



WISDOMTREE (WETF)

NOT SO SMART BETA

December 2015



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PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

WISDOMTREE: INTRO

Name:	WisdomTree Investments Inc	
Ticker:		WETF
Market Cap \$MM	\$	2,628
TMM Revenues \$MM	\$	272
Pretax Margin		49%
AUM \$MM	\$	58,000
Dividend Yield		1.6%
Short Interest as a % of Float		15.6%
Insider Ownership		15.0%
Cash balance \$MM	\$	211
Long Term Debt \$MM	\$	-
Annual Free Cash Flow \$MM	\$	160

U.S. ETF Provider AUM & Share			
<u>Rank</u>	<u>Manager</u>	<u>AUM \$MM</u>	<u>Industry Share</u>
1	BlackRock	\$ 826,048	38%
2	Vanguard	\$ 483,550	23%
3	StateStreet	\$ 414,166	19%
4	Invesco	\$ 98,968	5%
5	WisdomTree	\$ 58,000	3%
6	First Trust	\$ 42,901	2%
7	Charles Schwab	\$ 38,627	2%
8	Guggenheim	\$ 29,904	1%
9	ProShares	\$ 26,157	1%
10	Deutsche Bank	\$ 21,822	1%
11	Van Eck	\$ 19,336	1%
12	PIMCO	\$ 11,109	1%
Industry Total		\$ 2,147,874	100%

WHAT IS WISDOMTREE?

WisdomTree is an ETF provider with 3% total market share.

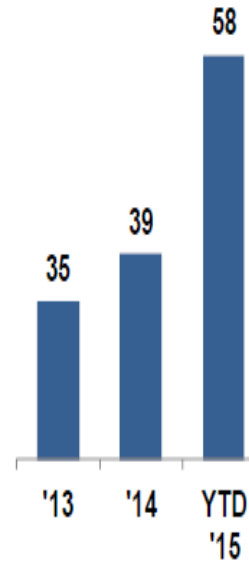
WISDOMTREE: BASICS

Background

- Only publicly traded pure play ETF manager
- 5th largest U.S. ETF sponsor and 7th largest in the world with \$58 billion of AUM⁽¹⁾
- WisdomTree branded ETFs in U.S. and Europe spanning equities, fixed income, currencies and alternative asset classes
- Headquartered in New York with 128 employees in the U.S. and 34 employees internationally

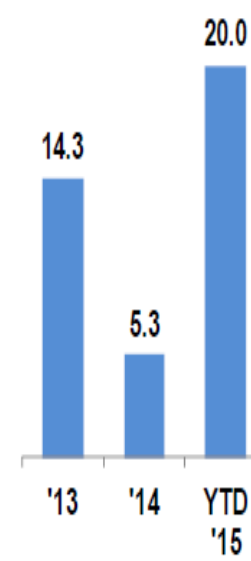
ETF AUM⁽¹⁾

(\$ billions)



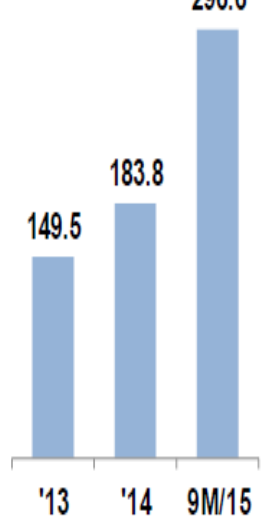
Net Inflows⁽¹⁾

(\$ billions)



Revenue

(\$ millions)



MORE VITALS

The firm has grown quickly.

CATEGORY-LEADING GROWTH

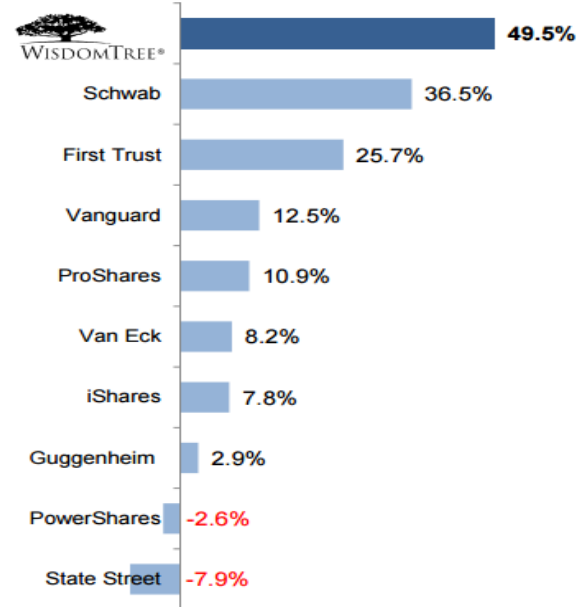
9M/15 U.S. ETF Industry Net Inflows

(\$ billions)

Rank	ETF Sponsor	Net Inflows
1	iShares	59.0
2	Vanguard	53.2
3	WisdomTree	19.5
4	Deutsche Bank	16.6
5	Schwab	9.8
6	First Trust	8.5
7	Direxion	3.1
8	ProShares	2.7
9	Van Eck	1.7
10	U.S. Commodity Funds	1.7
Top 10		175.7
State Street		(35.7)
Others (61)		1.3
Total Industry		141.3

14% market share

Top 10 U.S. ETF Sponsors 9M/15 Org. Growth ⁽¹⁾



THE COMPANY HAS SEEN THE FASTEST GROWTH IN THE GROUP

While it only has 3% share in AUM it has been garnering a much higher flow percentage.

SMART BETA

+ **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[®], 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.

SMART BETA - DEFINED

The firm is a pioneer in Smart Beta, which are fundamentally weighted indexes.

SMART BETA – EXAMPLE

10 LARGEST COMPANIES IN THE WISDOMTREE EARNINGS INDEX

Ranked by Core Earnings, as of November 30, 2014*

Rank in Index	Company Name	Company Earnings Stream (Billions)	Percentage of Earnings Stream
1	Apple Inc.	\$39.64	3.47%
2	Exxon Mobil Corp.	\$36.13	3.16%
3	JP Morgan Chase & Co.	\$22.08	1.93%
4	Wells Fargo & Co.	\$21.87	1.91%
5	Microsoft Corp.	\$21.03	1.84%
6	Chevron Corp.	\$20.67	1.81%
7	Berkshire Hathaway B	\$17.94	1.57%
8	General Electric Co.	\$17.47	1.53%
9	Intl Business Machines Corp.	\$16.91	1.48%
10	Johnson & Johnson	\$16.74	1.46%
Top 10 Companies, Total Contributions		\$230.49	20.16%
WisdomTree Earnings Index: Total Earnings Stream		\$1,143.43	100.00%

FACTORS INSTEAD OF CAP

Instead of market cap-weighted ETFs, the company factors by earnings or dividends.

HEDJ: EUROPE HEDGED EQUITY FUND

WisdomTree ETFs
EUROPE HEDGED EQUITY FUND

HEDJ

HEDJ INVESTMENT PROCESS

The WisdomTree Europe Hedged Equity Index, which HEDJ is designed to track, uses a rules-based process for selecting and weighting securities, while managing the euro risk.

+ Index Selection:

The Universe is comprised of the largest dividend-paying companies from the WisdomTree International Equity Index (broad developed world ex-U.S.) that are traded in euros, with a minimum market capitalization of \$1 billion and at least 50% of revenues derived from outside Europe. Ultimately, this focuses the Index on some very widely recognized firms, seen in the top 10 exposures below.

+ Index Weighting: Modified *Dividend Stream*[®]

- Companies weighted by *Dividend Stream* are subject to the following caps:⁵
 - 5% cap to weight in any single company
 - 25% cap to weight in any country
 - 25% cap to weight in any sector

The Fund will implement the currency hedging strategy by entering into one-month forward contracts⁶ each month and rebalancing at month-end.

+ Mechanics of the Currency Hedge:

$$\begin{aligned} & \text{Local Market Europe Equity Return} \\ & + \text{Euro Return} \\ & - \text{Hedged Euro Return} \\ \hline & \text{Hedged Equity Return} \end{aligned}$$

THE EUROPE PRODUCT

The firm is best known for its international hedged equity funds **HEDJ** and **DXJ** which are Europe ex-Euro and Japan ex-Yen

DXJ: JAPAN HEDGED EQUITY FUND

WisdomTree ETFs
JAPAN HEDGED EQUITY FUND

DXJ

DXJ INVESTMENT PROCESS

The WisdomTree Japan Hedged Equity Index, which DXJ is designed to track, uses a rules-based process for selecting and weighting securities while managing the yen risk.

+ Index Selection:

Universe comprised of the largest dividend-paying companies from WisdomTree's Japan Dividend Index that are traded in yen, with a minimum market capitalization of \$100 million and with no more than 80% of their revenue generated from inside Japan. Ultimately, as can be seen from the Index's top 10 holdings, many of these firms are very recognizable, given the products they export.

+ Index Weighting: Modified Dividend Stream⁵⁶

- Companies weighted by *Dividend Stream*
- 5% cap⁶ to weight in any single company
- 25% cap⁶ to weight in any sector

+ Mechanics of the Currency Hedge:

$$\begin{aligned} & \text{Local Market Japan Equity Return} \\ & + \text{Yen Return} \\ & - \frac{\text{Hedged Yen Return}}{\text{Hedged Equity Return}} \end{aligned}$$

The Fund will implement the currency hedging strategy by entering into one-month forward⁷ contracts each month and rebalancing at month-end.

THE JAPAN PRODUCT

The firm is best known for its international hedged equity funds **HEDJ** and **DXJ** which are Europe ex-Euro and Japan ex-Yen

AUM BREAKDOWN: 2/3 DXJ & HEDJ

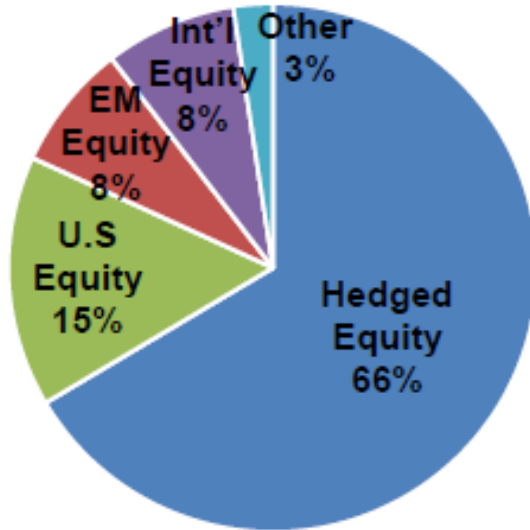
Ticker	ETF Full Name	AUM \$MM % of AUM	
HEDJ US EQUITY	WISDOMTREE EUROPE HEDGED EQU	\$ 21,680	38%
DXJ US EQUITY	WISDOMTREE JAPAN HEDGED EQ	\$ 17,122	30%
EPI US EQUITY	WISDOMTREE INDIA EARNINGS	\$ 1,683	3%
DLN US EQUITY	WISDOMTREE L/C DIVIDEND FUND	\$ 1,748	3%
DEM US EQUITY	WISDOMTREE EMERGING MARKETS	\$ 1,433	3%
DON US EQUITY	WISDOMTREE MIDCAP DIVIDEND F	\$ 1,540	3%
DES US EQUITY	WISDOMTREE SMALLCAP DVD FUND	\$ 1,204	2%
DLS US EQUITY	WISDOMTREE INTL S/C DVD FUND	\$ 1,056	2%
DGS US EQUITY	WISDOMTREE EM SMALL CAP	\$ 978	2%
DFE US EQUITY	WISDOMTREE EUR S/C DIVIDEND	\$ 999	2%
Other 163 ETFs and ETNs		\$ 7,707	13%
Total AUM \$MM		\$ 57,150	100%

THE EUROPE & JAPAN PRODUCTS

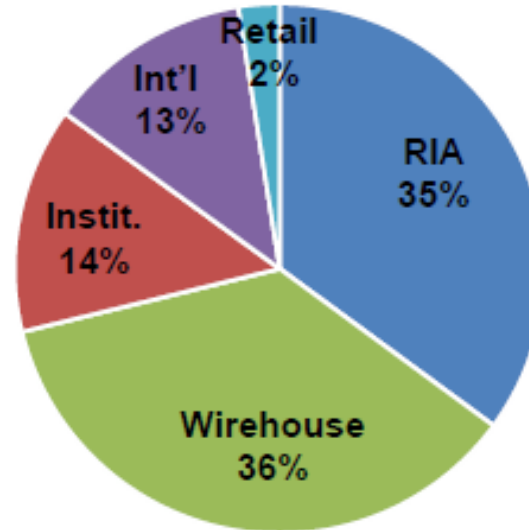
Two-thirds of the company's AUM resides in these two products.

AUM BREAKDOWN: 2/3 DXJ & HEDJ

U.S. AUM by Asset Class⁽¹⁾



U.S. AUM by Channel⁽²⁾



ASSET CLASS & CHANNEL

The firm's hedged equity product are 2/3's of AUM and RIA and Wirehouses are the main users.

THESIS: TOO MUCH RELIANCE ON “TWO” FEW PRODUCTS

1

CONCENTRATION RISK

The firm has the highest concentration risk in the sector to its two main products: HEDJ and DXJ. Both of these products, however, underperform benchmark in local terms and thus the main value proposition is that FX hedges offset their beta construction weaknesses.

