

Emerging markets. Growing potential.

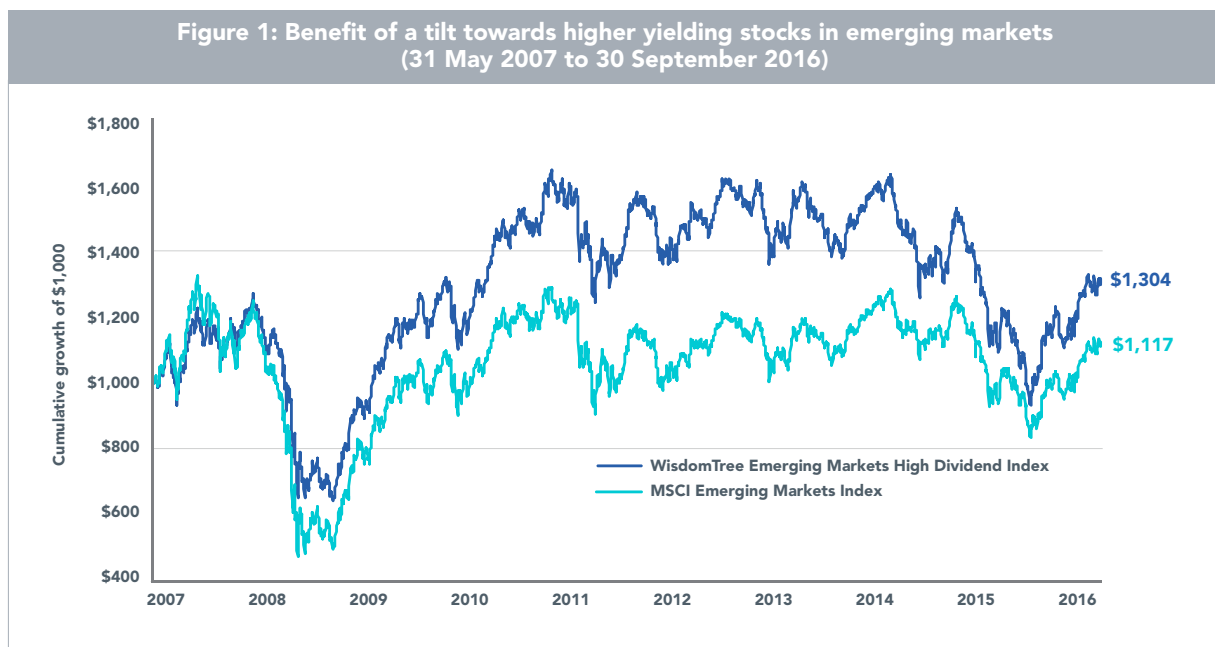
In our view, emerging markets represent one of the world's best long-term investment opportunities with over 85% of the world's population and huge economic growth potential. Having accounted for 54% of global growth since the turn of the millennium, the IMF forecasts emerging market economies to grow at an annual pace of 5.1% by 2020, far outstripping the 1.7% expected from developed markets.

As this trend develops, so too will equities in emerging markets. We believe that focusing on valuation will be key in order to avoid overpaying for growth in these quickly developing markets.

EMERGING MARKETS. ESTABLISHED PERFORMANCE.

Professor Jeremy Siegel proposed the concept of rebalancing back to higher-yielding equities as a strategy to capture value and achieve outperformance over time. As illustrated in Figure 1, we found that this is also applicable in emerging markets, with the cumulative growth of \$1,000 for the high-yielding emerging market equities basket, represented by the WisdomTree Emerging Markets High Dividend Index (WTEMHY), outperforming an equivalent investment in the market, represented by the market-cap weighted MSCI Emerging Markets Index, by nearly \$200 since 2007.

To understand why this has happened we need to take a deeper look at WisdomTree's approach to index construction.



Source: WisdomTree. Data from 31 May 2007 to 30 September 2016.

Past performance is not indicative of future results.

WISDOMTREE EMERGING MARKETS HIGH DIVIDEND INDEX WEIGHTS BY DIVIDENDS

The majority of ETFs track market cap weighted benchmarks—meaning they give more weight to companies selling at higher prices rather than those potentially offering stronger fundamentals. But at WisdomTree, we believe fundamentals such as dividends offer more objective measures of a company’s health, value and profitability than stock price alone. Consider that:

- + Stock prices can—and do—deviate from their underlying value for many reasons
- + Dividends have theoretical and empirical importance in determining stock values
- + The payment of dividends indicates that management is focused on increasing shareholder value
- + Dividend stocks offer the potential for income, income growth and capital appreciation
- + Dividends can provide benefits regardless of the market direction.

