectors. These were also challenging environments for the market in general, with the big decline in the sentiment indicator occurring during the global financial crisis, when the MSCI EMU Index fell by more than 50%. These results align with what we think are natural expectations—cyclical sectors had a tendency to outperform as perceptions of economic growth improved, whereas defensive sectors had a tendency to do the same as those perceptions declined. Much of the macroeconomic work suggests that the eurozone's local economic recovery is in its early stages.[4] We believe the WisdomTree Europe Local Recovery Index is well positioned for such a growth outlook.

[1]Blend of included sectors: The blend of included sectors relates to the mixture of sectors allowable for inclusion within the WisdomTree Europe Local Recovery Index, adjusted proportionately for the country exposures of this Index as of 9/30/15. Blend comprises solely MSCI Indexes as follows: MSCI France Consumer Discretionary Index, 9.66%; MSCI France Industrials Index, 9.66%; MSCI France Financials Index, 9.66%; MSCI France Information Technology Index, 4.83%; MSCI France Energy Index, 2.76%; MSCI Germany Financials Index, 8.97%; MSCI Germany Industrials Index, 8.97%; MSCI Germany Consumer Discretionary Index, 8.28%; MSCI Germany Materials Index, 4.14%; MSCI Germany Information Technology Index, 2.76%; MSCI Italy Financials Index, 11.72%; MSCI Italy Consumer Discretionary Index, 4.14%; MSCI Italy Industrials Index, 2.76%; MSCI Spain Financials Index, 4.83%; MSCI Spain Consumer Discretionary Index, 4.14%; and MSCI Spain Industrials Index, 2.76%. [2]Subsequent to Index screening, it is possible that a current constituent may spin off a subsidiary company that may be classified as a Consumer Staples, Health Care, Telecommunication Services or Utilities sector firm. Spun off firms that remain in the Index do not get removed between Index rebalances due to their sector classification. [3]Blend of excluded sectors: The blend of excluded sectors is equally weighted between the MSCI EMU Consumer Staples Index, MSCI EMU Health Care, Telecommunication Services and Utilities Indexes. [4]Source: Bloomberg, as of 9/30/15.

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You cannot invest directly in an index.

DEFINITIONS

Defensive sectors : Consumer Staples, Health Care, Telecommunication Services and Utilities.

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

European Commission Economic Sentiment Indicator : refers to a composite indicator made up of five sectoral confidence indicators with different weights: Industrial confidence indicator, Services confidence indicator, Consumer confidence indicator, Construction confidence indicator Retail trade confidence indicator.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

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

MSCI France Consumer Discretionary Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Consumer Discretionary sector. in France.

MSCI France Industrials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Industrials sector in France.

MSCI France Financials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Financials sector in France.

MSCI France Information Technology Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Information Technology sector in France.

MSCI France Energy Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Energy sector in France.

MSCI Germany Financials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Financials sector in Germany.

MSCI Germany Industrials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Industrials sector in Germany.

MSCI Germany Consumer Discretionary Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Consumer Discretionary sector in Germany.

MSCI Germany Materials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Materials sector in Germany.

MSCI Germany Information Technology Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Information Technology sector in Germany.

MSCI Italy Financials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Financials sector in Italy.

MSCI Italy Consumer Discretionary Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Consumer Discretionary sector in Italy.

MSCI Italy Industrials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Industrials sector in Italy.

MSCI Spain Financials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Financials sector in Spain.

MSCI Spain Consumer Discretionary Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Consumer Discretionary sector in Spain.

MSCI Spain Industrials Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Industrials sector in Spain.

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

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