2

BANKING ON THE U.S. DOLLAR

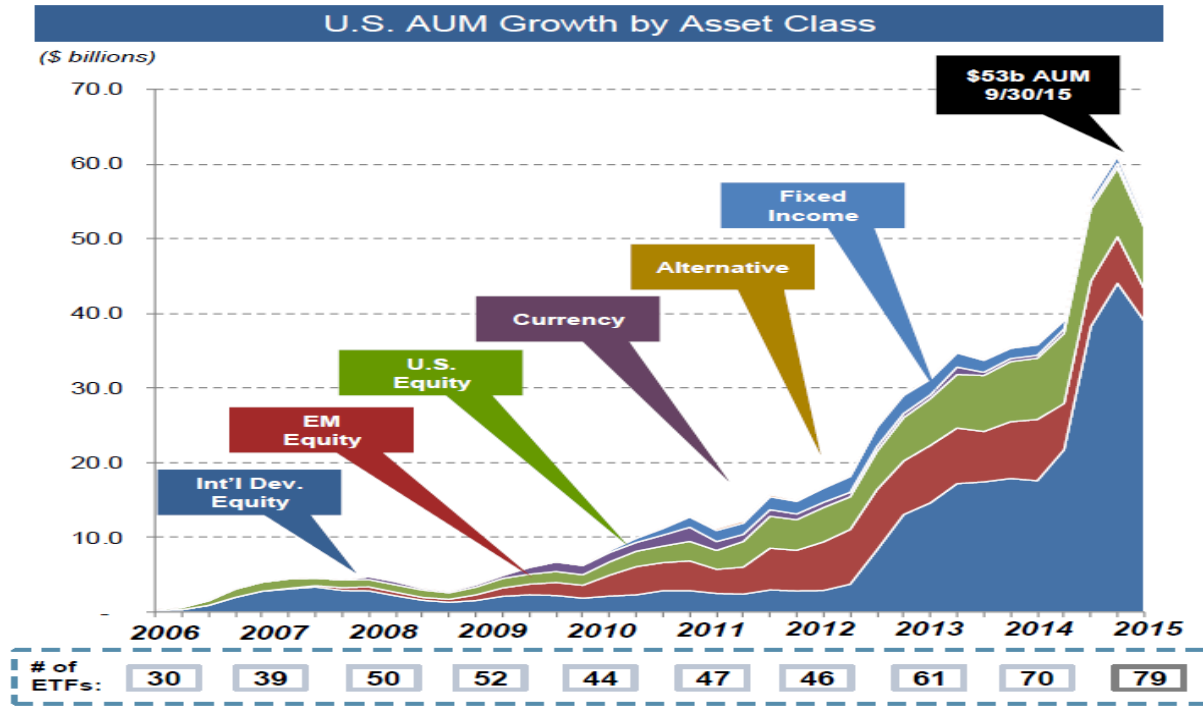
We see risk in modeling the dollar's recent ascent on a go-forward basis as the U.S. currency has put in a +3 sigma move within a 10 year period and has hit a +20% Y/Y RoC, a key resistance level. Our research shows that the dollar appreciates before rate hikes but declines after them. Lastly, a dearth of cheap FX hedges outside the Yen and Euro is a headwind to new product introduction.

3

THE REST OF THE FRANCHISE IS IN DECAY

WETF used to rely solely on its EM and fixed income products, but those are now in double digit decline. Outside of the two important international hedged products the franchise is decaying AUM by -4% Y/Y. Our EPS estimates are -25% below the Street and we would need to see improved fundamentals to get more constructive.

AUM GROWTH BY ASSET CLASS



GROWTH BY PRODUCT CATEGORY

The International hedged products took off in 2012 however all other categories are little changed.

>50% OF CATEGORIES ARE IN DECLINE

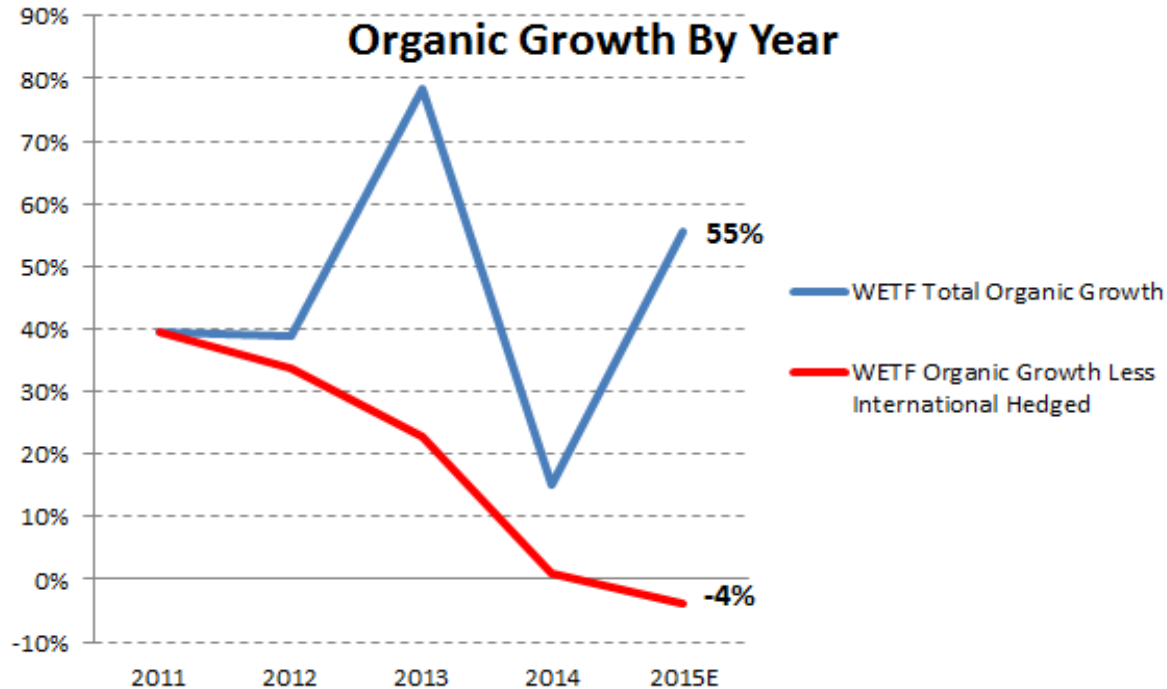
Annual WETF Organic Growth By Category

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015E</u>	<u>AUM \$MM</u>
International Hedged		181%	830%	36%	124%	39,764
Total Firm	39%	39%	78%	15%	55%	61,361
International Developed	20%	12%	39%	15%	20%	4,804
Alternative		-47%	27%	24%	13%	231
U.S.	61%	18%	34%	20%	-4%	9,002
Currency	-6%	-37%	68%	-38%	-15%	512
Emerging Markets	24%	86%	12%	-11%	-16%	5,205
Fixed Income	181%	33%	6%	-36%	-21%	914

GROWTH BY PRODUCT CATEGORY

And looking at the six categories outside of the international hedged, only 2 are growing.

DECONSTRUCTING GROWTH

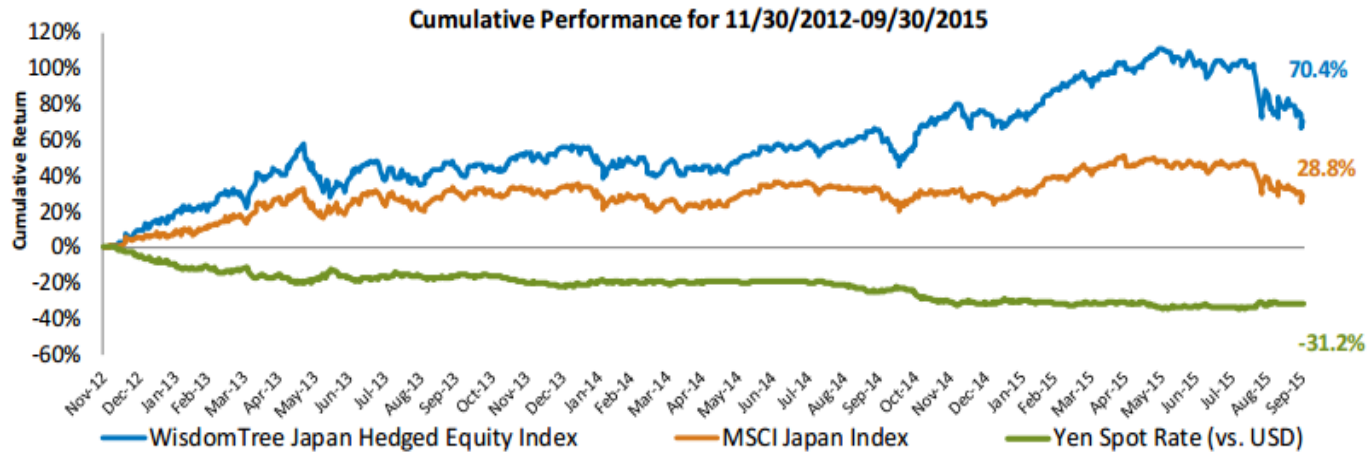


GROWTH WITH & WITHOUT INTERNATIONAL HEDGED

Total organic growth of +55% becomes a negative 4% decay rate excluding the International Hedged group.

THE ARGUMENT IN FAVOR OF DXJ ...

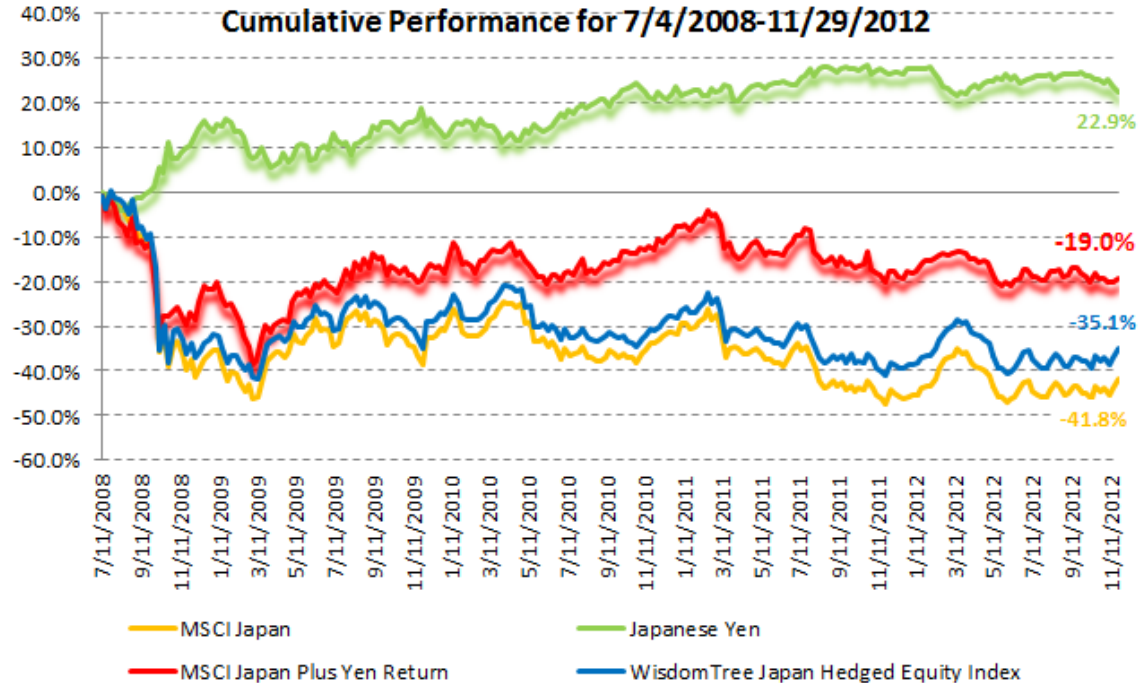
Why Hedge Yen? Stocks Negatively Correlated Recently, Reacting Positively to Yen Weakness



WEAK YEN → STRONG DXJ

DXJ - The most recent two year period is highlighted for its relationship of weak yen detracting from Japanese equities.

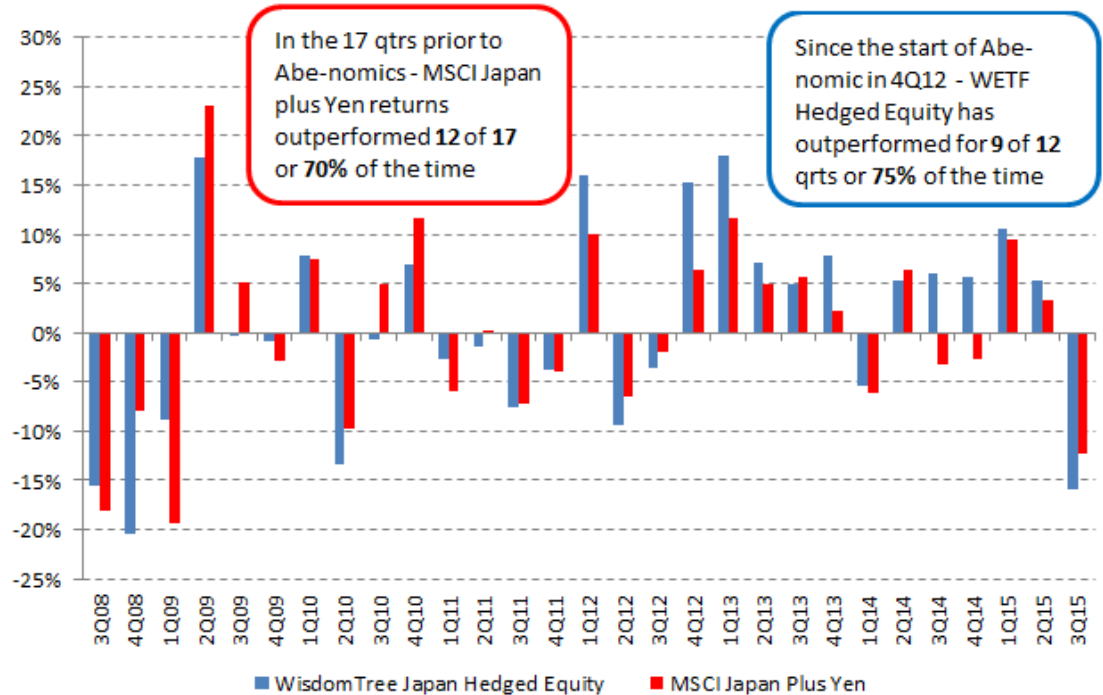
... AND THE ARGUMENT AGAINST



STRONG YEN → WEAK DXJ

Extending performance back since inception outside of the past 3 years, the Yen was an asset, not a liability.

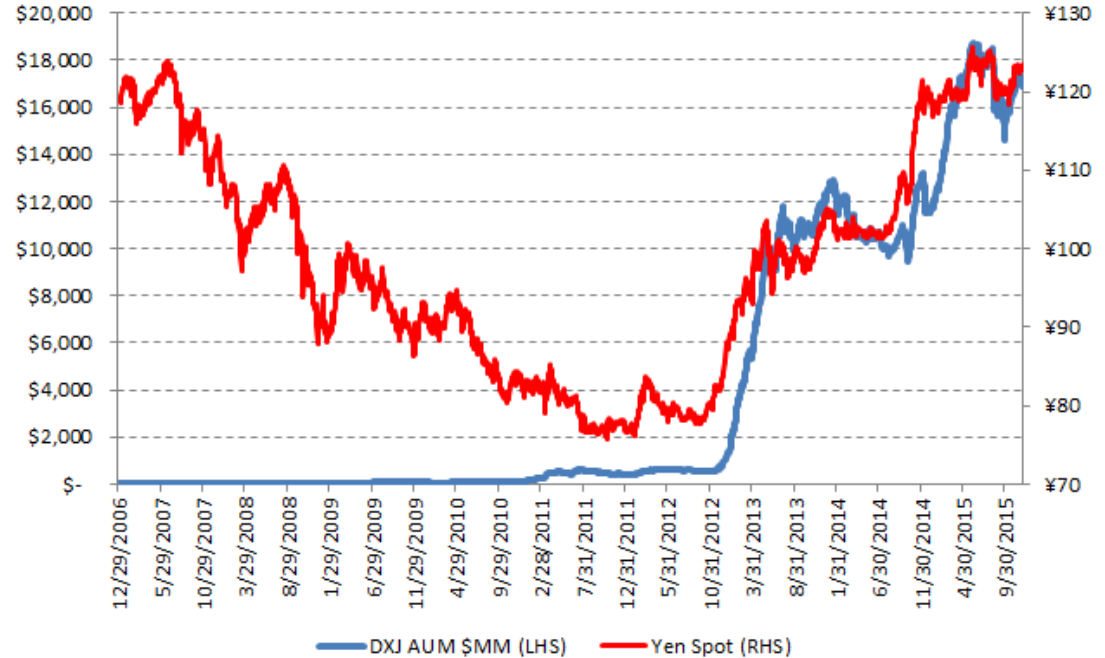
ABE-NOMICS



ABE-NOMICS 101

Abe-nomics has been the swing factor with WETF underperforming 70% of the time prior but winning 75% since.