The WisdomTree Emerging Markets High Dividend Index was constructed with these points in mind, seeking to capture high-dividend-yielding stocks in emerging markets in order to provide income and manage valuation risk. Figure 2 decomposes WisdomTree’s unique methodology, homing in on the stock selection and weighting process.

Figure 2: WisdomTree’s Emerging Markets High Dividend Index Methodology	
Eligible universes	Component companies must be incorporated in one of the following emerging markets: Brazil, Chile, China, Czech Republic, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, Taiwan, Thailand or Turkey. In the case of China, securities domiciled in China may also be eligible.
Selection	Securities ranking in the highest 30% by dividend yield in the WisdomTree Emerging Markets Dividend Index are selected for inclusion. Component companies must also meet minimum market capitalisation and liquidity screens to be eligible. An additional calculated volume factor is also applied to help improve liquidity.
Selection methodology	The initial weight in the Index is based on each component’s Dividend Stream (derived by multiplying the US dollar value of the company’s annual gross dividend per share by the number of common shares outstanding for that company) divided by the Dividend Stream of the Index.

It is important to note that the WisdomTree Emerging Markets High Dividend Index is not “yield weighted,” despite dividend yield of constituents being a key facet of the stock selection process:

DIVIDEND YIELD SELECTION + DIVIDEND STREAM® WEIGHTING = EXPOSURE TO HIGH DIVIDEND PAYERS

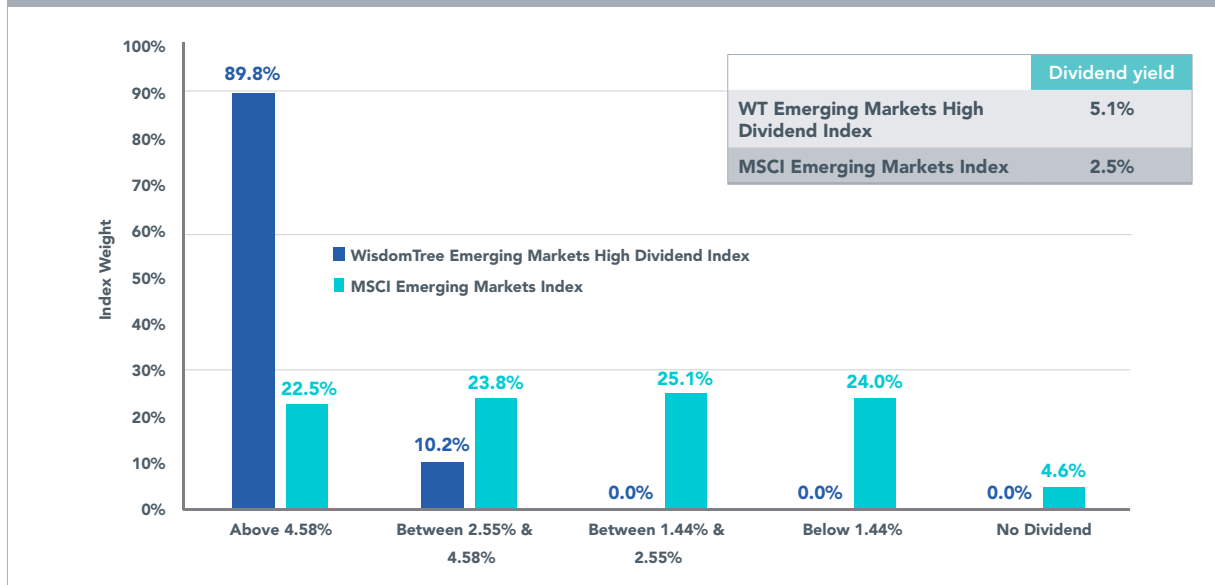
Instead, weighting is by WisdomTree’s Dividend Stream approach:

- + Dividend per share x number of shares outstanding = Dividend Stream

The results of this weighting approach are shown in Figure 3 with:

- + ~90% of stocks with dividend yield above 4.58%: 89.8% of WTEMHY’s weight is in stocks with dividend yields above 4.58%, while the MSCI EM Index holds 78% in stocks with dividends below this threshold with 4.6% having not paid a dividend at all in the prior 12 months.
- + More than double the yield: Perhaps not surprisingly, WTEMHY had a trailing 12-month dividend yield of 5.1%, compared to 2.5% for the MSCI EM Index.
- + A bias toward large-cap stocks: Despite the high dividend yield, WTEMHY still has over 50% exposure to large cap stocks, showing that you don’t need to be overexposed to mid/small caps in the search for yield.

