WisdomTree Investments, Inc.
Form 10-K
March 01, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________.

Commission File Number 001-10932

WisdomTree Investments, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3487784**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
245 Park Avenue, 35th Floor New York, New York	**10167**
(Address of principal executive offices)	**(Zip Code)**

212-801-2080

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $0.01 par value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At June 30, 2018, the aggregate market value of the registrant s Common Stock held by non-affiliates (computed by reference to the closing sale price of such shares on the NASDAQ Global Select Market on June 29, 2018) was $1,190,612,875. At February 21, 2019, there were 155,147,904 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant s definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2019, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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WISDOMTREE INVESTMENTS, INC.

Form 10-K

For the Fiscal Year Ended December 31, 2018

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Unless otherwise indicated, references to "the Company," "we," "us," "our" and "WisdomTree" mean WisdomTree Investments, Inc. and its subsidiaries.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Report, contains forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continue or the negative of these tern comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect our results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed in the section entitled Risk Factors and elsewhere in this Report. If one or more of these or other risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report and the documents that we reference in this Report and have filed with the Securities and Exchange Commission, or the SEC, as exhibits to this Report, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

In particular, forward-looking statements in this Report may include statements about:

- anticipated trends, conditions and investor sentiment in the global markets and exchange traded products, or ETPs;
- anticipated levels of inflows into and outflows out of our ETPs;
- our ability to deliver favorable rates of return to investors;
- competition in our business;
- our ability to develop new products and services;
- our ability to maintain current vendors or find new vendors to provide services to us at favorable costs;
- our ability to successfully manage our business in non-U.S. markets; and

- the effect of laws and regulations that apply to our business.

The forward-looking statements in this Report represent our views as of the date of this Report. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this Report.

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PART I

ITEM 1. BUSINESS

Our Company

We are the only publicly-traded asset management company that focuses exclusively on exchange-traded products, or ETPs, and are one of the leading ETP sponsors in the world based on assets under management, or AUM, with AUM of $54.1 billion globally as of December 31, 2018. An ETP is a pooled investment vehicle that holds a basket of securities, financial instruments or other assets and generally seeks to track (index-based) or outperform (actively managed) the performance of a broad or specific equity, fixed income or alternatives market segment, commodity or currency (or an inverse or multiple thereof). ETPs are listed on an exchange with their shares traded in the secondary market at market prices, generally at approximately the same price as the net asset value of their underlying components. ETP is an umbrella term that includes exchange-traded funds, or ETFs, exchange-traded notes and exchange-traded commodities.

Our family of ETFs includes funds that track our own indexes, funds that track third-party indexes and actively managed funds. Most of our equity-based funds employ a fundamentally weighted investment methodology, which weights securities based on factors such as dividends or earnings, whereas most other ETF industry indexes use a capitalization weighted methodology. Our broad regulatory exemptive relief enables us to use our own indexes for certain of our ETFs and actively manage other ETFs. We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisers and institutional investors.

We focus on creating ETFs for investors that offer thoughtful innovation, smart engineering and redefined investing. We have launched many first-to-market ETFs in the United States and pioneered alternative weighting and performance methods commonly referred to as smart beta. However, our U.S. listed ETFs are not beta, but rather an investment innovation we call Modern Alpha. Our Modern Alpha approach combines the outperformance potential of active management with the benefits of passive management to offer investors cost-effective ETFs that are built to perform.

We strive to deliver a better investing experience through innovative solutions. Continued investments in technology-enabled services and the launch of our Advisor Solutions program in October 2017, which includes portfolio construction, asset allocation, practice management services and wealth management technology via the AdvisorEngine platform, have been made to differentiate us in the market, expand our distribution and further enhance our relationships with financial advisors.

We were incorporated under the laws of the state of Delaware on September 19, 1985 as Financial Data Systems, Inc.

Our Operating and Financial Results

We operate as an ETP sponsor and asset manager providing investment advisory services globally. These activities are reported in our U.S. Business and International Business segments. Our international segment includes our European business and our Canadian business.

In April 2018, we acquired the European exchange-traded commodity, currency and short-and-leveraged business, or ETFS, of ETFS Capital Limited, or ETFS Capital. Throughout this report, we refer to the acquired business as ETFS and the acquisition as the ETFS Acquisition. ETFS had approximately $17.6 billion of AUM as of April 10, 2018.

Following the ETFS Acquisition we became the largest global independent ETP provider based on AUM, with significant scale and presence in the U.S. and Europe, the two largest ETP markets.

U.S. Business Segment

Our U.S. listed ETFs AUM decreased from $46.8 billion at December 31, 2017 to $35.5 billion at December 31, 2018 due to net outflows primarily from our two largest U.S. listed ETFs, the WisdomTree Europe

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Hedged Equity Fund, or HEDJ, and the WisdomTree Japan Hedged Equity Fund, or DXJ, and market depreciation. These decreases were partly offset by net inflows into certain of our U.S. listed ETFs (including within our fixed income, U.S. equity, emerging markets and alternative strategy ETFs).

International Business Segment

Our international ETFs AUM increased from $2.1 billion at December 31, 2017 to $18.6 billion at December 31, 2018 primarily due to the $17.6 billion of AUM acquired in connection with the ETFS Acquisition and net inflows, partly offset by market depreciation.

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Consolidated Operating Results

The following table sets forth our revenues and net income for the last three years. Prior period amounts previously disclosed have been reclassified to conform with our current presentation. These reclassifications had no effect on previously reported net income.

Revenues We recorded operating revenues of $274.1 million during the year ended December 31, 2018, up 20.1% from the year ended December 31, 2017 primarily due to the ETFS Acquisition, partly offset by lower average AUM of our U.S. Business segment.

Expenses Total operating expenses increased 18.8% from the year ended December 31, 2017 to $212.8 million primarily due to expenses associated with the ETFS acquired business, higher acquisition-related costs and higher third-party distribution fees. These expenses were partly offset by lower compensation expense in our U.S. Business segment.

Other Income/(Expenses) Other income/(expense) includes interest income and interest expense, gains/(losses) on revaluation of deferred consideration, impairment charges and other gains and losses.

Net income Net income increased 34.7% from the year ended December 31, 2017 to $36.6 million.

Seasonality

We believe seasonal fluctuations in the asset management industry are common, however such trends are generally masked by global market events and market volatility in general. Therefore, period to period comparisons of ours or the industry s flows and operating results may not be meaningful or indicative of results in future periods.

Assets Under Management

WisdomTree ETPs

A significant portion of our AUM historically has been held in ETFs that invest in foreign securities. Therefore, our AUM and revenues are affected by movements in global capital markets and the strengthening or weakening of the U.S. dollar against other currencies. Over the last three years, concentrations in our two largest ETFs, HEDJ, our European equity ETF which hedges exposure to the euro, and DXJ, our Japanese equity ETF which hedges exposure to the yen have declined dramatically. Negative investor sentiment toward these products has led to net outflows of $23.8 billion during this timeframe and our concentrations in these two products were reduced from 42% on January 1, 2016 to 14% at December 31, 2018. While reduced, our exposure to these two

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ETFs remains significant and therefore the strengthening of the euro or yen against the U.S. dollar, the decline in European or Japanese equity markets, or political or other market risks in either of these markets, may have an adverse effect on our results.

The chart below sets forth the asset mix of our ETPs for the last three years:

The ETFS Acquisition diversified our investment theme concentrations by adding commodity exposures, predominantly gold, that historically have been negatively correlated with our two largest U.S. listed ETFs, HEDJ and DXJ. While, we therefore may experience improved stability of AUM and lower overall AUM volatility, we can provide no assurance that this will be the case.

Our Industry

An ETF is an investment fund that holds securities such as equities or bonds and/or other assets such as derivatives or commodities, and generally trades at approximately the same price as the net asset value of its underlying components over the course of the trading day. ETFs offer exposure to a wide variety of asset classes and investment themes, including domestic, international and global equities, and fixed income securities, as well as securities in specific industries and countries. There are also ETFs that track certain specific investments, such as commodities, real estate or currencies.

We believe ETPs, the vast majority of which are comprised of ETFs, have been one of the most innovative investment products to emerge in the last two decades in the asset management industry. As of December 31, 2018, there were approximately 8,200 ETPs in globally with aggregate AUM of $4.8 trillion.

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The chart below reflects the AUM of the global ETP industry since 2002:

Source: BlackRock

As of December 31, 2018, we were the twelfth largest ETP sponsor globally based on AUM.

Source: Morningstar

ETFs have become more popular among a broad range of investors as they come to understand the benefits of ETFs and use them for a variety of purposes and strategies, including low cost index investing and asset allocation, access to specific asset classes, protective hedging, income generation, arbitrage opportunities and diversification.

While ETFs are similar to mutual funds in many respects, they have some important differences as well:

- ***Transparency***. ETFs disclose the composition of their underlying portfolios on a daily basis, unlike mutual funds, which typically disclose their holdings every 90 days.

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Intraday trading, hedging strategies and complex orders. Like stocks, ETFs can be bought and sold on exchanges throughout the trading day at market prices. ETFs update the indicative values of their underlying portfolios every 15 seconds. As publicly-traded securities, ETF shares can be purchased on margin and sold short, enabling the use of hedging strategies, and traded using limit orders, allowing investors to specify the price points at which they are willing to trade.

Tax efficiency. In the U.S., whenever a mutual fund or ETF realizes a capital gain that is not balanced by a realized loss, it must distribute the capital gain to its shareholders. These gains are taxable to all shareholders, even those who reinvest the gain distributions in additional shares of the fund. However, most ETFs typically redeem their shares through in-kind redemptions in which low-cost securities are transferred out of the ETF in exchange for fund shares in a non-taxable transaction. By using this process, ETFs can avoid the transaction fees and tax impact incurred by mutual funds that sell securities to generate cash to pay out redemptions.

Uniform pricing. From a cost perspective, ETFs are one of the most equitable investment products on the market. Investors in U.S. listed ETFs, regardless of their size, structure or sophistication, pay identical advisory fees. Unlike mutual funds, U.S. listed ETFs generally do not have different share classes or different expense structures for retail and institutional clients and ETFs typically are not sold with sales loads or 12b-1 fees. In many cases, ETFs offer lower expense ratios than comparable mutual funds.

ETFs are used in various ways by a range of investors, from conservative to speculative uses including:

Low cost index investing. ETFs provide exposure to a variety of broad-based indexes across equities, fixed income, commodities and other asset classes and strategies, and can be used as both long-term portfolio holdings or short-term trading tools. ETFs offer an efficient and less costly method by which to gain exposure to indexes as compared to individual stock ownership.

Improved access to specific asset classes. Investors often use ETFs to gain access to specific market sectors or regions around the world by investing in an ETF that holds a portfolio of securities in that region or segment rather gaining exposure by purchasing individual securities or physical commodities.

Asset allocation. Investors seeking to invest in various asset classes to develop an asset allocation model in a cost-effective manner can do so easily with ETFs, which offer broad exposure to various asset classes in a single security.

Protective hedging. Investors seeking to protect their portfolios may use ETFs as a hedge against unexpected declines in prices of securities arising from market movements and changes in currency and interest rates.

Income generation. Investors seeking to obtain income from their portfolios may buy fixed income ETFs that typically distribute monthly income or dividend-paying ETFs that encompass a basket of dividend-paying stocks rather than buying individual stocks.

Speculative investing. Investors with a specific directional opinion about a market sector may choose to buy or sell (long or short) an ETF covering or leveraging that market sector.

Arbitrage. Sophisticated investors may use ETFs to exploit perceived value differences between the ETF and the value of the ETF s underlying portfolio of securities.

Diversification. By definition, ETFs represent a basket of securities and each fund may contain hundreds or even thousands of different individual securities. The instant diversification of ETFs provides investors with broad exposure to an asset class, market sector or geography.

The asset management industry experienced a pullback in net flows from the prior year due to uncertainties arising from U.S. trade policies toward China and other trading partners, increases in interest rates and recessionary concerns. While the market backdrop had an adverse impact to the industry, the ETF sector continues to demonstrate that it is favored amongst investors. According to the Investment Company Institute, from January 1, 2016 through December 31, 2018, equity ETFs have generated positive inflows of approximately $743 billion while long-term equity mutual funds have experienced outflows of approximately $678 billion. In addition, ETF fixed income flows are benefiting from a broader range of investors gravitating toward fixed income products in the ETF structure. We believe this trend is due to the inherent benefits of ETFs transparency, liquidity and tax efficiency.

We believe our growth, and the growth of the ETF industry in general, will continue to be driven by the following factors:

Education and greater investor awareness. Over the last several years, ETFs have been taking a greater share of inflows and AUM from mutual funds. We believe investors have become more aware of some of the deficiencies of mutual funds and other financial products and are increasing their focus on important characteristics of their traditional investments namely transparency, tradability, liquidity, tax efficiency and fees. Their attention and education focused on these important investment characteristics may be one of the drivers of the shift in inflows from traditional mutual funds to ETFs. We believe as investors continue to become more aware and educated about ETFs and their benefits, ETFs will continue to take market share from traditional mutual funds and other financial products or structures such as hedge funds, separate accounts and individual stocks.

Move to fee-based models. In April 2016, the Department of Labor, or DOL, published its final rule to address conflicts of interest in retirement advice, commonly referred to as the Fiduciary Rule, and full compliance with the rule was required by July 1, 2019. However, in 2018, court rulings vacated the Fiduciary Rule. Even though the Fiduciary Rule was vacated, in response to preparing for compliance with the Fiduciary Rule, many financial advisors over the last several years have changed the revenue model that they charge clients from one that is transaction-based, that is, based on commissions for trades or receiving sales loads, to a fee-based approach, where an overall fee is charged based on the value of AUM. This fee-based approach lends itself to the adviser selecting no-load, lower-fee financial products, and in our opinion, better aligns advisers with the interests of their clients. Since ETFs generally charge lower fees than mutual funds, we believe this model shift, which we anticipate will remain in place even though the Fiduciary Rule was vacated, will benefit the ETF industry. As major brokerage firms and asset managers encourage their advisers to move towards fee-based models, we believe overall usage of ETFs likely will increase.

Innovative product offerings. Historically, ETFs tracked traditional equity indexes, but the volume of ETF growth has led to significant innovation and product development. As demand has increased, the number of ETFs also has increased and today, ETFs are available for virtually every asset class including fixed income, commodities, alternative strategies, leveraged/inverse, real estate and currencies. However, we believe that there remain substantial areas for ETF sponsors to continue to innovate, including alternative- and investment theme-based strategies, hard and soft commodities, and actively managed strategies. We also believe the further expansion of ETFs will fuel additional growth and investments from investors who typically access these products through hedge funds, separate accounts, stock investments or the futures and commodity markets.

New distribution channels. Online retail discount brokers now offer free trading and promotion of select ETFs. We believe the promotion of ETF trading by discount brokers and their marketing of ETFs and model portfolios to a wider retail channel, will contribute to the growth of ETFs. Additionally, digital wealth management is evolving and online tools and robo-advisors are gaining wider acceptance with retail investors to assist with investment decisions. These advisors are increasingly utilizing model portfolios, which we believe will also contribute to the growth of ETFs. Institutional investors such as pensions, endowments and even mutual funds are also increasing their use of ETFs as trading tools as well as core holdings.

Changing demographics. As the baby boomer generation continues to mature and retire, we expect that there will be a greater demand for a broad range of investment solutions, with an emphasis on income generation and principal protection, and that more of these investors will seek advice from professional financial advisors. We believe these financial advisors will migrate more of their clients portfolios to ETFs due to their lower fees, better fit within fee-based models, and their ability to provide access to more diverse market sectors, improve multi-asset class allocation, and be used for different investment strategies, including income generation. Overall, we believe ETFs are well-suited to meet the needs of this large and important group of investors. In addition, since many younger investors and financial advisors have demonstrated a preference for the ETF structure over traditional product structures, we believe that wealth transfers from one generation to another will also have a positive effect on ETF industry growth.

International markets. We believe the growth of ETFs is a global phenomenon. While the U.S. currently represents the vast majority of global ETF assets, Europe, Canada, Asia and Latin America are growing. Many of the same growth drivers powering the U.S. ETF industry are taking hold in global markets. Additionally, there is an increasing trend of non-U.S. institutional investors investing in U.S. listed ETFs.

Changing regulatory landscape. Many regulators globally are implementing rules that favor fee-based account structures, barring of commissions or incentives to advisors that put their interests ahead of clients and promoting trading of ETFs. We believe these regulatory changes are conducive to ETF growth.

Our Competitive Strengths

***Well-positioned in large and growing markets*.** We believe that ETFs are well positioned to grow significantly faster than the asset management industry as a whole, making our focus on ETFs a significant advantage versus other traditional asset management firms. In the ETF industry, being a first mover, or one of the first providers of ETFs in a particular asset class, can be a significant advantage. We believe that our early leadership in a number of asset classes positions us well to maintain a leadership position.

Strong performance. We create our own indexes, most of which weight companies in our equity ETFs by a measure of fundamental value and are rebalanced annually. By contrast, traditional indexes are market capitalization weighted and tend to track the momentum of the market. In addition, we also offer actively managed ETFs, as well as ETFs based on third-party indexes. In evaluating the performance of our U.S. listed equity, fixed income and alternative ETFs against actively managed and index based mutual funds and ETFs, 81.4% of the $33.7 billion invested in our ETFs and 67.1% (49 of 73) of our ETFs covered by Morningstar as of December 31, 2018 outperformed their comparable Morningstar average since inception.

Differentiated product set, powered by innovation and performance. Our products span a variety of traditional and high growth asset classes, including equities, fixed income, currencies and alternatives, and include both passive and actively managed funds. Our innovations include launching the following industry firsts:

the first emerging markets small-cap equity ETF;

the first actively managed currency ETF;

the first ETF to provide investors with access to the Additional Tier 1 Contingent Convertible, or CoCo, bond market;

one of the first international local currency denominated fixed income ETFs;

the first managed futures strategy ETF;

the first currency hedged international equity ETFs in the U.S.;

the first 90/60 balanced ETF;

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- the first multifactor ETFs incorporating dynamic currency hedging as a factor; and
- the first smart beta corporate bond suite.

Our product development strategy utilizes our Modern Alpha approach, which combines the outperformance potential of active management with the benefits of passive management to offer investors cost-effective funds that are built to perform. Components of our Modern Alpha approach include:

- *Self-indexing*. The majority of our ETFs are based on proprietary WisdomTree indexes which we believe gives us several advantages. First, it minimizes our third-party index licensing fees, which increases our profitability. Second, because we develop our own intellectual property, we are intimately familiar with our strategies and able to effectively communicate their value proposition in the market with research content and support. Third, it can enhance our speed to market and first mover advantage. Fourth, because these indexes are proprietary to WisdomTree, we may face similar competition, but we never face exact competition.
- *Broad regulatory relief.* Our broad exemptive relief also allows us to bring unique products to markets, including actively managed funds.

We believe that our Modern Alpha approach, our expertise in product development combined with our self-indexing capabilities and regulatory exemptive relief provides a strategic advantage, enabling us to launch innovative ETFs.

- ***Extensive marketing, research and sales efforts***. We have invested significant resources to establish the WisdomTree brand through online and television targeted advertising, social media, as well as through our public relations efforts. Close to half of our employees are dedicated to marketing, research and sales. Our sales professionals are the primary points of contact for financial advisors, independent advisory firms and institutional investors who use our ETFs. Their efforts are enhanced through value-added services provided by our research and marketing efforts. We have strong relationships with financial advisors at leading national brokerage firms, registered investment advisers and high net worth advisers. We believe that by strategically aligning these adviser relationships and marketing campaigns with targeted research and sales initiatives and products that align with market sentiment, we differentiate ourselves from our competitors.
- ***Efficient business model with lower risk profile***. We have invested heavily in the internal development of our core competencies with respect to product development, marketing, research and sales of ETFs. We outsource to third parties those services that are not our core competencies or may be resource or risk intensive, such as the portfolio management responsibilities and fund accounting operations of our ETFs. In addition, since we create our own indexes for most of our ETFs, we usually do not incur many licensing costs.
- ***Strong, seasoned and creative management team***. We have built a strong and dedicated senior leadership team. Most of our leadership team has significant ETF or financial services industry experience in fund operations, regulatory and compliance oversight, product development and management or marketing and

communications. We believe our team, by developing an ETF sponsor from the ground up despite significant competitive, regulatory and operational barriers, has demonstrated an ability to innovate as well as recognize and respond to market opportunities and effectively execute our strategy.