ABE-NOMICS → HOCKEY STICK



ABE-NOMICS

A cross cycle view shows that the start of Abe-nomics enabled the hockey stick in DXJ assets.

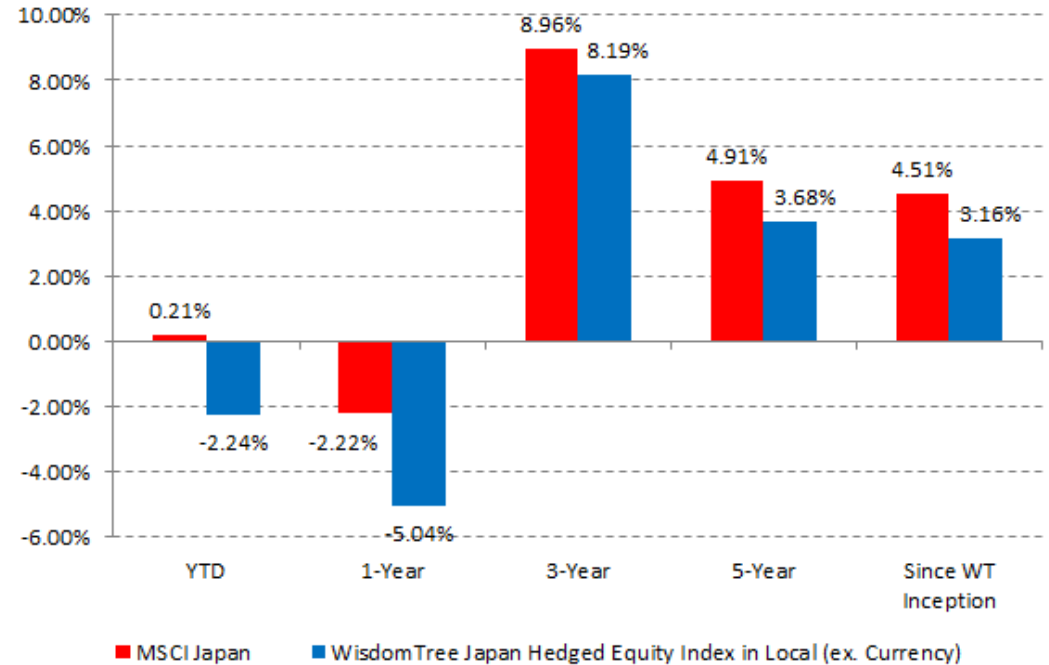
DXJ UNDERPERFORMS IN LOCAL

<u>As of September 30th, 2015</u>	Since WT Inception				
	YTD	1-Year	3-Year	5-Year	2/1/2010
WisdomTree Japan Hedged Equity Index	-2.08%	3.49%	21.56%	10.65%	8.04%
MSCI Japan	0.21%	-2.22%	8.96%	4.91%	4.51%
Japanese Yen Spot Rate	-0.16%	-8.53%	-13.37%	-6.97%	-4.88%
WisdomTree Japan Hedged Equity Index in Local (ex. Currency)	-2.24%	-5.04%	8.19%	3.68%	3.16%

UNDERPERFORMANCE

The Japan hedged equity product is an underperformer in local terms if you ex-out currency gains.

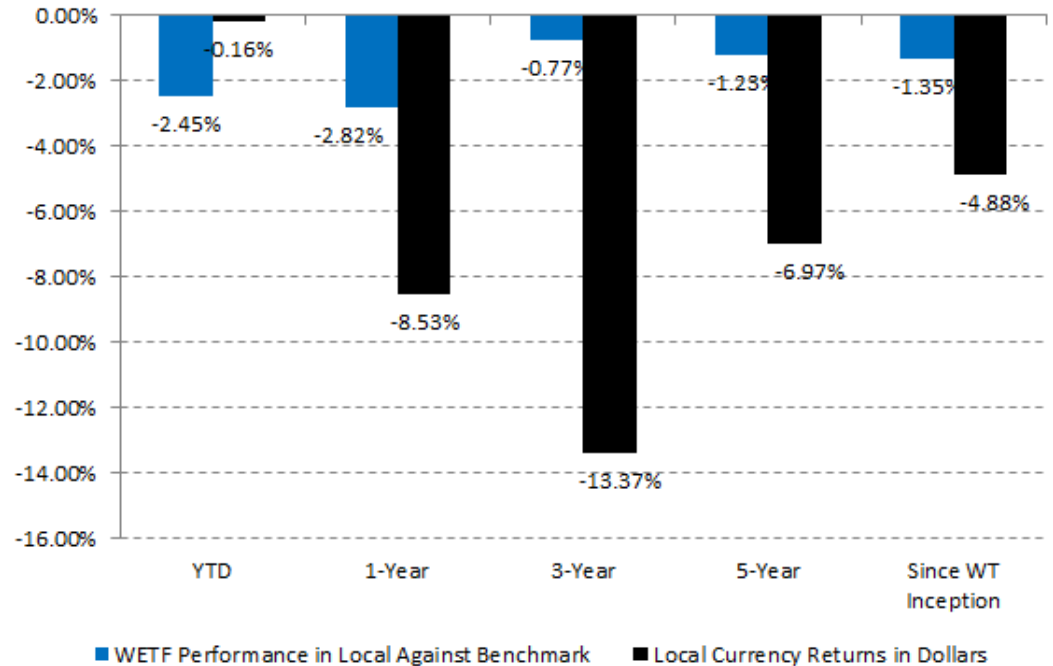
UNDERPERFORMING IN LOCAL



UNDERPERFORMANCE

The Japan hedged equity product is an underperformer in local terms if you ex. out currency gains

UNDERPERFORMING IN LOCAL



UNDERPERFORMANCE

This means WETF fund holders are getting all of their outperformance from currency gains and losing in local.

THE LAST FEW YEARS VS 1995-2004

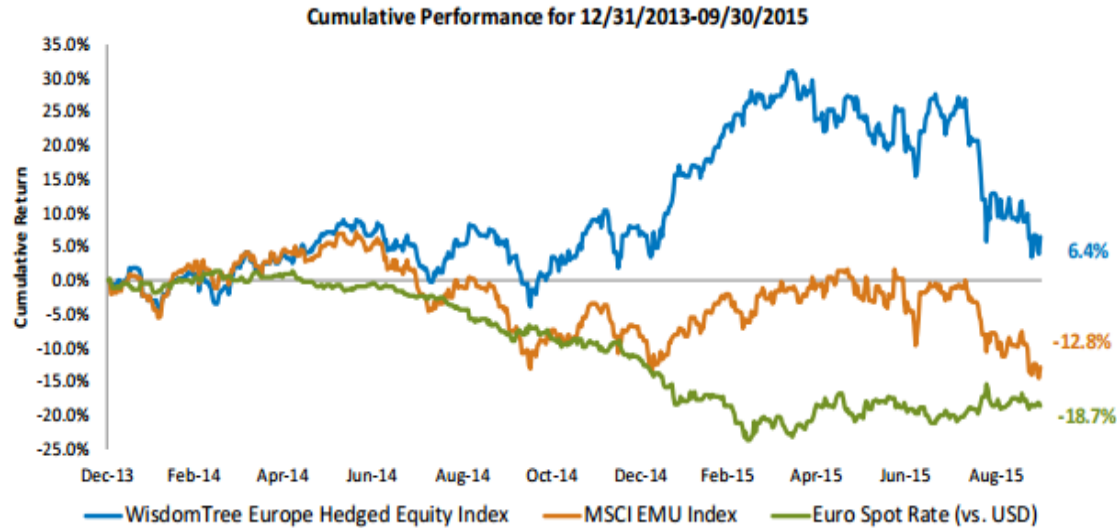


AS AN EXAMPLE, THIS PRODUCT WOULDN'T HAVE WORKED FROM 1995-2004

The recent 2 year window has been favorable with a weak yen and rising Japanese stocks, however from 1995-2004 the environment wouldn't have been conducive to DXJ.

NOW LET'S LOOK AT HEDJ

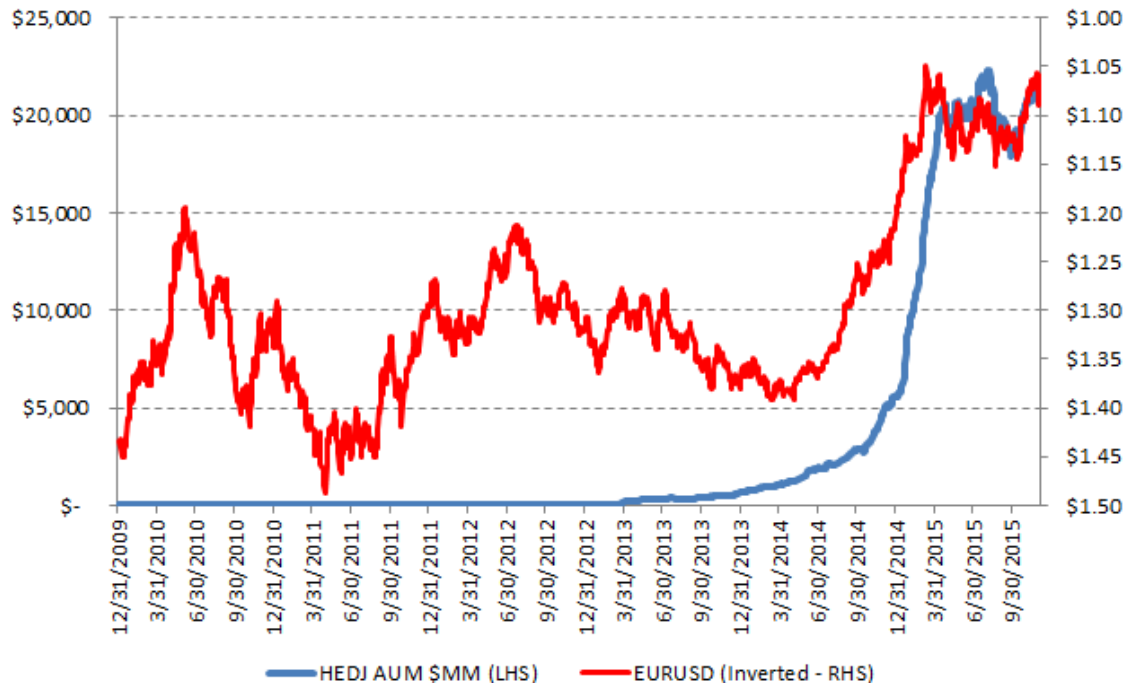
Why Hedge the Euro?



IN THE RIGHT ENVIRONMENT THIS PRODUCT WORKS

The most recent 18 month period is highlighted for the weak euro detracting from European returns.

DRAGHI → HEDJ AUM ↑



AGAIN, IN THE RIGHT ENVIRONMENT THIS PRODUCT WORKS

QE in Europe has been the catalyst and Draghi's economic drugs have catalyzed substantial AUM growth in HEDJ.

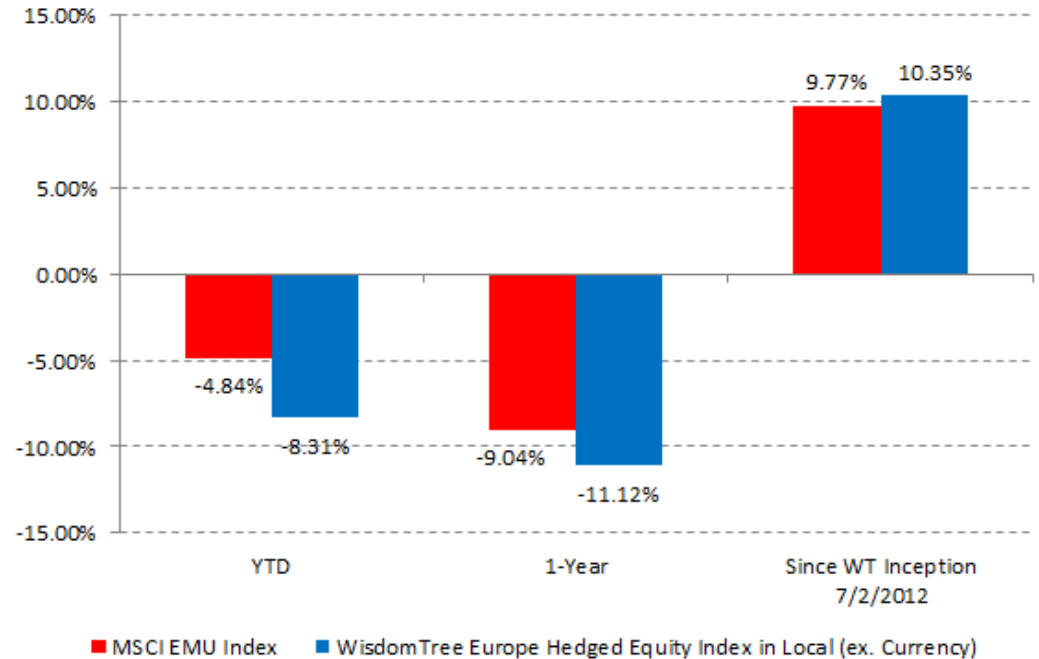
HEDJ UNDERPERFORMS IN LOCAL

<u>As of September 30th, 2015</u>	Since WT Inception		
	YTD	1-Year	7/2/2012
WisdomTree Europe Hedged Equity Index	-0.70%	0.39%	14.12%
MSCI EMU Index	-4.84%	-9.04%	9.77%
Euro Spot Rate	-7.61%	-11.51%	-3.77%
WisdomTree Europe Hedged Equity Index in Local (ex. Currency)	-8.31%	-11.12%	10.35%

UNDERPERFORMANCE

But the HEDJ returns in local are again challenged putting up losses YTD and on the 1 year scorecard.