Figure 3: Tilting towards higher dividend yields with more than 50% of market capitalisation above \$10 billion (as of 30 September 2016)



	Dividend yield
WT Emerging Markets High Dividend Index	5.1%
MSCI Emerging Markets Index	2.5%

Market Cap	WT Emerging Markets High Dividend Index	MSCI Emerging Markets Index
Above \$10 Billion	51.9%	66.1%
Between \$2 Billion & \$10 Billion	30.6%	31.7%
Below \$2 Billion	17.5%	2.2%

Source: Bloomberg. Data as of 30 September 2016.

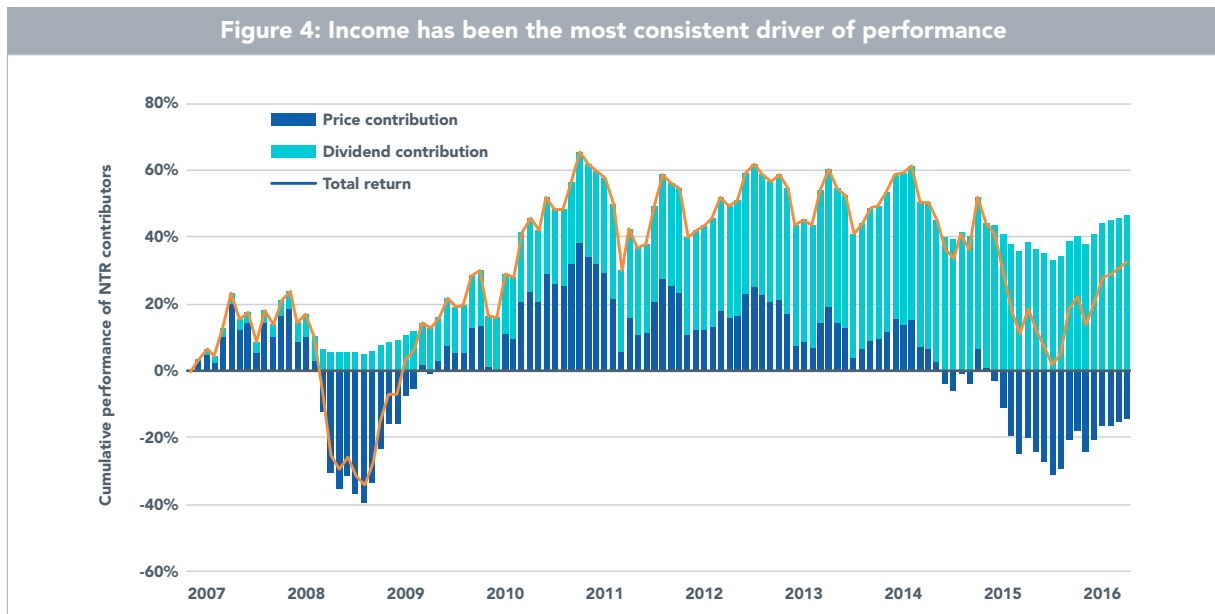
MANAGING VALUATION RISK THROUGH ANNUAL REBALANCING

Alongside the selection and weighting methodology, the annual rebalance also plays a critical role in enhancing size and value premiums. Each October, the WTEMHY Index is rebalanced based on relative value and the constituents and weights can change depending upon:

- + Share price performance: Since dividend yield is calculated as dividends paid over the prior 12 months divided by share price, the behaviour of the share price does have an impact on the dividend yield. If we assume the dividend is constant, a rising share price would mean a lower dividend yield. Conversely, a falling share price can lead to a less expensive stock and a higher dividend yield.
- + Dividend growth (or reduction): Rising dividends are another way to see a dividend yield potentially rise, just as falling dividends are another way to see a dividend yield potentially fall.

Over time, the effect of multiple rebalance cycles produces some interesting observations with regards to the performance for the WisdomTree Emerging Markets High Dividend Index.

