

WisdomTree

SMART BETA



In the past two decades, exchange traded funds (ETFs) have exploded onto the investment scene. New ETFs are coming to market all the time. And although ETFs still represent a much smaller piece of the investment pie than mutual funds overall, they are growing rapidly. And they are growing at the expense of mutual funds.



In fact, ETFs took in \$ 286 billion in 2016.¹ And many experts, including top-rated financial advisors, believe that ETFs may displace mutual funds within the next 10 to 15 years.²

As of the end of 2016, there are more than 1,900 ETFs trading in the U.S. marketplace, targeting a wide array of regions, sectors, commodities, bonds, futures and other asset classes. Their numerous benefits—including easy diversification, low cost, tax efficiency and the convenience of stock trading flexibility—have helped this newer type of investment to flourish.³ And there are many other drivers that will likely help this industry continue to grow over the coming years.

One of these drivers is the continued growth and acceptance of what has come to be known as “smart beta” ETFs. What is smart beta? Before we get into this, let’s briefly review a bit of ETF—and finance theory—history.

¹ Source: Blackrock, WisdomTree.

² Source: John Spence, “Can ETFs Ever Top Mutual Fund Assets?” ETF Trends, 11/27/12.

³ Ordinary brokerage commissions apply. Diversification does not eliminate the risk of investment losses.

BETA⁴ AND THE “EFFICIENT MARKET”

The very first ETFs—and the majority of those that followed—were based on market capitalization-weighted indexes. You may be wondering why. Consider that the measurement of the volatility⁵ of an investment compared to the market is known as “beta.” These ETFs mirror these indexes in an effort to help provide investors with a portfolio that seeks to deliver the same risk, and moves in the same way, as the market; thus the term “beta” has become synonymous with broad market representation.

But if you want to understand why these indexes are market capitalization weighted, we need to go a bit further. Market capitalization-weighted indexes, the bulk of indexes in existence today, weight individual components by their stock market capitalization (price per share times shares outstanding). This approach is supported by what is known as the Efficient Market Hypothesis, a widely accepted theory that claims the market price of any security is always the best unbiased estimate of a firm’s true underlying value (i.e., its “fundamental value”) and that no other information that can be easily obtained will give a better estimate of the stock’s fundamental value.

Taken a step further, this theory implies that capitalization-weighted indexes deliver the highest expected returns given any level of risk and the lowest possible risk for any given return—making them “mean variance efficient,” which would mean that they offer the optimal risk/return ratio regardless of an investor’s risk tolerance. So, if the Efficient Market Hypothesis holds, any portfolio that does not weight individual stocks by market capitalization will not be mean-variance efficient and therefore will not offer these desirable risk/return characteristics.

But what if markets are not always efficient?

⁴ Beta: Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark.

⁵ Volatility: A measure of the dispersion of actual returns around a particular average level.

WHO IS WisdomTree?

WisdomTree launched its first ETFs in June of 2006, and is currently the industry's seventh largest ETF provider in the U.S.* WisdomTree ETFs span asset classes and countries around the world. Categories include: U.S. and International Equity, Currency, Fixed Income and Alternatives. WisdomTree pioneered the concept of fundamentally weighted ETFs and active ETFs and is currently an industry leader in both categories. WisdomTree is the only publicly traded asset manager exclusively focused on the ETF industry.

WisdomTree is listed on the NASDAQ Global Market under the ticker: **WETF**.

* As of June 30, 2017

THE NOISY MARKET HYPOTHESIS

While the Efficient Market Hypothesis has had tremendous influence in the finance profession, it is just one of several theories that seek to explain broad movements in stock prices. As with all theories, it is subject to challenge. There is persuasive evidence that markets are not always efficient and that stock prices can deviate from their fundamental values for many reasons. WisdomTree believes that stock price movements are better explained by a different hypothesis—the Noisy Market Hypothesis—a term coined by Professor Jeremy Siegel, Senior Investment Strategy Advisor to WisdomTree and Russell E. Palmer Professor of Finance at The Wharton School of the University of Pennsylvania.