Our Growth Strategies

Our goal is to become one of the top five ETF sponsors in the world. We believe our continued execution will enable us to increase trading volumes and build longer performance track records, which should allow us to

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attract additional investors and, in turn, further grow our AUM. We will seek to increase our market share and build additional scale by continuing to implement the following growth strategies:

Foster deeper relationships through technology-driven solutions. We believe that the asset management industry is undergoing rapid change and technology is altering the way financial advisors conduct business. Our Advisor Solutions platform, which was named Fund Innovation of the Year at the 2018 Mutual Fund Industry Awards, is focused on providing technology-enabled solutions to help financial advisors address technology challenges and grow and scale their businesses.

The Advisor Solutions program includes:

- wealth investment research and ETF education;
- portfolio construction services such as the award-winning Digital Portfolio Developer, or DPD, an enhanced portfolio construction tool that assists financial advisors in analyzing an existing investment portfolio by analyzing the data and providing alternative portfolio approaches to consider in seeking to improve outcomes based on different measures. DPD won the Thought Leadership Initiative of the Year award at the 2018 WealthManagement.com Industry Awards;
- access to ETF model portfolios, which are currently available on the platforms of TD Ameritrade, Envestnet, Key Bank, Oranj, Interactive Brokers and another large independent broker-dealer. Our model portfolios are a natural extension of our research capabilities and provide advisors access to an open-architecture approach, a tenured team and a firm dedicated to innovation and value creation;
- practice management resources, including access to thought leaders in retirement planning, leadership and behavioral finance; and
- wealth management technology through AdvisorEngine Inc., or AdvisorEngine, a customizable end-to-end platform for financial advisors. AdvisorEngine offers a range of distinct products that provide advisors with new client prospecting tools, online client onboarding, institutional grade analytics, trading, performance reporting and billing. It provides these features from an advisor-centric point of view, allowing advisors to deepen their engagement with clients and demonstrate the value of the advisory relationship.

Increase penetration within existing distribution channels and expand into new distribution channels. We believe there is an opportunity to increase our market share by further penetrating existing distribution channels, expanding into new distribution channels and cross-selling additional WisdomTree ETFs. For example, since October 2017, we have entered into the following arrangements that offer us preferred or exclusive access for our products:

TD Ameritrade. In October 2017, 72 of our U.S. listed ETFs were added to TD Ameritrade s expanded and enhanced commission-free ETF program, which allows for investors using the TD Ameritrade platform to purchase these ETFs without incurring the costs of trading commission fees. This commission-free access spans asset classes including equities, fixed income and alternatives, and includes a variety of investment categories in which we are a smart beta ETF provider.

Cetera. In July 2018, our U.S. listed ETFs and our Advisor Solutions program were made available on the no-transaction fee product platform of Cetera Financial Group, the second largest independent financial advisor network in the nation. This allows for Cetera s network of independent broker-dealers to access our diverse line-up of ETF products with no transaction fees.

Ally Invest. In August 2018, our full range of U.S. listed ETFs were made available commission-free on Ally Invest s online trading platform.

*E*Trade.* In September 2018, 77 of our U.S. listed ETFs were added to E*Trade s Custody Advantage program.

PIMCO. In October 2018, we entered into a collaboration with PIMCO in which PIMCO s fixed income ETFs were added to three of our ETF model portfolios available to advisors in the Model Market Center on the TD Ameritrade Institutional Platform and through AdvisorEngine.

BNY Mellon. In January 2019, eight of our U.S. listed ETFs were added to BNY Mellon s Pershing Fundvest ETF, a no transaction fee ETF platform.

Schwab ETF OneSource. In February 2019, we expanded our offerings of our U.S. listed ETFs on the Schwab ETF One Source platform, one of the largest commission-free ETF programs in the industry. Schwab clients can buy and sell 65 of our U.S. listed ETFs through the platform.

We plan to continue to enter into new distribution and other commercial arrangements to deepen and broaden our distribution capabilities.

Leverage data intelligence to serve and expand investor base and improve sales and marketing effectiveness. Our collaboration with IBM s Advanced Analytics platform led to the development of a cognitive customer-focused lead prioritization system leveraging IBM Watson which has enhanced our distribution efforts. The system evaluates data across structured and unstructured sources such as historical investment data, market data and investor activity history, extracting behavioral insights, and is designed to enable our sales and marketing teams to optimize outreach to our current and potential investor base.

Capitalize on international demand for ETFs. We have taken the following steps over the past few years to broaden our reach around the world:

Europe. In April 2018, we completed the ETFS Acquisition which provided immediate scale in Europe, an industry leading position in European listed gold and commodity products, greater AUM diversification globally, and profitability within our International Business segment. We believe the acquisition also will help accelerate growth of our existing UCITS and leveraged and inverse products by leveraging the relationships and platform access that ETFS had previously.

Canada. We first established an office in Toronto in April 2016 and began distributing a select range of locally listed ETFs in July 2016. In November 2017, we acquired eight Canadian listed ETFs from Questrade, Inc., which represented approximately $77.4 million in AUM at closing. As part of the transaction, our Canadian subsidiary became a premier provider of ETFs available for purchase on a commission-free basis on Questrade s self-directed platform, including all of our Canadian listed ETFs. We currently have listed 15 WisdomTree branded Canadian ETFs. During the year ended December 31, 2018, we had $312 million of net inflows in Canada.

Latin America. We have cross-listed many of our ETFs on the Mexican stock exchange, targeting institutional investors trading foreign securities in Mexico. We are also party to a marketing arrangement with the Compass Group to market WisdomTree ETFs in Latin America.

Israel. We have a marketing arrangement to market WisdomTree ETFs in Israel.

Asia. In January 2018, we entered into an agreement with Premia under which it provides promotional, marketing, product consulting and general education support for WisdomTree ETFs in specific Asian countries. In July 2018, we determined to restructure our distribution strategy in Japan through the closure of our Japanese sales office and expansion of our existing relationship with Premia to manage distribution of our products in Japan. We also entered into a global product partnership with ICBC Credit Suisse Asset Management (International) Company Limited in July 2016 to launch, market and distribute ETFs that track the S&P China 500 Index. A Luxembourg UCITS ETF listed in Europe in July 2016 marked the first product in this collaboration.

As ETFs are increasingly traded globally, we believe that international expansion of our marketing, communication and sales strategies will provide significant growth avenues to participate in new regional markets as well as increasing cross-border investments by non-U.S. institutional investors.

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Launch innovative new products that diversify our product offerings and revenues. We have launched many first-to-market ETFs in the United States and pioneered alternative weighting and performance methods commonly referred to as smart beta. However, our U.S. listed ETFs are not beta, but rather an investment innovation we call Modern Alpha. Our Modern Alpha approach combines the outperformance potential of active management with the benefits of passive management to offer investors cost-effective funds that are built to perform. We believe our track record demonstrates that we can create and sell innovative ETFs that meet market demand.

Selectively pursue acquisitions or other strategic transactions. We may pursue acquisitions or other strategic transactions that will enable us to strengthen our current business, expand and diversify our product offerings, complement our Advisor Solutions program, increase our AUM or enter into new markets. We believe pursuing acquisitions or other strategic transactions is a cost-effective means of growing our business and AUM.

Regulatory Framework of the ETF Industry

Not all ETPs are ETFs. ETFs are a distinct type of security with features that are different than other ETPs. ETFs are open-end investment companies or unit investment trusts regulated in the U.S. by the Investment Company Act of 1940, or the Investment Company Act. This regulatory structure is designed to provide investor protection within a pooled investment product. For example, the Investment Company Act requires that at least 40% of the Trustees for each ETF must not be affiliated persons of the fund s investment manager, or Independent Trustees. If the ETF seeks to rely on certain rules under the Investment Company Act, a majority of the Trustees for that ETF must be Independent Trustees. In addition, as discussed below, ETFs have received exemptive orders from the staff of the SEC which exempt them from certain provisions of the Investment Company Act; however, ETFs generally operate under regulations that prohibit affiliated transactions, are subject to standard pricing and valuation rules and have mandated compliance programs. ETPs can take a number of forms in addition to ETFs, including exchange-traded notes, grantor trusts or limited partnerships. In the U.S. market, a key factor differentiating ETFs, grantor trusts and limited partnerships from exchange-traded notes is that the former hold assets underlying the ETP. Exchange traded notes, on the other hand, are debt instruments issued by the exchange-traded note sponsor. Also, each of these structures has implications for taxes, liquidity, tracking error and credit risk.

Because ETFs do not fit into the regulatory provisions governing mutual funds, ETF sponsors and ETFs need to obtain exemptive relief from the SEC from certain provisions of the Investment Company Act in order to operate ETFs. This exemptive relief allows the ETF sponsor to bring to market the ETFs for which the relief was requested and obtained. Applying for exemptive relief can be costly and take several months to several years depending on the type of exemptive relief sought and type of ETF. See Business Regulation below.

Our Product Categories

Commodity & Currency

The ETFS Acquisition provided us with an industry leading position in European listed gold and commodity products. The platform also offers products with exposure to other precious metals and commodities such as silver and platinum, oil and energy, agriculture and broad basket commodities. Our currency products provide investors with exposure to developed and emerging markets currencies, as well as exposures to foreign currencies relative to the U.S. dollar. Total AUM of our Commodity & Currency ETPs was $16.3 billion at December 31, 2018.

International Developed Market Equity

Our International Developed Market Equity products offer a variety of strategies including currency hedged and dynamic currency hedged products, exposures to large, mid and small cap companies in these markets and multifactor strategies. Included within this family are our two largest U.S. listed ETFs, DXJ and HEDJ. Total AUM of our International Developed Market Equity ETFs was $14.6 billion at December 31, 2018.

U.S. Equity

We offer equity products that provide access to the securities of large, mid and small-cap companies located in the U.S., as well as particular market sectors and styles. Our U.S. Equity products track our own indexes, the majority of which are fundamentally weighted as opposed to market capitalization weighted indexes, which assign more weight to stocks with the highest market capitalizations. These fundamentally weighted indexes focus on securities of companies that pay regular cash dividends or on securities of companies that have generated positive cumulative earnings over a certain period. We believe weighting equity markets by dividends and income, rather than by market capitalization, can provide investors with better risk-adjusted returns over longer term periods in core equity exposures. Total AUM of our U.S. Equity products was $13.3 billion at December 31, 2018.

Emerging Market Equity

Our Emerging Market Equity products provide access to exposure of large, mid and small-cap companies located in Taiwan, China, India, Russia, South Africa, South Korea and other emerging markets regions. These products also track our own indexes, which are fundamentally weighted focusing on securities of companies that pay regular cash dividends or that have generated positive cumulative earnings over a certain period. Total AUM of our Emerging Market Equity products was $5.3 billion at December 31, 2018.

Leveraged & Inverse

We offer leveraged products which seek to achieve a return that is a multiple of the performance of the underlying index and inverse products that seek to deliver the opposite of the performance in the index or benchmark they track. Strategies span across equity, commodity, government bond and currency exposures. Total AUM of our Leveraged & Inverse products was $1.3 billion at December 31, 2018.

Fixed Income

Our Fixed Income products seek to enhance income potential within the fixed income universe. We offer a suite of rising rate bond products based on leading fixed income benchmarks we license from third parties. We also launched the industry s first smart beta corporate bond suite. Other product offerings include those that seeks to track a yield-enhanced index of U.S. investment grade bonds and international fixed income products which are denominated in either local or U.S. currencies. Total AUM of our Fixed Income products was $2.6 billion at December 31, 2018.

Alternatives

Our Alternative products include the industry s first managed futures strategy ETF and a global real return ETF. We also offer a dynamic long/short U.S. equity ETF, a dynamic bearish U.S. equity ETF and a collateralized put write strategy ETF on the S&P 500 index. We also intend to explore additional alternative strategy products in the future. Total AUM of our Alternative Strategy products was $0.8 billion at December 31, 2018.

Sales, Marketing and Research

We distribute our ETFs through all major channels within the asset management industry, including brokerage firms, registered investment advisers and institutional investors. Our primary sales efforts are not directed towards the retail segment but rather are directed towards the financial or investment adviser who acts as the intermediary between the end-client and us. We do not pay commissions nor do we offer 12b-1 fees to financial advisors to use or recommend the use of our ETFs.

We have developed an extensive network and relationships with financial advisors and we believe our ETFs and related research are well structured to meet their needs and those of their clients. We have taken steps to enhance and form new relationships through our Advisor Solutions program which focuses on providing technology-enabled solutions to help financial advisors grow and scale their businesses. In addition, senior advisors of ours participate as keynote speakers in various industry and WisdomTree hosted conferences and events. Our sales professionals act in a consultative role to provide financial advisors with value-added services. We seek to consistently grow our network of financial advisors and we opportunistically seek to introduce new products and services that best deliver our investment strategies to investors through these distribution channels. We have our own team of approximately 60 sales professionals globally as of December 31, 2018. We have restructured our U.S. sales force to enhance our interactions with financial advisors to further penetrate existing sales channels, and to better service new emerging distribution channels.

In addition, we have agreements with third parties to serve as the external marketing agents for the WisdomTree ETFs in Latin America, Australia, New Zealand, Israel and specific Asian countries, including Japan, as well as with certain brokerage firms to allow certain of our ETFs to trade commission free on their brokerage platforms in exchange for a percentage of our advisory fee revenues from certain AUM. We believe these arrangements expand our distribution capabilities in a cost-effective manner and we may continue to enter into such arrangements in the future.

Our marketing efforts are focused on three objectives: Increase our global brand awareness, leverage a robust-data driven digital sales experience to generate new clients and drive inflows to our ETFs and retaining existing clients, with a focus on cross-selling additional WisdomTree ETFs. We pursue these objectives through an omni-channel marketing strategy targeting at financial advisors. We utilize the following strategies:

Targeted advertising. We create highly targeted multi-media advertising campaigns limited to established core financial media. For example, our television advertising runs exclusively on the cable networks CNBC, Fox Business and Bloomberg Television; online advertising runs on investing or ETF-specific web sites, such as www.seekingalpha.com and www.etfdatabase.com using targeted dynamic and personalized ad messaging.

Media relations. We have a full-time global corporate communications and public relations team who has established relationships with major financial media outlets. We utilize these relationships to help increase global awareness of the WisdomTree ETFs and the ETF industry in general in the United States, Canada, Europe and Asia. Several members of our management team and multiple members of our research team are frequent market commentators and conference panelists.

Database Messaging Strategy. We have a database of financial advisors to which we regularly market through a series of messages across channels (email, display, site) that are triggered based on user interest and predictive analytics, on-demand research presentations, ETF-specific or educational events and presentations and market commentary from our senior investment strategy adviser, Professor Jeremy Siegel.

Social media. We have implemented a social media strategy that allows us to connect directly with financial advisors and investors by offering timely access to our research material and more general market commentary. Our social media strategy allows us to continually enhance our brand reputation of expertise and thought leadership in the ETF industry. For example, we have an established presence on LinkedIn, Twitter and YouTube, and our blog content is syndicated across multiple business-oriented websites.

Sales support. We create comprehensive materials to support our sales process including whitepapers, research reports, webinars, blogs, podcasts, videos and performance data for our ETFs.

We will continue to evolve our marketing and communication efforts in response to changes in the ETF industry, market conditions and marketing trends.

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Our research team has three core functions: index development and oversight, investment research and sales support. In its index development and oversight role, the research group is responsible for creating the investment methodologies and overseeing the maintenance of our indexes that the WisdomTree ETFs are designed to track. The team also provides a variety of investment research around these indexes and market segments. Our research is typically academic-type research to support our products, including white papers on the strategies underlying our indexes and ETFs, investment insights on current market trends, and types of investment strategies that drive long-term performance. We distribute our research through our sales professionals, online through our website and blog, targeted emails to financial advisors, or through financial media outlets. On some occasions, our research has been included in op-ed articles appearing various publications. Shorter research notes are also developed to promote our ideas, which are distributed online through social media channels. Finally, the research team supports our sales professionals in meetings as market experts and through custom analysis on client portfolio holdings. In addition, we consult with our senior advisers, including Professor Jeremy Siegel, on product development ideas and market commentaries.

Product Development

We are focused on driving continued growth through innovative product development including through our Modern Alpha approach which combines the outperformance potential of active management with the benefits of passive management to offer investors cost-effective funds that are built to perform. Due to our broad based regulatory exemptive relief, proprietary index development capabilities and a strategic focus on product development at the senior management level, we have demonstrated an ability to launch innovative and differentiated ETFs. When developing new funds, we seek to introduce products that can be first to market, offer improvement in structure or strategy relative to an incumbent product or offer some other key distinction relative to an incumbent product. In short, we want to add choice in the market and seek to introduce thoughtful investment solutions. Lastly, when launching new products, we seek to expand and diversify our overall product line.

Competition

The asset management industry is highly competitive and we face substantial competition in virtually all aspects of our business. Factors affecting our business include fees for our products, investment performance, brand recognition, business reputation, quality of service and the continuity of our financial advisor relationships. We compete directly with other ETF sponsors and mutual fund companies and indirectly against other investment management firms, insurance companies, banks, brokerage firms and other financial institutions that offer products that have similar features and investment objectives to those offered by us. The vast majority of the firms we compete with are subsidiaries of large diversified financial companies and many others are much larger in terms of AUM, years in operations and revenues and, accordingly, have much larger sales organizations and budgets. In addition, these larger competitors may attract business through means that are not available to us, including retail bank offices, investment banking, insurance agencies and broker-dealers.

The ETF industry is becoming significantly more competitive. Existing players have broadened their suite of products offering strategies that are, in some cases, similar to ours and large traditional asset managers are also launching ETFs, some with similar strategies as well.

There has also been increased price competition in not only commoditized product categories such as traditional, market capitalization weighted index exposures, but also in fundamental or other non-market capitalization weighted or factor-based exposures. Fee reduction by certain of our competitors has been a trend over the last few years and has recently accelerated. Funds are being offered with fees of 20 bps or less, which have attracted approximately 73% of the net flows globally during the last three years. However, while these low-cost ETFs have accumulated a significant amount of AUM recently, we estimate that these same funds represent only approximately 24% of global revenues.

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In the ETF industry, being a first mover, or one of the first providers of ETFs in a particular asset class, can also be a significant advantage, as the first ETF in a category to attract scale in AUM and trading liquidity is generally viewed as the most attractive ETF. We believe that our early launch of ETFs in a number of asset classes or strategies, including fundamental weighting and currency hedging along with certain fixed income categories, positions us well to maintain our position as one of the leaders of the ETF industry. Additionally, we believe our affiliated indexing or self-indexing model, as well as our more recent active ETFs, enable us to launch proprietary products that do not have exact competition and are positioned to generate alpha versus benchmarks. As investors increasingly become more comfortable with the ETF structure, we believe there will be a greater focus on after-fee performance, rather than using ETFs primarily as low-cost market access vehicles. While we have selectively lowered fee rates on certain products that have yet to attain scale, and there is no assurance that we will not lower fee rates on certain ETFs in the future, our strategy continues to include launching new funds in the same category with a differentiated exposure at a lower fee rate, rather than reducing fees on existing ETFs with a significant amount of AUM, long performance track records, and secondary market liquidity. We generally believe we are well positioned from a product pricing perspective.

We believe our ability to successfully compete will depend largely on our competitive product offerings and our ability to offer exposure to compelling investment strategies, develop distribution relationships, create new investment products, build trading volume, AUM and outperforming track records in existing funds, offer a diverse platform of investment choices, build upon our brand and attract and retain talented sales professionals and other employees.

