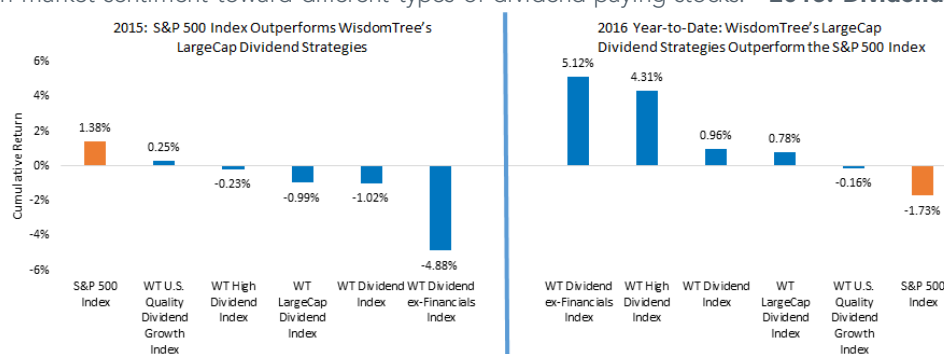


U.S. DIVIDEND STRATEGIES ARE SHINING

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All [dividend](#) payers are not created equal—it's a conclusion we've come to almost a decade after launching our first dividend-focused Indexes. Different types of dividend payers will have a tendency to perform differently as the market environment ebbs and flows. • **Playing Offense:** Dividend-paying stocks may not seem to be a way to go on offense, but not every dividend-paying stock finds itself in the Utilities and Telecommunication Services sectors. In particular, we believe there are relatively lower-[yielding](#) dividend payers with significant growth potential. These companies may be best positioned in an environment of economic growth and even rising [interest rates](#), especially if they feature relatively low debt. • **Playing Defense:** This more "classic" approach to dividend-paying stocks focuses in many cases on stocks with relatively higher dividend yields, placing more emphasis on the defensive sectors: Utilities, Telecommunication Services, Health Care and Consumer Staples. In times of [volatility](#), in many cases characterized by falling interest rates, these types of strategies may deliver outperformance. **The 2015-to-2016 Inflection Point** While true inflection points are very difficult to predict, they are always interesting to study in hindsight. The transition from 2015 to 2016 might be one such turning point in market sentiment toward different types of dividend-paying stocks. **2015: Dividends Trail;**



Source: Bloomberg. 2015 period refers to 12/31/14 to 12/31/15. 2016 year-to-date refers to 12/31/15 to 3/4/16. Past performance is not indicative of future results. You cannot invest directly in an index. 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.

2016: Dividends Lead

For definitions of indexes in the chart visit our [glossary](#). • **2015:** For context, the [U.S. 10-Year Treasury note](#) saw its interest rate increase by approximately 10 [basis points \(bps\)](#)¹—and usually a rise such as this can be a headwind for higher-yielding dividend-payers, such as those seen in the [WisdomTree Dividend ex-Financials Index](#). On the other hand, the [WisdomTree U.S. Quality Dividend Growth Index](#) held up best, with a methodology that led to only minimal exposure to high-yielding dividend payers and a preference for those with low [leverage](#). • **2016 Year-to-Date:** Over this period, the U.S. 10-Year Treasury note saw its interest rate decrease by approximately 40 bps²—with volatility and uncertainty ratcheting up. WisdomTree's two most defensively positioned large-cap U.S. dividend strategies—the WisdomTree Dividend ex-Financials and the [WisdomTree High Dividend](#)—Indexes were strongest. It is interesting as well that the WisdomTree U.S. Quality Dividend Growth Index—not in its most favorable environment—also outperformed the [S&P 500 Index](#) over this period. **We're Watching Three Critical Signals as 2016 Continues**³ 1) **Valuation:** One of the most popular types of strategies in 2016 has centered on "low volatility" or "minimum volatility." The [MSCI USA](#)

[Minimum Volatility Index](#) is up 1.91% thus far in 2016, with a [price-to-earnings \(P/E\) ratio](#) of more than 21x; the [S&P 500 Low Volatility Index](#) is up 1.40% over the same period, with a P/E ratio of more than 20x. On the other hand, the WisdomTree High Dividend Index has a P/E ratio of 18.3x, and the WisdomTree Dividend ex-Financials Index has a P/E ratio of 15.8x. Valuation is always an indication of potential risk, and it's interesting to us that the two most defensively oriented WisdomTree dividend strategies have substantially lower P/E ratios (and better performance thus far in 2016) than those focused more explicitly on volatility. Time will tell if this continues. 2) **Sectors:** Thus far in 2016, in the S&P 500 Index, Telecommunication Services is up more than 12%, with the Utilities sector in a close second at almost 9%. Combined with Financials being the worst performing sector (down 6.5%), it is not surprising that the WisdomTree Dividend ex-Financials Index has done well. The broader but still defensively oriented approach would be the WisdomTree High Dividend Index, which contains exposure to all 10 sectors. 3) **Interest Rates:** The market's [expectations of the U.S. Federal Reserve \(Fed\)](#) have adjusted compared to the start of 2016, but the 10-Year Treasury note's interest rate has likely responded more to volatility and uncertainty than any expectations of changes in the [Federal Funds Rate](#). Something we look at closely is the difference in P/E ratio between the WisdomTree High Dividend Index—18.3x—and the WisdomTree U.S. Quality Dividend Growth Index, which is closer to 16.5x. In a falling interest rate environment, income-producing equities (WisdomTree High Dividend Index) can have a source of strong demand, keeping the P/E ratio high. In more normalized interest rate environments, we believe that higher earnings growth potential and higher quality (WisdomTree U.S. Quality Dividend Growth) would command greater demand.

¹Source: Bloomberg, for period 12/31/14 to 12/31/15. ²Source: Bloomberg, for period 12/31/15 to 3/4/16. ³Source: Bloomberg, for all three points, with period "thus far in 2016" referring to 12/31/15 to 3/4/16. Point-in-time data refers to 3/4/16.

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You cannot invest directly in an index.

DEFINITIONS

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

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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

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

U.S. 10 Year Treasury Note : A debt obligation issued by the United States government that matures in 10 years.

Basis point : 1/100th of 1 percent.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

MSCI USA Minimum Volatility Index : Aims to reflect the performance characteristics of a minimum variance strategy applied to the large and mid cap USA equity universe.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

S&P 500 Low Volatility Index : Measures performance of the 100 least volatile stocks in the S&P 50.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the "policy rate" of the U.S. Federal Reserve.