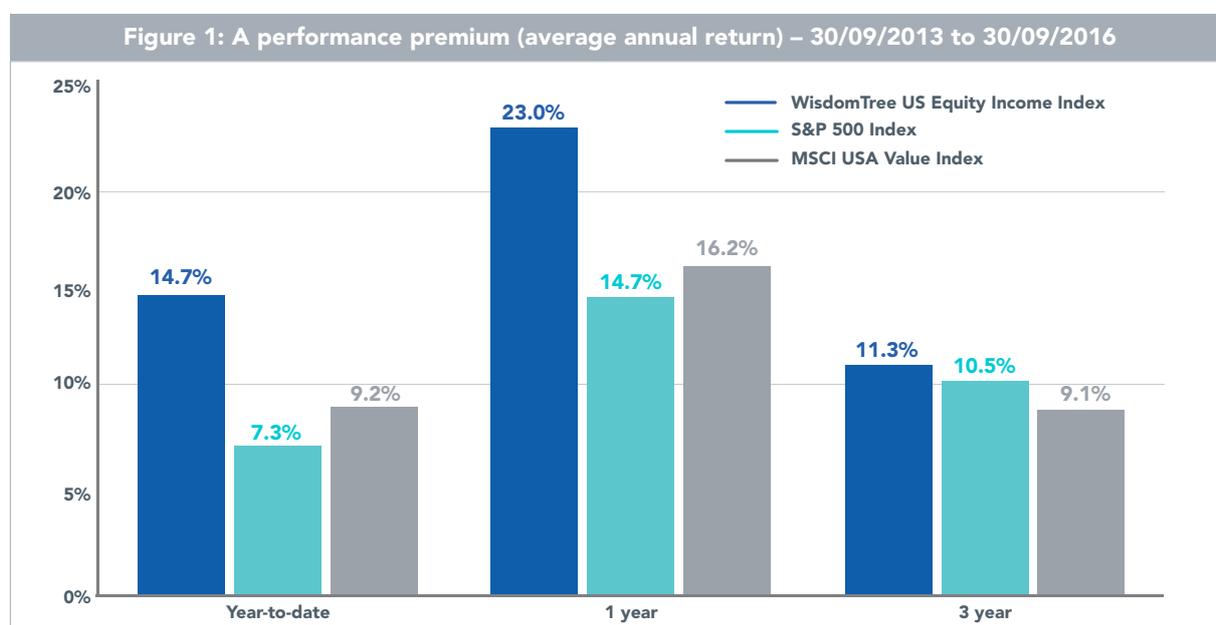


Since the 2008–2009 global financial crisis, the S&P 500 Index has undergone a largely sustained rally. As we approach what many market observers describe as the later stages of this bull market rally, we believe that investors may begin to explore more defensive, higher dividend-paying exposures, as opposed to positioning that can be more cyclical and momentum driven. The WisdomTree US Equity Income UCITS ETF (DHS\*) embodies this type of defensive exposure, tracking the returns of the WisdomTree US Equity Income Index before fees, and designed to deliver income and growth potential through exposure to high dividend-yielding US companies.

In the following analysis, we will review how the core tenets of the WisdomTree US Equity Income Index and its methodology have helped deliver higher returns compared to traditional market cap-weighted indices, such as the S&P 500, and other value strategies.