U.S. Regulation

The investment management industry is subject to extensive regulation and virtually all aspects of our business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to protect investment advisory clients and shareholders of registered investment companies. These laws generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of our business and to impose sanctions for failure to comply with these laws and regulations. Further, such laws and regulations provide the basis for examination, inquiry, investigation, enforcement action and/or litigation that may also result in significant costs to us.

We are primarily subject to the following laws and regulations, among others. The costs of complying with such laws and regulations have increased and will continue to contribute to the costs of doing business:

The Investment Advisers Act of 1940 (Investment Advisers Act). The SEC is the federal agency generally responsible for administering the U.S. federal securities laws. WisdomTree Asset Management, Inc., or WTAM, one of our subsidiaries, is registered as an investment adviser under the Investment Advisers Act and, as such, is regulated by the SEC. The Investment Advisers Act requires registered investment advisers to comply with numerous and broad obligations, including, among others, recordkeeping requirements, operational procedures, registration and reporting and disclosure obligations.

The Investment Company Act of 1940 (ICA). Nearly all of our WisdomTree ETFs are registered with the SEC pursuant to the Investment Company Act. These WisdomTree ETFs must comply with the requirements of the Investment Company Act and other regulations related to publicly offering and listing shares, as well as conditions imposed in the exemptive orders received by the ETFs, including, among others, requirements relating to operations, fees charged, sales, accounting, recordkeeping, disclosure and governance. In addition, the SEC has proposed, and is expected to continue to propose, new and/or revised provisions under the ICA that may impact current and future ETF investments and/or operations.

Broker-Dealer Regulations. Although we are not registered with the SEC as a broker-dealer under the Securities Exchange Act of 1934, as amended, or Exchange Act, nor are we a member firm of the

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Financial Industry Regulatory Authority, or FINRA, many of our employees, including all of our salespersons, are licensed with FINRA and are registered as associated persons of the distributor of the WisdomTree ETFs and, as such, are subject to the regulations of FINRA that relate to licensing, continuing education requirements and sales practices. FINRA also regulates the content of our marketing and sales material.

Internal Revenue Code. The WisdomTree Trust generally has obligations with respect to the qualification of the registered investment company for pass-through tax treatment under the Internal Revenue Code.

U.S. Commodity Futures Trading Commission (CFTC) and National Futures Association (NFA). In 2012, the CFTC adopted regulations that have required us to become a member of the NFA and register as a commodity pool operator for a select number of our ETFs. In addition, in January 2016, we acquired the ownership interest in two commodity pool operators (one of which has since been dissolved) to ETFs that are not registered under the ICA and are thereby subject to additional requirements imposed by the CFTC and NFA. Each commodity pool operator is required to comply with numerous CFTC and NFA requirements.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This comprehensive overhaul of the financial services regulatory environment requires the implementation of numerous rules, which, as they continue to be adopted and/or modified, may impose additional regulatory burdens and expenses on our business, and may negatively impact WisdomTree ETFs.

Employee Retirement Income Security Act of 1974 (ERISA). We have established a platform for offering collective investment funds under the WisdomTree Collective Investment Trust, or CIT, to target the retirement sector. The CIT is exempt from registration with the SEC as a bank-maintained collective investment fund established for employee benefit trusts. As investment adviser to the CIT, WTAM will be subject to the fiduciary responsibility standards and prohibited transaction restrictions of ERISA and will be required to comply with certain requirements under ERISA to satisfy those standards and avoid liability.

With respect to ETFs registered under the ICA, because such ETFs do not fit into the regulatory provisions governing mutual funds, ETF sponsors need to obtain from the SEC exemptive relief from certain provisions of the ICA in order to operate ETFs. This exemptive relief allows the ETF sponsor to bring products to market for the specific products or structures for which the relief was requested and obtained. Applying for exemptive relief can be costly and take several months to several years depending on the type of exemptive relief sought. In addition, each WisdomTree ETF is listed on a secondary market, (each, an Exchange) and any new WisdomTree ETF will seek listing on an Exchange and will also need to meet continued Exchange listing requirements. While the SEC has already approved rules for Exchanges to allow index-based ETFs and active ETFs to list that meet prescribed requirements (e.g., minimum number, market value and trading volume of securities in the new ETF s benchmark index or in its portfolio, as applicable), these rules do not allow ETFs that do not meet the prescribed requirements without specific SEC approval. The SEC approval process has historically taken months to complete and, in some cases, years. The SEC may ultimately determine not to allow such potential new WisdomTree ETFs or may require strategy modifications prior to approval.

FINRA rules and guidance may affect how WisdomTree ETFs are sold by member firms. Although we currently do not offer so-called leveraged ETFs in the U.S., which may include within their holdings derivative instruments such as options, futures or swaps to obtain leveraged exposures, recent FINRA guidance on margin requirements and suitability determinations with respect to customers trading in leveraged ETFs may influence how member firms effect sales of certain WisdomTree ETFs, such as our currency ETFs, which also use some forms of derivatives, including forward currency contracts and swaps, our international hedged equity ETFs, which use currency forwards, and our rising rates bond ETFs and alternative strategy ETFs, which use futures or options. In September 2015, FINRA issued an investor alert to help investors better understand smart beta products, or products that are linked to and seek to track the performance of alternatively weighted indices.

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FINRA also recently requested comment on potential changes to a rule related to payments to market makers and the potential consequences with respect to any changes to such rule are unclear.

Finally, our common stock is traded on the NASDAQ Global Select Market and we are therefore also subject to its rules including corporate governance listing standards, as well as federal and state securities laws. In addition, the WisdomTree ETFs are listed on NYSE Arca, the NASDAQ Market and the BATS Exchange, and accordingly are subject to the listing requirements of those exchanges.

International Regulation

Our operations outside the U.S. are subject to the laws and regulations of various non-U.S. jurisdictions and non-U.S. regulatory agencies and bodies. As we have expanded our international presence, a number of our subsidiaries and international operations have become subject to regulatory systems, in various jurisdictions, comparable to those covering our operations in the U.S. Regulators in these non-U.S. jurisdictions may have broad authority with respect to the regulation of financial services including, among other things, the authority to grant or cancel required licenses or registrations.

European and Jersey Regulation

We are subject to Jersey and European regulation of ETFS. We also are subject to European regulation of our WisdomTree UCITS and Boost ETPs. The applicable regulations are described as follows:

ETFS

ETFS is comprised of Jersey-domiciled issuers of exchange-traded commodities, or ETC issuers, each of which were established as a special purpose vehicle to issue exchange-traded securities. All ETCs other than those issued by Swiss Commodity Securities Limited, or SCSL, are listed and marketed across the European Union, or EU, under the Directive 2003/71/EC (as amended by Directive 2010/73/EU), or the Prospectus Directive. The U.K. Listing Authority, or UKLA, approves all ETC Base Prospectuses as meeting the requirements imposed under U.K. and EU law pursuant to the Prospectus Directive. Such approval relates only to those securities to be admitted to trading on a regulated market for the purpose of Markets in Financial Instruments Directive (recast) Directive 2014/65/EU of the European Parliament and the Council, or MiFID II, and/or which are to be offered to the public in any European Economic Area, or EEA, Member State. Each prospectus is prepared, and a copy of it is sent to the Jersey Financial Services Commission, in accordance with the Collective Investment Funds (Certified Funds Prospectuses) (Jersey) Order 2012. Each ETC issuer has obtained a certificate under the Collective Investment Funds (Jersey) Law 1988, as amended, to enable it to undertake its functions in relation to the ETCs. The UKLA has, at the request of the relevant ETC issuer, notified the approval of the Base Prospectus in accordance with Article 18 of the Prospectus Directive to other EU listing authorities, including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the U.K., by providing them with certificates of approval attesting that the Base Prospectus has been prepared in accordance with the Prospectus Directive. Each issuer may request the UKLA to provide competent authorities in other EEA Member States with such certificates for the purposes of making a public offer in such Member States and/or for admission to trading of all or any securities on a regulated market.

Pursuant to the UK European Referendum Act 2015, a referendum on the U.K. s membership in the EU was held on June 23, 2016, with the majority voting to leave the EU. On March 29, 2017, the U.K. government exercised its right under Article 50 of the Treaty of the European Union to leave the EU (referred to as Brexit). If the approval of the Base Prospectuses by UKLA as outlined above ceases to be possible or practical as a result of Brexit, we will work with an alternate EEA Member State regulator through whom we would seek approval and request passporting.

Guidance released in January 2019 by the European Securities and Markets Authority, or ESMA, confirmed that it is not possible to receive a formal approval from an alternate regulator prior to the U.K. leaving the EU. The expectation is that, in the event of a no-deal Brexit, this approval would be in place

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such that it is not expected to cause any disruption or alteration to the terms or nature of our products. However, the position of ESMA means that there may be a short time period, expected to be limited to one day, when the ETC issuers may not have EU prospectuses. If this period is extended for unforeseen reasons beyond one day, there may be an impact to the listing and distribution of our products.

The ETCs issued by SCSL are only offered and admitted to trading within Switzerland. A copy of the base prospectus of SCSL is delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002.

The ETC issuers are primarily subject to the following legislation and regulatory requirements:

The Prospectus Directive. The Base Prospectus of each ETC issuer other than SCSL has been drafted, and any offer of ETCs in any EEA Member State that has implemented the Prospectus Directive is made in compliance with the Prospectus Directive and any relevant implementing measure in such Member States.

The Companies (Jersey) Law 1991. Each ETC issuer is incorporated as a public limited liability company under the Companies (Jersey) Law 1991. Therefore, the ETC issuers are required to comply with various obligations under the Companies (Jersey) Law 1991 such as, but not limited to, convening general meetings, keeping proper books and records and filing financial statements.

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, known as the European Market Infrastructure Regulation (EMIR). EMIR, which became effective on August 16, 2012, provides for certain over-the-counter, or OTC, derivative contracts to be submitted to central clearing and imposes margin posting and other risk mitigation techniques, reporting and record keeping requirements. The clearing obligations under EMIR are still under discussion, and currently there are no mandatory clearing obligations in relation to equity, FX or commodity derivatives. The clearing obligation only applies to EU-based financial counterparties (defined as those authorized under MiFID, CRR, AIFMD, UCITS or insurance regulations) or those non-financial entities that have a rolling three-month notional exposure above a certain amount (between 1 and 3 billion, depending on asset class), which means that the ETC issuers are not directly subject to these obligations, but could indirectly be subject to them by virtue of their interaction with EU-based financial counterparties. In terms of reporting obligations, being non-EU entities, the ETC issuers are only indirectly subject to such obligations when they interact with their EU-based financial counter-parties. Each ETC issuer has adhered to the 2013 EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol published by the International Swaps and Derivatives Association, Inc.

Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (the Regulation) and Directive 2014/57/EU of the European Parliament and of the Council on criminal sanctions for market abuse (the Directive and, together with the Regulation, MAD). Obligations imposed on the relevant ETC issuer and distributor under MAD, which became effective on July 3, 2016, include the requirement to publish inside information in a public and timely manner, to prepare and maintain a list of insiders and to refrain from market manipulation.

Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (BMR). Supervised EU entities which issue financial instruments that reference a benchmark are required to comply with applicable obligations as set out under the BMR. The BMR was published on June 30, 2016 and the majority of the provisions became effective on January 1, 2018. The ETC issuers are non-EU entities and as a result, BMR application is very limited, although in some circumstances a few residual obligations could be deemed to be applicable because the ETCs are marketed across Europe.

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Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPS). PRIIPs became effective on January 1, 2018 and applies to investment product manufacturers and distributors. Under PRIIPs, manufacturers need to provide a key information document (KIDs) to investors. The intention of KIDs is to improve transparency for investors on the products and enhance investor protection. The product manufacturer is responsible for drafting the KID and for its content. All ETCs are currently subject to PRIIPs and KIDs have been produced since January 1, 2018.

MIFID II. MIFID II covers a wide range of areas that affect the relevant issuer and distributor, such as product governance, a new definition of complex products (which captures all physical and synthetic ETCs) and the production of a new document called an EMT to facilitate the dissemination of relevant information to the markets and distributors in relation to each financial product.

Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012. (SFTR). Counterparties to securities financing transactions must report the transaction to trade repositories. The SFTR introduces a reporting requirement for transactions, and a disclosure requirement to investors with a requirement for prior consent. It also designates that financial instruments used for re-hypothecation are transferred to an account in the name of the other counterparty. Since the ETC issuers are based in non-EU jurisdictions, obligations are only indirectly applicable to them, but a certain level of interaction with EU counterparties is required to comply with some of these requirements.

The Foreign Account Tax Compliance Act (FATCA), which was passed as part of the Hiring Incentives to Restore Employment (HIRE) Act, generally requires that foreign financial institutions and certain other non-financial foreign entities report on the foreign assets held by their U.S. account holders or be subject to withholding on withholdable payments. The HIRE Act also contained legislation requiring U.S. persons to report, depending on the value, their foreign financial accounts and foreign assets. ETCs benefit from the so called listing exemption and Jersey local authorities have determined that for companies which can benefit from such exemption the filing of a nil report is optional.

The Common Reporting Standards, or CRS, were developed by the Organization for Economic Cooperation and Development, and is a global reporting standard for the automatic exchange of information. The ETC issuers will need to conduct FATCA style due diligence and annual local reporting in relation to financial accounts held directly and indirectly by residents of those jurisdictions with which the Foreign Financial Institutions (FFIs) jurisdiction of residence has signed an Intergovernmental Agreement (IGA) to implement the CRS. Unlike FATCA, there is no clear listing exemption available under the CRS so the ETC issuers are required to conduct full due diligence to identify such accounts and report on them on an annual basis to their local tax authorities, at least in respect of the certificated interests and primary market issuances. However, Jersey tax authorities have applied less onerous reporting obligations to interests such as ETCs that are regularly traded on an established securities market and are held through CREST, the U.K. based central securities depository.

WisdomTree UCITS ETFs

The investment management industry in Ireland is subject to both Irish domestic law and European Union law. The Central Bank of Ireland, or the Central Bank, is responsible for the authorization and supervision of collective investment schemes, or CIS, in Ireland. CIS s are also commonly known as funds/schemes. There are two main categories of funds authorized by the Central Bank, Undertakings for Collective Investment in Transferable Securities (UCITS) and funds that are not UCITS known as alternative investment funds. ETFs form part of the Irish and European regulatory frameworks that govern UCITS, with ETFs having been the subject of specific consideration at the European level which is then repeated and/or interpreted by the Central Bank in regulations and related guidance issued by the Central Bank.

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One of our subsidiaries, WisdomTree Management Limited, is an Ireland based management company authorized in Ireland providing collective portfolio management services to WisdomTree Issuer PLC, or WTI, and WisdomTree UCITS ETFs. The WisdomTree UCITS ETFs are issued by WTI. WTI, a non-consolidated third party, is a public limited company organized in Ireland and is authorized as a UCITS by the Central Bank. All UCITS have their basis in EU legislation and once authorized in one EEA Member State, may be marketed throughout the EU, without further authorization. This is described as an EU passport. Post Brexit, the WisdomTree UCITS ETFs are expected to continue to be available to U.K. investors under the U.K. Financial Conduct Authority, or FCA, Temporary Permissions Regime.

WTI is established and operated as a public limited company with segregated liability between its sub-funds. The sub-funds are segregated portfolios, each with their own investment objective and policies and assets. Each sub-fund has a separate approval from the Central Bank, and each is authorized as an ETF. Each sub-fund tracks a different index. The index must comply with regulatory criteria that govern, among others, the eligibility and diversification of its constituents, and the availability of information on the index such as the frequency of calculation of the index, the index s transparency, its methodology and frequency of calculation. Each sub-fund is listed on the Irish Stock Exchange and has shares admitted to trading on the London Stock Exchange and, typically, on various European stock exchanges and, accordingly, is subject to the listing requirements of those exchanges.

WTI is primarily subject to the following legislation and regulatory requirements:

European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (as amended) (UCITS Regulations). The UCITS Regulations, which transpose Council Directive 2009/65/EC, Commission Directive 2010/43/EC and Commission Directive 2010/44/EC into Irish law, became effective on July 1, 2011. UCITS established in Ireland are authorized under the UCITS Regulations.

Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2015 (Central Bank UCITS Regulations) (as amended) (Central Bank Acts). The Central Bank UCITS Regulations were adopted in November 2015 and, together with the UCITS Regulations, any guidance produced by the Central Bank, and the Central Bank forms, form the basis for all the requirements that the Central Bank imposes on UCITS, UCITS management companies and depositaries of UCITS.

Central Bank Guidance. The Central Bank also has produced guidance that provides direction on issues relating to the funds industry, certain of which set forth conditions not contained in the UCITS Regulations or the Central Bank Acts with which UCITS must conform.

The Companies Acts 2014 (Companies Act). WTI is incorporated as a public limited company under the Companies Act. Therefore, WTI is required to comply with various obligations under the Companies Act such as, but not limited to, convening general meetings and keeping proper books and records. The segregation of liability between sub-funds means there cannot be, as a matter of Irish law, cross-contamination of liability as between sub-funds so that the insolvency of one sub-fund affects another sub-fund.

EMIR. EMIR provides for OTC derivative contracts to be submitted to central clearing and imposes, *inter alia*, margin posting and other risk mitigation techniques, reporting and record keeping requirements. WTI uses OTC derivatives instruments to hedge the currency risk of some of its sub-funds, which are subject to EMIR. WTI has adhered to the 2013 EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol published by the International Swaps and Derivatives Association, Inc. The Central Bank has been designated as the competent authority for EMIR.

BMR. The BMR is directly applicable law across the EU and applies to certain administrators, contributors and users of benchmarks with the aim of reducing the risk of benchmark manipulation and promoting confidence in their integrity and that of the financial markets which they support. Since

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WTI issues financial instruments that reference a benchmark, it will be required to comply with applicable obligations as set out under the BMR. In addition, non-EU administrators of benchmarks are required to satisfy a number of requirements to enable the benchmarks they provide to be used in the EU. To ensure investor protection, the BMR provides equivalence, recognition and endorsement conditions under which third country benchmarks may be used by supervised entities in the EU. Since we control the provision of benchmarks, we are required to comply with applicable obligations within the timeframes set out under the BMR.

Boost ETPs

One of our subsidiaries, Boost Management Limited, is a Jersey based management company providing investment and other management services to Boost Issuer PLC, or BI, and the Boost ETPs. The Boost ETPs are issued by BI. BI, a non-consolidated third party, is a public limited company incorporated in the laws of Ireland. It was established as a special purpose vehicle for the purposes of issuing collateralized exchange-traded securities, or ETP Securities, under the Collateralized ETP Securities Programme described in its Base Prospectus. BI is a *qualifying company* within the meaning of section 110 of the Taxes Consolidation Act 1997 (as amended), of Ireland. BI is not authorized or regulated by the Central Bank by virtue of issuing Boost ETPs.

The Central Bank, as competent authority under the Prospectus Directive, has approved the Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to ETP Securities which are to be admitted to trading on a regulated market for the purpose of MiFID II and/or which are to be offered to the public in any EEA Member State. We are in discussions with the FCA in respect of the Boost ETPs such that, if necessary, the Base Prospectus for those products could be approved by the FCA in addition to the existing Central Bank approval to ensure continuous offering in the U.K. post-Brexit.

The Central Bank has, at the request of BI, notified the approval of the Base Prospectus in accordance with Article 18 of the Prospectus Directive to the UKLA (the United Kingdom financial supervisory authority), the Commissione Nazionale per la Societá e la Borsa (the Italian financial supervisory authority), the Bundesanstalt für Finanzdienstleistungsaufsicht (the German Federal financial supervisory authority) and the Financial Market Authority of Austria, by providing them, *inter alia*, with certificates of approval attesting that the Base Prospectus has been prepared in accordance with the Prospectus Directive. BI may request the Central Bank to provide competent authorities in other EEA Member States with such certificates whether for the purposes of making a public offer in such Member States or for admission to trading of all or any ETP Securities on a regulated market therein or both.