Figure 4 decomposes the index returns (in black) into two components: the price returns (in orange)—reflecting changes in the share prices of the underlying constituents—and the dividend returns (in blue)—the result of dividend payments. Since the strategy inception in 2007, the cumulative price returns for emerging market equities has actually been negative, falling by 14%. By contrast, dividends show a different story with a cumulative return of 47% across the same time frame. As a result, not only were dividends the main driver of performance, compensating for equity price depreciation, but they were also remarkably consistent in providing added value to investors, irrespective of underlying market conditions.



Sources: WisdomTree, Bloomberg, with data over full calendar years from 31 July 2007 to 30 September 2016. Past performance is not indicative of future results.

WisdomTree’s robust index construction methodology has also helped deliver strong performance against the market over multiple timeframes as seen in Figure 5 with:

- + Higher returns since-inception, 1 year and YTD
- + Notable lowering of risk since-inception
- + Higher Sharpe ratio since-inception and YTD.

		Figure 5: The proof is in the performance			
Period	Index	Avg. Ann. Return	Std. Dev.	Sharpe Ratio	Beta ¹
YTD (30 Sep 16)	WisdomTree EM High Dividend Index	21.20%	20.60%	1.33	1
	MSCI Emerging Markets Index	16.00%	19.40%	1.1	1
1-year	WisdomTree EM High Dividend Index	17.30%	20.70%	0.86	1.04
	MSCI Emerging Markets Index	16.80%	18.90%	0.9	1
3-year	WisdomTree EM High Dividend Index	-5.40%	18.70%	-0.21	1.09
	MSCI Emerging Markets Index	-0.60%	16.40%	0.04	1
5-year	WisdomTree EM High Dividend Index	0.10%	17.60%	0.08	0.96
	MSCI Emerging Markets Index	3.00%	17.40%	0.25	1
01 Jun 07 to 30 Sep 16	WisdomTree EM High Dividend Index	2.90%	21.40%	0.22	0.85
	MSCI Emerging Markets Index	1.20%	24.10%	0.15	1

¹Beta: Measured relative to the MSCI Emerging Markets Index.

Source: Morningstar. Data from 01 June 2007 refers to the inception date of the WisdomTree Emerging Markets High Dividend Index.

Past performance is not indicative on future results.

THE WISDOMTREE EMERGING MARKETS EQUITY INCOME UCITS ETF

The WisdomTree Emerging Markets Equity Income UCITS ETF (DEM) tracks the WisdomTree Emerging Markets Equity Income Index. The Fund can be a smart way to access high-yielding emerging market stocks, as it:

- + Focuses on the highest-yielding stocks in the emerging markets
- + Enhances the value premium through dividend weighting
- + Provides the potential for additional income
- + Manages risk through single stock (5%), country (25%) and sector (25%) exposure capping.

Fund info: WisdomTree Europe Emerging Markets Equity Income UCITS ETF							
Ticker	Exchange	ISIN	BBG code	Reuters code	Listing currency	Base currency	TER%
DEM	LSE	IE00BQQ3Q067	DEM LN	DEM.L	GBx	USD	0.46%
DEMD	LSE	IE00BQQ3Q067	DEMD LN	DEMD.L	USD	USD	0.46%
DEM	Borsa Italiana	IE00BQQ3Q067	DEM IM	DEM.MI	EUR	USD	0.46%
DEM	SIX	IE00BQQ3Q067	DEM SW	DEM.S	CHF	USD	0.46%
WTEI	XETRA	DE000A14NDZ0	WTEI GY	WTEI.DE	EUR	USD	0.46%
DEMR**	LSE	IE00BDF12W49	DEMR LN	DEMR.L	USD	USD	0.46%
DEMS**	LSE	IE00BDF12W49	DEMS LN	DEMS.L	GBx	USD	0.46%
DEMR**	Borsa Italiana	IE00BDF12W49	DEMR IM	DEMR.MI	EUR	USD	0.46%
DEMR**	SIX	IE00BDF12W49	DEMR SW	DEMR.S	USD	USD	0.46%
WTD8**	XETRA	DE000A2ARXF9	WTD8 GY	WTD8.DE	EUR	USD	0.46%

* The underlying Index for all above is WisdomTree Emerging Markets High Dividend Index

** Accumulating version of WisdomTree Europe Emerging Markets Equity Income UCITS ETF.

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