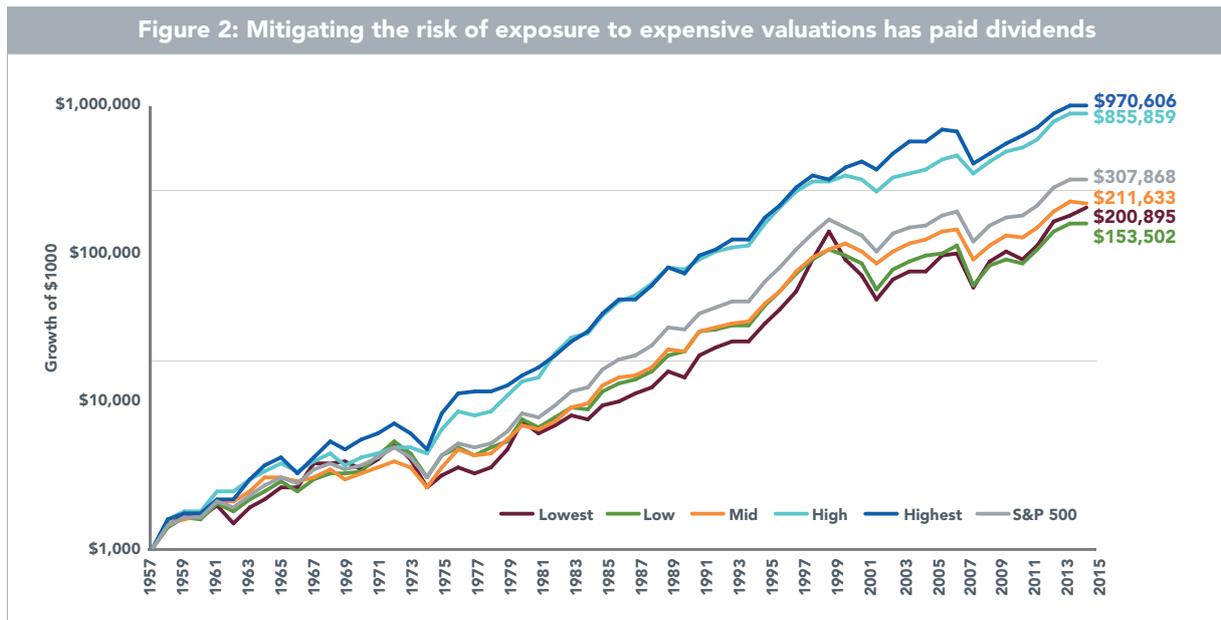
Source: Bloomberg. Data three years to 30 September 2016. Past performance is not indicative of future results.

## FOCUSING ON FUNDAMENTALS: REDUCED RISK AND ENHANCED PERFORMANCE

One of the common challenges with market capitalisation weighting is that it tends to overweight overvalued stocks and underweight undervalued ones. Professor Jeremy Siegel, in his book "The Future for Investors," illustrates the importance of both focusing on fundamentals and reducing the risk of being exposed to overvalued stocks over long periods. By sorting the S&P 500 Index into quintiles based on yield (ranked from highest to lowest yields) and rebalancing on an annual basis, we find that higher dividend yield quintiles:

- + significantly outperformed the S&P 500 and the lower dividend payers, and
- + had lower risk than the S&P 500 Index and the lower dividend payers.

\*DHS 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. Please see the end of this document for the listing table.



Source: Professor Jeremy Siegel, The Future for Investors, with updates through 31 December 2015. Past performance is not indicative of future results. Data from 31 December 1957 to 31 December 2015.

Dividend yield	Return per annum	Beta
Highest	12.6%	0.9
High	12.4%	0.8
Mid	9.7%	0.9
Low	9.1%	1.1
Lowest	9.6%	1.2
S&P 500 Index	10.4%	1.0