BI is primarily subject to the following legislation and regulatory requirements:

The Companies Act. BI is incorporated as a public limited liability company under the Companies Act. Therefore, BI is required to comply with various obligations under the Companies Act such as, but not limited to, convening general meetings, keeping proper books and records and filing financial statements.

The Prospectus Directive. The Base Prospectus has been drafted, and any offer of ETP Securities in any EEA Member State that has implemented the Prospectus Directive is made in compliance with the Prospectus Directive and any relevant implementing measure in such Member States.

EMIR. BI hedges its payment obligations in respect of the ETP Securities by entering into swap transactions with swap providers, which are subject to EMIR. The Central Bank has been designated as the competent authority for EMIR and, to assess compliance with EMIR, requests that BI submits annually an EMIR Regulatory Return.

BMR. Since BI issues financial instruments that reference a benchmark, it also will be required to comply with applicable obligations under the BMR.

MAD. MAD has a direct effect in Ireland and strengthens the legal framework underpinning the function of detecting, sanctioning and deterring market abuse. Broadly, MAD applies to any financial instrument admitted to, or for which a request for admission has been made to, trading on a regulated market in at least one member state of the EU or in an EEA Member State. Obligations imposed on BI under MAD include the requirement to publish inside information in a public and timely manner, to draw up and maintain a list of insiders and to refrain from market manipulation.

Canadian Regulation

Our Toronto, Canada based subsidiary, WisdomTree Asset Management Canada, Inc., or WTAMC, is registered as an investment fund manager and exempt market dealer (a restricted broker/dealer license for the exempt market) in certain Canadian jurisdictions where such registration is required. WTAMC s registration as an investment fund manager enables it to act as fund manager to investment funds, including our Canadian ETFs, in Canada. WTAMC is a corporation incorporated under the Business Corporations Act (Ontario) and must comply with various obligations under that Act including with respect to the appointment of directors and officers, the conduct of meetings of directors and shareholders and the maintaining of books and records. As a registered investment fund manager and exempt market dealer, WTAMC is subject to the requirements of applicable securities laws including *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations* of the Canadian Securities Administrators, which prescribes registration requirements including proficiency requirements for certain individuals required to be registered on behalf of the firm, firm capital and reporting requirements, firm insurance coverage requirements and the requirement to establish and maintain policies and procedures to ensure compliance by the firm and individuals acting on its behalf with applicable securities legislation.

Our Canadian ETFs are public investment funds whose units are listed on the Toronto Stock Exchange. Our Canadian ETFs are in continuous distribution of their units and have filed prospectuses with the Canadian Securities Administrators in order to offer their units, which are required to be renewed annually. Our Canadian ETFs are subject to *National Instrument 81-102 Investment Funds* of the Canadian Securities Administrators, which sets out requirements relating to the investments and limitations on certain investment strategies that may be undertaken by public investment funds as well as requiring fund portfolio assets to be held by independent qualified financial institutions and prescribing that certain fundamental fund changes necessitate obtaining approval of unitholders. Our Canadian ETFs are also subject to *National Instrument 81-106 Investment Fund Continuous Disclosure*, which mandates the preparation and filing of annual audited and semi-annual unaudited financial statements for each fund as well as management reports of fund performance for the same periods which are required to be sent to unitholders of the fund. In addition, each of our Canadian ETFs also must prepare quarterly portfolio disclosure and annually prepare and make available its proxy voting disclosure, which is a record of how the fund voted the various portfolio securities held by it. Finally, *National Instrument 81-107 Independent Review Committee for Investment Funds*, requires public investment funds to have an independent review committee, or IRC, consisting of at least three members, each of whom must be independent of the fund manager, to review and approve or make a recommendation relating to conflict of interest matters referred to the IRC by the fund manager for consideration that may arise in the course of managing the operations of a fund.

Japanese Regulation

In July 2018, we determined to restructure our distribution strategy in Japan resulting in the closure and wind down of our Japan-based subsidiary, WisdomTree Japan Inc., or WTJ. In January 2019, WTJ terminated its registration as a Type 1 Financial Instruments Business with the Kanto Local Finance Bureau (a part of Japan s Ministry of Finance under authority delegated by the Financial Services Agency of Japan, or FSA). WTJ also withdrew as a member of the Japan Securities Dealers Association and the Japan Investor Protection Fund. WTJ has commenced the liquidation process, which is expected to be completed during the second quarter of 2019.

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Intellectual Property

We regard our name, WisdomTree, as material to our business and have registered WisdomTree as a service mark with the U.S. Patent and Trademark Office and in various foreign jurisdictions.

Our index-based equity ETFs are based on our own indexes and we do not license them from, nor do we pay licensing fees to, third parties for these indexes. We do, however, license third-party indexes for certain of our fixed income, currency and alternative ETFs.

On March 6, 2012, the U.S. Patent and Trademark Office issued to us our patent on Financial Instrument Selection and Weighting System and Method, which is embodied in our dividend weighted equity indexes. We also have one patent application pending with the U.S. Patent and Trademark office that relates to the operation of our ETFs and our index methodology. There is no assurance that a patent will be issued from this application and we currently do not rely upon our recently issued or future patents for a competitive advantage.

Employees

As of December 31, 2018, we had 228 full-time employees, of which 153 were in our U.S. Business segment and 75 were in our International Business segment. None of our employees are covered by a collective bargaining agreement and we consider our relations with employees to be good.

Available Information

Company Website and Public Filings

Our website is located at www.wisdomtree.com, and our investor relations website is located at http://ir.wisdomtree.com. We make available, free of charge through our investor relations website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Sections 13(a) or Section 15(d) of the Exchange Act as soon as reasonably practicable after they have been electronically filed with, or furnished to, the SEC. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding the Company at www.sec.gov.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases as part of our investor relations website. Further corporate governance information, including board committee charters and code of conduct, is also available on our investor relations website under the heading Corporate Governance. The contents of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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ITEM 1A. RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the specific risk factors described below in addition to the other information contained in this Report before making a decision to invest in our common stock. If any of these risks actually occur, our business, operating results, financial condition and prospects could be harmed. This could cause the trading price of our common stock to decline and a loss of all or part of your investment. Certain statements below are forward-looking statements. See the section entitled Cautionary Note Regarding Forward-Looking Statements.

Risks Related to Our Business and Our Industry

Declining prices of securities can adversely affect our business by reducing the market value of the assets we manage or causing WisdomTree ETF shareholders to sell their fund shares and trigger redemptions.

We are subject to risks arising from declining prices of securities, which may result in a decrease in demand for investment products, a higher redemption rate and/or a decline in AUM. The securities markets are highly volatile and securities prices may increase or decrease for many reasons, including general economic conditions, the strengthening or weakening of the U.S. dollar, political events, acts of terrorism and other matters beyond our control. Substantially all our revenues are determined by AUM in equity securities, in both the international and U.S. markets. As a result, our business can be expected to generate lower revenues in declining equity market environments or general economic downturns. A decline in the prices of securities held by the WisdomTree ETFs may cause our revenues to decline by either causing the value of our AUM to decrease, which would result in lower advisory fees, or causing investors in the WisdomTree ETFs to sell their shares in favor of investments they perceive to offer greater opportunity or lower risk, thus triggering redemptions that would also result in decreased AUM and lower fees.

In addition, a substantial portion of AUM of ETFS are in products backed by gold. These products historically have been negatively correlated with our two largest U.S. listed ETFs, HEDJ and DXJ. While we therefore may experience improved stability of AUM and lower overall AUM volatility, we can provide no assurance that this will be the case.

Fluctuations in the amount and mix of our AUM may negatively impact revenues and operating margins.

The level of our revenues depends on the amount and mix of our AUM. Our revenues are derived primarily from advisory fees based on a percentage of the value of our AUM and vary with the nature of the ETFs, which have different fee levels. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and operating margins.

Withdrawals or broad changes in investments in our ETFs by investors with significant positions may negatively impact revenues and operating margins.

We have had in the past, and may have in the future, investors who maintain significant positions in one or more of our ETFs. If such an investor were to broadly change or withdraw its investments in our ETFs because of a change to its investment strategy, market conditions or any other reason, it may significantly change the amount and mix of our AUM, which may negatively affect our revenues and operating margins.

The asset management business is intensely competitive. Many of our competitors have greater market share, offer a broader range of products, charge lower fees and have greater financial resources than we do. As a result, we may experience pressures on our pricing and market share.

Our business operates in intensely competitive industry segments. We compete directly with other ETF sponsors and mutual fund companies and indirectly against other investment management firms, insurance companies, banks, brokerage firms and other financial institutions that offer products that have similar features and investment objectives to those offered by us. We compete based on a number of factors, including name recognition, service, investment performance, product features, breadth of product choices and fees. Several ETF sponsors with whom we directly compete are seeking to obtain market share based on low fees. Many of our competitors have greater market share, offer a broader range of products and have greater financial resources than we do. Some financial institutions operate in a more favorable regulatory environment and/or have proprietary products and distribution channels, which may provide certain competitive advantages to them and their investment products. Our competitors may also adopt products, services or strategies similar to ours, including the use of fundamentally-weighted indexes. In addition, over time certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services have been acquired by or merged into other firms. This convergence could result in our competitors gaining greater resources and we may experience pressures on our pricing and market share as a result of these factors and as some of our competitors seek to increase market share by reducing prices. We believe that competition within the ETF industry will continue to increase as more traditional asset management companies become ETF sponsors.

Competitive pressures could reduce revenues and profit margins.

The ETF industry is becoming significantly more competitive. Existing players have broadened their suite of products offering strategies that are, in some cases, similar to ours and large traditional asset managers are also launching ETFs, some with similar strategies as well. Although the ETF industry currently has a higher barrier to entry as a result of the need for ETF sponsors to obtain exemptive relief from the SEC in order to operate ETFs, traditional asset managers, many of whom are much larger than us, have either already entered or started to enter the ETF space, and some competitors have launched ETFs using either third-party or proprietary fundamentally weighted or factor-based indexes or currency hedged ETFs with fees that are generally equivalent to, and in some instances lower than, our ETFs. We expect that additional companies, both new and traditional asset managers, will continue to enter the ETF space.

There has also been increased price competition in not only commoditized product categories such as traditional, market capitalization weighted index exposures, but also in fundamental or other non-market capitalization weighted or factor-based exposures. Fee reduction by certain of our competitors has been a trend over the last few years and has recently accelerated. Funds are being offered with fees of 20 bps or less, which have attracted approximately 73% of the net flows globally during the last three years.

In addition, in 2018, the SEC proposed a rule that, if adopted, would eliminate the need to obtain exemptive relief, thereby lowering the barrier to entry, and the SEC is otherwise reviewing the ETF ecosystem of rules, including those related to listing. Any new rules, changes to rules or changes to the current exemptive relief and/or listing processes could create fewer barriers to entry for competitors and/or could impose additional burdens or less flexibility for the WisdomTree ETFs. ETFs that do not meet generic exchange listing standards, which historically included actively managed ETFs, have had to undergo a lengthy exchange listing process, which sometimes takes in excess of a year. However, in 2016, generic listing standards for active ETFs were approved, thereby reducing a barrier to entry for active ETFs that meet the generic listing standards.

In addition, in December 2014, the SEC granted Eaton Vance and related parties an exemption from certain provisions of the Investment Company Act to permit the offering of a form of non-transparent exchange-traded managed funds, and other unaffiliated fund complexes have signed up to launch such funds, with the first funds launching in 2016. The SEC rejected proposals from Precidian, BlackRock and other large investment management firms to also offer a form of non-transparent exchange-traded product. Subsequently, many of these firms have refiled their applications with changes intended to address the SEC s concerns and other fund managers also have filed with the SEC for approval of other types of non-transparent exchange-traded products, which could obtain approval in 2019. The launch of non-transparent exchange-traded products may allow traditional actively managed mutual fund sponsors to compete more effectively against ETFs, which could reduce our revenues and profit margins.

We derive a substantial portion of our revenues from a limited number of products and, as a result, our operating results are particularly exposed to the performance of these funds and our ability to maintain the AUM of these funds, as well as investor sentiment toward investing in the funds strategies.

At December 31, 2018, approximately 56% of our global AUM was concentrated in ten of our WisdomTree ETFs with approximately 18% in gold products and 14% in our two largest U.S. listed ETFs. As a result, our operating results are particularly exposed to the performance of these funds and our ability to maintain the AUM of these funds, as well as investor sentiment toward investing in the funds strategies. If the AUM in these funds were to decline, either because of declining market values or net outflows from these funds, our revenues would be adversely affected.

A significant portion of our AUM is held in ETFs that invest in foreign securities and we therefore have substantial exposure to foreign market conditions and are subject to currency exchange rate risks.

Many of our ETFs invest in securities of companies, governments and other organizations located outside the U.S. and at December 31, 2018, approximately 40% of our AUM was comprised of such investments. Therefore, the success of our business is closely tied to market conditions in foreign markets. Investments in non-U.S. issuers are affected by political, social and economic uncertainty affecting a country or region in which we are invested. In addition, fluctuations in foreign currency exchange rates could reduce the revenues we earn from certain foreign invested ETFs. This occurs because an increase in the value of the U.S. dollar relative to non-U.S. currencies may result in a decrease in the dollar value of the AUM in these ETFs, which, in turn, would result in lower revenues. Furthermore, investors are likely to believe certain foreign invested ETFs, as well as certain of our currency and fixed income ETFs, are a less attractive investment opportunity when the value of the U.S. dollar rises relative to non-U.S. currencies, which could have the effect of reducing investments in these ETFs, thus reducing revenues. Conversely, a weakening U.S. dollar may make less attractive our international hedged equity ETFs, as unhedged alternatives would benefit from the appreciation of the foreign currency or currencies while our hedged ETFs would not, which could result in redemptions in our funds. Since a substantial portion of our AUM at December 31, 2018 was held in our international hedged equity ETFs, a weakening of the U.S. dollar relative to the euro or yen may adversely affect our AUM and revenues.

Net outflows in our two largest U.S. listed ETFs have had, and in the future could continue to have, a negative impact on our revenues.

At December 31, 2018, approximately 14% of our U.S. listed ETF AUM was concentrated in two of our WisdomTree ETFs, with 7% in HEDJ and 7% in DXJ. These two ETFs also accounted for approximately 23% of our revenues in 2018. As a result, our operating results are particularly exposed to the performance of these ETFs and our ability to maintain the AUM of these ETFs, as well as investor sentiment toward investing in the ETFs strategies. We are also subject to political, economic and market risks in either of these markets and to a weakening of the U.S. dollar relative to the euro or yen. During 2018, HEDJ and DXJ experienced net outflows of $3.2 billion and $4.5 billion, respectively. Over the last three years, net outflows from these two ETFs were $23.8 billion. In addition, through February 15, 2019, these same funds have experienced outflows of $0.9 billion. If HEDJ and DXJ were to continue to experience net outflows, our revenues would be adversely affected.

Fluctuations in commodity prices, and gold prices in particular, including as a result of changes in demand for commodities and gold as an investment, could materially and adversely affect our business.

In April 2018, we completed the ETFS Acquisition, which provides us with an industry leading position in European listed gold and commodity products. AUM of ETFS was approximately $16.4 billion as of

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December 31, 2018, of which approximately 69% were in ETPs backed by gold and approximately 28% were in ETPs backed by other commodities. Fluctuations in the prices of commodities that are linked to these ETPs could adversely affect our AUM and revenues. Commodity investments, especially in precious metals such as gold, are viewed as safe havens for investors in periods of economic volatility. In addition, gold historically has been negatively correlated with our two largest ETFS, HEDJ and DXJ, however, we can provide no assurance that gold will continue to be viewed as a safe haven investment, or that the negative historical correlation between the AUM of our ETPs backed by gold and the AUM of our two largest U.S. listed ETFs will be realized in the future. Fluctuations in commodity prices, including as a result of changes in long-term demand cycles for commodities generally and cyclicality in demand for commodities as an investment asset, could reduce demand for certain of our products and limit our ability to successfully launch new products. Any decline in commodity prices could reduce the value of our AUM and adversely affect our revenues. These fluctuations and the cyclicality of the demand for commodities could also lead to redemptions by existing investors, which could reduce our AUM and revenues.

Fluctuations in the price of gold, including as a result of cyclicality in the demand for gold as an investment asset, in particular, may adversely affect our AUM and revenues. A portion of the advisory fee revenues we receive on our ETPs backed by gold are paid in gold ounces. In addition, we pay gold ounces to satisfy our deferred consideration obligation that we assumed in connection with the ETFS Acquisition (See Note 19 to our Consolidated Financial Statements). While we may readily sell the gold that we earn under these advisory contracts, we still may maintain a position. We currently do not enter into arrangements to hedge against fluctuations in the price of gold and any hedging we may undertake in the future may not be cost-effective or sufficient to hedge against this gold exposure.

Over the last few years, we have expanded our business internationally. This expansion subjects us to increased operational, regulatory, financial and other risks.

We face increased operational, regulatory, financial, compliance, reputational and foreign exchange rate risks as a result of our international expansion. The failure of our compliance and internal control systems to properly mitigate such additional risks, or of our operating infrastructure to support such expansion, could result in operational failures and regulatory fines or sanctions. If our international products and operations experience any negative consequences or are perceived negatively in non-U.S. markets, it may also harm our reputation in other markets, including the U.S. market.

The products issued by our European business are subject to counterparty risks. Any actual or perceived weakness of those counterparties could negatively impact the European business AUM and therefore the Company s AUM, the relevant product and secondary pricing of the ETFS products on exchange, which could materially adversely affect our business.

The products issued by our European business depend on the services of counterparties, custodians and other agents and are thus subject to a variety of counterparty risks, including the following:

- ETFS products backed by physical metal are subject to risks associated with the custody of metal, including the risk that access to the physically backed metal held in the vaults or secure warehouses of a custodian or sub-custodian could be restricted by natural events, such as an earthquake, or human actions, such as a terrorist attack, the risk that such physically backed metal in its custody could be lost, stolen or damaged, and the risk that our recovery of any losses from a custodian, sub-custodian or insurer may be inadequate.

Boost ETPs, certain WisdomTree UCITS ETFs and certain ETFS products backed by swap, derivative or similar arrangements are subject to risks associated with the creditworthiness of their counterparties, including the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the relevant arrangement (whether or not bona fide) or because of a credit, liquidity, regulatory, tax or operational problem. Any deterioration of the credit or downgrade in the credit rating of a counterparty, or the custodian holding the collateral, could cause the associated products to trade at a discount to the value of the underlying assets.

Not all of our arrangements with counterparties of our ETFS products are collateralized. Products issued by ETFS Oil Securities Limited, or OSL, are backed by futures swaps purchased from an affiliate of the Royal Dutch Shell Company, or Shell. In the event of default under these purchased swaps, OSL would have only unsecured claims against Shell with no recourse to collateral.

The terms of contracts with counterparties are generally complex, often customized and often not subject to regulatory oversight. A voluntary or involuntary default by a counterparty may occur at any time without notice. In the event of any default by, or the insolvency of, any counterparty, the relevant products may be exposed to the under-segregation of assets, fraud or other factors that may result in the recovery of less than all of the property of our issuers that was held in custody or safekeeping in the case of physically backed products or the recovery of property that is insufficient in value to cover all amounts payable to holders of the applicable products upon their redemption. The impact of market stress or counterparty financial condition may not be accurately foreseen or evaluated and, as a result, we may not take sufficient action to reduce counterparty risks effectively. Any losses due to a counterparty s failure to perform its contractual obligations will be borne by the relevant product issuer and there could be a substantial delay in recovering assets due from counterparties or it may not be possible to do so at all. Defaults by, or even rumors or questions about, the solvency of counterparties may increase operational risks or transaction costs, which may negatively affect the investment performance of the relevant products and have a material adverse effect on our business and operations.

Any products that have the benefit of collateral are subject to counterparty risk associated with the quality and the extent of the collateral received.