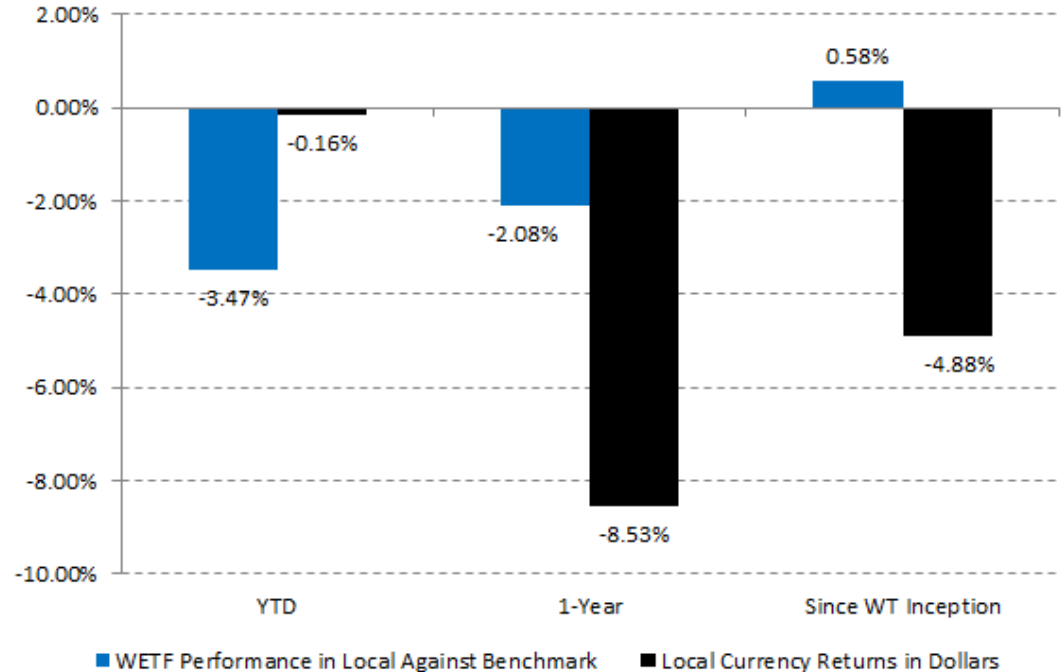
UNDERPERFORMING IN LOCAL



UNDERPERFORMANCE

The HEDJ product has underperformed local on a YTD and 1-yr basis.

UNDERPERFORMING IN LOCAL



UNDERPERFORMANCE

Which means currency gains (Euro losses) will again have to overwhelm lagging local performance.

THERE'S A TIME AND A PLACE



THIS PRODUCT CAN WORK WELL, BUT ONLY WHEN CONDITIONS ARE RIGHT

QE in Europe has lifted stocks and depreciated the currency, but across the cycle this hasn't been the case.

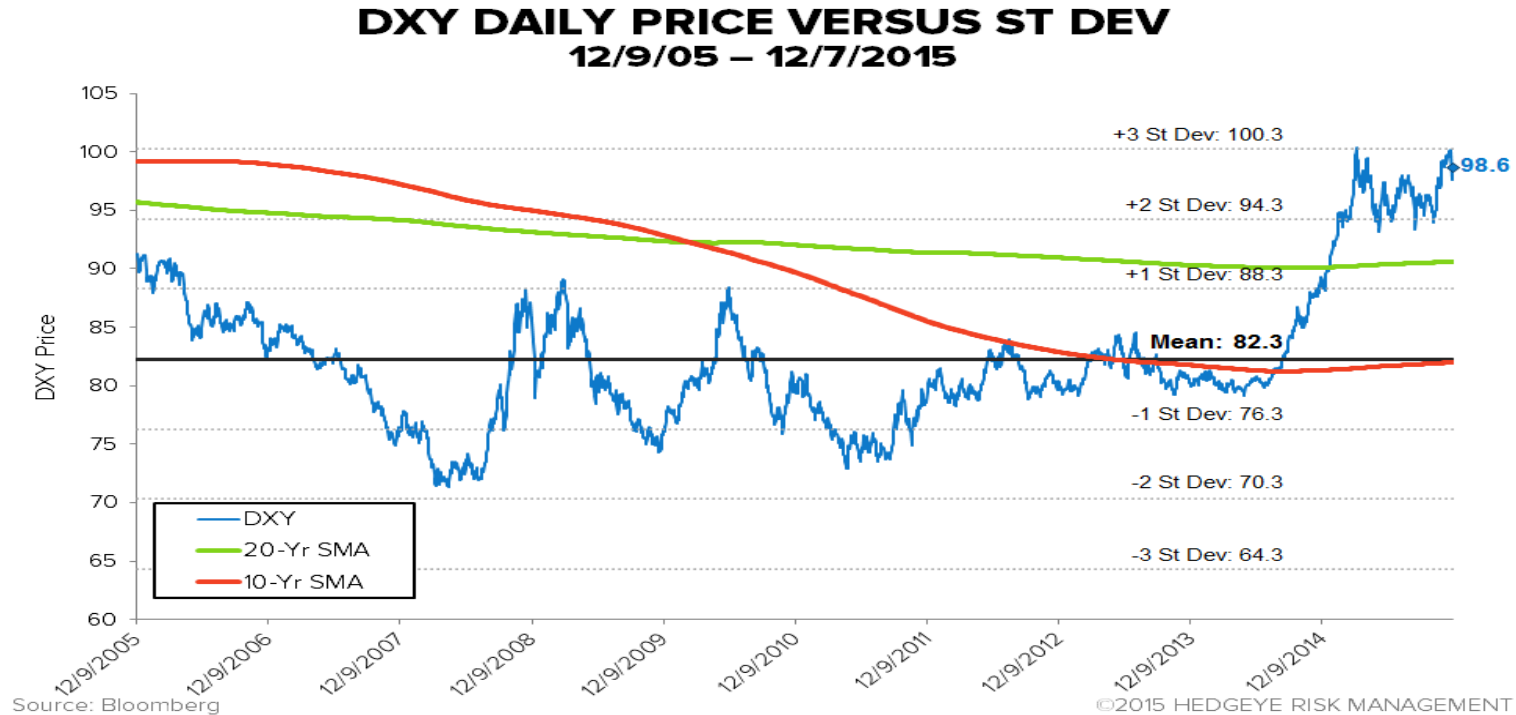
FUNDAMENTALS ...

				Average Annual Returns ¹ as of 9/30/2015							
				Total Return NAV (%)				Market Price (%)			
Fund	Ticker	Exp. Ratio	Inception Date	1-Yr.	3-Yr.	5-Yr.	Since Fund Inception	1-Yr.	3-Yr.	5-Yr.	Since Fund Inception
WisdomTree LargeCap Dividend Fund	DLN	0.28%	6/16/2006	-2.78%	10.07%	12.57%	6.07%	-2.83%	10.07%	12.55%	6.04%
S&P 500 Index				-0.61%	12.40%	13.34%	6.96%	-0.61%	12.40%	13.34%	6.96%
Russell 1000 Value Index				-4.42%	11.59%	12.29%	5.54%	-4.42%	11.59%	12.29%	5.54%
WisdomTree MidCap Dividend Fund	DON	0.38%	6/16/2006	1.80%	14.03%	13.81%	8.01%	1.85%	14.06%	13.80%	8.07%
S&P MidCap 400 Index				1.40%	13.12%	12.93%	8.42%	1.40%	13.12%	12.93%	8.42%
Russell Midcap Value Index				-2.07%	13.69%	13.15%	7.34%	-2.07%	13.69%	13.15%	7.34%
WisdomTree Japan Hedged Equity Fund ³	DXJ	0.48%	6/16/2006	2.49%	20.74%	10.17%	2.14%	3.16%	21.22%	10.16%	2.27%
Spliced Cap-Weighted Index Benchmark ⁵				6.76%	25.81%	12.75%	2.93%	6.76%	25.81%	12.75%	2.93%
WisdomTree Europe Hedged Equity Fund	HEDJ	0.58%	12/31/2009	0.10%	12.02%	7.24%	6.12%	0.21%	11.74%	7.05%	6.14%
Spliced Cap-Weighted Index Benchmark ¹³				2.94%	12.41%	7.65%	6.48%	2.94%	12.41%	7.65%	6.48%

NOT COMPELLING

The fundamental methodology is not compelling as of yet.

THE DOLLAR

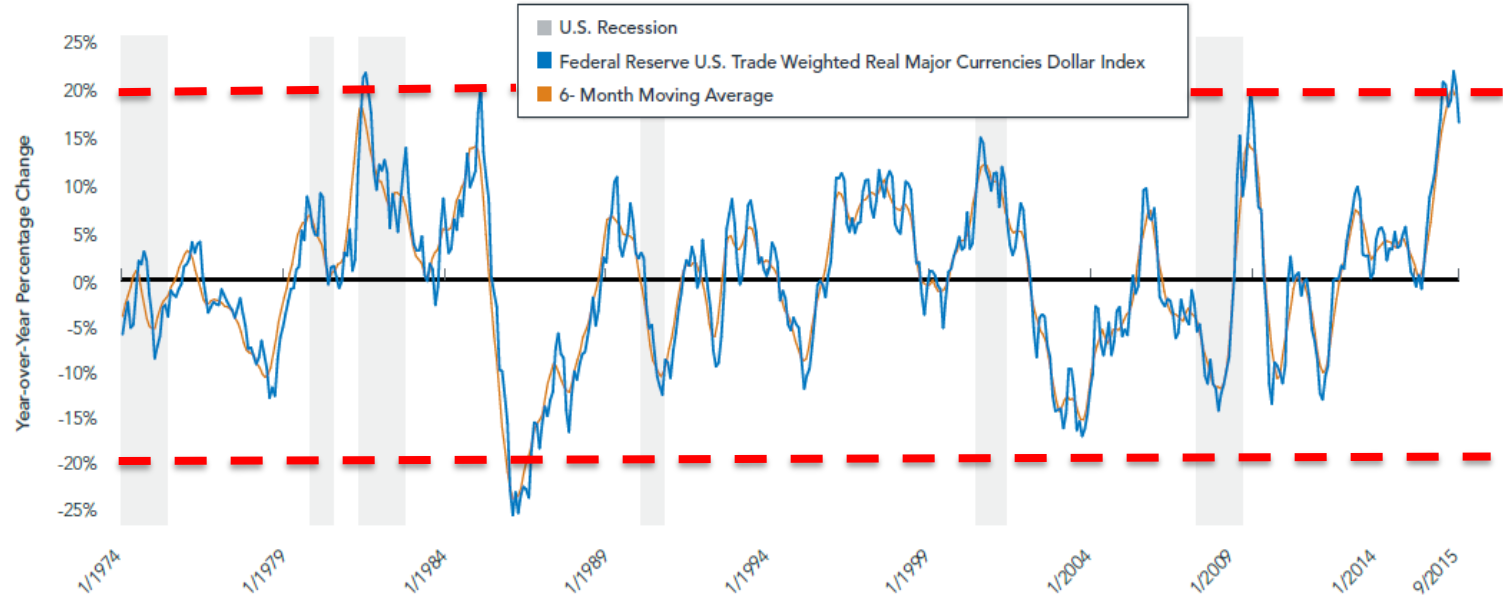


THE DOLLAR HAS HAD A BIG MOVE

The dollar is verging on a 3 standard deviation move over 10 years.

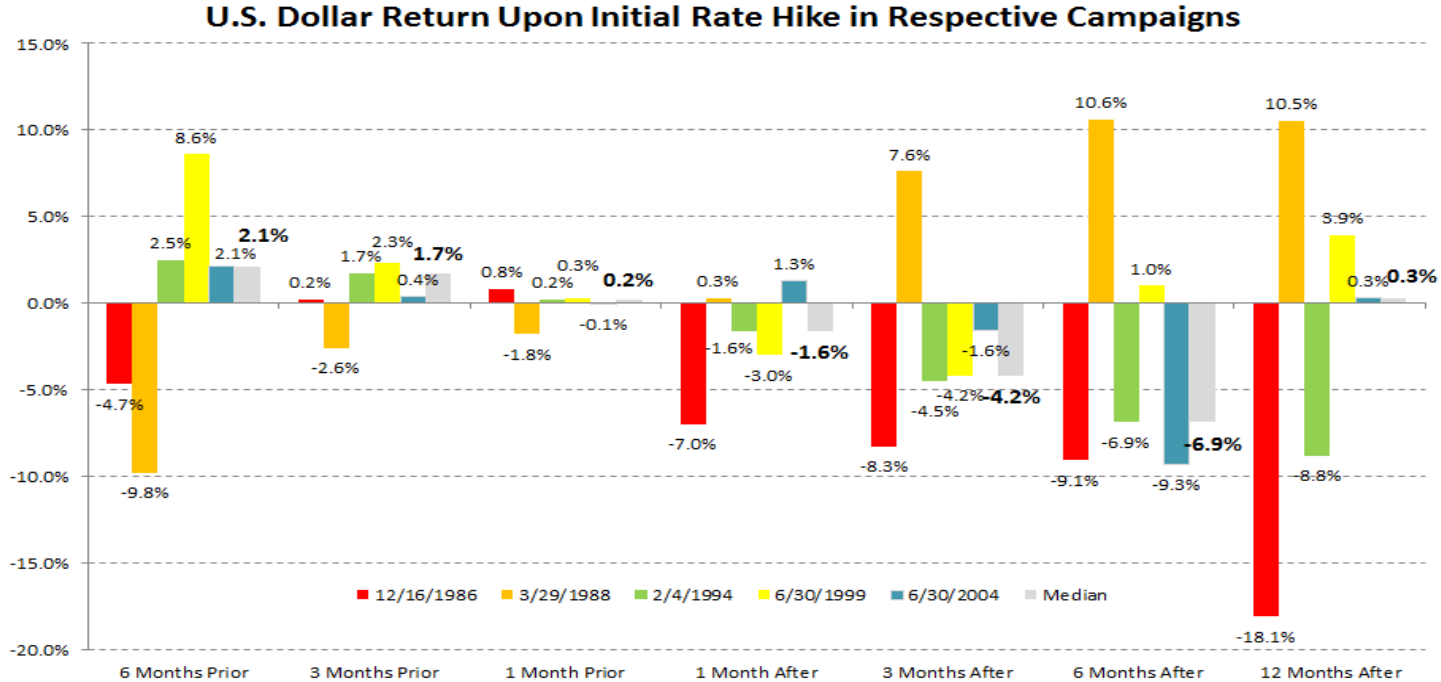
THE DOLLAR

FIGURE 1: U.S. DOLLAR REAL EFFECTIVE EXCHANGE RATE (REER) YEAR-OVER-YEAR RATE OF CHANGE



THE DOLLAR HAS HAD A BIG MOVE

Year-over-year rate of change in the dollar is hitting its +20% resistance levels.



