

Access the High-Yield Premium with European Dividend Payers

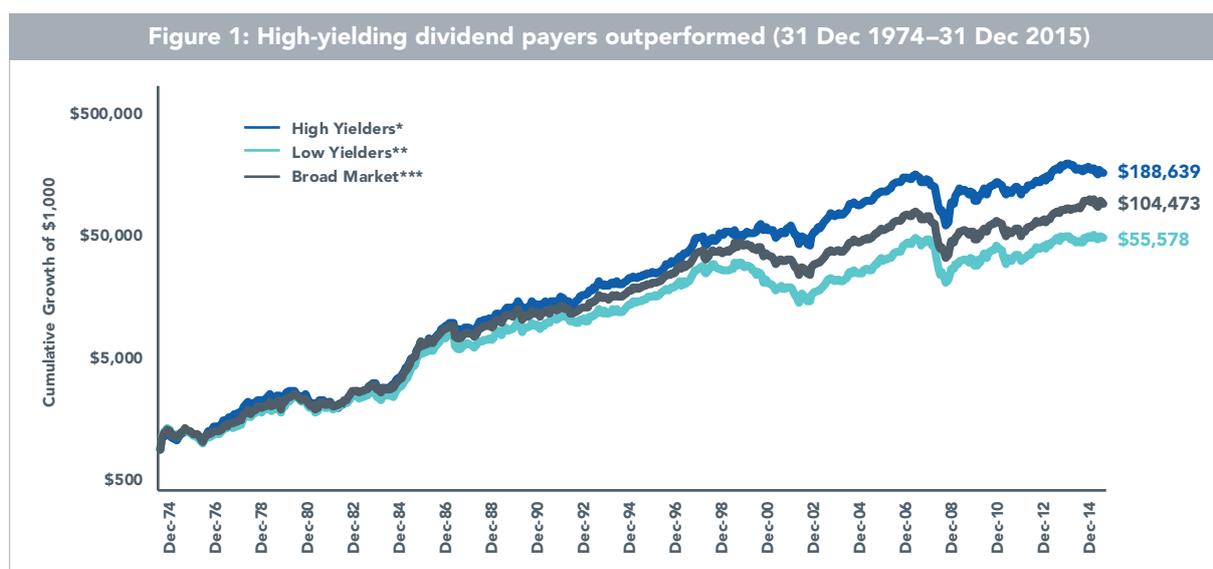
In theory, being able to consistently outperform broad markets sounds simple. But in reality, it is not easy to do. History shows that, over long periods of time, investment strategies that have steered away from expensive stocks have tended to perform well. At WisdomTree, we believe that mitigating valuation risk is one of the most critical concerns to address when constructing an index—and one of the most critical components to outperformance. We also believe that dividends can be an effective foundation upon which to base such an approach.

EUROPEAN HIGH YIELDERS HAVE A HISTORY OF OUTPERFORMANCE

We posed a simple question: Has owning the higher-yielding segment of the European equity market, rebalanced annually, led to outperformance over a long period? As Figure 1 indicates, we found that:

- + **High yielders outperformed the broad market:** The cumulative growth of \$1,000 for the high yielders was more than 80% that of the Broad Market.
- + **High yielders outperformed low yielders:** Naturally any strategy that focuses on the high yielders avoids the low yielders—those stocks that offer less value relative to the dividends they pay. Low yielders not only underperformed the high yielders but also the broad market. It's worth noting that the cumulative growth of \$1,000 for the high yielders was 3.4 times that of the low yielders.

The bottom line is that, historically, there has been a return premium for exposure to higher-yielding stocks in Europe. We believe this is a result of rebalancing back to the higher-yielding segment of Europe's equity market on an annual basis.



Source: Kenneth French Data Library, MSCI. Period selected due to data availability from the Kenneth French Data Library for the Europe (including United Kingdom) universe. *High yielders: Firms within the Kenneth French Data Library's Europe (including United Kingdom) universe that were among the 30% highest-yielding dividend payers. **Low yielders: Firms within the Kenneth French Data Library's Europe (including United Kingdom) universe that were among the 30% lowest-yielding dividend payers. ***Broad market: The MSCI Europe Index. Past performance is not indicative of future results.

WISDOMTREE WEIGHTS BY DIVIDENDS

The majority of ETFs are market cap weighted, and, as such, they tend to overweight overvalued stocks and underweight undervalued stocks. Research has shown that stock prices can—and do—deviate from their underlying value for many reasons. WisdomTree believes fundamentals such as dividends offer more objective measures of a company’s health, value and profitability than the stock price alone. Consider that:

- + Dividends have theoretical and empirical importance in determining stock value
- + Dividends indicate that management is focused on increasing shareholder value
- + Dividend stocks offer the potential for income, income growth and capital appreciation
- + Dividends can provide benefits regardless of the market direction.

WisdomTree uses a unique dividend-weighting methodology that can magnify the effect dividends have on performance, helping provide the higher income and growth potential illustrated in Figure 1 to all investors.