Products backed by swap, derivative or similar arrangements are also subject to risks associated with the quality of the collateral that our issuers receive, if any, under credit support arrangements, repurchase transactions or other similar arrangements. For example, collateral received by an issuer may not be of sufficient value to cover all amounts payable to holders of the relevant products upon their redemption for a variety of reasons, including that the enforcement of the right to the collateral may have resulted from its counterparty failing to post collateral with sufficient value to cover any exposure under corresponding swaps, that the market value of such collateral had subsequently declined or that such exposure had increased due to market conditions. In addition, collateral is generally posted with reference to the value of outstanding exposure as at the previous day s close, therefore presenting a risk that subsequent market movements in the prices of the underlying swaps may render the previously posted collateral inadequate. Although the substantial majority of our contracts are over-collateralized, there can be no assurance that the prescribed collateral levels will be sufficient to address these risks.

Many of our WisdomTree ETPs have a limited track record and poor investment performance could cause our revenues to decline.

Many of our ETPs have a limited track record upon which an evaluation of their investment performance can be made. Certain investors limit their investments to ETPs with track records of ten years or more. Furthermore, as part of our strategy, we continuously evaluate our product offerings to ensure that all our funds are useful, compelling and differentiated investment offerings, to more competitively align our overall product line in the current ETP landscape and to reallocate our resources to areas of greater client interest. As a result, we may further adjust our product offerings, which may result in the closing of some of our ETPs, changing their investment objective or offering of new funds. The investment performance of our funds is important to our success. While strong investment performance could stimulate sales of our ETPs, poor investment performance, on an absolute basis or as compared to third-party benchmarks or competitive products, could lead to a decrease in sales or stimulate redemptions, thereby lowering the

AUM and reducing our revenues. Our fundamentally-weighted equity ETPs are designed to provide the potential for better risk-adjusted investment returns over full market cycles and are best suited for investors with a longer-term investment horizon. However, the investment approach of our equity ETPs may not perform well during certain shorter periods of time during different points in the economic cycle.

We could lose our entire investment in AdvisorEngine Inc. if it is unable to raise capital, execute its business plan and successfully grow its business, which would have a material impact on our financial condition and results of operations.

We currently have various financial interests in AdvisorEngine valued at $53.7 million, including an aggregate of $25.0 million invested in AdvisorEngine for equity ownership of approximately 47% (or 41% on a fully-diluted basis) and $28.7 million advanced in the form of an unsecured note receivable, net of original issue discount. As described in Notes 8 and 9 of our Consolidated Financial Statements, our financial interests in AdvisorEngine have been valued and are assessed for impairment quarterly. If AdvisorEngine is unable to raise capital, execute its business plan and successfully grow its business, we may be required to reduce the value of our financial interests in AdvisorEngine on our financial statements, which would adversely impact our financial results. Furthermore, we could lose our entire financial interest in AdvisorEngine if it is unable to satisfy its obligations as they become due and ceases its operations. Writing off the entire value of our financial interests would have a material impact on our financial condition and results of operations and may cause a decline in the price of our common stock.

We currently depend on State Street Bank and Trust Company to provide us with critical administrative services to operate our business and the WisdomTree ETFs. The failure of State Street to adequately provide such services could materially affect our operating business and harm WisdomTree ETF shareholders.

We currently depend upon State Street Bank and Trust Company, or State Street, to provide the WisdomTree Trust with custody services, fund accounting, administration, transfer agency and securities lending services. The failure of State Street to successfully provide us and the WisdomTree ETFs with these services could result in financial loss to us and WisdomTree ETF shareholders. In addition, because State Street provides a multitude of important services to us, changing this vendor relationship would be challenging. It might require us to devote a significant portion of management s time to negotiate a similar relationship with another vendor or have these services provided by multiple vendors, which would require us to coordinate the transfer of these functions to another vendor or vendors.

We primarily depend on BNY Mellon, Voya Investment Management and One Capital Management to provide portfolio management services and other third parties to provide many critical services to operate our business and the WisdomTree ETFs. The failure of key vendors to adequately provide such services could materially affect our operating business and harm WisdomTree ETF shareholders.

We depend on third-party vendors to provide us with many services that are critical to operating our business, including BNY Mellon, Voya Investment Management and One Capital Management as sub-advisers that provide us with portfolio management services, third-party providers of index calculation services for our indexes, a distributor of the WisdomTree ETFs and a third-party provider of indicative values of the portfolios of the WisdomTree ETFs. The failure of any of these key vendors to provide us and the WisdomTree ETFs with these services could lead to operational issues and result in financial loss to us and WisdomTree ETF shareholders.

We currently depend on R&H Fund Services (Jersey) Limited in respect of the ETFS Products, Link IFS Limited in respect of the Boost ETPs and State Street Fund Services (Ireland) Limited in respect of the Wisdom Tree UCITS ETFs to provide us with critical administrative services to those products. The failure of any of those providers to adequately provide such services could materially affect our operating business and harm investors in those products.

We currently depend upon R&H Fund Services (Jersey) Limited in respect of the ETFS Products, Link IFS Limited in respect of the Boost ETPs and State Street Fund Services (Ireland) Limited in respect of the WisdomTree UCITS ETFs, to provide fund accounting, administration and, transfer agency services, as well as custody services in the case of the WisdomTree UCITS ETFs. The failure of any service provider to successfully provide these services could result in financial loss to the products, us and investors in those products. In addition, because each of the service providers provides a multitude of important services, changing these vendor relationships would be challenging. It might require us to devote a significant portion of management s time to negotiate a similar relationship with other vendors or have these services provided by multiple vendors, which would require us to coordinate the transfer of these functions to another vendor or vendors.

The WisdomTree UCITS ETFs primarily depend on either of Assenagon Asset Management S.A. or Irish Life Investment Managers Limited to provide portfolio management services and other third parties to provide many critical services to operate the WisdomTree UCITS ETFs. The failure of key vendors to adequately provide such services could materially affect our operating business and harm WisdomTree UCITS ETFs shareholders.

The WisdomTree UCITS ETFs depend on third-party vendors to provide many services that are critical to operating our business, including Assenagon Asset Management S.A. and Irish Life Investment Managers Limited as investment managers that provide us with portfolio management services and third-party providers of index calculation services. The failure of any of these key vendors to provide the WisdomTree UCITS ETFs with these services could lead to operational issues and result in financial loss to us and shareholders of WisdomTree UCITS ETFs.

Our indebtedness may expose us to material risks, which may impede our ability to refinance our debt upon maturity, increase our cost of borrowing or result in our debt being called prior to maturity.

On April 11, 2018 and in connection with the ETFS Acquisition, we entered into a credit agreement, or the Credit Agreement, with Credit Suisse AG and certain other lenders. Under the Credit Agreement, the lenders extended to us a $200.0 million term loan, or the Term Loan, and a $50.0 million revolving credit facility, or the Revolver and, together with the Term Loan, the Credit Facility. The borrowings under the Credit Facility are at a floating rate and mature on April 11, 2021. There are currently no amounts outstanding under the Revolver. Our indebtedness may make it more difficult for us to withstand or respond to adverse or changing business, regulatory and economic conditions or to take advantage of new business opportunities or make necessary capital expenditures. In addition, our Credit Agreement contains various covenants, that may limit our business activities, including restrictions on our ability to incur additional indebtedness, pay dividends and make stock repurchases. For example, the Credit Agreement includes a financial covenant requiring us not to exceed the Total Leverage Ratio. The failure to comply with the Total Leverage Ratio or other restrictions could result in an event of default, giving our lenders the ability to accelerate repayment of our obligations (See Note 12 to our Consolidated Financial Statements). To the extent we service our debt from our cash flow, such cash will not be available for our operations or other purposes. Any substantial decrease in net operating cash flows or any substantial increase in expenses could make it difficult for us to meet our debt service requirements or force us to modify our operations. Our ability to repay outstanding amounts under our Credit Facility, to refinance our debt or to obtain additional financing through debt or the sale of equity securities will depend on our performance, as well as financial, business and other general economic factors affecting the credit and equity markets generally or our business in particular, many of which are beyond our control. Any such alternatives may not be available to us on satisfactory terms or at all.

Our revenues could be adversely affected if the WisdomTree Trust determines that the advisory fees we receive from the WisdomTree ETFs should be reduced.

Our advisory agreements with the WisdomTree Trust and the fees we collect from the WisdomTree ETFs are subject to review and approval by the Independent Trustees of the WisdomTree Trust. The advisory agreements are subject to initial review and approval. After the initial two-year term of the agreement for each ETF, the continuation of such agreement must be reviewed and approved at least annually by a majority of the Independent Trustees. In determining whether to approve the agreements, the Independent Trustees consider factors such as the nature and quality of the services provided by us, the fees charged by us and the costs and profits realized by us in connection with such services, as well as any ancillary or fall-out benefits from such services, the extent to which economies of scale are shared with the WisdomTree ETFs, and the level of fees paid by other similar funds. If the Independent Trustees determine that the advisory fees we charge to any particular fund are too high, we will need to reduce our fees, which could adversely affect our revenues.

Our risk management policies and procedures, and those of our third-party vendors upon which we rely, may not be fully effective in identifying or mitigating risk exposure, including employee misconduct. If our policies and procedures do not adequately protect us from exposure to these risks, we may incur losses that would adversely affect our financial condition, reputation and market share.

We have developed risk management policies and procedures and we continue to refine them as we conduct our business. Many of our procedures involve oversight of third-party vendors that provide us with critical services such as portfolio management, custody and fund accounting and administration, and index calculation services. Our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure. Moreover, we are subject to the risks of errors and misconduct by our employees, including fraud and non-compliance with policies. These risks are difficult to detect in advance and deter, and could harm our business, results of operations or financial condition. Although we maintain insurance and use other traditional risk-shifting tools, such as third-party indemnification, to manage certain exposures, they are subject to terms such as deductibles, coinsurance, limits and policy exclusions, as well as risk of counterparty denial of coverage, default or insolvency. If our policies and procedures do not adequately protect us from exposure and our exposure is not adequately covered by insurance or other risk-shifting tools, we may incur losses that would adversely affect our financial condition and could cause a reduction in our revenues as investors in WisdomTree ETPs shift their investments to the products of our competitors.

Compliance with extensive, complex and changing regulation imposes significant financial and strategic costs on our business, and non-compliance could result in fines and penalties.

Our business is subject to extensive regulation of our business and operations. Our U.S. subsidiary, WTAM, is a registered investment adviser and is subject to oversight by the SEC pursuant to its regulatory authority under the Investment Advisers Act. We also must comply with certain requirements under the Investment Company Act, with respect to the WisdomTree ETFs for which WTAM acts as investment adviser. WTAM is also a member of the NFA and registered as a commodity pool operator for certain of our ETFs. In addition, one of our other subsidiaries, WisdomTree Commodity Services, LLC, is also a member of the NFA and registered as a commodity pool operator for a commodity ETF that is not registered under the Investment Company Act. As a commodity pool operator, we are subject to oversight by the NFA and the CFTC pursuant to regulatory authority under the Commodity Exchange Act. In addition, the content and use of our marketing and sales materials and of our sales force in the U.S. regarding our U.S. listed ETFs is subject to the regulatory authority of FINRA. We are also subject to foreign laws and regulatory authorities with respect to operational aspects of our ETPs that invest in securities of issuers in foreign countries, in the marketing, offer and/or sales of our ETFs in foreign jurisdictions and in our offering of investment products domiciled outside of the U.S., such as our ETFS products, UCITS ETFs, Boost ETPs and Canadian ETFs. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of our business, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable

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laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation and thus result in redemptions from our ETPs and impede our ability to retain and attract investors in WisdomTree ETPs, all of which may reduce our revenues.

We face the risk of significant intervention by regulatory authorities, including extended investigation activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect investors in WisdomTree ETPs and our advisory clients, and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through WisdomTree ETP investor protection and market conduct requirements.

The regulatory environment in which we operate also is subject to modifications and further regulation. Recently, concerns have been raised about ETFs possible contribution to market volatility as well as the disclosure requirements applicable to certain types of more complex ETFs. In addition, the SEC recently approved a broad set of reforms regarding data reporting and fund liquidity, which are imposing additional expense and require additional administrative services and requirements, among other matters, in seeking to comply with the new rules. In addition, the SEC proposed a broad set of reforms regarding derivatives usage and business continuity that would apply to all registered funds, including ETFs, which may have a negative impact on our existing ETFs (including their operations and/or their performance) and our ability to launch new and innovative ETFs. New laws or regulations, or changes in the enforcement of existing laws or regulations, applicable to us or investors in the ETFs also may adversely affect our business, and our ability to function in this environment will depend on our ability to constantly monitor and react to these changes. Compliance with new laws and regulations may result in increased compliance costs and expenses.

Specific regulatory changes also may have a direct impact on our revenues. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry. New regulation, revised regulatory or judicial interpretations, revised viewpoints, outcomes of lawsuits against other fund complexes or growth in our ETF assets and/or profitability related to the annual approval process for investment advisory agreements may result in the reduction of fees under these agreements, which would mean a reduction in our revenues or otherwise may lead to an increase in costs or expenses.

Our operations outside the U.S. are subject to the laws and regulations of various non-U.S. jurisdictions and non-U.S. regulatory agencies and bodies. As we have expanded our international presence, a number of our subsidiaries and international operations have become subject to regulatory systems, in various jurisdictions, comparable to those covering our operations in the U.S. Regulators in these non-U.S. jurisdictions may have broad authority with respect to the regulation of financial services including, among other things, the authority to grant or cancel required licenses or registrations.

Damage to our reputation could adversely affect our business.

We believe we have developed a strong brand and a reputation for innovative, thoughtful products, favorable long-term investment performance and excellent client services. The WisdomTree name and brand is a valuable asset and any damage to it could hamper our ability to maintain and grow our AUM and attract and retain employees, thereby having a material adverse effect on our revenues. Risks to our reputation may range from regulatory issues to unsubstantiated accusations. Managing such matters may be expensive, time-consuming and difficult.

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Abnormally wide bid/ask spreads and market disruptions that halt or disrupt trading or create extreme volatility could undermine investor confidence in the ETF investment structure and limit investor acceptance of ETFs.

The shares of the WisdomTree ETFs, like the shares of all ETFs, trade on exchanges in market transactions that generally approximate the value of the underlying portfolio of securities held by the particular ETF. Trading involves risks including the potential lack of an active market for fund shares, abnormally wide bid/ask spreads (the difference between the prices at which shares of an ETF can be bought and sold) that can exist for a variety of reasons and losses from trading. These risks can be exacerbated during periods when there is low demand for an ETF, when the markets in the underlying investments are closed, when markets conditions are extremely volatile or when trading is disrupted. This could result in limited growth or a reduction in the overall ETF market and result in our revenues not growing as rapidly as it has in the recent past or even in a reduction of revenues.

In 2018, we completed the ETFS Acquisition and may pursue acquisitions or other strategic transactions in the future. Any strategic transactions that we are a party to will result in increased demands on our management and other resources, may be significant in size relative to our assets and operations, result in significant changes in our business and materially and adversely affect our stock price. If we were unable to manage our strategic initiatives it could have a material adverse effect on our business.

In 2018, we completed the ETFS Acquisition and may pursue acquisitions or other strategic transactions. These initiatives have placed increased demands on our management and other resources and may continue to do so in the future. We may not be able to manage our operations effectively or achieve our desired objectives on a timely or profitable basis. To do so may require, among other things:

- continuing to retain, motivate and manage our existing employees and/or attract and integrate new employees;

- developing, implementing and improving our operational, financial, accounting, reporting and other internal systems and controls on a timely basis; and

- maintaining and developing our various support functions including human resources, information technology, legal and corporate communications.

If we are unable to manage these initiatives effectively, there could be a material adverse effect on our ability to maintain or increase revenues and profitability.

Managing strategic initiatives may require continued investment in personnel, information technology infrastructure and marketing activities, as well as further development and implementation of financial, operational and compliance systems and controls. We may not be successful in implementing all of the processes that are necessary. Unless such initiatives result in an increase in our revenues that is at least proportionate to the increase in the costs associated with implementing them, our future profitability will be adversely affected.

In addition, any future strategic transactions may result in the issuance of a significant amount of our common stock or other security that could be dilutive to our stockholders, make substantial borrowings and/or changes in our board composition and/or management team, that constitute a change of control of our Company, lead to significant changes in our product offering, business operations and earning and risk profiles, and/or result in a decline in the price of our common stock.

Our ability to complete future strategic transactions depends upon a number of factors that are not entirely within our control, including our ability to identify suitable merger or acquisition candidates, negotiate acceptable terms, conclude satisfactory agreements and secure financing. Our failure to complete strategic transactions or to integrate and manage acquired or combined businesses successfully could materially and adversely affect our business, results of operations and financial conditions.

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The uncertainty regarding the potential U.K. exit from the EU could adversely affect our business.

On March 29, 2019, the U.K. is expected to leave the EU, referred to as Brexit. Such an exit from the EU would be unprecedented, and it is currently unclear what the U.K. s trading relationship with the EU will be after Brexit. Notwithstanding the uncertainty around timing and the precise structure of the future EU/U.K. relationship, it can be assumed that there will be changes to current U.K. trading relationships and the U.K. legal and regulatory environment. These changes may impact how we conduct our business across Europe. This uncertainty also could impact the broader global economy, including by reducing investor confidence and driving volatility. Such uncertainty could lead to scenarios that adversely affect our business, including our revenues, from either a decrease in the value of our AUM or from outflows from our funds due to a perceived higher exposure of our company to Brexit risk.

Our ability to operate effectively could be impaired if we fail to retain or recruit key personnel.

The success of our business is highly dependent on our ability to attract, retain and motivate highly skilled, and sometimes highly specialized, employees, including in particular, operations, product development, research and sales personnel. Our U.S. employees generally may voluntarily terminate their employment at any time. The market for these individuals is extremely competitive and is likely to become more so as additional investment management firms enter the ETF industry. Our compensation methods may not enable us to recruit and retain required personnel. For example, price volatility in our common stock may impact our ability to effectively use equity grants as an employee compensation incentive. Also, we may need to increase compensation levels, which would decrease our net income or increase our losses. If we are unable to retain and attract key personnel, it could have an adverse effect on our business, our results of operations and financial condition.

Changes in U.S. federal income tax law could make some of our products less attractive to investors.

Many of the WisdomTree ETFs seek to obtain the investment return achieved by our proprietary indexes that weigh index components based upon dividends. Even with the increase a few years ago in income tax rates applicable to dividends, corporate dividends continue to enjoy favorable tax treatment under current U.S. federal income tax law. If the income tax rates imposed on dividends were increased further, it may make these WisdomTree ETFs less attractive to investors.

Our expenses are subject to fluctuations that could materially affect our operating results.

Our results of operations are dependent in part on the level of our expenses, which can vary from quarter to quarter. Our expenses may fluctuate primarily as a result of discretionary spending, including additional headcount, accruals for incentive compensation, marketing, advertising, sales and other expenses we incur in connection with our day-to-day operations. Accordingly, our results of operations may vary from quarter to quarter.

Any significant limitation or failure of our technology systems, or of our third-party vendors technology systems, or any security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could interrupt or damage our operations and result in material financial loss, regulatory violations, reputational harm or legal liability.

We are dependent upon the effectiveness of our own, and our vendors , information security policies, procedures and capabilities to protect the technology systems used to operate our business and to protect the data that reside on or are transmitted through them. Although we and our third-party vendors take protective measures to secure information, our and our vendors technology systems may still be vulnerable to unauthorized access, computer viruses or other events that could result in inaccuracies in our information or system disruptions or failures, which could materially interrupt or damage our operations. In addition, technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced technology platforms

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for their products, which could affect our business. Any inaccuracies, delays, system failures or breaches, or advancements in technology, and the cost necessary to address them, could subject us to client dissatisfaction and losses or result in material financial loss, regulatory violations, reputational harm or legal liability, which, in turn, could cause a decline in our earnings or stock price.