Conventional wisdom has long recognized that prices of speculative assets, such as equities, experience periods of irrational bubbles and frenzies—as evidenced by the Information Technology sector in the United States during the late 1990s— that can cause their prices to deviate widely from their fair value. Consider that, if traders such as momentum traders⁶ speculate on the basis of past price movements or are motivated by “noise” such as rumors or incomplete or inaccurate information, the prices of individual stocks will not always be efficient. Furthermore, investors and institutions often buy or sell shares for reasons unrelated to the valuation of the firm, sometimes for liquidity, fiduciary, tax—or even emotional— reasons. Consequently, the prices realized on these trades are often not representative of the best, unbiased estimate of the fundamental value of the shares.

Performance is now bearing out the idea that market capitalization weighting may not be the best method of indexing. According to Cass Consulting, a research-led consultancy service provided by Cass Business School, returns of traditional, market capitalization-weighted indexes lagged various fundamentally weighted—or smart beta—indexes by as much as 2% per year from 1969–2011.⁷ So, although the majority of ETF assets in the market today track cap-weighted indexes, it may not be surprising that alternative methods are growing in popularity.

⁶ Momentum traders: Individuals whose buy and sell decisions are influenced more heavily by recent price performance than any other factors; they typically buy after upward movements and sell after downward moves.

⁷ Andrew Clare, et. al. “An Evaluation of Alternative Equity Indices Part 2: Fundamental Weighting Schemes.” Cass Business School. March 2013.

SMART BETA DEFINED

Now that we've discussed beta and market theory, let's take a look at "smart beta." Some define smart beta as simply any type of index that is not market capitalization weighted. In our opinion, the smart beta approaches that are attracting the greatest attention in the world of equity indexing today are as follows:

Fundamentally Weighted Indexes	Components are selected to provide broad exposure to an equity market based on market capitalization, but companies are weighted by a fundamental factor such as aggregate dividends or earnings.
Equal Weight Indexes	Components are often selected from established indexes like the S&P 500 ⁸ , but are equally weighted so that all components have identical weights when rebalanced.
Factor-Based Indexes	Components are selected based on one or more fundamental factors and are weighted based on one or more fundamental factors. Factor-based Indexes can also be modified equal weighted, where stocks are first divided into tiers based on certain factors, and then equal weighted within the tiers.
Low Volatility Indexes	Components are selected because they have exhibited lower volatility than the overall stock market and/or are weighted based on their historic volatility.

ETFs tracking such rules-based, passive indexes have attracted tens of billions of dollars in assets in recent years, helping to legitimize the category of smart beta as a viable alternative to traditional cap-weighted indexes.

⁸ S&P 500 Index: A 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.



THE INTRODUCTION OF SMART BETA



So, put simply, the difference between beta and smart beta may be the idea that smart beta seeks to provide an exposure with the potential to outperform the market—or generate better risk-adjusted returns than the market—rather than merely measure the performance of all investable stocks in an equity market.

Though many investors may only now be hearing about smart beta indexes and ETFs, they have been around for some time. In fact, WisdomTree was an early pioneer in this category, inventing the concept of dividend weighting equity markets. And, in 2006, we launched one of the first families of alternatively weighted ETFs, calling them “fundamentally weighted.” From there we applied the same methodology to the earnings generating segments of the market to expand our offering. We weighted these first ETFs by dividends or earnings because we believe these fundamentals offer a more objective measure of a company’s health, value and profitability than stock price alone. Today, WisdomTree offers investors smart beta ETFs in all major equity markets around the world.

For these families, we use proprietary weighting methodologies designed to magnify the effect fundamentals—such as dividends or earnings—have on risk and return characteristics. And the proof is in the performance.

