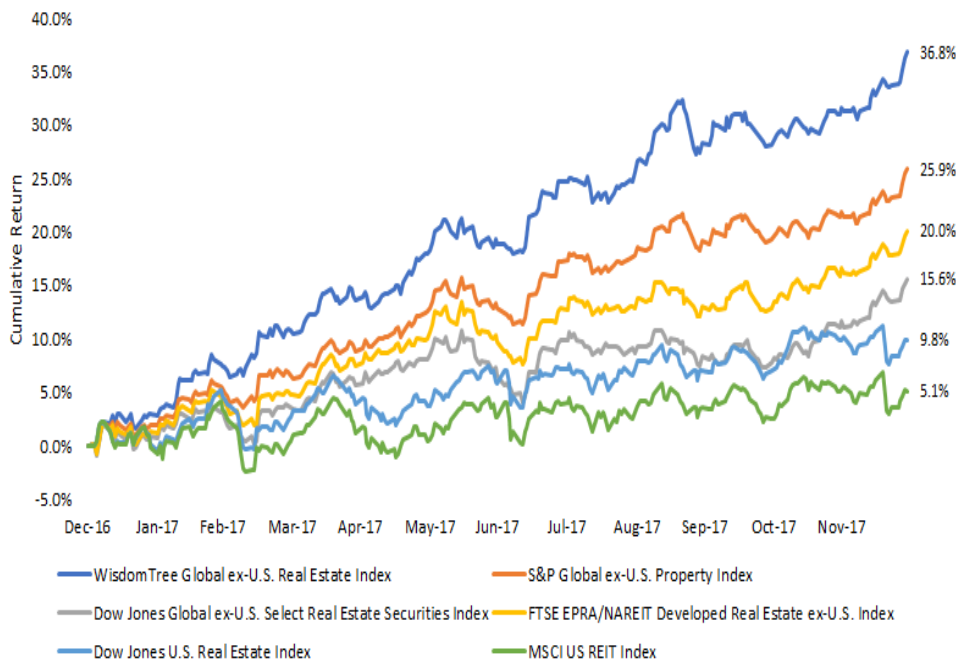


GLOBAL EX-U.S. REAL ESTATE GOES ON A 2017 RUN

Christopher Gannatti – Global Head of Research
01/31/2018

One of the best performing WisdomTree strategies in 2017 was the [WisdomTree Global ex-U.S. Real Estate Index](#)—which was up nearly 37% last year.¹

Global ex-U.S. Real Estate Broadly Outperforms U.S. Real Estate in 2017



Sources: WisdomTree, Bloomberg, with data for the period 12/31/16–12/31/17. You cannot invest directly in an index. Past performance is not indicative of future results. 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.

Please visit our [glossary](#) for definitions of indexes in the chart.

- **China as a Critical Driver:** One of the most powerful factors in global markets in 2017 has been the performance of China. Within the WisdomTree Global ex-U.S. Real Estate Index, almost 30% of the nearly 37% return that we’ve seen has been driven by China, which, with an 8.2% average weight, has delivered a return greater than 180%.²

- **WisdomTree Already Has Trimmed Exposure to China:** Many might look at that number and assume that they have missed the rally—triple-digit returns rarely repeat themselves in short order. WisdomTree’s approach has been based on following [fundamentals](#) rather than share price performance (and hence increased [market capitalization](#)). As a result of the Sept. 30, 2017, Index screening, the weight allocated to China dropped by about 8%.³ That emphasizes a natural, annual discipline to shift weight away from price performance that has extended furthest beyond the fundamentals.

Investors Have Grown Comfortable with the Outperformance of U.S. Real Estate over Global ex-U.S. Real Estate

When the argument is made for global diversification of equities, an index such as the [MSCI ACWI Investable Market Index](#) is frequently cited and people are reminded that only about 50% to 52% of the weight is in the United States—even if many U.S. investors far exceed this with their inherent “[home bias](#).”⁴

Although it’s done far less often, those thinking about real estate can undergo a similar exercise, taking the [FTSE EPRA/NAREIT United States Index](#) and the [FTSE EPRA/NAREIT Global ex-U.S. Index](#)⁵.

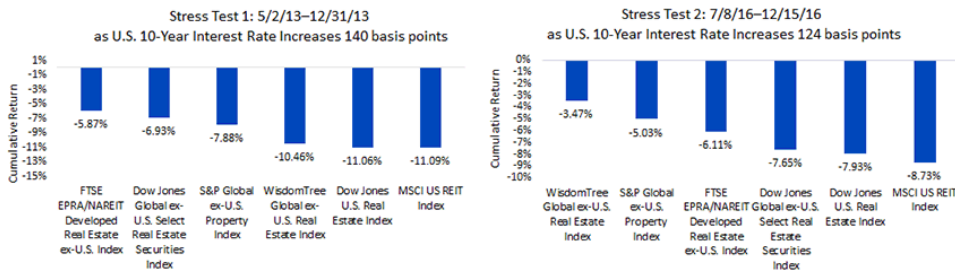
- The FTSE EPRA/NAREIT United States Index had a market capitalization of \$820 billion.
- The FTSE EPRA/NAREIT Global ex-U.S. Index had a market capitalization of \$1.4 trillion.

On a percentage basis, this tells us that almost two-thirds of the global real estate opportunity is outside of the United States—but we’d ask how many investors have any non-U.S. dedicated real estate exposure within their asset allocations.

Achilles’ Heel of Real Estate: Rising Rates

Now, we recognize that we can’t write about real estate as an asset class without addressing the 800-pound gorilla in the room—the fact that interest rates have been very low for an extended period and that they may be headed higher. We couldn’t say exactly how much higher or how quickly the changes could occur, but the past few years could be used to provide some interesting “stress tests” of what may happen.