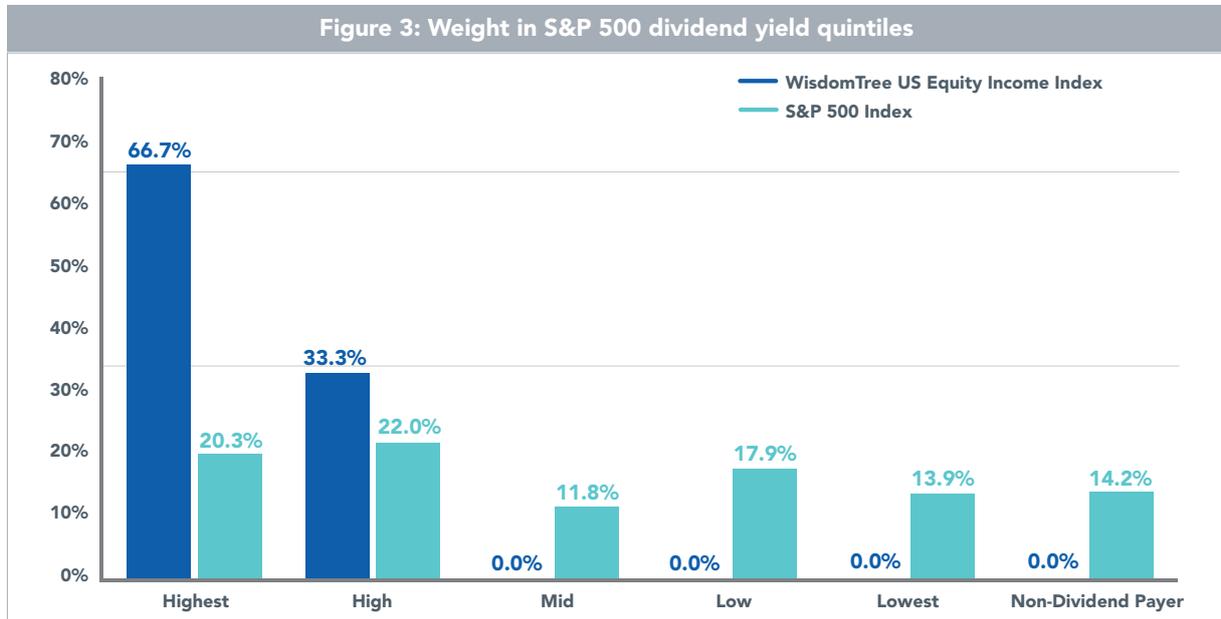
Each stock in the S&P 500 is ranked from highest to lowest by dividend yield on 31 December of every year and placed into “quintiles,” baskets of stocks, with 100 stocks in each basket. The stocks in the quintiles are weighted by their market capitalisation. The dividend yield is defined as each stock’s annual dividends per share divided by its stock price as of 31 December of that year.

**INTRODUCING WISDOMTREE’S APPROACH**

The risk-adjusted outperformance demonstrated by Professor Siegel’s research is the foundation upon which the WisdomTree US Equity Income Index was built. At its core, the methodology focuses on:

- + **Stock selection:** From the initial universe of all US dividend-paying companies meeting WisdomTree’s market capitalisation and liquidity requirements, the top 30%, ranked on the basis of dividend yield, are selected.
- + **Weighting:** Once these firms are selected, they are weighted on the basis of the cash dividends that they pay.

Although firms in the WisdomTree US Equity Income Index must demonstrate relatively higher dividend yields, this is not a yield-weighted Index—the firms with the largest weights are those that are paying out the largest amounts of cash dividends. As Figure 3 illustrates, when compared to the S&P 500, the WisdomTree US Equity Income Index has two-thirds of its weight in the highest quintile and the balance in the high quintile, with no weight given to mid, low, lowest or non-dividend payers.