WISDOMTREE SMART BETA HAS HISTORICALLY OUTPERFORMED ACTIVE MANAGERS

Since their respective inceptions, the majority of our dividend- and earnings-weighted ETFs providing exposure to the U.S. market have outperformed the majority of active managers in their respective peer groups. Since their respective inceptions, all four of WisdomTree’s core U.S. earnings-weighted ETFs have outperformed their comparable capitalization-weighted benchmarks. Four of WisdomTree’s five U.S. dividend-weighted ETFs—all of which are categorized as “value” by Morningstar outperformed the major cap-weighted “value” benchmark in their asset class since their respective inceptions. How did they do this? By using a rules-based process to select and weight stocks.

OUR DOMESTIC FAMILY OF EARNINGS-WEIGHTED INDEXES

- Includes only profitable companies
- Weights stocks by their contribution to the *Earnings Stream*
- Rebalances to relative value on an annual basis

The WisdomTree Earnings Indexes typically weight each stock eligible for inclusion by its share of the Earnings Stream, defined as the sum of aggregate earnings generated by all companies in the respective Index.

10 Largest Companies in the WisdomTree Earnings Index			
Ranked by Core Earnings, as of November 30, 2016*			
Rank in Index	Company Name	Company Earnings Stream	Percentage of Earnings Stream
1	Apple Inc	\$45.3 Billion	4.2%
2	Berkshire Hathaway B	\$23.3 Billion	2.1%
3	JP Morgan Chase & Co	\$21.3 Billion	2.0%
4	Wells Fargo & Co	\$20.8 Billion	1.9%
5	Alphabet Inc A	\$19.1 Billion	1.8%
6	Microsoft Corp	\$16.9 Billion	1.6%
7	Johnson & Johnson	\$16.5 Billion	1.5%
8	Bank of America Corp	\$15.7 Billion	1.4%
9	AT&T Inc	\$15.3 Billion	1.4%
10	Gilead Sciences Inc	\$15.1 Billion	1.4%
Top 10 Companies, Total Contributions		\$209.3 Billion	19.3%
WisdomTree Earnings Index: Total Earnings Stream		\$1,084.7 Billion	100%

Sources: WisdomTree, S&P.
Holdings subject to change.

Company Core Earning Stream=Total Earning over Prior 12 Months of Company in Dollars
Percent of Earning Stream=Company Earning/Total Stream of All Companies

Core earnings is a standardized calculation of earnings developed by S&P and designed to include expenses, income and activities that reflect the actual profitability of an enterprise's ongoing operations.

* The annual screening date for the WisdomTree Domestic Earnings and Dividend Indexes is at the end of November.

GROWTH OF SMART BETA WILL BE THE GROWTH OF ETFs

While some industry insiders may worry that smart beta may be a fad, investors do not seem to agree. Consider that U.S.-listed ETFs tracking non-market cap-weighted indexes gathered \$60 billion, or one-fourth of new net inflows in 2015.⁹ And, according to a study conducted by Cogent Research, a division of Market Strategies International, more than half (53%) of institutional decision makers will increase their use of smart beta ETFs over the next three years—that's more than any other ETF category, including market cap-weighted ETFs (48%).¹⁰ We believe this could make smart beta the largest category of ETFs and the primary driver of ETF growth going forward, perhaps helping to match equity mutual fund assets under management (currently \$8.2 trillion)¹¹ in less than the one decade we previously mentioned. And when you consider that, according to Morningstar, ETFs have grown at double the rate of mutual funds since January of 2009, with asset growth of 100% and 50%, respectively, this expectation seems attainable.¹²

⁹ "5 key takeaways from 2015 ETF flows", Bloomberg, Jan 2016.

¹⁰ Marketwired, LP, 12/11/2013.

¹¹ Source: Investment Company Institute, as of 12/31/2015.

¹² "ETF Asset Growth Rate Sprints Ahead of Mutual Funds" from Investors Business Daily, on 10/25/2013.