We may from time to time in the future be involved in legal proceedings that could require significant management time and attention, possibly resulting in significant expense or in an unfavorable outcome, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

From time to time, we may be subject to litigation. In any litigation in which we are involved, we may be forced to incur costs and expenses to defend ourselves or to pay a settlement or judgment or comply with any injunctions in connection therewith if there is an unfavorable outcome. The expense of defending litigation may be significant. The amount of time to resolve lawsuits is unpredictable and defending ourselves may divert management s attention from the day-to-day operations of our business, which could adversely affect our business, results of operations, financial condition and cash flows. In addition, an unfavorable outcome in any such litigation could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Catastrophic and unpredictable events could have a material adverse effect on our business.

A terrorist attack, war, power failure, cyber-attack, natural disaster or other catastrophic or unpredictable event could adversely affect our revenues, expenses and operating results by: interrupting our normal business operations; inflicting employee casualties, including loss of our key employees; requiring substantial expenditures and expenses to repair, replace and restore normal business operations; and reducing investor confidence. We have a disaster recovery plan to address certain contingencies, but this plan may not be sufficient in responding or ameliorating the effects of all disaster scenarios. Similarly, these types of events could also affect the ability of the third-party vendors that we rely upon to conduct our business, including parties that provide us with sub-advisory portfolio management services, custodial, fund accounting and administration services or index calculation services, to continue to provide these necessary services to us, even though they may also have disaster recovery plans to address these contingencies. In addition, a failure of the stock exchanges on which our ETFs trade to function properly could cause a material disruption to our business. If we or our third-party vendors are unable to respond adequately or in a timely manner, these failures may result in a loss of revenues and/or increased expenses, either of which would have a material adverse effect on our operating results.

A change of control of our Company would automatically terminate our investment management agreements relating to the WisdomTree ETFs unless the Board of Trustees of the WisdomTree Trust and shareholders of the WisdomTree ETFs voted to continue the agreements. A change in control could occur if a third party were to acquire a controlling interest in our Company.

Under the Investment Company Act, an investment management agreement with a fund must provide for its automatic termination in the event of its assignment. The fund s board must vote to continue such an agreement following any such assignment and the shareholders of the WisdomTree ETFs must approve the assignment. The cost of obtaining such shareholder approval can be significant and ordinarily would be borne by us. Similarly, under the Investment Advisers Act, a client s investment management agreement may not be assigned by the investment adviser without the client s consent.

An investment management agreement is considered under both acts to be assigned to another party when a controlling block of the adviser s securities is transferred. Under both acts, there is a presumption that a stockholder beneficially owning 25% or more of an adviser s voting stock controls the adviser and conversely a stockholder beneficially owning less than 25% is presumed not to control the adviser. In our case, an assignment of our investment management agreements may occur if a third party were to acquire a controlling interest in our Company. We cannot be certain that the Trustees of the WisdomTree ETFs would consent to assignments of our investment management agreements or approve new agreements with us if a change of control occurs. And even if such approval were obtained, approval from the shareholders of the WisdomTree ETFs would be required to be obtained; such approval could not be guaranteed and even if obtained, likely would result in significant expense. This restriction may discourage potential purchasers from acquiring a controlling interest in our Company.

We may from time to time be subject to claims of infringement of third-party intellectual property rights, which could harm our business.

Third parties may assert against us alleged patent, copyright, trademark or other intellectual property rights to intellectual property that is important to our business. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending and resolving such claims, and may divert the efforts and attention of our management from our business. As a result of such intellectual property infringement claims, we could be required or otherwise decide that it is appropriate to:

- pay third-party infringement claims;
- discontinue selling the particular funds subject to infringement claims;
- discontinue using the processes subject to infringement claims;
- develop other intellectual property or products not subject to infringement claims, which could be time-consuming and costly or may not be possible; or
- license the intellectual property from the third party claiming infringement, which license may not be available on commercially reasonable terms.

The occurrence of any of the foregoing could result in unexpected expenses, reduce our revenues and adversely affect our business and financial results.

We have been issued a patent and have applied for another patent, but this additional patent may not be issued to us and we may not be able to enforce or protect our patents and other intellectual property rights, which may harm our ability to compete and harm our business.

Although we have a patent and have applied for another patent relating to our index methodology and the operation of our ETFs, this additional patent may not be issued to us. In addition, even if issued, our ability to enforce our patents and other intellectual property rights is subject to general litigation risks. While we have been competing without the benefit of this patent being issued, if it is not issued or we cannot successfully enforce it and our currently issued patent, we may lose the benefit of a future competitive advantage that they would otherwise provide to us. If we seek to enforce our rights, we could be subject to claims that the intellectual property right is invalid or is otherwise not enforceable. Furthermore, our assertion of intellectual property rights could result in the other party seeking to assert alleged intellectual property rights of its own or assert other claims against us, which could harm our business. If we are not ultimately successful in defending ourselves against these claims in litigation, we may be subject to the risks described in the immediately preceding risk factor entitled We may from time to time be subject to claims of infringement of third-party intellectual property rights, which could harm our business.

Risks Relating to our Common and Preferred Stock

The market price of our common stock has been fluctuating significantly and may continue to do so, and you could lose all or part of your investment.

The market price of our common stock has been fluctuating significantly and may continue to do so, depending upon many factors, some of which may be beyond our control, including:

- decreases in our AUM;

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- variations in our quarterly operating results;
- differences between our actual financial operating results and those expected by investors and analysts;
- publication of research reports about us or the investment management industry;
- changes in expectations concerning our future financial performance and the future performance of the ETF industry and the asset management industry in general, including financial estimates and recommendations by securities analysts;
- our strategic moves and those of our competitors, such as acquisitions or consolidations;
- changes in the regulatory framework of the ETF industry and the asset management industry in general and regulatory action, including action by the SEC to lessen the regulatory requirements or shortening the process to obtain regulatory relief under the Investment Company Act that is necessary to become an ETF sponsor;
- the level of demand for our stock, including the amount of short interest in our stock;
- changes in general economic or market conditions; and
- realization of any other of the risks described elsewhere in this section.

In addition, stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock. Furthermore, in the past, market fluctuations and price declines in a company s stock have led to securities class action litigations or other derivative stockholder lawsuits. If such a suit were to arise, it could cause substantial costs to us and divert our resources regardless of the outcome.

If equity research analysts issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not control the opinions of these analysts. The price and trading volume of our common stock could decline if one or more equity analysts downgrade our common stock or if analysts issue other unfavorable commentary or cease publishing reports about us or our business.

Preferred Shares issued in connection with the ETFS Acquisition contain redemption rights, which if triggered, could materially impact our financial position.

In connection with the ETFS Acquisition, we issued 14,750 shares of preferred stock, or Preferred Shares, to ETFS Capital which are convertible into 14,750,000 shares of our common stock, subject to certain restrictions. ETFS Capital also has redemption rights for the Preferred Shares to protect against corporate events such as our having an insufficient number of shares of authorized common stock to permit full conversion and if, upon a change of control of us, ETFS Capital does not receive the same amount per Preferred Share that it would have received had the Preferred Shares been converted prior to a change of control. Any such redemption will be at a price per Preferred Share equal to the dollar volume-weighted average price for a share of common stock for the 30-trading day period ending on the date of such attempted conversion or change of control, as applicable, multiplied by 1,000.

Future issuances of our common stock could lower our stock price and dilute the interests of existing stockholders.

We may issue additional shares of our common stock in the future, either in connection with an acquisition or for other business reasons. The issuance of a substantial amount of common stock could have the effect of substantially diluting the interests of our current stockholders. In addition, the sale of a substantial amount of common stock in the public market, either in the initial issuance or in a subsequent resale by the target company in an acquisition which received such common stock as consideration or by investors who acquired such common stock in a private placement, could have a material adverse effect on the market price of our common stock.

The members of our Board of Directors, their affiliates and our executive officers, as stockholders, can exert significant influence over our Company.

As of December 31, 2018, the members of our Board of Directors and our executive officers, as stockholders, collectively beneficially owned approximately 14.6% of our outstanding common stock. As a result of this ownership, they have the ability to significantly influence all matters requiring approval by stockholders of our Company, including the election of directors. This concentration of ownership also may have the effect of delaying or preventing a change in control of our Company that may be favored by other stockholders. This could prevent transactions in which stockholders might otherwise receive a premium for their shares over current market prices.

Although our directors and officers have a duty of loyalty to us under Delaware law and our certificate of incorporation, transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as (i) the material facts relating to the director s or officer s relationship or interest as to the transaction are disclosed to our Board of Directors and a majority of our disinterested directors, or a committee consisting solely of disinterested directors, approves the transaction, (ii) the material facts relating to the director s or officer s relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (iii) the transaction is otherwise fair to us. Under our certificate of incorporation, representatives of our stockholders are not required to offer to us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as a director of ours. The listing requirements of the NASDAQ Global Select Market, upon which our common stock is listed, also require that certain transactions in which a director or officer has a conflict of interest must be considered and approved by our Audit Committee, which consists solely of independent directors.

A provision in our certificate of incorporation and by-laws may prevent or delay an acquisition of our Company, which could decrease the market value of our common stock.

Provisions of Delaware law, our certificate of incorporation and our by-laws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable. These provisions may also prevent or delay attempts by stockholders to replace or remove our current management or members of our Board of Directors. These provisions include:

- a classified Board of Directors;
- limitations on the removal of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;

- the ability of our Board of Directors to make, alter or repeal our by-laws; and

- the authority of our Board of Directors to issue preferred stock with such terms as our Board of Directors may determine.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our Board of Directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them.

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As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

The payment of dividends to our stockholders and our ability to repurchase our common stock is subject to the discretion of our Board of Directors and may be limited by our financial condition, the Credit Agreement, and any applicable laws.

In November 2014, we commenced a quarterly cash dividend and intend to continue to pay regular dividends to our stockholders. In October 2014, our Board of Directors authorized a share repurchase program with a term that was extended through April 27, 2019, under which $85.7 million remained available for repurchases as of December 31, 2018. In connection with the ETFS Acquisition, our Board of Directors adjusted the quarterly dividend to $0.03 per share, beginning with the dividend payment in the first quarter of 2018. Under the terms of the Credit Agreement, we are required to comply with various covenants including a leverage test. A quarterly cash dividend payment in excess of $0.03 per share, as well as share repurchases other than for shares withheld pursuant to the terms of equity awards granted to employees to satisfy tax withholding obligations, are permitted only to the extent we comply with the leverage test and no event of default (as defined in the credit agreement) has occurred and is continuing at the time the cash dividend payment or share repurchase is made as the case may be. Our Board of Directors may, in its discretion, decrease, but not increase, the level of dividends in the future. Further, our Board of Directors continue to have the discretion to discontinue the payment of dividends entirely. Any determination as to the payment of dividends or stock repurchases, as well as the level of such dividends or repurchases, will depend on, among other things, general economic and business conditions, our level of AUM, our strategic plans, our financial results and condition, limitations associated with the credit facilities or other agreements that could limit the amount of dividends we are permitted to pay or the stock we may repurchase, and any applicable laws. If, as a consequence of these various limitations and restrictions, we are unable to generate sufficient income from our business, we may need to reduce or eliminate the payment of dividends on our common stock or cease repurchasing our common stock. Any change in our stock repurchases or the level of our dividends or the suspension of the payment thereof could adversely affect our stock price.

In addition, our Board of Directors is authorized, without stockholder approval, to issue preferred stock with such terms as our Board of Directors may, in its discretion, determine. Our Board of Directors could, therefore, issue preferred stock with dividend rights superior to that of the common stock, which could also limit the payment of dividends on the common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved comments from the SEC staff relating to our periodic or current reports filed with the SEC pursuant to the Exchange Act.

ITEM 2. PROPERTIES

Our principal executive office is located at 245 Park Avenue, New York, New York 10167. We occupy approximately 38,000 square feet of office space under a lease that expires in July 2029. We believe that the space we lease is sufficient to meet our needs until the expiration of the lease.

ITEM 3. LEGAL PROCEEDINGS

We may be subject to reviews, inspections and investigations by the SEC, CFTC, NFA, state and foreign regulators, as well as legal proceedings arising in the ordinary course of business. We are not currently party to any litigation that is expected to have a material impact on our business, financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol WETF. As of December 31, 2018, there were 201 holders of record of shares of our common stock and we believe there were approximately 19,000 beneficial owners of our common stock.

In November 2014, we commenced a quarterly cash dividend and intend to continue to pay regular dividends to our stockholders. In connection with the ETFS Acquisition, our Board of Directors adjusted the quarterly dividend to $0.03 per share, beginning with the dividend payment in the first quarter of 2018. Under the terms of the Credit Agreement, we are required to comply with various covenants including a leverage test. A quarterly cash dividend payment in excess of $0.03 per share is permitted only to the extent we comply with the leverage test and no event of default (as defined in the Credit Agreement) has occurred and is continuing at the time the cash dividend payment is made. Our Board of Directors may, in its discretion, decrease, but not increase, the level of dividends in the future. Further, our Board of Directors has the discretion to discontinue the payment of dividends entirely. Any determination as to the payment of dividends, as well as the level of such dividends, will depend on, among other things, general economic and business conditions, our level of AUM, our strategic plans, our financial results and condition, limitations associated with the credit facilities or other agreements that could limit the amount of dividends we are permitted to pay, and any applicable laws.

Issuer Purchases of Equity Securities

The following table provides information with respect to purchases made by or on behalf of the Company or any affiliated purchaser of shares of our common stock.

On October 29, 2014, our Board of Directors authorized a three-year share repurchase program of up to $100 million. On April 27, 2016, the Board approved a $60.0 million increase to this program and extended the term through April 27, 2019, increasing the total authorized repurchase amount to $100.3 million. During the three months ended December 31, 2018, we repurchased 199,912 shares of our common stock under this program for an aggregate cost of approximately $1.5 million. As of December 31, 2018, $85.7 million remained under this program for future purchases. Under the terms of the Credit Agreement, share repurchases are permitted only to the extent we comply with a leverage test and no event of default (as defined in the credit agreement) has occurred and is continuing at the time the cash dividend payment is made. However, our ability to purchase shares of our common stock withheld pursuant to the terms of equity awards granted to employees to satisfy tax withholding obligations is not restricted.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the

Period					Plans or Programs (in thousands)
October 1, 2018 to October 31, 2018	35,063	$	7.77	35,063	
November 1, 2018 to November 30, 2018	126,437	$	7.41	126,437	
December 1, 2018 to December 31, 2018	38,412	$	6.40	38,412	
Total	199,912	$	7.28	199,912	$ 85,729

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ITEM 6. SELECTED FINANCIAL DATA

You should read the selected consolidated financial data presented below in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in this Report and our consolidated financial statements and the related notes included elsewhere in this Report. The selected consolidated statements of operations data presented below under the heading Consolidated Statements of Operations Data for the years ended December 31, 2018, 2017 and 2016 and the selected consolidated balance sheet data presented below under the heading Consolidated Balance Sheet Data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this Report. The selected consolidated financial data presented below under the headings Consolidated Statements of Operations Data for the years ended December 31, 2015 and 2014 and under Consolidated Balance Sheet Data as of December 31, 2016, 2015 and 2014 have been derived from our consolidated financial statements not included in this Report. The historical results presented below are not necessarily indicative of the financial results to be expected for future periods.

Certain accounts in the prior years Consolidated Statements of Operations have been reclassified to conform to the current year s consolidated financial statement presentation. See Note 2 to our Consolidated Financial Statements for additional information.

	2018	**2017**	**2016**	**2015**	**2014**
		(in thousands, except per share data)			
Consolidated Statements of Operations Data:					
Operating Revenues:					
Advisory fees	$ 271,104	$ 226,692	$ 218,217	$ 297,944	$ 182,816
Other income	3,012	1,603	703	371	271
Total revenues	274,116	228,295	218,920	298,315	183,087
Operating Expenses:					
Compensation and benefits	74,515	81,493	63,263	73,228	40,995
Fund management and administration	56,686	42,144	41,083	42,782	34,383
Marketing and advertising	13,884	14,402	15,643	13,371	11,514
Sales and business development	17,153	13,811	12,537	9,189	6,221
Contractual gold payments	8,512				
Professional and consulting fees	7,984	5,254	6,692	7,067	7,578
Occupancy, communications and equipment	6,203	5,415	5,211	4,299	3,578
Depreciation and amortization	1,301	1,395	1,305	1,006	821
Third-party distribution fees	6,611	3,393	2,827	2,443	594
Acquisition-related costs	11,454	4,832			
Other	8,534	7,068	6,909	6,187	4,530
Total expenses	212,837	179,207	155,470	159,572	110,214
Operating income	61,279	49,088	63,450	138,743	72,873
Other Income/(Expenses)					
Interest expense	(7,962)				
Gain on revaluation of deferred consideration gold payments	12,220				

Interest income	3,093	2,861	1,111	681	578
Settlement gain		6,909			
Impairments	(17,386)		(1,676)		
Acquisition payment			(6,738)	(2,185)	
Other gains and losses, net	(205)	(666)	(585)	(54)	97
Income before taxes	51,039	58,192	55,562	137,185	73,548
Income tax expense	14,406	30,993	29,407	57,133	12,497
Net income	$ 36,633	$ 27,199	$ 26,155	$ 80,052	$ 61,051
Earnings per share diluted	$ 0.23	$ 0.20	$ 0.19	$ 0.58	$ 0.44
Weighted average common shares diluted	158,415	136,003	135,539	138,825	138,551
Cash dividends declared per common share	$ 0.12	$ 0.32	$ 0.32	$ 0.57	$ 0.08

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	2018	2017	2016	2015	2014
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 77,784	$ 54,193	$ 92,722	$ 210,070	$ 165,284
Total assets	$ 937,518	$ 254,985	$ 249,767	$ 292,693	$ 220,751
Long-term debt	$ 194,592	$	$	$	$
Deferred consideration gold payments (total)	$ 161,540	$	$	$	$
Total liabilities	$ 446,614	$ 62,034	$ 48,423	$ 58,191	$ 36,466
Preferred stock Series A Non-Voting Convertible	$ 132,569	$	$	$	$
Stockholders equity	$ 358,335	$ 192,951	$ 201,344	$ 234,502	$ 184,285

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes and the other financial information included elsewhere in this Report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below. For a more complete description of the risks noted above and other risks that could cause our actual results to materially differ from our current expectations, please see Item 1A. Risk Factors of this Report. We assume no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Introduction

We are the only publicly-traded asset management company that focuses exclusively on ETPs and are one of the leading ETP sponsors in the world based on assets under management, or AUM, with AUM of $54.1 billion globally as of December 31, 2018. An ETP is a pooled investment vehicle that holds a basket of securities, financial instruments or other assets and generally seeks to track (index-based) or outperform (actively managed) the performance of a broad or specific equity, fixed income or alternatives market segment, commodity or currency (or an inverse or multiple thereof). ETPs are listed on an exchange with their shares traded in the secondary market at market prices, generally at approximately the same price as the net asset value of their underlying components. ETP is an umbrella term that includes exchange-traded funds, or ETFs, exchange-traded notes and exchange-traded commodities.

We focus on creating ETFs for investors that offer thoughtful innovation, smart engineering and redefined investing. We have launched many first-to-market ETFs in the United States and pioneered alternative weighting methods commonly referred to as smart beta. However, our U.S. listed ETFs are not beta, but rather an investment innovation we call Modern Alpha. Our Modern Alpha approach combines the outperformance potential of active management with the benefits of passive management to offer investors cost-effective funds that are built to perform.

Through our operating subsidiaries, we provide investment advisory and other management services to our ETPs collectively offering ETPs covering equity, commodity, fixed income, leveraged and inverse, currency and alternative strategies. In exchange for providing these services, we receive advisory fee revenues based on a percentage of the ETPs average daily AUM. Our expenses are predominantly related to selling, operating and marketing our ETPs. We have contracted with third parties to provide certain operational services for the ETPs. We distribute our ETPs through all major channels within the asset management industry, including brokerage firms, registered investment advisers, institutional investors, private wealth managers and discount brokers primarily through our sales force. Our sales efforts are not directed towards the retail segment but rather are directed towards financial or investment advisers that act as intermediaries between the end-client and us.