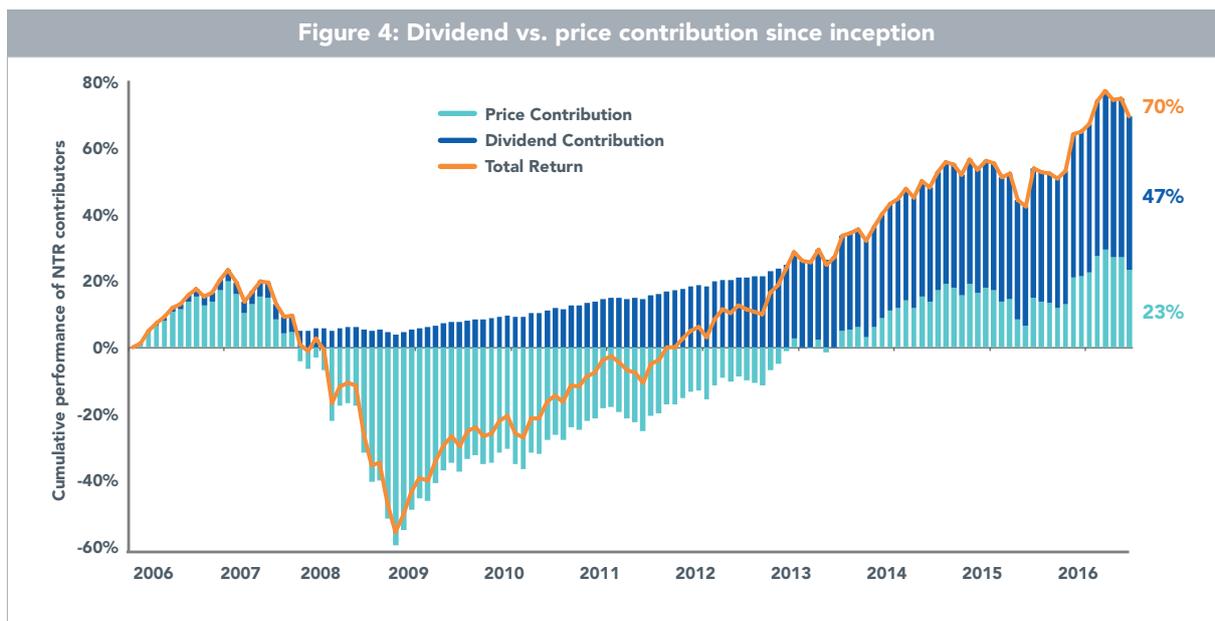


Sources: WisdomTree Europe, Bloomberg. Data as of 31 March 2016. Past performance is not indicative of future results.

**A METHODOLOGY THAT TILTS TOTAL RETURNS TOWARD DIVIDENDS AND YIELD**

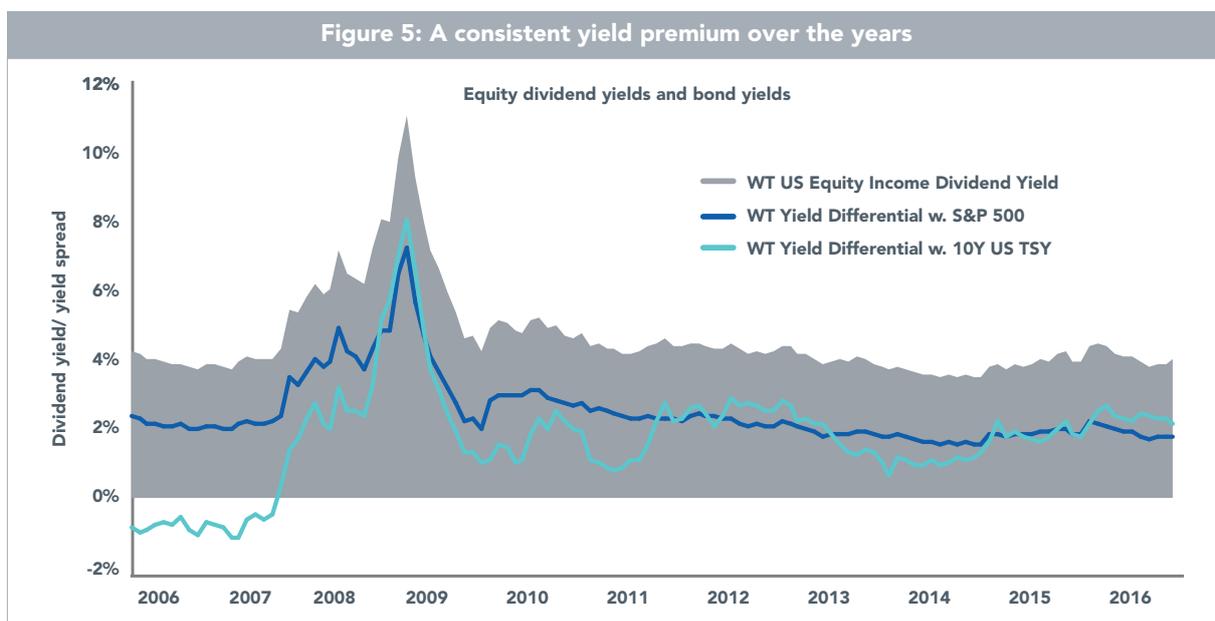
Most equity indices have two components driving total returns—price return and dividend return. The price return reflects changes in the share prices of the underlying constituents, and the dividend return is a result of dividend payments. Dividend-focused methodologies tilt the profile of total returns toward the dividend component. Over the 10 years since launch:

- + **Price returns were challenged for “value” strategies:** Due to its focus on relatively high-yielding dividend payers, it could be said that the WisdomTree US Equity Income Index tilts toward the value side of the style spectrum. As value strategies have struggled relative to other styles such as growth, price appreciation of value stocks has evidently lagged—underlying stock prices in the WisdomTree US Equity Income Index rose by a mere 23% as shown in Figure 4.
- + **Dividends show a different story:** Whilst stock price appreciation was underwhelming over the past decade, dividends show a different story, providing a return of 47% since inception and accounting for over two thirds of the strategy’s overall total return. This highlights the significance of dividends as a driver of consistent returns, providing added value to investors compared to the variability of underlying stock price changes.



Sources: WisdomTree Europe, Bloomberg. Data from 31 May 2006 to 30 September 2016. Past performance is not indicative of future results.

**+ Offering a consistent yield premium:** Alongside being a significant driver of returns, the dividend yield offered by WisdomTree’s US Equity Income strategy has consistently hovered around 4%. Compared to dividend yields on offer from the S&P 500 and bond yields from 10Y US Treasuries, this represents a yield premium of approximately 150 bps that has been sustained since the financial crisis.

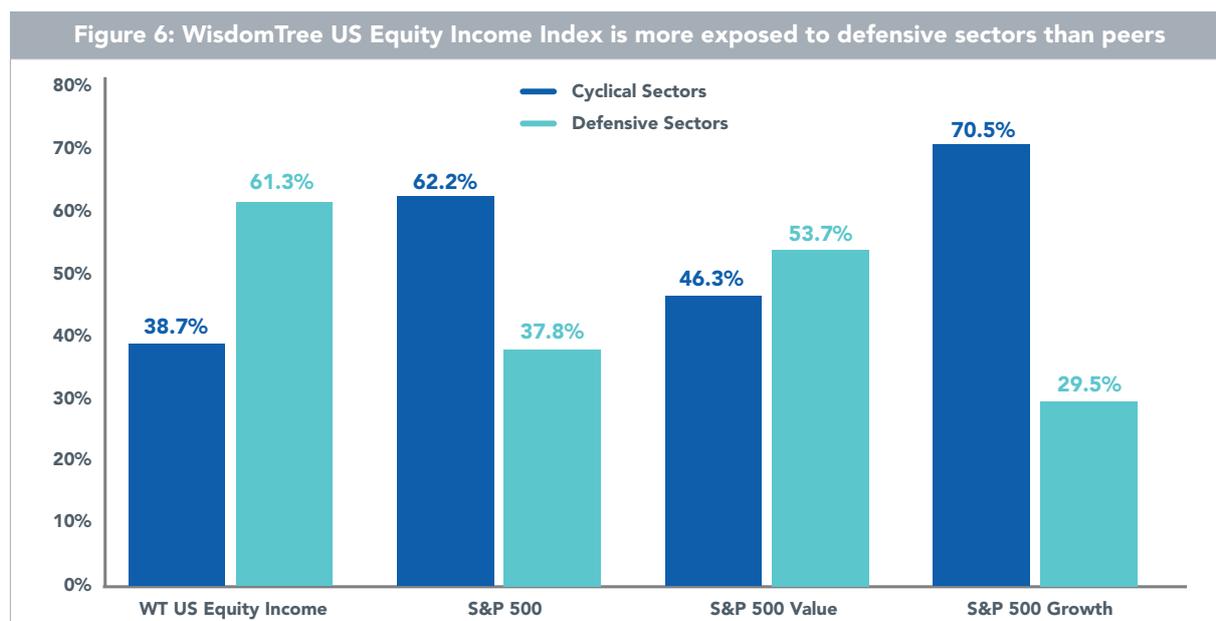


Sources: WisdomTree, Bloomberg. Data from 31 May 2006 to 30 September 2016.

Past performance is not indicative of future results.

**A METHODOLOGY THAT PROVIDES EXPOSURE TO DEFENSIVE SECTORS**

Defensive sectors tend to offer higher dividend yields than others, so it is no surprise that the WisdomTree US Equity Income Index has above average exposure to these sectors compared to other indices.



Source: Bloomberg, with data as at 30 September 2016. Cyclical sectors are Consumer Discretionary, Energy, Financials, Real Estate, Industrials, Information Technology and Materials. Defensive sectors are Consumer Staples, Health Care, Telecommunication Services and Utilities.