With growth expectations like this, we believe investors should beware of asset managers and investments that may be jumping on the bandwagon, using only smart marketing rather than smarter investment methods.

OUR DOMESTIC FAMILY OF DIVIDEND-WEIGHTED INDEXES

- Includes only dividend-paying companies
- Weights stocks by their contribution to the *Dividend Stream*[®]
- Rebalances to relative value on an annual basis

The WisdomTree Dividend Indexes typically weight each stock eligible for inclusion by its share of the *Dividend Stream*[®], defined as the sum of regular cash dividends paid by all the companies in the respective Index.

10 Largest Companies in the WisdomTree Dividend Index					
Ranked by Cash Dividends, as of November 30, 2016*					
Rank in Index	Company Name	2016 Indicated Dividend per Share	Shares Outstanding	Company Dividend Stream	Percentage of Dividend Stream
1	Exxon Mobil Corp	\$3.00	\$4.15 Billion	\$12.44 Billion	2.73%
2	Apple Inc	\$2.28	\$5.33 Billion	\$12.16 Billion	2.66%
3	Microsoft Corp	\$1.56	\$7.78 Billion	\$12.13 Billion	2.66%
4	AT&T Inc	\$1.96	\$6.14 Billion	\$12.04 Billion	2.64%
5	Verizon Communications Inc	\$2.31	\$4.08 Billion	\$9.42 Billion	2.06%
6	Johnson & Johnson	\$3.21	\$2.72 Billion	\$8.71 Billion	1.91%
7	Chevron Corp	\$4.32	\$1.89 Billion	\$8.16 Billion	1.79%
8	General Electric	\$0.92	\$8.85 Billion	\$8.14 Billion	1.78%
9	Wells Fargo & Co	\$1.52	\$5.02 Billion	\$7.63 Billion	1.67%
10	Pfizer Inc	\$1.20	\$6.07 Billion	\$7.28 Billion	1.60%
Top 10 Companies, Total Contributions				\$98.1 Billion	21.50%
WisdomTree Dividend Index: Total Dividend Stream				\$456.26 Billion	100%

Sources: WisdomTree, Bloomberg.

Holdings subject to change.

Dividend Stream=Cash Dividends per Share x Shares Outstanding

Percent of Dividend Stream=Company Dividend Stream/Total Stream of All Companies

* The annual screening date for the WisdomTree Domestic Earnings and Dividend Indexes is at the end of November.

U.S. DIVIDEND EQUITY FUNDS

Percent of Peers Beaten in Respective Morningstar Category as of June 30, 2017

Ticker	Fund	Fund Inception Date	Morningstar Category	1-Year	5-Year	10-Year	Since Fund Inception
DTD	WisdomTree Total Dividend Fund	6/16/06	Large Value	27%	74%	93%	91%
DTN	WisdomTree Dividend ex-Financials Fund	6/16/06	Large Value	9%	45%	91%	91%
DLN	WisdomTree LargeCap Dividend Fund	6/16/06	Large Value	26%	53%	78%	78%
DHS	WisdomTree High Dividend Fund	6/16/06	Large Value	1%	30%	55%	51%
DON	WisdomTree MidCap Dividend Fund	6/16/06	Mid-Cap Value	9%	92%	94%	89%
DES	WisdomTree SmallCap Dividend Fund	6/16/06	Small Value	9%	80%	78%	70%

Number of Managers in Each Respective Category as of June 30, 2017

Morningstar Category	1-Year	5-Year	10-Year	Since Fund Inception
Large Value - DTD, DTN, DLN, DHS	1,255	941	691	633
Mid-Cap Value - DON	402	310	217	200
Small Value - DES	392	297	200	182