IS THE RATE HIKE ALREADY PRICED IN?

The dollar has historically priced in rate hikes ahead of time, and then sold off afterwards.

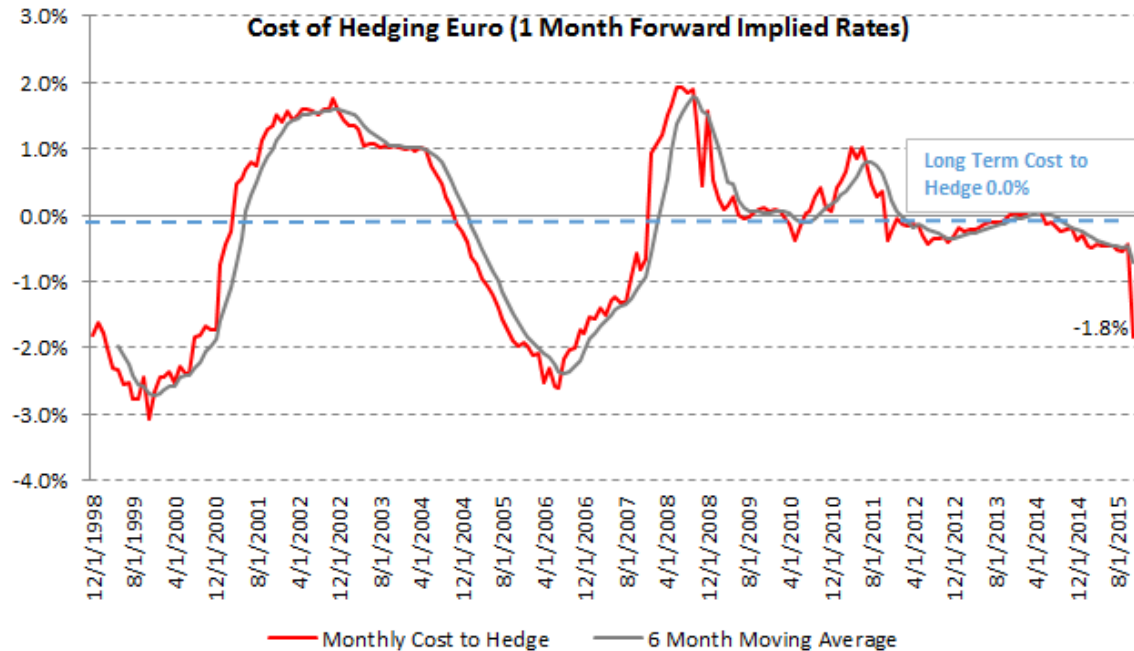
HOW DOES IT WORK?

- **The currency hedge is implemented with short positions in 1-month forward contracts versus the U.S. dollar**
 - Currency forward contracts rebalanced monthly-- notional principle equals assets in funds
- **Intra-month adjustments of currency hedge:**
 - Creation/redemption offers natural time to adjust currency hedge positions
- **Cost of Hedging currencies are a function of two primary drivers:**
 - Difference in 1-month interest rates between the United States and Country of potential hedged currency (the current differential is minimal).
 - Liquidity (the bid/ask spread) of the forwards. JPY/USD (Yen/Dollar), EUR/USD (Euro/Dollar) and GBP/USD (British Pound/Dollar) are three of the most liquid markets for forward contracts.
- **Taxation of forward contracts**
 - If gains arise from the forward hedge, they are taxed as 40% short-term and 60% long-term capital gains
 - If losses arise, they can be carried forward in accordance with Internal Revenue Service rules to potentially offset future gains.

THE MECHANICS

The mechanics of the hedged product – we see some volatility ahead.

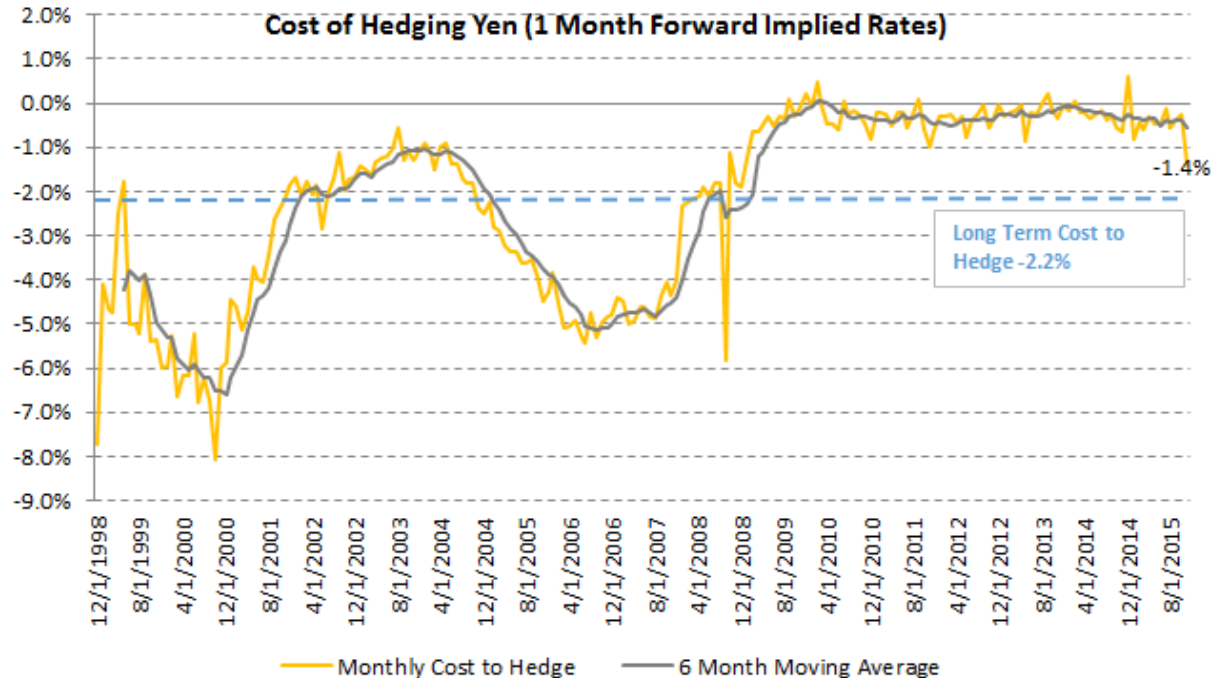
HEDGE COSTS - HEDJ



THE MECHANICS

Euro hedging currently results in a credit but there are several points in time where it hasn't.

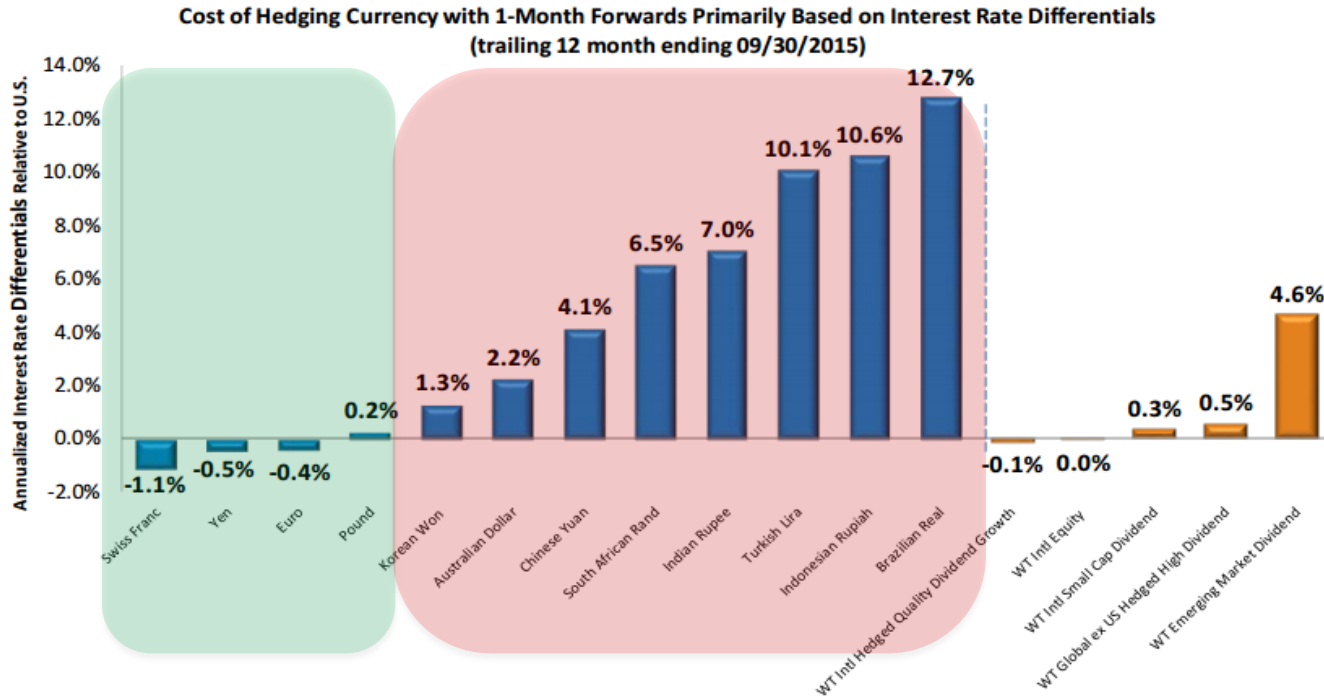
HEDGE COSTS - DXJ



THE MECHANICS

The Japanese FX hedge is more consistent – in fact the credit amount is historically small currently.