## ASSESSING 10 YEARS OF LIVE PERFORMANCE

We are truly excited to be able to look at 10 years of live history to examine how this approach has done in real time.

- + **Performance over the short term:** Many think of a “high dividend yielding” approach as just another value strategy. So we find it interesting that over 2016’s first three quarters and over the last year—a somewhat defensive period when value tends to outperform—the WisdomTree US Equity Income Index significantly outperformed the MSCI USA Value Index.
- + **Strong risk/return characteristics:** In fact, over the past one and three years, the WisdomTree US Equity Income Index outperformed both the S&P 500 Index and the MSCI USA Value Index—with lower average volatility and a higher Sharpe ratio.

**Figure 7: Understanding the risk/return trade-offs over time**

Period	Index	Avg. Ann. Return	Avg. Ann. Std. Dev.	Sharpe Ratio	Relative to S&P 500 Index			
					Up Capture	Down Capture	Beta	Correlation
1-year	WisdomTree US Equity Income Index	23.0%	11.1%	1.90	98.36%	-4.36%	0.76	0.85
	MSCI USA Value Index	16.2%	11.5%	1.34	103.86%	92.53%	0.92	0.99
	S&P 500 Index	14.7%	12.5%	1.14	100.00%	100.00%	1.00	1.00
3-year	WisdomTree US Equity Income Index	11.3%	9.6%	1.15	86.73%	66.37%	0.78	0.88
	MSCI USA Value Index	9.1%	10.4%	0.88	96.21%	105.24%	0.94	0.98
	S&P 500 Index	10.5%	10.8%	0.97	100.00%	100.00%	1.00	1.00
5-year	WisdomTree US Equity Income Index	14.4%	9.5%	1.46	79.88%	58.65%	0.71	0.83
	MSCI USA Value Index	14.6%	10.8%	1.31	97.07%	102.19%	0.95	0.98
	S&P 500 Index	15.6%	11.1%	1.36	100.00%	100.00%	1.00	1.00
1 Jun '06 to 31 Mar '16	WisdomTree US Equity Income Index	5.6%	17.1%	0.35	90.11%	93.88%	0.97	0.85
	MSCI USA Value Index	5.5%	15.3%	0.36	97.52%	104.40%	0.99	0.98
	S&P 500 Index	6.9%	15.0%	0.46	100.00%	100.00%	1.00	1.00

Sources: Bloomberg, Zephyr StyleADVISOR, for period from 01 June 2016 to 30 September 2016. 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.