Average Annual Returns as of June 30, 2017

Domestic Dividend ETFs	Fund Information			Total Return NAV (%)				Market Price (%)			
	Fund	Ticker	Exp. Ratio	Fund Inception Date	1-Yr.	5-Yr.	10-Yr.	Since Fund Inception	1-Yr.	5-Yr.	10-Yr.
WisdomTree U.S. Total Dividend Fund	DTD	0.28%	6/16/06	13.79%	13.22%	6.63%	7.91%	13.91%	13.24%	6.64%	7.90%
Russell 3000 Index				18.51%	14.58%	7.26%	8.51%	18.51%	14.58%	7.26%	8.51%
Russell 3000 Value Index				16.21%	13.89%	5.59%	7.13%	16.21%	13.89%	5.59%	7.13%
WisdomTree U.S. LargeCap Dividend Fund	DLN	0.28%	6/16/06	13.88%	12.88%	6.35%	7.69%	14.00%	12.92%	6.36%	7.67%
S&P 500 Index				17.90%	14.63%	7.18%	8.45%	17.90%	14.63%	7.18%	8.45%
Russell 1000 Value Index				15.53%	13.94%	5.57%	7.14%	15.53%	13.94%	5.57%	7.14%
WisdomTree U.S. MidCap Dividend Fund	DON	0.38%	6/16/06	12.16%	15.52%	8.53%	9.44%	12.18%	15.52%	8.53%	9.48%
S&P MidCap 400 Index				18.57%	14.92%	8.56%	9.71%	18.57%	14.92%	8.56%	9.71%
Russell Midcap Value Index				15.93%	15.14%	7.23%	8.70%	15.93%	15.14%	7.23%	8.70%
WisdomTree U.S. SmallCap Dividend Fund	DES	0.38%	6/16/06	15.93%	14.19%	7.21%	8.11%	15.89%	14.17%	7.22%	8.10%
Russell 2000 Index				24.60%	13.70%	6.92%	8.16%	24.60%	13.70%	6.92%	8.16%
Russell 2000 Value Index				24.86%	13.39%	5.92%	7.19%	24.86%	13.39%	5.92%	7.19%
WisdomTree U.S. High Dividend Fund	DHS	0.38%	6/16/06	5.90%	12.01%	5.43%	6.76%	5.91%	12.02%	5.44%	6.76%
Russell 1000 Value Index				15.53%	13.94%	5.57%	7.14%	15.53%	13.94%	5.57%	7.14%
WisdomTree U.S. Dividend ex-Financials Fund	DTN	0.38%	6/16/06	10.38%	12.61%	6.96%	8.38%	10.55%	12.64%	6.98%	8.38%
Dow Jones U.S. Select Dividend Index				11.99%	14.54%	6.91%	8.00%	11.99%	14.54%	6.91%	8.00%

Performance is historical and does not guarantee future results; current performance may be lower or higher than quoted. Investment returns/principal value of an investment will fluctuate; 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.

Source: WisdomTree, Morningstar Direct

To view the performance of our entire family of ETFs, please visit www.WisdomTree.com

U.S. EARNINGS EQUITY FUNDS

Percent of Peers Beaten in Respective Morningstar Category as of June 30, 2017							
Ticker	Fund	Fund Inception Date	Morningstar Category	1-Year	3-Year	5-Year	Since Fund Inception
EZM	WisdomTree MidCap Earnings Fund	2/23/07	Mid-Cap Blend	80%	94%	98%	98%
EES	WisdomTree SmallCap Earnings Fund	2/23/07	Small Blend	93%	79%	94%	90%
EXT	WisdomTree Total Earnings Fund	2/23/07	Large Blend	90%	74%	85%	85%
EPS	WisdomTree Earnings 500 Fund	2/23/07	Large Blend	90%	70%	77%	77%

Number of Managers in Each Respective Category as of June 30, 2017				
Morningstar Category	1-Year	3-Year	5-Year	Since Fund Inception
Mid-Cap Blend - EZM	437	331	222	221
Small Blend - EES	778	551	395	373
Large Blend - EXT, EPS	1,402	1,090	814	794