We strive to deliver a better investing experience through innovative solutions. Continued investments in technology-enabled services and our Advisor Solutions program, which includes portfolio construction, asset allocation, practice management services and wealth management technology via the AdvisorEngine platform, have been made to differentiate us in the market, expand our distribution and further enhance our relationships with financial advisors.

Executive Summary

Over the last three years, negative investor sentiment toward our two-largest ETFs (HEDJ and DXJ) has overshadowed steps we have taken to broaden the diversification of our AUM flows. During this time, we have experienced net outflows of $23.8 billion from HEDJ and DXJ. However, U.S. net inflows excluding HEDJ and DXJ over the same timeframe were $6.3 billion, which we attribute to organic growth, recent investments in technology-enabled services including the rollout of our Advisor Solutions program in the fourth quarter of 2017.

The acquisition of ETFS, which had approximately $17.6 billion of AUM at closing, provided us with immediate scale in Europe, an industry leading position in European listed gold and commodity products, greater AUM diversification globally, and profitability within our International Business segment. A substantial portion of AUM of ETFS are in products backed by gold. These products historically have been negatively correlated with HEDJ and DXJ. While we therefore may experience improved stability of AUM and lower overall AUM volatility we can provide no assurance that this will be the case.

Our financial results have fluctuated along with the changes in our AUM. Revenues were $218.9 million, $228.3 million and $274.1 million in 2016, 2017 and 2018, respectively.

Our strategic focus remains on diversifying and stabilizing our asset base by fostering deeper relationships through technology-driven solutions, increasing penetration within existing distribution channels and expanding into new distribution channels, continuing to grow our international business, offering innovative products and selectively pursing acquisitions or other strategic transactions.

In addition to completing the ETFS Acquisition, other business highlights for 2018 include the following:

Throughout the year, our model portfolios have been made available in varying capacities on the platforms of Key Bank, Oranj, Interactive Brokers and another large independent broker-dealer, in addition to being previously made available on the TD Ameritrade and Envestnet platforms.

In April 2018, our Advisor Solutions platform was named Fund Innovation of the Year at the 2018 Mutual Fund Industry Awards.

In July 2018, our U.S. listed ETFs and our Advisor Solutions program were made available on the no-transaction fee product platform of Cetera Financial Group, the second largest independent financial advisor network in the nation. This allows for Cetera s network of independent broker-dealers to access our diverse line-up of ETF products with no transaction fees.

In July 2018 and again in February 2019, we expanded our offerings of our U.S. listed ETFs on the Schwab ETF One Source platform, one of the largest commission-free ETF programs in the industry. Schwab clients can buy and sell 65 of our U.S. listed ETFs through the platform.

In August 2018, our full range of U.S. listed ETFs were made available commission-free on Ally Invest s online trading platform.

In September 2018, 77 of our U.S. listed ETFs were added to E*Trade s Custody Advantage program.

Our portfolio construction tool, DPD, won the Thought Leadership Initiative of the Year award at the 2018 WealthManagement.com Industry Awards.

In October 2018, we entered into a collaboration with PIMCO in which PIMCO s fixed income ETFs were added to three of our ETF model portfolios available to advisors in the Model Market Center on the TD Ameritrade Institutional Platform and through AdvisorEngine.

We launched 5 new U.S. listed ETFs, 3 new Canadian-listed ETFs and 8 new WisdomTree UCITs ETFs.

We returned approximately $22.1 million to our stockholders largely through our ongoing quarterly cash dividend and to a lesser extent, through stock repurchases.

Business Segments

We operate as an ETP sponsor and asset manager providing investment advisory services globally. These activities are reported in our U.S. Business and International Business segments.

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U.S. Business Segment

Our U.S. Business segment included our Japan sales office, WTJ, which engaged in selling our U.S. listed ETFs to Japanese institutions. In July 2018, we determined to restructure our distribution strategy in Japan and expanded our existing relationship with Premia to manage distribution of our ETFs in Japan. As a result, WTJ has ceased operations and is in the process of being liquidated. During the years ended December 31, 2018, 2017 and 2016, WTJ reported operating losses of $4,520, $4,553 and $4,382, respectively.

International Business Segment

The International Business segment includes our European business (which now includes ETFS) and our Canadian business.

Background

Market Environment

The following chart reflects the annual returns of the broad-based equity indexes over the last three years. As the chart reflects, the broad-based equity market indexes have been volatile during this timeframe.

Source: FactSet

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U.S. listed ETF Industry Flows

As the charts below reflect, industry flows for the year ended December 31, 2018 were $314 billion. U.S. equity and fixed income gathered the majority of those flows.

Source: Bloomberg, Investment Company Institute, WisdomTree.

International ETP Industry Flows

As the chart below reflects, International ETP net flows were $76 billion for the year ended December 31, 2018. Equities and fixed income gathered the majority of those flows.

Source: Morningstar

Industry Developments

Competition and Fee Pressures

The ETF industry is becoming significantly more competitive. Existing players have broadened their suite of products offering strategies that are, in some cases, similar to ours and large traditional asset managers are also launching ETFs, some with similar strategies as well.

There has also been increased price competition in not only commoditized product categories such as traditional, market capitalization weighted index exposures, but also in fundamental or other non-market capitalization weighted or factor-based exposures. Fee reduction by certain of our competitors has been a trend over the last few years and has recently accelerated. Funds are being offered with fees of 20 bps or less, which have attracted approximately 73% of the net flows globally during the last three years. However, while these low-cost ETFs have accumulated a significant amount of AUM recently, we estimate that these same funds represent only approximately 24% of global revenues.

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In the ETF industry, being a first mover, or one of the first providers of ETFs in a particular asset class, can be a significant advantage, as the first ETF in a category to attract scale in AUM and trading liquidity is generally viewed as the most attractive ETF. We believe that our early launch of ETFs in a number of asset classes or strategies, including fundamental weighting and currency hedging, positions us well to maintain our position as one of the leaders of the ETF industry. Additionally, we believe our affiliated indexing or self-indexing model, as well as our more recent active ETFs, enable us to launch proprietary products that do not have exact competition and are positioned to generate alpha versus benchmarks. As investors increasingly become more comfortable with the ETF structure, we believe there will be greater focus on after-fee performance rather than using ETFs primarily as low-cost market access vehicles. While we have selectively lowered fee rates on certain products that have yet to attain scale, and there is no assurance that we will not lower fee rates on certain ETFs in the future, our strategy continues to include launching new funds in the same category with a differentiated exposure at a lower fee rate, rather than reducing fees on existing ETFs with a significant amount of AUM, long performance track records, and secondary market liquidity. We generally believe we are well positioned from a product pricing perspective.

Regulatory Developments

The ETF industry continues to evolve with the introduction of new rules and regulations, such as the following:

The Fiduciary Rule. In April 2016, the DOL published its final rule to address conflicts of interest in retirement advice, commonly referred to as the Fiduciary Rule, and full compliance with the rule was required by July 1, 2019. However, in 2018, court rulings vacated the Fiduciary Rule. Even though the Fiduciary Rule was vacated, in response to preparing for compliance with the Fiduciary Rule, many financial advisors changed the revenue model that they charge clients from one that is transaction-based, that is, based on commissions for trades or receiving sales loads, to a fee-based approach, whereas an overall fee is charged based on the value of AUM. This fee-based approach lends itself to the adviser selecting no-load, lower-fee financial products, and in our opinion, better aligns advisers with the interests of their clients. Since ETFs generally charge lower fees than mutual funds, we believe this model shift, which we anticipate will remain in place even though the Fiduciary Rule was vacated, will benefit the ETF industry. As major brokerage firms and asset managers encourage their advisers to move towards fee-based models, we believe overall usage of ETFs likely will increase.

Regulation Best Interest. In April 2018, the SEC introduced a three-part regulatory package that would (i) prohibit broker-dealers from putting the financial or other interests of the broker-dealer ahead of the retail customer; (ii) require both investment advisers and broker-dealers to provide disclosure highlighting details about their services and fee structures; and (iii) establish a federal fiduciary standard for investment advisers.

Rule 6c-11. In June 2018, the SEC proposed this rule which would, among other things (i) allow most ETFs to operate without first obtaining exemptive relief, reducing the time and costs needed to bring products to market; (ii) provide greater flexibility with respect to aspects of ETF operations that exist under exemptive relief issued in recent years, including the use of custom baskets for creation and redemption transactions; and (iii) require additional disclosures regarding ETFs trading costs, including certain bid-ask spread information. The proposed rule also would rescind existing exemptive relief for ETFs that are eligible to rely on the proposed rule.

As proposed, Rule 6c-11 would level the playing field for new entrants in some respects. However, we believe that the barriers to success in the ETF industry remain unaffected and we are well positioned to take advantage of the flexibility that the rule would provide. In addition, we believe that the heightened focus on fiduciary and best interest standards will continue to increase investor awareness of the inherent benefits that ETFs provide transparency, tax efficiency and liquidity which we believe will expand ETFs competitiveness generally; and while we are not immune to fee pressure, we believe our proprietary approach and self-indexing differentiates us from the competition.

Additionally, while the shift toward fee-based models continues to take hold in the U.S. market as described above, regulatory initiatives in international markets are accelerating this trend in new markets. We believe regulations that discourage a commission model and mandate transparency of fees are conducive for ETF growth.

Components of Operating Revenue

Advisory fees

Substantially all of our revenues are comprised of advisory fees we earn from our ETPs. These advisory fees are calculated based on a percentage of the ETPs average daily net assets. Our weighted average fee rates by product category are as follows:

Commodity & Currency:	43bps	Leveraged & Inverse:	88bps
International Equity:	53bps	Fixed Income:	24bps
U.S. Equity:	34bps	Alternatives:	50bps
Emerging Market Equity:	66bps		

We determine the appropriate advisory fee to charge for our ETPs based on the cost of operating each ETP considering the types of securities the ETPs will hold, fees third-party service providers will charge us for operating the ETPs and our competitors fees for similar ETPs. From time to time, we implement voluntary waivers of a portion of our advisory fee. In addition, we earn a fee based on daily aggregate AUM of our ETPs in exchange for bearing certain fund expenses.

Our advisory fee revenues may fluctuate based on general stock market trends, which include market value appreciation or depreciation, currency fluctuations against the U.S. dollar, increased competition and level of inflows or outflows from our ETPs.

Other income

Other income includes creation/redemption fees earned on our European non-UCITS products and fees from licensing our indexes to third parties.

Components of Operating Expenses

Our operating expenses consist primarily of costs related to selling, operating and marketing our ETPs as well as the infrastructure needed to run our business.

Compensation and benefits

Employee compensation and benefits expenses are expensed when incurred and include salaries, incentive compensation, and related benefit costs. Virtually all our employees receive incentive compensation that is based on our operating results as well as their individual performance. Therefore, a portion of this expense will fluctuate with our business results. To attract and retain qualified personnel, we must maintain competitive employee compensation and benefit plans. We would expect changes in employee compensation and benefits expense to be correlated with changes in our revenues and net inflows.

Also included in compensation and benefits are costs related to equity awards granted to our employees. Our executive management and Board of Directors strongly believe that equity awards are an important part of our

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employees overall compensation package and that incentivizing our employees with equity in the Company aligns the interest of our employees with that of our stockholders. We use the fair value method in recording compensation expense for equity based awards. Under the fair value method, compensation expense is measured at the grant date based on the estimated fair value of the award and is recognized as an expense over the vesting period.

For the year ending December 31, 2019, we estimate that our compensation and benefits expense will be as follows:

U.S. Business segment:	$53.0 million to $63.0 million
International Business segment:	$17.0 million to $19.0 million

Fund management and administration

Fund management and administration expenses are expensed when incurred and are comprised of the following costs we pay third-party service providers to operate our ETPs:

- portfolio management of our ETPs (sub-advisory);
- fund accounting and administration;
- custodial services;
- transfer agency;
- accounting and tax services;
- printing and mailing of stockholder materials;
- index calculation;
- indicative values;
- distribution fees;
- legal and compliance services;
- exchange listing fees;
- trustee fees and expenses;
- preparation of regulatory reports and filings;
- insurance;
- certain local income taxes; and
- other administrative services.

We are not responsible for extraordinary expenses, taxes and certain other expenses.

We depend on a number of parties to provide critical portfolio management services to our ETPs. The fees we pay our sub-advisers generally have minimums per fund which range from $20,000 to $115,000 per year with additional fees ranging between 0.015% and 0.20% of average daily AUM at various breakpoint levels depending on the nature of the ETP. In addition, we pay certain costs based on transactions in our ETPs or based on inflow levels.

The fees we pay for accounting, tax, transfer agency, index calculation, indicative values and exchange listing are based on the number of ETFs we have. The remaining fees are based on a combination of both AUM and number of funds, or as incurred.

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For the year ending December 31, 2019, we estimate that our gross margin percentage will be as follows:

U.S. Business segment:	80%-81% at current AUM/revenue
International Business segment:	70%-72% at current AUM/revenue

We define gross margin as total operating revenues less fund management and administration expenses. Gross margin percentage is calculated as gross margin divided by total operating revenues.

Marketing and advertising

Marketing and advertising expenses are recorded when incurred and include the following:

- advertising and product promotion campaigns that are initiated to promote our existing and new ETPs as well as brand awareness;
- development and maintenance of our website; and
- creation and preparation of marketing materials.

Our discretionary advertising comprises the largest portion of this expense and we generally expect these costs to increase as we continue to execute our growth strategy and compete against other ETP sponsors. In addition, we may incur expenditures in certain periods to attract inflows, the benefit of which may or may not be recognized from increases to our AUM in future periods. However, due to the discretionary nature of some of these costs, they can generally be reduced if there were a decline in the markets.

Sales and business development

Sales and business development expenses are recorded when incurred and include the following:

- travel and entertainment or conference related expenses for our sales force;
- market data services for our research team;
- sales related software tools;
- voluntary payment of certain costs associated with the creation or redemption of ETF shares, as we may elect from time to time; and

legal and other advisory fees associated with the development of new funds or business initiatives.

Contractual gold payments

Contractual gold payments expense represents an ongoing obligation of ETFS Capital that we assumed in connection with the ETFS Acquisition. This ongoing obligation requires us to pay 9,500 ounces of gold annually from the advisory fee income we earn for managing physically backed gold ETPs. See Note 11 to our Consolidated Financial Statements for additional information.

Professional and consulting fees

Professional fees are expensed when incurred and consist of fees we pay to corporate advisers including accountants, tax advisers, legal counsel, investment bankers, human resources or other consultants. These expenses fluctuate based on our needs or requirements at the time. Certain of these costs are at our discretion and can fluctuate year to year.

Occupancy, communications and equipment

Occupancy, communications and equipment expense includes costs for our corporate headquarters in New York City as well as office related costs in our other locations.

Depreciation and amortization

Depreciation and amortization expense results primarily from amortization of leasehold improvements to our office space as well as depreciation on fixed assets we purchase, which is depreciated over five to fifteen years.

Third-party distribution fees

Third-party distribution fees expense includes payments to our third-party marketing agents in Latin America, Australia, New Zealand and Israel. In addition, this expense includes fees we pay to enable our ETFs to be included on certain third-party platforms in exchange for commission free trading or other preferential access and data. For the year ending December 31, 2019, we estimate that third-party distribution fees will be approximately 3.5% of advisory fees. This percentage may increase in the future if these arrangements are more successful in generating inflows into our funds.

Acquisition-related costs

Acquisition-related costs are principally associated with costs incurred in connection with the ETFS Acquisition, including integration costs recognized following its completion. In addition, during the year ended December 31, 2017, these costs also include professional fees incurred in connection with securing an option to acquire the remaining equity interests in AdvisorEngine. This option has since expired.

Other

Other expenses consist primarily of insurance premiums, general office related expenses, securities license fees for our sales force, public company related expenses, corporate related travel and entertainment and board of director fees, including stock-based compensation related to equity awards we granted to our directors.

Components of Other Income/(Expenses) of a Recurring Nature

Interest expense

Interest expense is associated with our long-term debt and revolving Credit Facility. We recognize interest expense using the effective interest method which includes the amortization of issuance costs.

Revaluation of deferred consideration

Deferred consideration arose in connection with the ETFS Acquisition and is remeasured each reporting period using forward-looking gold prices and a selected discount rate. See Note 11 to our Consolidated Financial Statements for additional information.

Interest income

Interest income, which is recognized on an accrual basis, arises on our note receivable and from investing our corporate cash.

Other gains and losses, net

Included herein are gains and losses arising from foreign exchange, the sale of gold earned from advisory fees paid by physically-backed gold ETPs, and other miscellaneous items.

Income Taxes

Overview

Our consolidated effective income tax expense consists of taxes due to federal, various state and local and certain foreign authorities. The consolidated effective tax rate was 28.2% for the year ended December 31, 2018, and was impacted by a valuation allowance on foreign net operating losses, non-deductible acquisition-related costs, state and local income taxes and a valuation allowance on capital losses, partly offset by a non-taxable gain on revaluation of deferred consideration, a lower tax rate on foreign earnings and stock-based compensation windfall tax benefits. The gain on revaluation is not adjusted for income taxes as the obligation was assumed by a wholly-owned subsidiary of ours that is based in Jersey, a jurisdiction where we are subject to a zero percent tax rate.

We currently anticipate that our consolidated normalized effective tax rate will be approximately 26% to 27% for the year ending December 31, 2019. This estimated rate may change and is dependent upon our actual taxable income earned in relation to our forecasts as well as any other items which may arise that are not currently forecasted. Such items may include, but are not limited to, any revaluation on deferred consideration and any stock-based compensation windfalls or shortfalls.

Factors that May Impact our Future Financial Results

Revenues

Our revenues are highly correlated to the level and relative mix of our AUM, as well as the fee rate associated with our ETPs, and is impacted by market sentiment. A significant portion of our AUM historically has been held in ETFs that invest in foreign securities. Therefore, our AUM and revenues are affected by movements in global capital markets levels and the strengthening or weakening of the U.S. dollar against other currencies. Over the last three years, concentrations in HEDJ and DXJ have declined dramatically. Negative investor sentiment toward these products has led to net outflows of $23.8 billion during this timeframe and our concentrations in these two products were reduced from 42% on January 1, 2016 to 14% at December 31, 2018. While reduced, our exposure to these two ETFs remains significant and therefore the strengthening of the euro or yen against the U.S. dollar, the decline in European or Japanese equity markets, or political or other market risks in either of these markets, may have an adverse effect on our results.

The chart below sets forth the asset mix of our ETPs for the last three years:

The ETFS Acquisition diversified our investment theme concentrations by adding commodity exposures, predominantly gold, that historically have been negatively correlated with our two largest U.S. listed ETFs, HEDJ and DXJ. While we therefore may experience improved stability of AUM and lower overall AUM volatility, we can provide no assurance that this will be the case.

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Another factor impacting our revenues is the fees associated with our ETPs. Changes in market sentiment may result in changes in the composition of our AUM and associated fees. Outflows from HEDJ and DXJ over the last three years and the ETFS Acquisition has impacted our product mix. These developments have led to a decline in our average global ETP advisory fee, which, for the years ended December 31, 2016, 2017 and 2018 were 0.52%, 0.50% and 0.48%, respectively.