**PLACING THE TRACK RECORD IN APPROPRIATE HISTORICAL CONTEXT**

The one, three and five-year risk statistics—be it average annual standard deviation or beta compared to the S&P 500 Index—look very different from the “since inception” figure. Why? At its inception, the WisdomTree US Equity Income Index had no caps on either constituent or sector exposures. So:

- + The financial sector made up approximately one-third of the total cash dividends paid in the United States as of the 2007 screening date
- + These financial companies had relatively higher yields, qualifying for the WisdomTree US Equity Income Index and ultimately constituting more than 50% of the Index in 2008
- + This extreme overweight to Financials is responsible for the increased risk in the ‘since inception’ period.

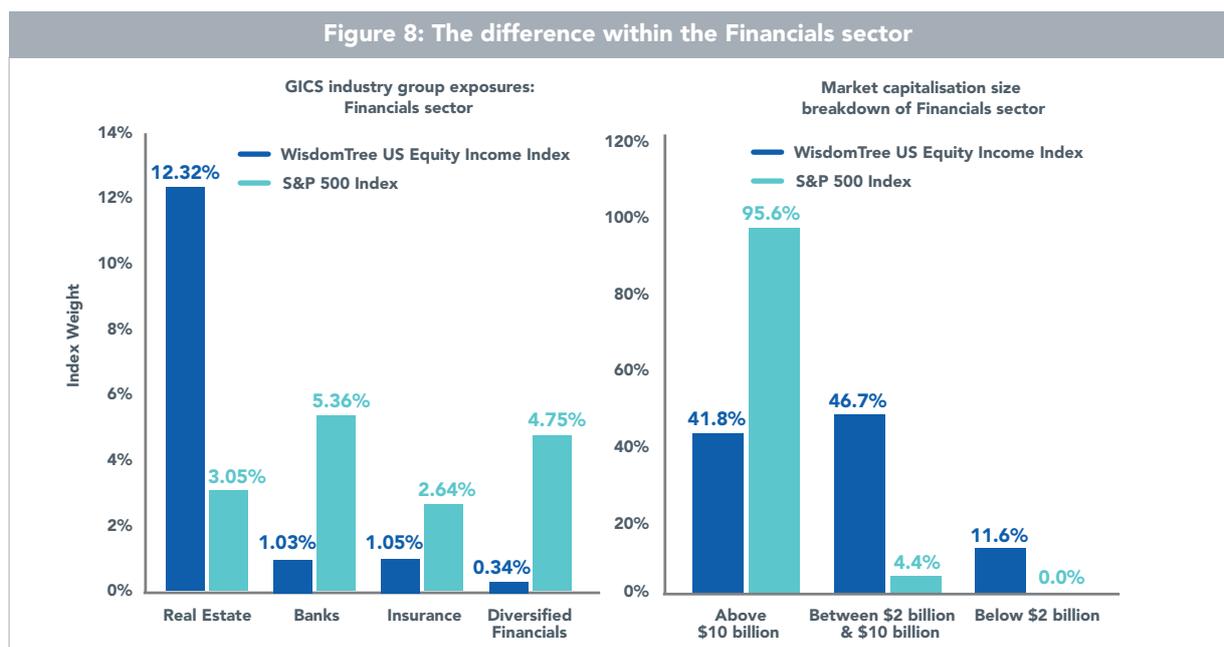
At the 30 November 2012 screening date, new constituent and sector-capping rules were put in place—5% for any individual constituent and 25% for any individual sector. It is, however, worth noting that since the global financial crisis, the Financials sector has not had a weight greater than 20%. In fact, no sector has because the *Dividend Stream*® itself has become more balanced.

**UNDERSTANDING HIGH DIVIDEND FINANCIALS OF TODAY**

Focusing on high dividends within the WisdomTree US Equity Income Index has led to a completely different type of Financials exposure as of 30 September 2016, compared to the S&P 500 Index, although the aggregate sector exposures are similar.