Average Annual Returns as of June 30, 2017												
Domestic Earnings ETFs		Fund Information			Total Return NAV (%)				Market Price (%)			
Fund	Ticker	Exp. Ratio	Fund Inception Date	1-Yr.	5-Yr.	10-Yr.	Since Fund Inception	1-Yr.	5-Yr.	10-Yr.	Since Fund Inception	
WisdomTree U.S. Total Earnings Fund	EXT	0.28%	2/23/07	21.88%	14.40%	7.29%	7.46%	22.21%	14.41%	7.29%	7.47%	
Russell 3000 Index				18.51%	14.58%	7.26%	7.36%	18.51%	14.58%	7.26%	7.36%	
WisdomTree U.S. Earnings 500 Fund	EPS	0.28%	2/23/07	21.86%	14.31%	7.04%	7.23%	22.11%	14.37%	7.06%	7.24%	
S&P 500 Index				17.90%	14.63%	7.18%	7.36%	17.90%	14.63%	7.18%	7.36%	
WisdomTree U.S. MidCap Earnings Fund	EZM	0.38%	2/23/07	19.86%	15.53%	9.10%	9.16%	20.14%	15.61%	9.13%	9.20%	
S&P MidCap 400 Index				18.57%	14.92%	8.56%	8.63%	18.57%	14.92%	8.56%	8.63%	
WisdomTree U.S. SmallCap Earnings Fund	EES	0.38%	2/23/07	26.35%	14.41%	8.40%	8.12%	26.36%	14.40%	8.44%	8.09%	
Russell 2000 Index				24.60%	13.70%	6.92%	6.81%	24.60%	13.70%	6.92%	6.81%	

Performance is historical and does not guarantee future results; current performance may be lower or higher than quoted. Investment returns/principal value of an investment will fluctuate; 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.

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Source: WisdomTree, Morningstar Direct.

WHEN IT COMES TO IDENTIFYING SMART BETA, WE THINK INVESTORS SHOULD LOOK FOR

01

A rules-based, repeatable methodology that offers broad, representative exposure to an asset class

04

A proven track record on a total return and risk-adjusted basis

02

Alternative weighting methods that allow for ample investment capacity

05

Regular rebalancing back to a measure of relative value

03

High correlations to established benchmarks

CONCLUSION

Investment managers and investors alike are always looking for better ways to invest. Indexing can be highly efficient, and ETFs have a number of benefits that make them a wise way to invest and have led to their quick adoption and impressive industry growth.

If you can accept that price may not always be the best indicator of value—as history has shown time and again—you can appreciate the potential value of smart beta indexes such as WisdomTree's, which rebalance and weight equity markets based on income. WisdomTree's family of smart beta ETFs has proven itself since 2006 — which included an unprecedented market event.¹³ We believe smart beta approaches like ours may help advisors and investors to:

- Enhance portfolio returns
- Reduce portfolio risk
- Increase dividend income
- Benefit from more complete diversification

ABOUT US

At WisdomTree, we do things differently. Our ETFs are built with proprietary methodologies, smart structures or uncommon access to provide investors with the potential for income, performance, diversification and more. For more information on WisdomTree ETFs, visit www.WisdomTree.com.

¹³ Referring to the global financial crisis of 2008 and 2009.



Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, call 866.909.9473 or visit WisdomTree.com. Read the prospectus carefully before you invest.

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are subject to risk similar to those of stocks including those regarding short-selling and margin account maintenance.

You cannot invest directly in an index.

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Trading WisdomTree Funds will generate tax consequences and transaction expenses. Tax consequences regarding dividend distributions may vary by investor. Neither WisdomTree Investments, Inc., nor its affiliates, nor Foreside Fund Services, LLC, and its affiliates provide tax advice. Information provided herein should not be considered tax advice. Investors seeking tax advice should consult an independent tax advisor.