A RULES-BASED METHODOLOGY KEEPS FOCUS ON HIGHER-YIELDING STOCKS

Our unique methodology is designed to work on an ongoing basis. It is important to note that it is not a yield-weighted approach. The WisdomTree Europe Equity Income Index uses dividend yield to help define valuation opportunities within European equities, but then is actually weighted by the Dividend Stream® (for each firm, the most current indicated dividend per share for each constituent is multiplied by the number of shares outstanding). Weighting by aggregate cash dividends not only helps magnify the impact dividends have on performance but also mitigate the risk of significant exposure to small- or mid-cap stocks that is inherent in a yield-weighted methodology.

Figure 2: Methodology matters: How the WisdomTree Europe Equity Income Index maintains its focus

Selection rules	Eligible universes	Component companies must be incorporated in and list their shares on an exchange in one of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland or the United Kingdom.
	Market cap requirement	At least \$200 million as of the annual screening date.
	Liquidity requirements	Average daily dollar volume of at least \$200,000 for three months preceding the screening date. A further volume screen requires that a calculated volume factor (average daily dollar volume for three months preceding the screening date divided by weight of security in Index) shall be greater than \$200 million.
	Selection methodology	All constituents in the WisdomTree Europe Dividend Index are ranked by dividend yield, with those ranking in the top 30% selected for inclusion. To be deleted, component companies must fall in rank outside the top 35% by this same metric.
Weighting rules	Weighting	Each company’s weight is proportional to its cash dividend per share paid over the annual cycle prior to the Index screening date multiplied by its shares outstanding, or <i>Dividend Stream</i> ®, compared to that of all other Index constituents. Dividends are measured in terms of US Dollars, and a company must have paid at least \$5 million over the prior annual cycle to be eligible for inclusion.
	Capping rules	Individual stock cap of 5%. Exposure to any single country is capped at one third of the Index. Exposure to any sector is capped at 25% as of the annual screening date. Between annual index screening dates, both country and sector weights may shift above these caps due to market movement.
	Liquidity adjustment factor	If a security has a calculated volume factor of less than \$400 million, its weight will be reduced proportionally by a liquidity factor that equals the original calculated volume factor divided by \$400 million. Implementation of this adjustment may cause an increase in single security, sector or country weights above other specified caps.

Source: WisdomTree.

MANAGING VALUATION RISK THROUGH ANNUAL REBALANCING

Each June, the WisdomTree Europe Equity Income Index is rebalanced based on relative value to maintain its focus on the high-yield dividend premium. The constituents and weights can change depending upon:

- + Share price performance:** Since dividend yield is calculated as dividends paid over the prior 12 months divided by the share price, the behaviour of the latter naturally has an impact on the dividend yield. If we assume the dividend is constant, a rising share price would mean a lower dividend yield. Conversely, a falling share price can lead to a higher dividend yield.
- + Dividend growth (or reduction):** Rising dividends are another way to see a dividend yield potentially rise, just as falling dividends are another way to see a dividend yield potentially fall.

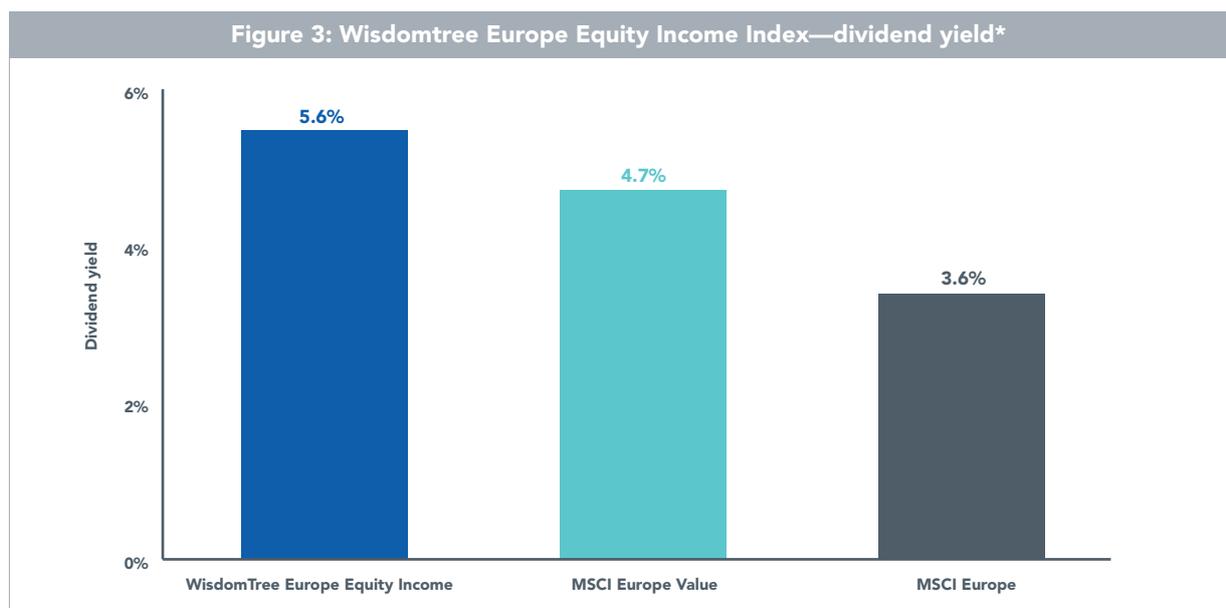
It is important to note that when the Index is rebalanced, caps are set at 5% and 25% to single stocks and sectors, respectively, in order to mitigate the risk of overexposure to any one stock or sector. In addition, the weight of any one country is capped at 33% of the index.