We’ve Seen a Few Periods Where the U.S. 10-Year Interest Rate Has Risen Significantly—and Fast!

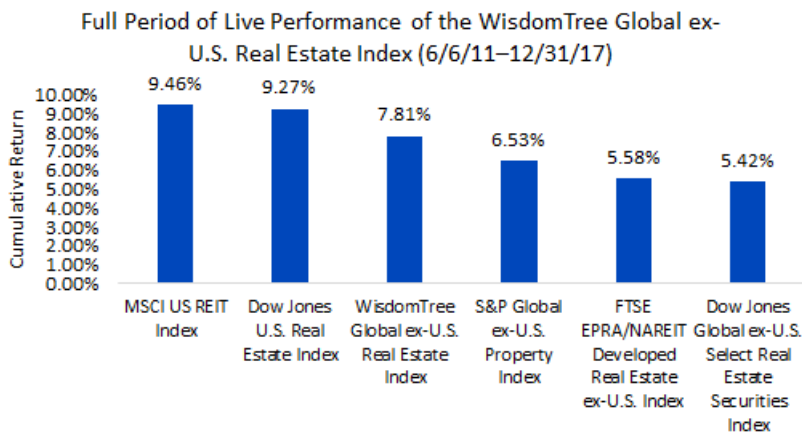


Sources: WisdomTree, Bloomberg. The WisdomTree Global ex-U.S. Real Estate Index began live calculation on 6/6/11. You cannot invest directly within an index. Past performance is not indicative of future results. A fund or portfolio may differ significantly from the securities included in the index. Index 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.

Please visit our [glossary](#) for definitions of indexes in the chart.

- **Stress Test 1:** During this period, it was very difficult for any strategy that had significant exposure to emerging market assets, as the term “taper tantrum” could ring a bell. The wisdomTree Global ex-U.S. Real Estate Index does tend to be overweight in emerging markets real estate relative to the other non-U.S. real estate indexes shown. However, even with this disadvantage, all of the non-U.S. real estate indexes outperformed the two U.S. real estate indexes shown.
- **Stress Test 2:** This period, while seeing a big increase in the [U.S. 10-Year Treasury](#) interest rate, saw much better emerging market performance. The wisdomTree Index lost the least over this period, while, notably, the two U.S. real estate indexes shown again lost the most.

U.S. Real Estate May Have Outperformed Recently, but Non-U.S. Held Its Own in a Strong Dollar Environment



Sources: WisdomTree, Bloomberg. The WisdomTree Global ex-U.S. Real Estate Index began live calculation on 6/6/11. You cannot invest directly within an index. 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.

Please visit our [glossary](#) for definitions of indexes in the chart.

- Since the WisdomTree Index's inception, the 10-Year U.S. Treasury interest rate declined by about 58 basis points, and the U.S. trade-weighted dollar appreciated by about 3.5% per year. These factors give the advantage to the two U.S. real estate indexes shown—and they've delivered strong performance, to be sure. However, the WisdomTree Global ex-U.S. Real Estate Index wasn't that far behind, especially considering that dollar appreciation tends to be a direct headwind. If we enter into a period where rates tend to rise and the dollar tends to be flat to even a bit weaker, that could shift conditions more in favor of non-U.S. real estate.

WisdomTree's Global ex-U.S. Real Estate Toolkit

Things such as interest rates and the dollar have ebbed and flowed in distinct trends that, while difficult to forecast exactly, have tended to repeat themselves over time. Along this line, WisdomTree has created two strategies to address this:

- The [WisdomTree Global ex-U.S. Real Estate Fund \(DRW\)](#), designed to track the performance of the WisdomTree Global ex-U.S. Real Estate Index, the WisdomTree Index discussed in this piece.
- The [WisdomTree Global ex-U.S. Hedged Real Estate Fund \(HDRW\)](#), designed to track the performance of the [WisdomTree Global ex-U.S. Hedged Real Estate Index](#). This Index neutralizes the impact of the performance of the U.S. dollar against foreign currencies, but it has been live only since September 1, 2015, so it was not shown within the analysis of this piece.

¹Source: Bloomberg, with data for the period 12/31/16–12/31/17.

²Source for full bullet list: Bloomberg, with data for the period 12/31/16–12/31/17.

³Sources: WisdomTree, Standard & Poor's. Data is measured as of the 930/17 Index screening date. Approximately 6% of the reduction in weight concerned adjustments for [free float](#) and 2% was due to price and dividend movements.

⁴Sources: WisdomTree, Bloomberg, with data as of 12/31/17.

⁵Source for bullets: Bloomberg, with data as of 12/31/17.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier such as the Middle East are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Investments in real estate involve additional special risks, such as credit risk, interest rate fluctuations and the effect of varied economic conditions. Funds focusing their investments on certain sectors companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

The Fund uses various strategies to attempt to minimize the impact of changes in applicable foreign currencies against the U.S. dollar, which may not be successful.

Investments in derivative investments can be volatile, may be less liquid than securities and may be more sensitive to the effect of varied economic conditions. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Funds' prospectuses for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

MSCI ACWI Investable Market Index: The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across developed and emerging markets that measures approximately 99% of the global equity investment opportunity set.

Home Bias: A term in behavioral finance referring to the tendency for investors to have a preference for domestic market investments.

FTSE EPRA/NAREIT United States Index: Contains publicly quoted U.S. real estate companies that meet the EPRA ground rules.

FTSE EPRA/NAREIT Global ex US Index: The FTSE EPRA/NAREIT Global ex US Index is a market capitalization-weighted index consisting of the most heavily traded real estate stocks all over the world except the USA.

10- Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

free-floating: an exchange rate regime whereby the value of the currency is determined by supply and demand against other currencies.