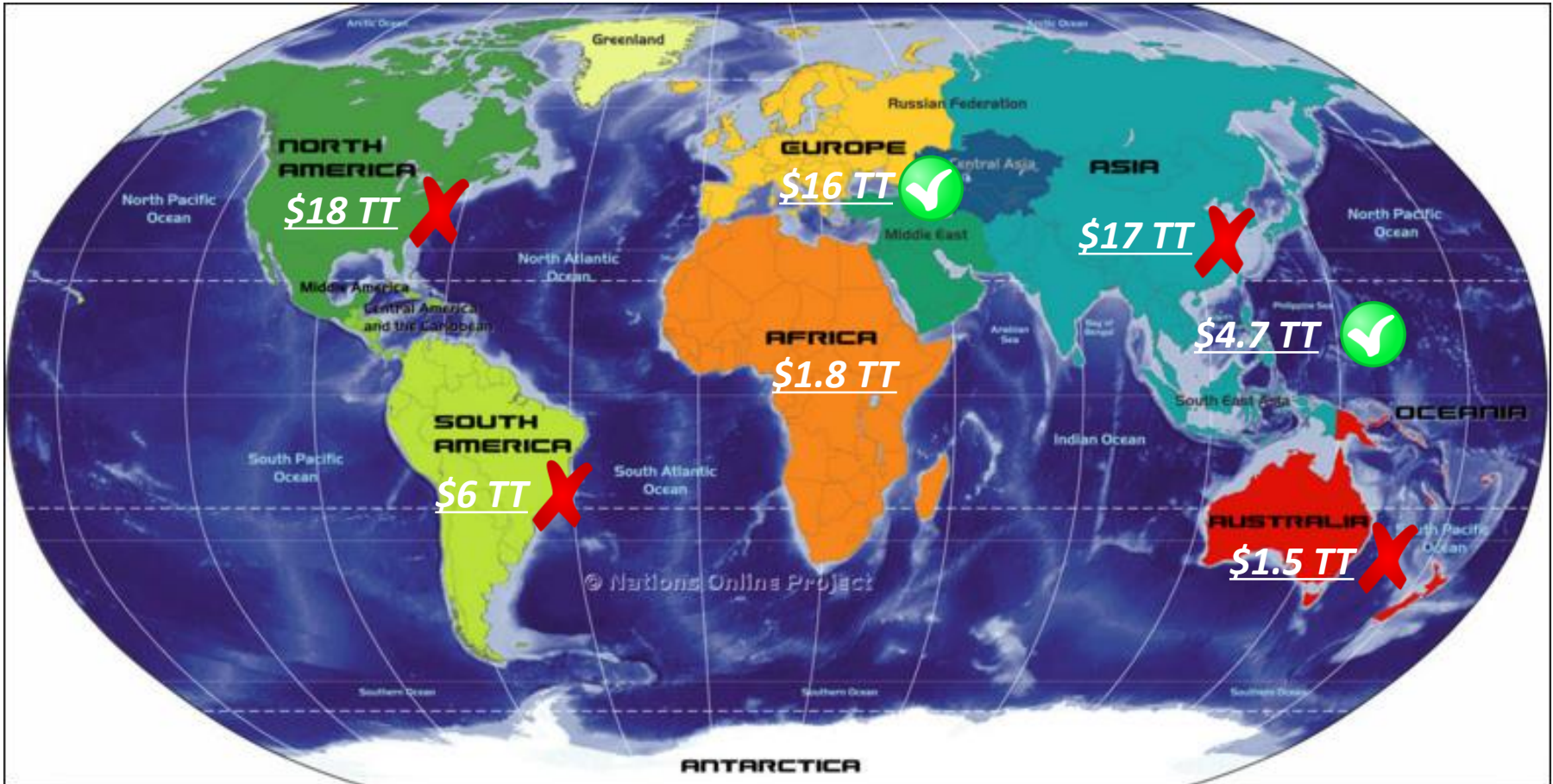
HEDGE COSTS BY COUNTRY



THE REST OF THE WORLD IS MORE EXPENSIVE

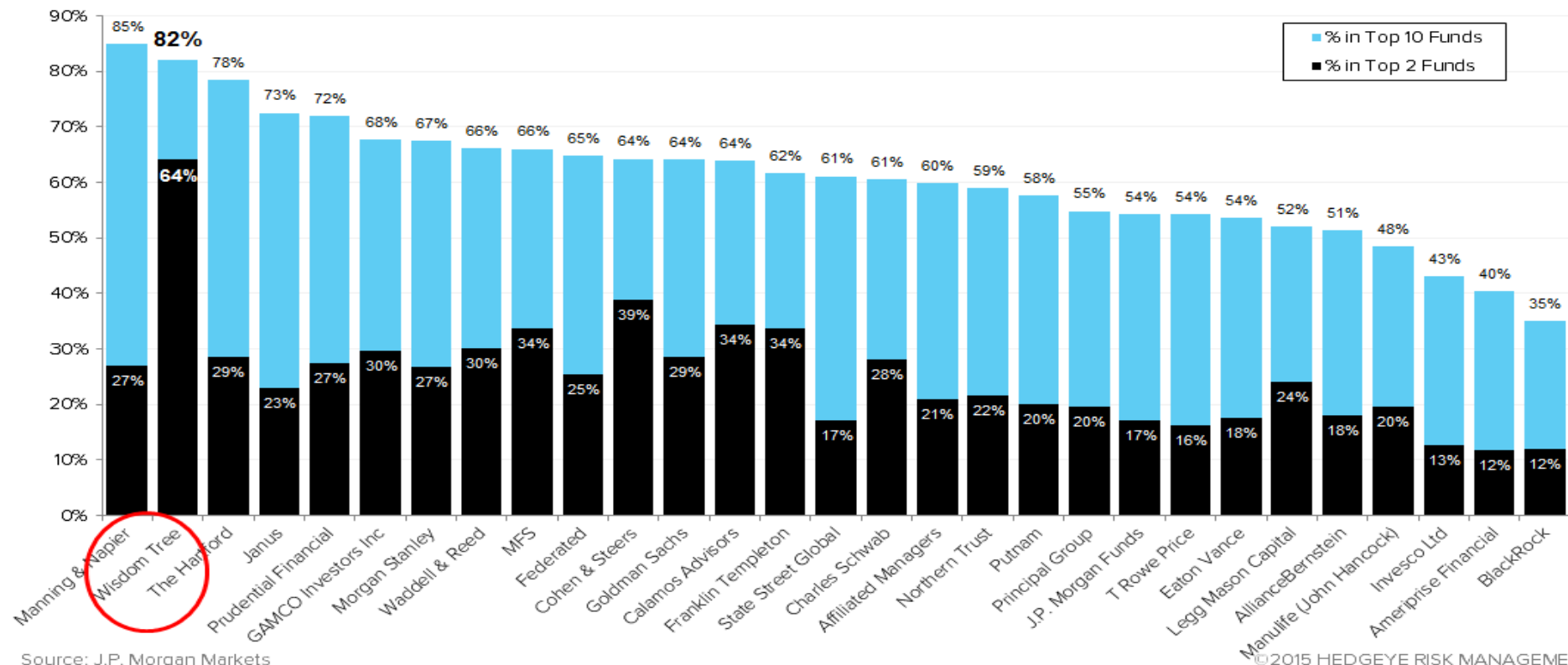
A global perspective on the cost to hedge outlines the potential for FX hedged products.
Only a few work currently.

RUNNING OUT OF RELEVANT MARKETS



CONCENTRATION RISK

CONCENTRATION RISK
% of AUM in Top 2 and Top 10 Funds, by Manager



Source: J.P. Morgan Markets

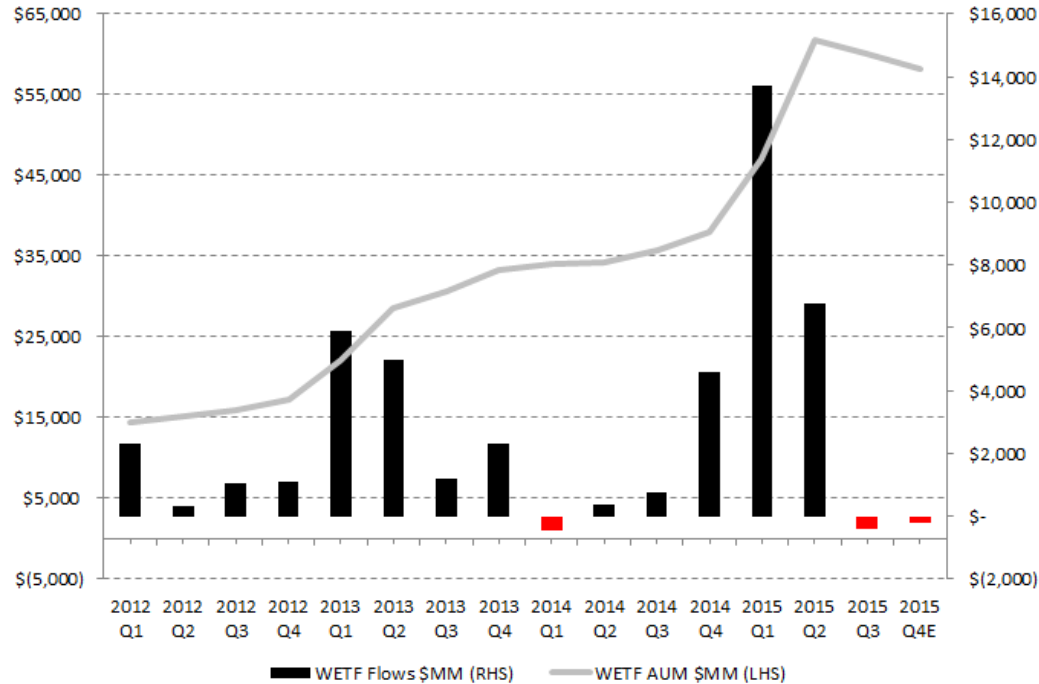
©2015 HEDGEYE RISK MANAGEMENT

ONLY 3 OUTFLOWS SINCE 2006

U.S. Net Inflows		Market Share	Market Movement	AUM
Industry	WisdomTree			
(in billions)	(in millions)		(in millions)	(in millions)
Q2 06	\$ 24.6 \$ 347	1.4%	\$ 18	\$ 365
Q3 06	\$ 5.3 \$ 212	4.0%	\$ 23	\$ 600
Q4 06	\$ 34.1 \$ 849	2.5%	\$ 75	\$ 1,523
Q1 07	\$ 14.3 \$ 1,475	10.3%	\$ 85	\$ 3,083
Q2 07	\$ 17.4 \$ 771	4.4%	\$ 146	\$ 4,001
Q3 07	\$ 48.1 \$ 405	0.8%	\$ 41	\$ 4,446
Q4 07	\$ 70.8 \$ 310	0.4%	\$ (198)	\$ 4,559
Q1 08	\$ 8.8 \$ 136	1.5%	\$ (399)	\$ 4,296
Q2 08	\$ 13.7 \$ 756	5.5%	\$ (307)	\$ 4,746
Q3 08	\$ 81.5 \$ (15)	0.0%	\$ (655)	\$ 4,075
Q4 08	\$ 73.2 \$ 30	0.0%	\$ (925)	\$ 3,180
Q1 09	\$ (2.5) \$ 23	NA	\$ (428)	\$ 2,776
Q2 09	\$ 38.2 \$ 281	0.7%	\$ 606	\$ 3,663
Q3 09	\$ 27.1 \$ 559	2.1%	\$ 680	\$ 4,902
Q4 09	\$ 53.7 \$ 911	1.7%	\$ 166	\$ 5,979
Q1 10	\$ 7.0 \$ 582	8.3%	\$ 152	\$ 6,713
Q2 10	\$ 30.9 \$ 121	0.4%	\$ (594)	\$ 6,240
Q3 10	\$ 33.4 \$ 1,161	3.5%	\$ 859	\$ 8,260
Q4 10	\$ 46.7 \$ 1,271	2.7%	\$ 360	\$ 9,891

U.S. Net Inflows		Market Share	Market Movement	AUM
Industry	WisdomTree			
(in billions)	(in millions)		(in millions)	(in millions)
Q1 11	\$ 23.6 \$ 1,264	5.4%	\$ 129	\$ 11,284
Q2 11	\$ 29.2 \$ 1,699	5.8%	\$ (49)	\$ 12,934
Q3 11	\$ 20.9 \$ 179	0.9%	\$ (1,929)	\$ 11,184
Q4 11	\$ 43.9 \$ 756	1.7%	\$ 242	\$ 12,182
Q1 12	\$ 53.2 \$ 2,299	4.3%	\$ 1,210	\$ 15,691
Q2 12	\$ 25.0 \$ 338	1.4%	\$ (1,025)	\$ 15,004
Q3 12	\$ 51.8 \$ 1,036	2.0%	\$ 743	\$ 16,783
Q4 12	\$ 55.4 \$ 1,059	1.9%	\$ 444	\$ 18,286
Q1 13	\$ 52.2 \$ 5,893	11.3%	\$ 924	\$ 25,103
Q2 13	\$ 15.4 \$ 4,962	32.2%	\$ (1,090)	\$ 28,975
Q3 13	\$ 53.7 \$ 1,160	2.2%	\$ 1,217	\$ 31,352
Q4 13	\$ 58.6 \$ 2,308	3.9%	\$ 1,224	\$ 34,884
Q1 14	\$ 14.5 \$ (502)	NA	\$ (498)	\$ 33,884
Q2 14	\$ 57.7 \$ 334	0.6%	\$ 1,282	\$ 35,500
Q3 14	\$ 48.8 \$ 748	1.5%	\$ (425)	\$ 35,823
Q4 14	\$ 119.7 \$ 4,496	3.8%	\$ (1,038)	\$ 39,281
Q1 15	\$ 55.5 \$ 13,520	24.4%	\$ 2,957	\$ 55,758
Q2 15	\$ 41.4 \$ 6,598	15.9%	\$ (1,057)	\$ 61,299
Q3 15	\$ 44.3 \$ (661)	NA	\$ (7,591)	\$ 53,047

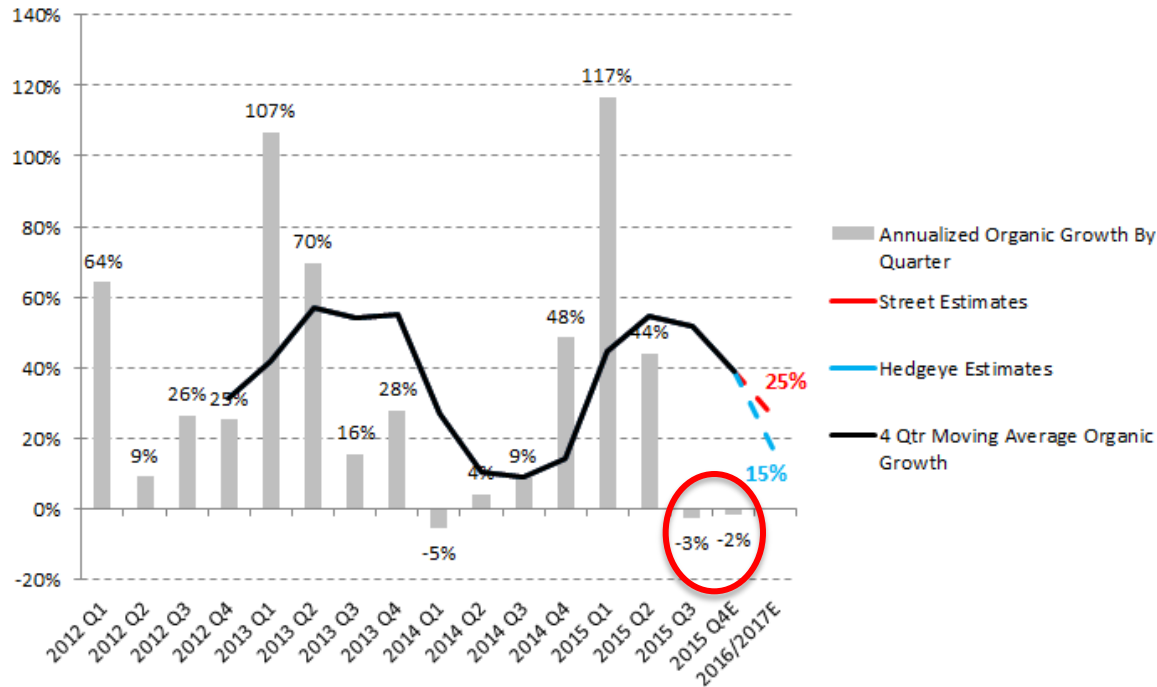
TWO IN A ROW



GROWTH IS SLOWING

AUM put in its high in 2Q15. The last two quarters have seen redemption or outflow.

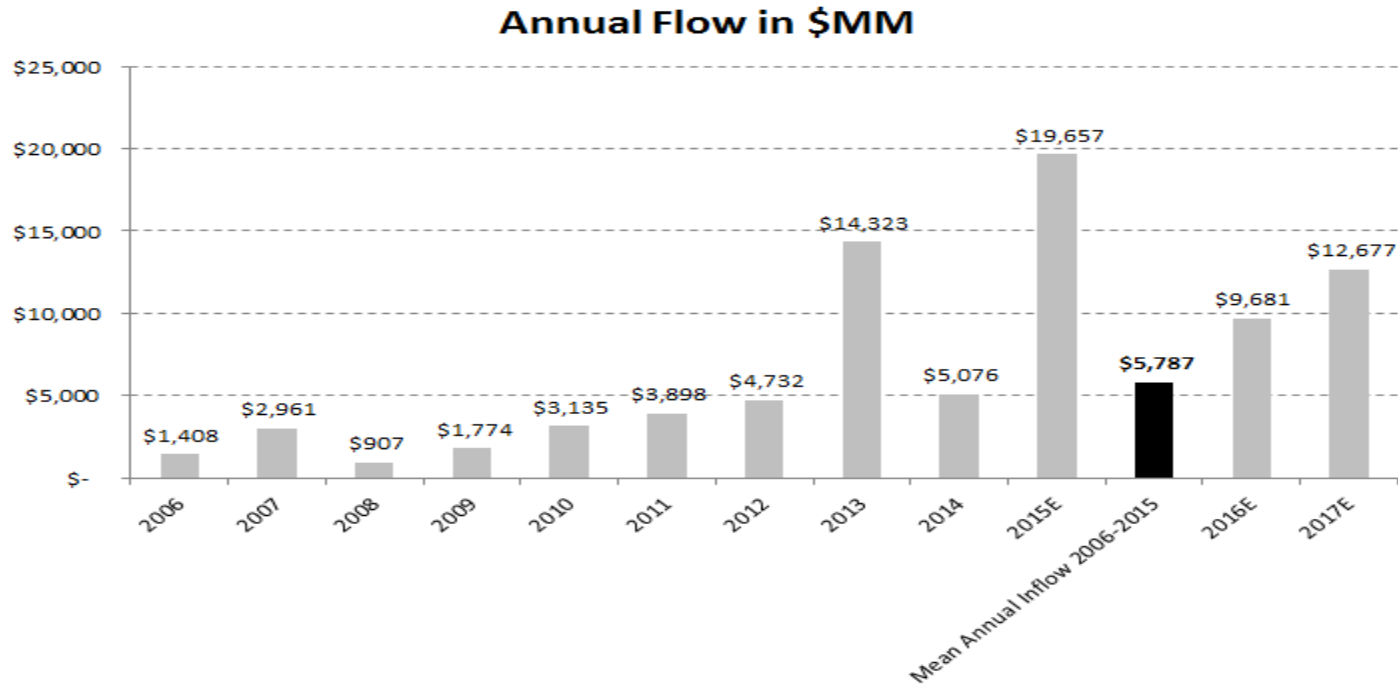
SLOWING GROWTH



SLOWING GROWTH IS TOUGH FOR A GROWTH STOCK

Annualized organic growth is working on the second negative quarter in a row and the 4-Quarter moving average is trending lower.