We believe that focusing on the higher-yielding dividend payers is a quantitative, disciplined way to access the less expensive segment of the market while also managing valuation risk. We also believe that weighting by dividends rewards companies that are growing their dividends.

VALUE IS IN THE YIELDS PREMIUM

We believe that the methodology of the WisdomTree Index provides another way in which to achieve a “value” exposure to Europe’s equity market. Of course, we shift the focus to dividend yields and potential income as opposed to other metrics such as price-to-earnings or price-to-book ratios. When we compare the WisdomTree Europe Equity Income Index to the widely used MSCI Europe Value and MSCI Europe indices, we find that the WisdomTree Europe Equity Income Index has:

- + A significant dividend yield premium:** In fact, the WisdomTree Europe Equity Income Index is able to generate nearly 200 basis points of incremental dividend yield above that of the MSCI Europe Index by focusing on high dividend yields in its selection methodology and subsequently weight by *Dividend Stream*®.



Sources: WisdomTree, Bloomberg, Standard & Poor’s. Past performance is not indicative of future results. *Based on 12-month average dividend yield. Data from 31 October 2015 to 30 September 2016.

ZEROING IN ON EUROPE'S HIGH DIVIDEND YIELDERS

Naturally, when we focus on dividend yields, some countries and sectors may end up being emphasised or de-emphasised. The WisdomTree Europe Equity Income Index currently breaks down as follows:

- + **Double-digit sector weights:** Financials are the largest weight, followed by Energy. Not far behind are Utilities and Telecommunication Services—which we believe illustrates the defensive sector orientation of this Index.
- + **Weights below 5%:** Consumer Staples, Information Technology and Real Estate all have exposures below 5%. In fact, it's worth noting that Information Technology is less than 3%, as it is typically more of a growth sector.
- + **Double-digit country weights:** The exposure to the United Kingdom—36.2%—is significant. France and Germany also have weights greater than 10%.

Figure 4: WisdomTree Europe Equity Income Index—country and sector breakdown

Sector exposures		Top 10 countries	
Sector	Weight	Country	Weight
Financials	24.10%	United Kingdom	36.9%
Energy	17.10%	France	18.8%
Utilities	12.00%	Germany	9.7%
Consumer Discretionary	9.20%	Spain	9.5%
Telecommunication Services	9.20%	Italy	6.1%
Health Care	8.20%	Sweden	4.1%
Materials	6.50%	Switzerland	4.1%
Industrials	5.50%	Norway	3.8%
Consumer Staples	4.70%	Finland	3.3%
Information Technology	2.40%	Netherlands	1.5%
Real Estate	1.10%		

Source: WisdomTree, Standard & Poor's, with data as of 30 September 16.

Fund Info: Wisdomtree Europe Europe Equity Income UCITS ETF (EEI*)

Ticker	Exchange	ISIN	BBG Code	Reuters Code	Listing Currency	Base Currency	TER%
EEI	LSE	IE00BQZJBX31	EEI LN	EEI.L	EUR	EUR	0.29%
EEIE	LSE	IE00BQZJBX31	EEIE LN	EEIE.L	GBx	EUR	0.29%
EEI	Borsa Italiana	IE00BQZJBX31	EEI IM	EEI.MI	EUR	EUR	0.29%
EEI	SIX	IE00BQZJBX31	EEI SW	EEI.S	CHF	EUR	0.29%
WTEE	XETRA	DE000A14ND38	WTEE GY	WTEE.DE	EUR	EUR	0.29%
EEIA**	LSE	IE00BDF16007	EEIA LN	EEIA.L	EUR	EUR	0.29%
EEIP**	LSE	IE00BDF16007	EEIP LN	EEIPL	GBx	EUR	0.29%
EEIA**	Borsa Italiana	IE00BDF16007	EEIA IM	EEIA.MI	EUR	EUR	0.29%
EEIA**	SIX	IE00BDF16007	EEIA SW	EEIA.S	EUR	EUR	0.29%

*EEI refers to the primary ticker of this Fund. Please check your country's availability of this Fund and its share classes. Tickers may vary depending on the exchange on which you are trading. The underlying Index for all of the above is WisdomTree Europe Europe Equity Income Index. **Accumulating version of WisdomTree Europe Europe Equity Income UCITS ETF.

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