

WHY THIS EMERGING MARKET DIVIDEND STRATEGY OUTPERFORMED

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This has been a year of declining [interest rates](#), so many baskets of stocks with exposures to stocks that are sensitive to interest rates have performed quite well. U.S. high-[dividend](#) stocks—with exposures to telecommunications, utilities and [real estate investment trusts \(REITs\)](#)—have been prime beneficiaries of this environment. These trends have boded well for WisdomTree's suite of dividend-weighted strategies. While the domestic performance was certainly impressive, WisdomTree's best-performing basket this year has been the emerging market version of the dividend-weighted strategies, the [WisdomTree Emerging Markets High Dividend Fund \(DEM\)](#). While U.S. markets and high-dividend stocks in particular have achieved new highs in 2016, emerging market stocks are just starting to claw back some of the sharp losses that occurred over the previous five years. For instance, it would take a gain of over 50% for DEM to surpass its highs of just four years ago. [View the WisdomTree Emerging Markets High Dividend Fund standardized performance](#)



Source: Bloomberg, 8/9/11–8/9/16. Past performance is not indicative of future results

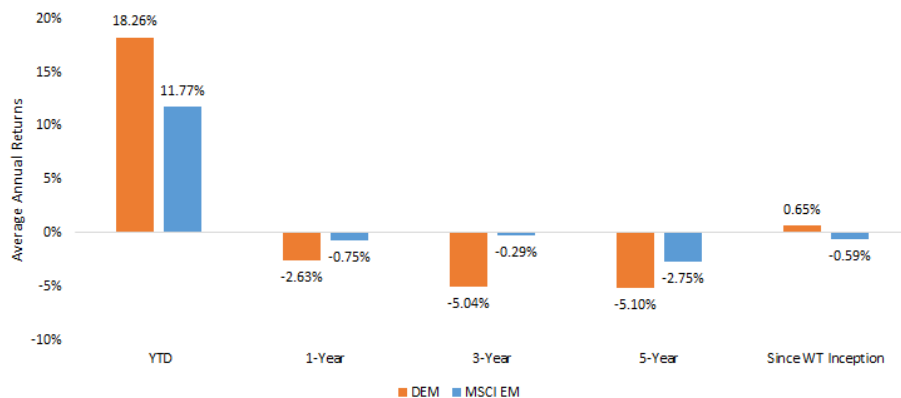
[here.](#) DEM Price Performance

While emerging markets have certainly been out of favor, and DEM in particular had a rough stretch in 2013–2015, its position in high-dividend stocks has paid off in 2016 when measured on a relative basis to the [MSCI Emerging Markets Index](#). DEM is a strategy that looks for value and inexpensive stocks in emerging markets, and it has found those stocks in the last few years in commodity sectors including Energy and Materials and countries such as Brazil and Russia. These two commodity sectors receive about one-third of the exposure of DEM, approximately double the exposure in the MSCI Emerging Markets Index.¹ This is the part of the market that has performed quite well in 2016 after a few years of disappointing returns.

Emerging

Market

Performance



Sources: WisdomTree, Bloomberg as of 7/31/16. Inception refers to 7/13/07. You cannot invest directly in an index.

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 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.

Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

DEM passed its nine-year anniversary in July. While the strategy was out of favor for a few years, the long-term track record remains quite robust, showing an outperformance of over 100 [basis points \(bps\)](#) per year since the Fund's inception. **What Drove This Long-Term Outperformance?** Managing [valuation risk](#) is a key element of many WisdomTree exchange-traded funds (ETFs), because the WisdomTree Indexes that the funds are designed to track incorporate a relative value rebalance. Let's take a closer look at the type of relative value rebalance that the Index DEM is designed to track undergoes. We are coming up on the annual emerging markets rebalance in October, which will look at stocks becoming more expensive relative to their dividends. The WisdomTree Index process is designed to reduce weight in those stocks that have become more expensive (whose prices are appreciating more than dividends) while adding to weight in stocks that are becoming relatively less expensive (whose prices are falling more than dividends or whose dividends are growing relative to prices). We believe this process has added value in terms of higher returns over the long run compared to traditional indexes. Recent conditions for emerging markets, with volatility and downward price moves, are key times when the WisdomTree Index family looks to buy the lower valuation segment of the market, in which prices were falling more than dividends. As some of the markets rebound strongly this year, the WisdomTree Index will become more defensive and sell the stocks that are increasing more than their underlying fundamentals. There were years like 2008 and 2011, which were marked by large losses in emerging markets, where DEM showed its defensive properties, declining less than broader emerging market indexes. The Fund has rebalanced into areas with relatively low valuations—energy and materials in particular—as the markets went out of favor, and it is just starting to benefit from this positioning in 2016. Given the valuations across global markets, the emerging markets remain one of most attractively priced parts of the world and the high-dividend stock selection strategy in particular is a lower valuation way to own this market segment, in our view.

¹Sources: WisdomTree, Bloomberg as of 7/31/16.

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You cannot invest directly in an index.

DEFINITIONS

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

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

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

Basis point : 1/100th of 1 percent.

Valuation risk : The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.