WHY IS 15% GROWTH RIGHT?



ACROSS CYCLE SUBSCRIPTIONS HAVE AVERAGED \$5+ BILLION ANNUALLY

Assuming some continued momentum we have modeled +\$9 and +12 billion for '16 and '17 but are still well below the Street

BELOW THE STREET

		Market Returns							
		15%	10%	6%	0%	-2%	-8%	-15%	
Organic Growth	35%	\$ 1.37	\$ 1.27	\$ 1.20	\$ 1.09	\$ 1.06	\$ 0.97	\$ 0.87	
	25%	\$ 1.18	\$ 1.11	\$ 1.03	\$ 0.94	\$ 0.91	\$ 0.83	\$ 0.74	
	15%	\$ 1.01	\$ 0.94	\$ 0.88	\$ 0.80	\$ 0.78	\$ 0.71	\$ 0.63	
	5%	\$ 0.87	\$ 0.80	\$ 0.75	\$ 0.68	\$ 0.66	\$ 0.60	\$ 0.54	
	0%	\$ 0.80	\$ 0.74	\$ 0.70	\$ 0.63	\$ 0.61	\$ 0.55	\$ 0.49	
	-5%	\$ 0.74	\$ 0.68	\$ 0.64	\$ 0.58	\$ 0.51	\$ 0.49	\$ 0.45	
	-10%	\$ 0.68	\$ 0.63	\$ 0.59	\$ 0.54	\$ 0.52	\$ 0.47	\$ 0.42	

\$ 0.97 Street Consensus Estimates for '17

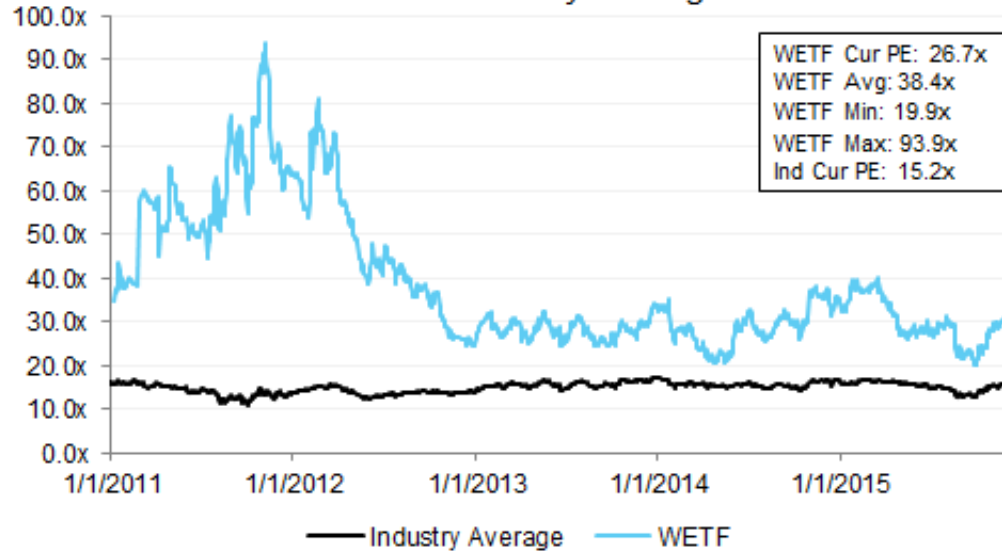
\$ 0.79 Hedgeye Estimates for '17

OUR FRAMEWORK FOR THE NUMBERS

Our earnings estimate is -20% below the street.

THIN AIR

WisdomTree Historical NTM PE
Versus Industry Average



Source: FactSet

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STILL EXPENSIVE

The stock has come off of its 40x forward multiple but still trades near 30x moving into 2016.

CLUSTERED SELLING HAS PRECEDED INVESTABLE DROPS IN THE STOCK – NOVEMBER 2015 WAS THE MOST RECENT



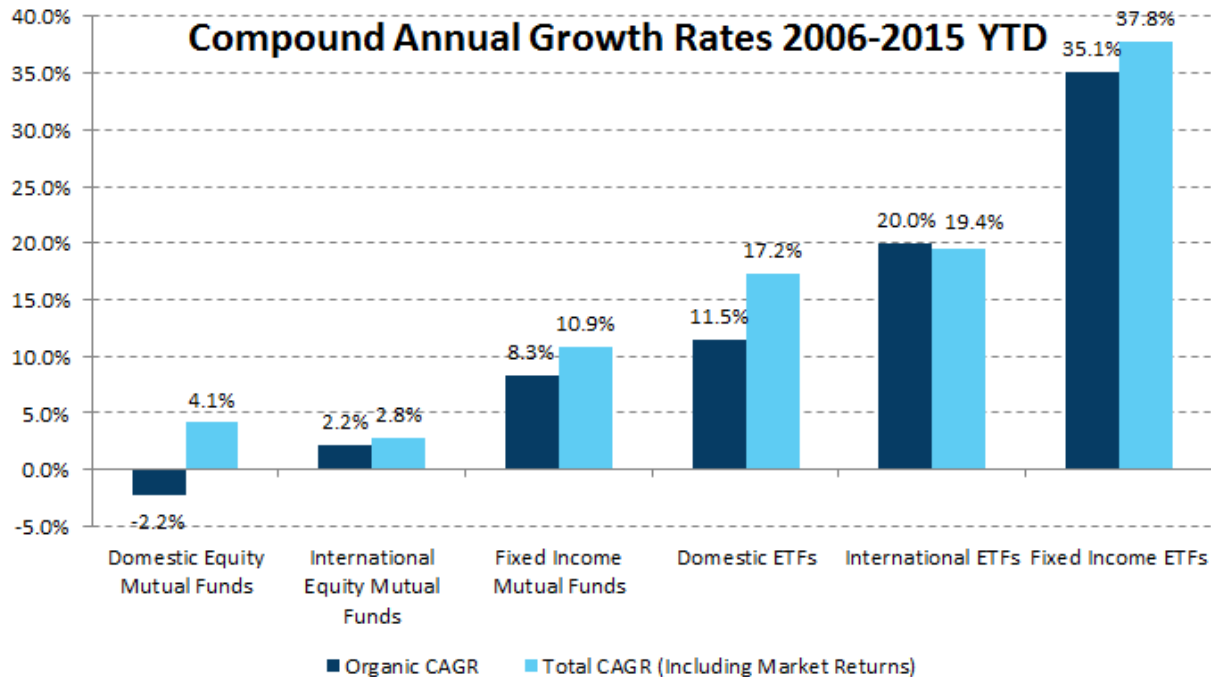
RISKS

ETF	Mutual Fund
Daily and continuous pricing	Forward pricing
Exchange traded	Fund redemption at day's end
No tax effect of trading on shareholders	Large redemptions may cause capital gains distributions for non-redeeming fund shareholders
In-kind redemption reduces shareholder tax liability	Fund managers limited in their ability to manage taxes due to cash redemptions
Limit, stop limit orders, short selling allowed	No limit order pricing or short selling permitted
May be purchased and sold on margin	No margin trades allowed
Lower expense ratios as client services born by brokerage firms	Expenses tend to be higher due to sales loads
May be purchased in any brokerage account	Fund availability depends on existence of selling agreements with the broker/dealer
Brokerage commissions applicable	No-load funds purchased directly have no transaction costs, load funds through a broker often have sales charge or commission

ETF'S ARE BETTER

Risks to the upside: ETFs continue to gain share with material advantages vs the mutual fund structure.

RISKS



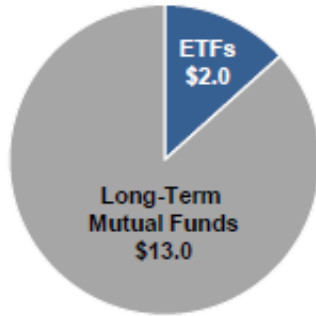
ETF'S ARE GROWING

ETF growth CAGRs are impressive versus the fund industry, which barely grows.

RISKS

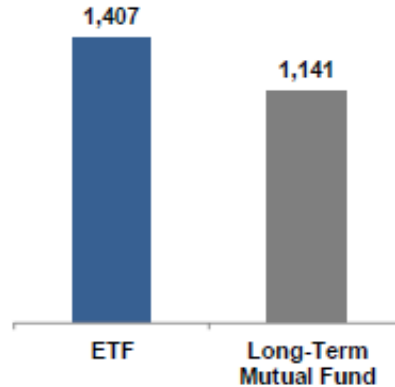
Assets Under Management

(\$ trillions)



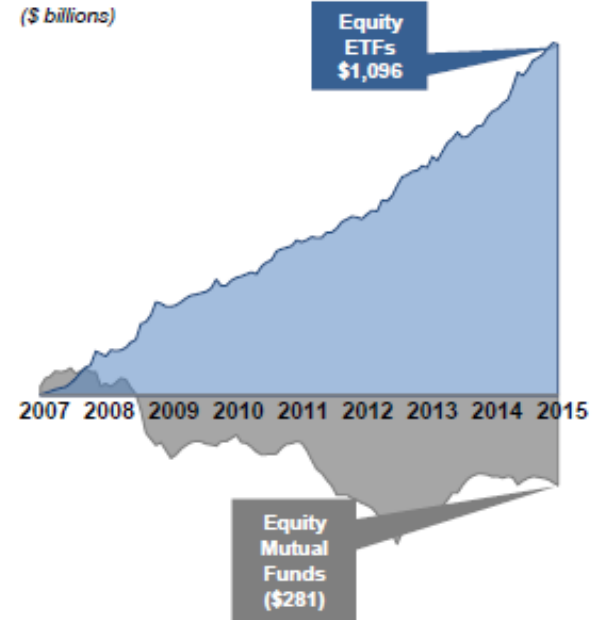
Cumulative Flows Since 2007

(\$ billions)



Cumulative Equity Flows Since 2007

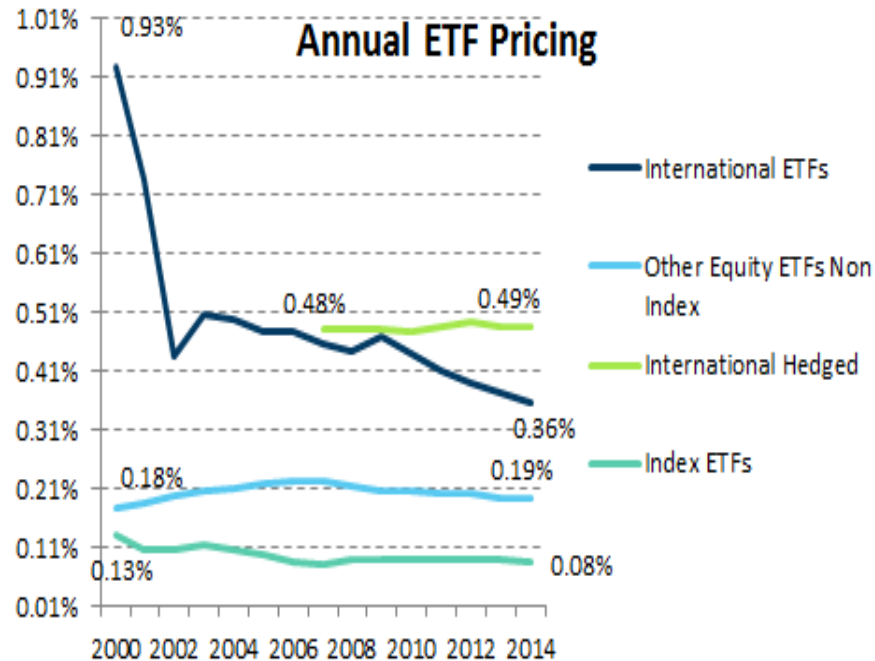
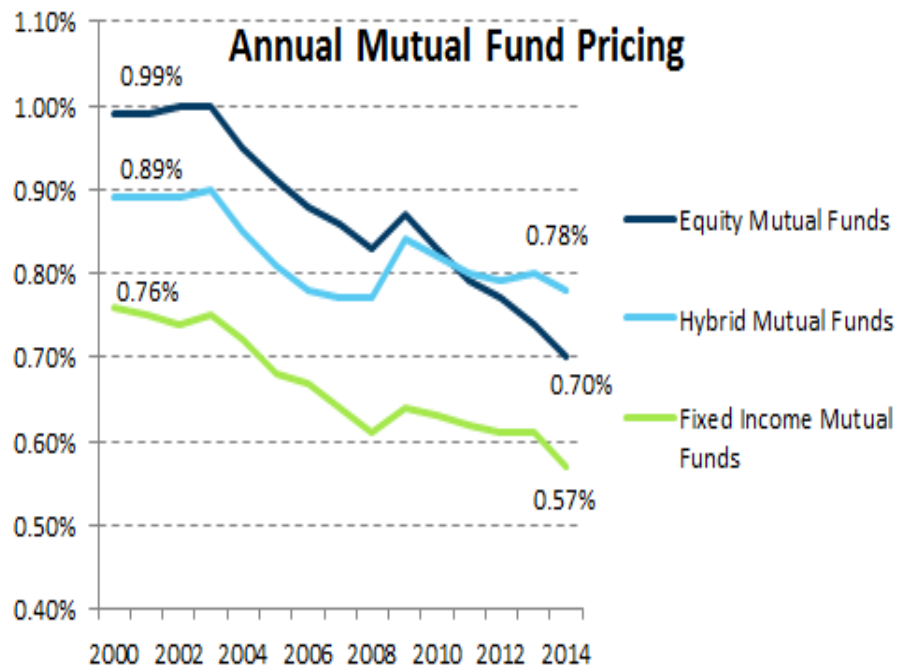
(\$ billions)



ETF'S ARE GAINING SHARE

The ETF category is gaining significant market share relative to the traditional mutual fund category.

THAT BEING SAID ...