- + **Predominantly Real Estate:** Nearly all the weight in Financials in the WisdomTree US Equity Income Index was in Real Estate, whereas the exposures in Financials for the S&P 500 Index were much more evenly distributed.
- + **Smaller market capitalisations:** The WisdomTree US Equity Income Index had an average market cap of \$2.6 billion and was exposed fairly evenly to large-cap and mid-cap Financial firms, whereas the average market cap for the S&P 500 Financials was more than \$35 billion and was nearly all large caps.

The bottom line is that when many people think of Financials, they think of large banks first. Those are currently largely, if not almost completely, avoided in the current WisdomTree US Equity Income Index.



Sources: WisdomTree, Bloomberg. Data as of 30 September 2016.

## MITIGATING CURRENCY EXPOSURE IN A SINGLE TRADE

Investors buying foreign equities assume currency risk when converting performance back into their home currency. Whilst this can be beneficial for investors when currency movements are favourable, that is, when the foreign currency appreciates against the home currency, it can erode returns if currencies move in the opposite direction, that is, when the foreign currency depreciates against the home currency.

As predicting currency movements becomes increasingly challenging amidst rising geopolitical risks and uncertain monetary policy expectations, there are compelling reasons to manage risk and hedge foreign equity exposure. Recent sharp moves in Sterling and Euro serve as prime examples of the benefits of managing currency risk particularly in times of heightened volatility. WisdomTree's GBP and EUR hedged share classes offer investors an efficient solution to hedging this risk out, neutralising currency movements between the USD and home currency of either the GBP or EUR.

## CONCLUSION

The WisdomTree US Equity Income index has had an impressive performance record over its 10-year history. And we believe it provides access to the defensive sectors investors want during late-stage bull and bear markets. It offers investors:

- + Access to high-dividend stocks
- + A dividend-weighted portfolio that may provide more income
- + A history of impressive risk-adjusted returns.

Fund info: WisdomTree US Equity Income UCITS ETF							
Ticker	Exchange	ISIN	BBG code	Reuters code	Listing currency	Base currency	TER%
DHSD	LSE	IE00BQZJBQ63	DHSD LN	DHS.L	USD	USD	0.29%
DHS	LSE	IE00BQZJBQ63	DHS LN	DHS.L	GBx	USD	0.29%
DHS	Borsa Italiana	IE00BQZJBQ63	DHS IM	DHS.MI	EUR	USD	0.29%
DHS	SIX	IE00BQZJBQ63	DHS SW	DHS.S	CHF	USD	0.29%
DHSF	SIX	IE00BD6RZW23	DHSF SW	DHSF.S	EUR	USD	0.29%
DHSF	Borsa Italiana	IE00BD6RZW23	DHSF IM	DHSF.MI	EUR	USD	0.29%
WTDY	Xetra	DE000A2AS9T2	WTDY GY	WTDY.DE	EUR	USD	0.29%
DHSG	LSE	IE00BD6RZZ53	DHSG LN	DHSG.L	GBx	USD	0.29%
DHSG	SIX	IE00BD6RZZ53	DHSG SW	DHSG.S	GBP	USD	0.29%
WTEU	XETRA	DE000A14ND12	WTEU GY	WTEU.DE	EUR	USD	0.29%
DHSA	LSE	IE00BD6RZT93	DHSA LN	DHSA.L	USD	USD	0.29%
DHSP	LSE	IE00BD6RZT93	DHSP LN	DHSP.L	GBx	USD	0.29%
DHSA	Borsa Italiana	IE00BD6RZT93	DHSA IM	DHSA.MI	EUR	USD	0.29%
DHSA	SIX	IE00BD6RZT93	DHSA SW	DHSA.S	USD	USD	0.29%
WTD9	XETRA	DE000A2ARXG7	WTD9 GY	WTD9.DE	EUR	USD	0.29%

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