Key Operating Statistics

The following table presents key operating statistics that serve as indicators for the performance of our business:

	Years Ended December 31,		
	2018	**2017**	**2016**
U.S. LISTED ETFs (in millions)			
Beginning of period assets	$ 46,827	$ 40,164	$ 51,639
Assets acquired			225
Inflows/(outflows)	(5,169)	234	(12,557)
Market appreciation/(depreciation)	(6,172)	6,429	857
End of period assets	$ 35,486	$ 46,827	$ 40,164
Average assets during the period	$ 42,241	$ 43,516	$ 41,012
Average ETF advisory fee during the period	0.48%	0.50%	0.51%
Number of ETFs end of the period	85	89	94
INTERNATIONAL LISTED ETPs (in millions)			
Beginning of period assets	$ 2,110	$ 1,093	$ 774
Assets acquired	17,641	77	
Inflows/(outflows)	682	775	325
Market appreciation/(depreciation)	(1,825)	165	(6)
End of period assets	$ 18,608	$ 2,110	$ 1,093
Average assets during the period	$ 14,155	$ 1,681	$ 1,020
Average ETP advisory fee during the period	0.48%	0.60%	0.65%
Number of ETPs end of period	452	99	90
PRODUCT CATEGORIES (in millions)			
Commodity & Currency			
Beginning of period assets	$ 445	$ 564	$ 354
Assets acquired	16,778		225
Inflows/(outflows)	411	(119)	(31)
Market appreciation/(depreciation)	(1,371)		16
End of period assets	$ 16,263	$ 445	$ 564
Average assets during the period	$ 11,757	$ 489	$ 586

International Developed Market Equity			
Beginning of period assets	$ 25,950	$ 23,105	$ 37,981
Assets acquired		37	
Inflows/(outflows)	(7,911)	(979)	(13,852)
Market appreciation/(depreciation)	(3,444)	3,787	(1,024)
End of period assets	$ 14,595	$ 25,950	$ 23,105
Average assets during the period	$ 20,946	$ 24,912	$ 26,014
U.S. Equity			
Beginning of period assets	$ 14,234	$ 12,111	$ 8,621
Assets acquired		24	
Inflows/(outflows)	902	532	1,950
Market appreciation/(depreciation)	(1,802)	1,567	1,540
End of period assets	$ 13,334	$ 14,234	$ 12,111
Average assets during the period	$ 14,350	$ 12,866	$ 9,864
Emerging Market Equity			
Beginning of period assets	$ 5,887	$ 3,917	$ 3,840
Inflows/(outflows)	322	738	(264)
Market appreciation/(depreciation)	(931)	1,232	341
End of period assets	$ 5,278	$ 5,887	$ 3,917
Average assets during the period	$ 5,769	$ 4,939	$ 3,812

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	Years Ended December 31, 2018	2017	2016
Fixed Income			
Beginning of period assets	$ 862	$ 504	$ 595
Assets acquired		16	
Inflows/(outflows)	1,810	305	(115)
Market appreciation/(depreciation)	(85)	37	24
End of period assets	$ 2,587	$ 862	$ 504
Average assets during the period	$ 1,558	$ 665	$ 606
Leveraged & Inverse			
Beginning of period assets	$ 930	$ 624	$ 436
Assets acquired	863		
Inflows/(outflows)	(265)	292	197
Market appreciation/(depreciation)	(246)	14	(9)
End of period assets	$ 1,282	$ 930	$ 624
Average assets during the period	$ 1,340	$ 810	$ 547
Alternatives			
Beginning of period assets	$ 582	$ 287	$ 204
Inflows/(outflows)	246	285	86
Market appreciation/(depreciation)	(73)	10	(3)
End of period assets	$ 755	$ 582	$ 287
Average assets during the period	$ 632	$ 395	$ 226
Closed ETPs			
Beginning of period assets	$ 47	$ 145	$ 382
Inflows/(outflows)	(2)	(45)	(203)
Market appreciation/(depreciation)	(45)	(53)	(34)
End of period assets	$	$ 47	$ 145
Average assets during the period	$ 44	$ 121	$ 377
Headcount U.S. Business Segment	153	162	163
Headcount International Segment	75	42	46

Note: Previously issued statistics may be restated due to trade adjustments

Source: WisdomTree

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Selected Operating and Financial Information

	Year Ended December 31, 2018	2017	Change	Percent Change
Global AUM (in millions)				
Average global AUM	$ 56,396	$ 45,197	$ 11,199	24.8%
Operating Revenues (in thousands)				
Advisory fees	$ 271,104	$ 226,692	$ 44,412	19.6%
Other income	3,012	1,603	1,409	87.9%
Total revenues	$ 274,116	$ 228,295	$ 45,821	20.1%

Average Global AUM

Our average global AUM increased 24.8% from $45.2 billion during the year ended December 31, 2017 to $56.4 billion in the comparable period in 2018 primarily due to the $17.6 billion of AUM acquired in connection with the ETFS Acquisition and net inflows into certain of our ETFs. These increases were partly offset by outflows from our two largest U.S. listed ETFs and market depreciation.

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Operating Revenues

Advisory fees

Advisory fee revenues increased 19.6% from $226.7 million during the year ended December 31, 2017 to $271.1 million in the comparable period in 2018 primarily due the ETFS Acquisition, partly offset by lower average U.S. listed AUM. Our average global ETP advisory fee has declined 0.02%, from 0.50% to 0.48% during the years ended December 31, 2017 and 2018, respectively, due to the ETFS Acquisition and change in product mix.

Other income

Other income increased 87.9% from $1.6 million during the year ended December 31, 2017 to $3.0 million in the comparable period in 2018 primarily due to creation/redemption fees earned from the ETFS exchange-traded products.

Operating Expenses

	Year Ended December 31,			
(in thousands)	**2018**	**2017**	**Change**	**Percent Change**
Compensation and benefits	$ 74,515	$ 81,493	$ (6,978)	(8.6%)
Fund management and administration	56,686	42,144	14,542	34.5%
Marketing and advertising	13,884	14,402	(518)	(3.6%)
Sales and business development	17,153	13,811	3,342	24.2%
Contractual gold payments	8,512		8,512	n/a
Professional and consulting fees	7,984	5,254	2,730	52.0%
Occupancy, communications and equipment	6,203	5,415	788	14.6%
Depreciation and amortization	1,301	1,395	(94)	(6.7%)
Third-party distribution fees	6,611	3,393	3,218	94.8%
Acquisition-related costs	11,454	4,832	6,622	137.0%
Other	8,534	7,068	1,466	20.7%
Total expenses	$ 212,837	$ 179,207	$ 33,630	18.8%

	Year Ended December 31,	
As a Percent of Revenues:	**2018**	**2017**
Compensation and benefits	27.2%	35.7%
Fund management and administration	20.7%	18.5%
Marketing and advertising	5.1%	6.3%
Sales and business development	6.2%	6.0%
Contractual gold payments	3.1%	n/a
Professional and consulting fees	2.9%	2.3%
Occupancy, communications and equipment	2.3%	2.4%

Depreciation and amortization	0.4%	0.6%
Third-party distribution fees	2.4%	1.5%
Acquisition-related costs	4.2%	2.1%
Other	3.1%	3.1%
Total expenses	77.6%	78.5%

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Compensation and benefits

Compensation and benefits expense decreased 8.6% from $81.5 million during the year ended December 31, 2017 to $74.5 million in the comparable period in 2018 due to lower incentive compensation of our U.S. Business segment, partly offset by higher compensation of our International Business segment due to the ETFS Acquisition. Headcount of our U.S. Business segment was 162 and our International Business segment was 42 at December 31, 2017 compared to 153 and 75, respectively, at December 31, 2018.

Fund management and administration

Fund management and administration expense increased 34.5% from $42.1 million during the year ended December 31, 2017 to $56.7 million in the comparable period in 2018 due to higher average AUM of our International Business segment primarily associated with the ETFS Acquisition. We had 89 U.S. listed ETFs and 99 International listed ETPs at December 31, 2017 compared to 85 U.S. listed ETFs and 452 International listed ETPs at December 31, 2018.

Marketing and advertising

Marketing and advertising expense decreased 3.6% from $14.4 million during the year ended December 31, 2017 to $13.9 million in the comparable period in 2018 primarily due to lower levels of spending in our U.S. Business segment, partly offset by higher spending in our International Business segment.

Sales and business development

Sales and business development expense increased 24.2% from $13.8 million during the year ended December 31, 2018 to $17.2 million in the comparable period in 2018 due to higher spending on sales related activities globally.

Contractual gold payments

Contractual gold payments expense represents an ongoing obligation of ETFS Capital that we assumed in connection with the ETFS Acquisition. This obligation requires us to pay 9,500 ounces of gold annually from advisory fee income we earn from managing physically backed gold ETPs. During the year ended December 31, 2018, we recognized $8.5 million of contractual gold payments expense associated with the payment of 6,835 ounces of gold at an average daily spot price of $1,246 per ounce.

Professional and consulting fees

Professional and consulting fees increased 52.0% from $5.3 million during the year ended December 31, 2017 to $8.0 million in the comparable period in 2018 largely due to higher spending on corporate consulting-related expenses.

Occupancy, communications and equipment

Occupancy, communications and equipment expense increased 14.6% from $5.4 million during the year ended December 31, 2017 to $6.2 million in the comparable period in 2018 primarily due to higher headcount associated with the ETFS Acquisition.

Depreciation and amortization

Depreciation and amortization expense decreased 6.7% from $1.4 million during the year ended December 31, 2017 to $1.3 million in the comparable period in 2018 and is primarily associated with our office in Japan which is in the process of being closed.

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Third-party distribution fees

Third-party distribution fees increased 94.8% from $3.4 million during the year ended December 31, 2017 to $6.6 million in the comparable period in 2018 primarily due to higher fees paid for platform relationships and to our third-party marketing agent in Latin America.

Acquisition-related costs

During the year ended December 31, 2018 we incurred acquisition-related costs associated with the ETFS Acquisition of $11.5 million which included professional advisor fees, severance and other compensation costs, a write-off of our office lease and other integration costs.

During the year ended December 31, 2017, we incurred acquisition-related costs of $4.8 million, which were primarily professional fees associated with the ETFS Acquisition, as well as professional fees associated with securing an option to purchase the remaining equity interests in AdvisorEngine. This option has since expired.

Other

Other expenses increased 20.7% from $7.1 million during the year ended December 31, 2017 to $8.5 million in the comparable period in 2018 primarily due to higher International Business segment office expenses associated with an increase in headcount from the ETFS Acquisition.

Other Income/(Expenses)

	Year Ended December 31,			Percent
(in thousands)	**2018**	**2017**	**Change**	**Change**
Interest expense	$ (7,962)	$	$ (7,962)	n/a
Gain on revaluation of deferred consideration	12,220		12,220	n/a
Interest income	3,093	2,861	232	8.1%
Impairments	(17,386)		(17,386)	n/a
Settlement gain		6,909	(6,909)	n/a
Other losses, net	(205)	(666)	461	(69.2%)
Total other income/(expenses)	$ (10,240)	$ 9,104	$ (19,344)	n/a

	Year Ended December 31,	
As a Percent of Revenues:	**2018**	**2017**
Interest expense	(2.9%)	n/a
Gain on revaluation of deferred consideration	4.5%	n/a
Interest income	1.1%	1.3%
Impairments	(6.3%)	n/a
Settlement gain	n/a	3.0%

Other losses, net	(0.1%)	(0.3%)
Total other income/(expenses)	(3.7%)	4.0%

Interest expense

Interest expense for the year ended December 31, 2018 of $8.0 million was incurred principally in connection with the $200.0 million Term Loan to facilitate the ETFS Acquisition. Our effective interest rate during the period was 5.1% and includes our cost of borrowing and amortization of issuance costs.

Gain on revaluation of deferred consideration

Gain on revaluation of deferred consideration of $12.2 million arose from the ongoing contractual gold payment obligation described above that we assumed from ETFS Capital in connection with the ETFS Acquisition. The present value of the ongoing obligation to pay 9,500 ounces of gold until March 2058, which is then reduced to 6,333 ounces into perpetuity is recorded on our Consolidated Balance Sheet as deferred consideration, which is re-measured each quarter based upon forward-looking gold prices. A gain was recognized during the year ended December 31, 2018 as the price of gold has declined when compared to April 11, 2018, the date in which the deferred consideration was originally measured. The magnitude of the gain recognized is highly correlated to the magnitude of the change in the price of gold.

Interest income

Interest income increased 8.1% from $2.9 million during the year ended 2017 to $3.1 million in the comparable period in 2018 primarily due to paid-in-kind interest on a note receivable from AdvisorEngine, partly offset by lower interest income on our short-term investment grade bond portfolio which has matured.

Impairments

During the year ended December 31, 2018, impairment charges of $17.4 million were recognized on the following items: (i) $10.0 million on the intangible asset associated with the WisdomTree Continuous Commodity Index Fund, or GCC; (ii) $3.8 million related to our ownership stake in Thesys Group, Inc., or Thesys; (iii) $3.3 million upon the expiration of our option to acquire the remaining equity interests in AdvisorEngine; and (iv) $0.3 million associated with the disposal of the fixed assets of our Japan office.

Settlement gain

A settlement gain of $6.9 million was recorded during the year ended December 31, 2017 representing the fair value of the preferred stock of Thesys that we received in connection with the resolution of a dispute regarding our ownership stake in Thesys, which occurred in June 2017. See Note 9 to our Consolidated Financial Statements.

Other losses, net

Other losses, net were $0.2 million and $0.7 million during the year ended December 31, 2018 and 2017, respectively. Gains and losses generally arise from the sale of gold earned from management fees paid by our physically-backed gold ETPs, foreign exchange fluctuations, securities owned and other miscellaneous items.

Income Taxes

Our effective income tax rate for the year ended December 31, 2018 of 28.2% resulted in income tax expense of $14.4 million. Our tax rate differs from the federal statutory tax rate of 21% primarily due to a valuation allowance on foreign net operating losses, non-deductible acquisition-related costs, state and local income taxes and a valuation allowance on capital losses, partly offset by a non-taxable gain on revaluation of deferred consideration, a lower tax rate on foreign earnings and stock-based compensation windfall tax benefits. The gain on revaluation of deferred consideration is not adjusted for income taxes as the obligation was assumed by a wholly-owned subsidiary of ours that is based in Jersey, a jurisdiction where we are subject to a zero percent tax rate.

Our effective income tax rate for the year ended December 31, 2017 of 53.3% resulted in income tax expense of $31.0 million. Our tax rate differed from the federal statutory tax rate of 35% primarily due to a valuation allowance on foreign net operating losses, state and local income tax expense, non-deductible acquisition-related costs and tax shortfalls recognized upon vesting of stock-based compensation awards during the year ended December 31, 2017. In addition, included within our effective income tax rate is a charge of $0.5 million to remeasure our net deferred tax assets, or DTAs, in connection with U.S. tax reform. We were required to remeasure our DTAs using the newly enacted federal corporate income tax rate of 21% at date of enactment. This reduced the carrying value of our DTAs and increased tax expense.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Selected Operating and Financial Information

	Year Ended December 31, 2017	Year Ended December 31, 2016	Change	Percent Change
Global AUM (in millions)				
Average global AUM	$ 45,197	$ 42,032	$ 3,165	7.5%
Operating Revenues (in thousands)				
Advisory fees	$ 226,692	$ 218,217	$ 8,475	3.9%
Other income	1,603	703	900	128.0%
Total revenues	$ 228,295	$ 218,920	$ 9,375	4.3%

Average Global AUM

Our average global AUM increased 7.5% from $42.0 billion at December 31, 2016 to $45.2 billion at December 31, 2017. This was primarily due to market appreciation of our U.S. listed ETFs, and to a lesser extent, net inflows into certain of our U.S. listed ETFs (including within our international equity, emerging markets, U.S. equity, fixed income and alternative strategy ETFs) and International listed ETPs. These increases were partly offset by outflows in our two largest U.S. listed ETFs, HEDJ and DXJ.

Operating Revenues

Advisory fees

Advisory fee revenues increased 3.9% from $218.2 million during the year ended December 31, 2016 to $226.7 million in the comparable period in 2017 due to an increase in our average global AUM, partly offset by lower average U.S. advisory fees due to a change in product mix. The changes in product mix resulted in our average global ETP advisory fee declining from 0.51% for the year ended December 31, 2016 to 0.50% for the year ended December 31, 2017.

Other income

Other income increased 128.0% from $0.7 million during the year ended December 31, 2016 to $1.6 million in the comparable period in 2017. The increase was primarily attributable to higher creation/redemption fees from our Boost ETPs.

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Operating Expenses

(in thousands)	Year Ended December 31, 2017	2016	Change	Percent Change
Compensation and benefits	$ 81,493	$ 63,263	$ 18,230	28.8%
Fund management and administration	42,144	41,083	1,061	2.6%
Marketing and advertising	14,402	15,643	(1,241)	(7.9%)
Sales and business development	13,811	12,537	1,274	10.2%
Professional and consulting fees	5,254	6,692	(1,438)	(21.5%)
Occupancy, communications and equipment	5,415	5,211	204	3.9%
Depreciation and amortization	1,395	1,305	90	6.9%
Third-party distribution fees	3,393	2,827	566	20.0%
Acquisition-related costs	4,832		4,832	n/a
Other	7,068	6,909	159	2.3%
Total expenses	$ 179,207	$ 155,470	$ 23,737	15.3%

As a Percent of Revenues:	Year Ended December 31, 2017	2016
Compensation and benefits	35.7%	28.9%
Fund management and administration	18.5%	18.8%
Marketing and advertising	6.3%	7.1%
Sales and business development	6.0%	5.7%
Professional and consulting fees	2.3%	3.0%
Occupancy, communications and equipment	2.4%	2.4%
Depreciation and amortization	0.6%	0.6%
Third-party distribution fees	1.5%	1.3%
Acquisition-related costs	2.1%	n/a
Other	3.1%	3.2%
Total expenses	78.5%	71.0%

Compensation and benefits

Compensation and benefits expense increased 28.8% from $63.3 million during the year ended December 31, 2016 to $81.5 million in the comparable period in 2017 primarily due to higher accrued incentive compensation. The incentive compensation pool increased for compensation payable to our Chief Executive Officer, who opted not to accept any cash or equity bonus in the prior year. The pool was also increased to recognize the achievement of certain milestones involving several important strategic initiatives, as well as the addition of a key executive and average higher headcount. Headcount of our U.S. Business segment was 163 and our International Business segment was 46 at December 31, 2016 compared to 162 and 42, respectively, at December 31, 2017.

Fund management and administration

Fund management and administration expense increased 2.6% from $41.1 million during the year ended December 31, 2016 to $42.1 million in the comparable period in 2017. This increase was primarily due to higher average global AUM and the higher number of ETPs of our International Business segment, partly offset by a lower number of U.S. listed ETFs. We had 94 U.S. listed ETFs and 90 International listed ETPs at December 31, 2016 compared to 89 U.S. listed ETFs and 99 International listed ETPs at December 31, 2017.

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Marketing and advertising

Marketing and advertising expense decreased 7.9% from $15.6 million during the year ended December 31, 2016 to $14.4 million in the comparable period in 2017 primarily due to lower levels of advertising related activities in our U.S. Business segment.

Sales and business development

Sales and business development expense increased 10.2% from $12.5 million during the year ended December 31, 2016 to $13.8 million in the comparable period in 2017 primarily due to sales related activities globally.

Professional and consulting fees

Professional and consulting fees decreased 21.5% from $6.7 million during the year ended December 31, 2016 to $5.3 million in the comparable period in 2017 primarily due to lower professional and corporate consulting-related expenses of our U.S. Business segment.

Occupancy, communications and equipment

Occupancy, communications and equipment expense was essentially unchanged from the year ended December 31, 2016.

Depreciation and amortization

Depreciation and amortization expense was essentially unchanged from the year ended December 31, 2016.

Third-party distribution fees

Third-party distribution fees expense increased 20.0% from $2.8 million during the year ended December 31, 2016 to $3.4 million in the comparable period in 2017 primarily due to higher fees paid to our third-party marketing agents in Latin America and Israel as well as the addition of a new distribution relationship, partly offset by lower spending on a third-party commission free brokerage platform in the U.S.

Acquisition-related costs

During the year ended December 31, 2017, we incurred acquisition-related costs of $4.8 million, which were primarily professional fees associated with the ETFS Acquisition, as well as professional fees associated with securing an option to purchase the remaining equity interests in AdvisorEngine. This option has since expired.

Other

Other expense was essentially unchanged from the year ended December 31, 2016.

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Other Income/(Expenses)

(in thousands)	Year Ended December 31, 2017	2016	Change	Percent Change
Interest income	$ 2,861	$ 1,111	$ 1,750	157.5%
Settlement gain	6,909		6,909	n/a