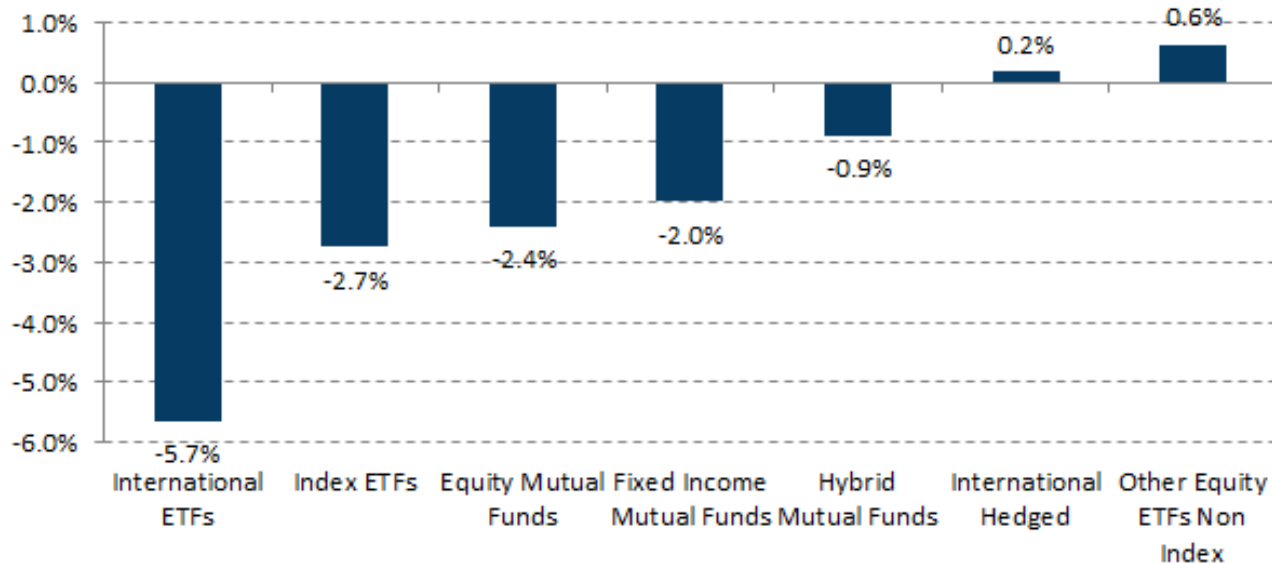


ETF'S ARE SEEING SOME PRICING PRESSURE AS WELL

Pricing on both sides of the aisle has come down, even on the ETF side.

THAT BEING SAID ...

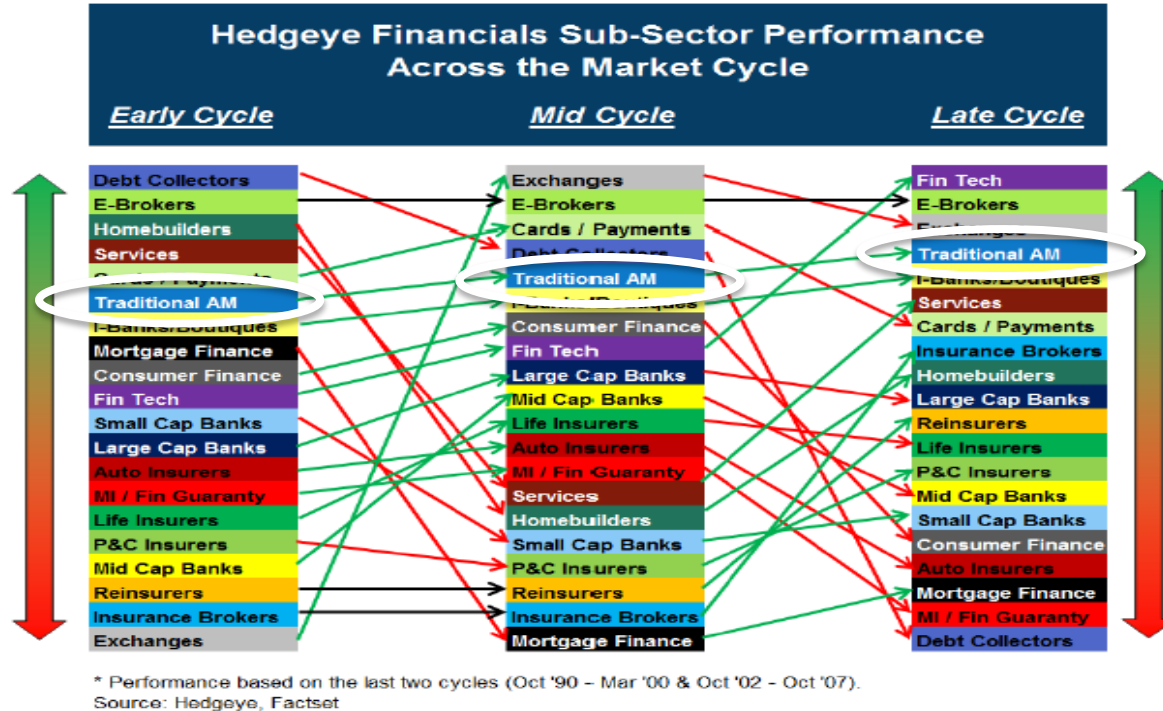
**Average Annual Pricing ETFs & Mutual Funds
2000-2014**



ETF'S ARE SEEING SOME PRICING PRESSURE AS WELL

Certain categories of ETFs are now in fierce battles on pricing.

RISKS



STABILITY

All things considered, the asset managers have historically been steady performers across cycle.

ANOTHER RISK - THE FIRM IS A TAKEOUT CANDIDATE

Buyer Name/ Target Name	Announcement	Deal Value \$MM	Deal Value/ Revenue (x)	Deal Value/ Earnings (x)	Transaction Value/ EBITDA (x)	Deal Value/ Assets Managed (%)
BlackRock, Inc./ Barclays Global Investors business	6/11/2009	\$ 13,010	NA	NA	7.1	0.87%
BlackRock, Inc./ Merrill Lynch Investment Managers, LP	2/15/2006	\$ 9,487	5.47	24.0	NA	1.76%
T. Rowe Price Group, Inc./ UTI Asset Management	11/9/2009	\$ 6,500	NA	21.6	NA	NA
Madison Dearborn Partners LLC/ Nuveen Investments, Inc.	6/19/2007	\$ 5,760	7.83	27.7	14.9	3.47%
Merrill Lynch & Co., Inc./ Mercury Asset Management Group Plc	11/19/1997	\$ 5,257	NA	NA	NA	2.98%
Power Corporation of Canada/ Putnam LLC	1/31/2007	\$ 3,900	2.82	NA	NA	2.03%
Legg Mason, Inc./ Asset management business	6/24/2005	\$ 3,700	2.68	35.9	NA	NA
Allianz Aktiengesellschaft Holding/ PIMCO Advisors Holdings LP	10/31/1999	\$ 3,216	5.03	23.0	NA	1.82%
Lehman Brothers Holdings Inc./ Neuberger Berman Inc.	7/21/2003	\$ 2,947	5.08	26.8	12.0	5.24%
Deutsche Bank AG/ Zurich Scudder Investments Inc.	12/4/2001	\$ 2,500	NA	NA	NA	0.97%
Reliance Capital Ltd./ Goldman Sachs's mutual fund business	10/21/2015	\$ 2,430	NA	NA	NA	3.41%
Prudential Financial, Inc./ CIGNA retirement business	11/17/2003	\$ 2,103	NA	NA	NA	4.04%
MetLife, Inc./ Administradora de Fondos	2/1/2013	\$ 2,025	5.20	10.3	7.6	4.47%
Allianz/ Nicholas-Applegate	10/7/2000	\$ 1,920	NA	NA	NA	4.27%
Mellon Bank Corporation/ Dreyfus Corporation (The)	12/5/1993	\$ 1,870	5.27	19.2	NA	2.36%
Caisse des Depots/ Nvest LP and Nvest Companies LP	6/16/2000	\$ 1,869	2.87	18.6	10.5	1.40%
TIAA-CREF/ Windy City Investments, Inc.	4/14/2014	\$ 1,767	2.18	23.7	16.0	0.80%
Nationwide Mutual Insurance Company/ Gartmore Investment Management Plc	5/1/2000	\$ 1,642	NA	NA	NA	1.92%
Invesco PLC/ AIM Management Group Inc.	11/4/1996	\$ 1,630	4.36	16.8	8.8	2.85%
CITIC Securities Company Limited/ China Asset Management Co. Ltd.	5/31/2013	\$ 1,600	NA	26.6	NA	NA
Royal Bank of Canada/ BlueBay Asset Management plc	10/18/2010	\$ 1,543	NA	NA	NA	3.86%
Man Group Plc/ GLG Partners, Inc.	5/17/2010	\$ 1,522	3.84	NM	NM	6.43%
Investor group/ China Cinda Asset Management Company Limited	4/13/2015	\$ 1,521	NA	0.1	NA	4.16%
State Street Corporation/ Part of Global Securities Services	11/5/2002	\$ 1,499	NA	NA	NA	NA
Old Mutual Plc/ United Asset Management Corp.	6/19/2000	\$ 1,439	1.72	22.3	4.6	0.71%
Invesco Ltd./ Retail asset management business	10/19/2009	\$ 1,388	NA	NA	NA	1.17%
Principal Mutual Holding Company/ Bankers Trust Australia Group	6/17/1999	\$ 1,386	NA	NA	NA	5.33%
UniCredito Italiano SpA/ Pioneer Group Inc.	5/15/2000	\$ 1,230	5.12	NM	NA	5.04%
Ameriprise Financial, Inc./ Columbia Management	9/30/2009	\$ 1,200	NA	NA	NA	0.73%
Sumitomo Trust/ Nikko Asset Management Co., Ltd	7/29/2009	\$ 1,189	NA	NA	NA	1.47%
Investor group/ Russell Capital Inc.	10/8/2015	\$ 1,150	NA	NA	NA	0.43%
Affiliated Managers Group, Inc./ Pantheon Ventures Inc.	2/10/2010	\$ 1,000	NA	NA	NA	5.35%

Median Consideration Value	4.7x	22.7x	9.7x	2.6%
Max Consideration Value	7.8x	35.9x	16.0x	6.4%

TAKEOUT RISK

	Revenue	EPS	EBITDA	Price to AUM
<i>Median Consideration Value</i>	4.70x	22.66x	9.65x	2.61%
<i>Max Consideration Value</i>	7.83x	35.92x	15.97x	6.43%

	Revenue \$MM	EPS	EBITDA \$MM	AUM \$MM
2017 Hedgeye Estimates	\$ 359	\$ 0.79	\$ 183	\$ 72,601

Implied Valuation on Median Multiples	\$ 12.49	\$ 17.90	\$ 13.08	\$ 14.01
Implied Valuation on Max Multiples	\$ 20.82	\$ 28.38	\$ 21.65	\$ 34.58

Current Stock Price **\$17.62**

	<i>Implied Upside/Downside</i>			
Implied Upside/Downside on Median Multiples	-29%	2%	-26%	-20%
Implied Upside/Downside on Max Multiples	18%	61%	23%	96%

QUANTIFYING THE TAKEOUT RISK

WETF shares are currently trading above median take out multiples. We've also included the max multiples paid since 1993 for reference. On revenue & EBITDA, there is 18-23% upside, and on EPS and AUM there is 61-96%.

ON SECOND THOUGHT

Sweden/Riksbank Flip Flop

January 4, 2008 through November 30, 2015



RATE HIKES HAVEN'T HAD MUCH STAYING POWER AROUND THE WORLD

Sweden is just one example of a central bank reversing course relatively soon after beginning a tightening campaign.

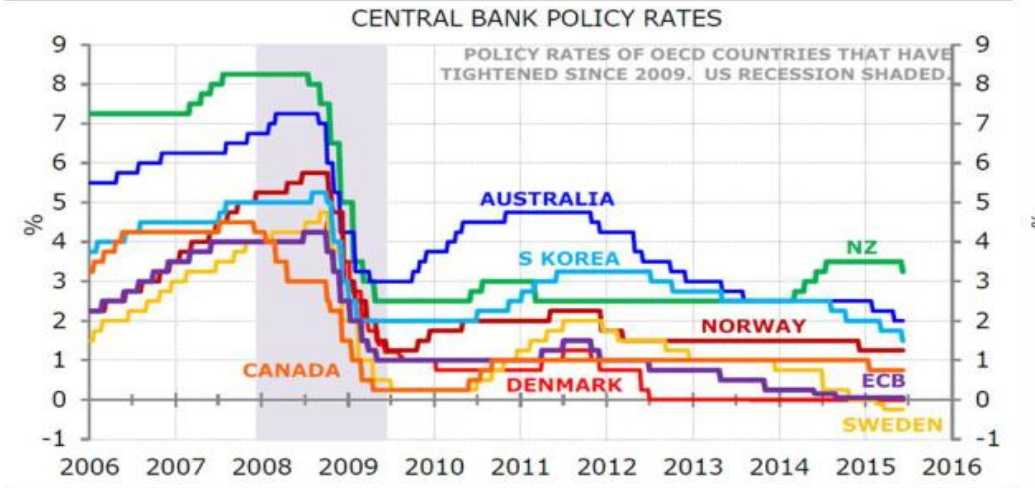
SWEDEN'S NOT ALONE

Central Bank Policy Rates

January 1, 2006 through May 31, 2015



Full Retreat



Source: Bloomberg, NBER; Minack Advisors

RATE HIKES HAVEN'T HAD MUCH STAYING POWER AROUND THE WORLD

Many central banks including Australia, South Korea, and the aforementioned Sweden backed off hikes ~16 months (median) after commencing liftoff.

HERE TODAY, GONE TOMORROW



CATEGORIES ROTATE IN AND OUT OF FASHION

Incidentally, as a reminder, even category killers including organic trends in food and beverages hit air pockets of re-valuation from time to time.

THESIS: TOO MUCH RELIANCE ON “TWO” FEW PRODUCTS

1

CONCENTRATION RISK

The firm has the highest concentration risk in the sector to its two main products: HEDJ and DXJ. Both of these products, however, underperform benchmark in local terms and thus the main value proposition is that FX hedges offset their beta construction weaknesses.

2

BANKING ON THE U.S. DOLLAR

We see risk in modeling the dollar's recent ascent on a go-forward basis as the U.S. currency has put in a +3 sigma move within a 10 year period and has hit a +20% Y/Y RoC, a key resistance level. Our research shows that the dollar appreciates before rate hikes but declines after them. Lastly, a dearth of cheap FX hedges outside the Yen and Euro is a headwind to new product introduction.

3

THE REST OF THE FRANCHISE IS IN DECAY

WETF used to rely solely on its EM and fixed income products, but those are now in double digit decline. Outside of the two important international hedged products the franchise is decaying AUM by -4% Y/Y. Our EPS estimates are -25% below the Street and we would need to see improved fundamentals to get more constructive.

FOR MORE INFORMATION, CONTACT US AT:

SALES@HEDGEYE.COM

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