

EMERGING MARKETS DIVIDENDS: A BROADER CLASSIFICATION

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While the landscape implied by the global [Dividend Stream®](#) provides useful context for global importance and can help inform allocation ideas, below we will focus on emerging markets (EM). We'll start the discussion with analysis of the [WisdomTree Emerging Markets Dividend Index](#), WisdomTree's broadest measure of emerging market [dividend](#) payers. Three factors can affect country *Dividend Streams*:

- **Organic Growth:** Constituents that were already members of the Index over the prior year remain in the Index and achieve *Dividend Stream* growth.
- **New Entrants:** New constituents qualify for Index membership and increase the total number of contributing components for a particular country. Of course, this can also work the other way, in that constituents can fail to retain their membership and thereby reduce the *Dividend Stream*. In an effort to be more inclusive of Chinese securities, WisdomTree expanded its country classification for China from being determined strictly by the country of incorporation to either country of incorporation or country of domicile. As a result of the new China classification, 169 Chinese companies were added to the Index, with 30 being reclassified from the developed world and 139 being newly eligible.
- **Currencies:** A currency can appreciate or depreciate compared to the U.S. dollar. The WisdomTree Emerging Markets Dividend Index measures dividends in U.S. dollar terms, so currency performance can impact constituent weights. While the aggregate EM *Dividend Stream* was down 0.7% between rebalance dates when measured in U.S. dollars, figure 1 shows just how important currency weakness was to that number on a country-by-country basis.

Figure 1: Dividend Growth Rates in U.S. Dollars & Local

Country	Growth Measured in Local Currency	Performance of Local Currency vs. U.S. Dollar	Growth Measured in U.S. Dollars	Dividend Stream (\$ Billions)
China	73.9%	0.2%	74.2%	\$55.4
India	27.2%	-5.8%	19.7%	\$4.4
Taiwan	26.5%	-7.8%	16.7%	\$26.5
South Korea	26.2%	-11.0%	12.3%	\$12.4
EM Dividend Stream	20.9%	-17.9%	-0.7%	\$183.8
Turkey	14.5%	-24.7%	-13.8%	\$3.6
Philippines	13.3%	-3.8%	9.0%	\$3.7
Mexico	10.7%	-20.6%	-12.2%	\$6.2
South Africa	1.9%	-18.5%	-17.0%	\$11.4
Czech Republic	1.9%	-10.5%	-8.8%	\$1.5
Indonesia	0.6%	-16.8%	-16.3%	\$5.3
Thailand	-0.1%	-10.8%	-10.9%	\$9.3
Russia	-0.9%	-39.4%	-39.9%	\$13.1
Brazil	-1.2%	-38.0%	-38.8%	\$14.9
Chile	-3.0%	-14.1%	-16.7%	\$3.6
Malaysia	-8.4%	-25.4%	-31.6%	\$8.6
Hungary	-13.7%	-12.3%	-24.3%	\$0.3
Poland	-26.3%	-12.9%	-35.8%	\$3.7

Sources: WisdomTree, Bloomberg, Standard & Poor's, with period measured from 9/30/14 to 9/30/15, index screening date for WisdomTree EM Dividend Index universe. Past performance is not indicative of future results. You cannot invest directly in an index.

Currency

WisdomTree Emerging Markets Dividend Index, currencies detracted almost 18% from the year-over-year *Dividend Stream* growth, as the *Dividend Stream* in local currencies was up approximately 21%. For reference purposes, assuming

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the old China classification remained, the *Dividend Stream* would have been down more than 15.6% in dollar terms and up 2.8% when measured in local currencies. • **The Negative Impact from Currencies:** Over the period, we witnessed broad dollar strength on anticipation of the [Federal Reserve \(Fed\)](#) lifting off from its zero [interest rate](#) policy, which put pressure on both developed and emerging market currencies. The [Bloomberg Dollar Index](#), a broad performance measure of the U.S. dollar against both developed and emerging market currencies, was up 12.8% over the period. Two of the worst performing emerging market currencies were the Brazilian real and the Russian ruble, depreciating more than 38% and 39%, respectively, during the period. So, although dividends in those countries were relatively flat over the period, the currency impact caused the U.S. dollar *Dividend Stream* to contract almost 40% for Russia and 39% for Brazil.

• **India, Taiwan and South Korea Rise to the Top:** All countries saw more than 25% dividend growth in local terms and impressively were still able to record double-digit dividend growth in dollar terms after incorporating the negative impact from currency. Both Taiwan and India had relatively stable currencies compared to other emerging markets. Taiwan moved up a spot to earn the title of second largest dividend-paying country and represents more than 14% of the total stream. Over the past year, the [South Korean government has passed reforms that we believed would encourage higher dividends](#), and we saw that play out over the past year. Although India's growth rate is impressive, it is not a large dividend-paying country due to unfavorable tax rules, so its impact on the total *Dividend Stream* is minimal.

Incorporating a More Diversified China China stands at the top with 74% growth in U.S. dollars over this period. As a result of the expanded China classification, this includes the addition of 169 companies that had a *Dividend Stream* of \$27.5 billion. For comparison purposes, assuming the old China classification remained, the *Dividend Stream* for China would have fallen 12.5%. It is also important to note that the currency return for China was 0.2% over the period because the above returns measure only the dividends of Chinese [H-shares](#), which trade in Hong Kong dollars (HKD) and typically pay dividends in Hong Kong dollars, and the HKD was essentially flat against the U.S. dollar over the period. **Figure 2:**

	Dividend Stream (\$ B)	Number of Dividend Payers	Newly Eligible Additions	Median Characteristics				Median Total Return (Annualized USD)			
				Dividend Yield	P/E Ratio	Long Term Earnings Growth	Return on Equity (ROE)	Return on Assets (ROA)	1 Year	3 Year	5 Year
China: China (CN) Incorporated	\$27.81	95	No	2.76%	9.8x	8.50%	12.64%	3.02%	-0.06%	10.61%	1.83%
China: Hong Kong (HK) Incorporated	\$16.79	30	Yes	3.71%	10.0x	8.95%	13.88%	4.46%	-5.76%	4.83%	4.12%
China: Incorporated Outside CN & HK	\$10.75	139	Yes	2.83%	10.9x	12.30%	17.29%	6.34%	-3.34%	8.10%	1.08%
China Total	\$55.35	264	N/A	2.91%	10.3x	10.00%	15.01%	4.88%	-2.59%	8.48%	1.49%

A Detailed Look at China Sources: WisdomTree, Bloomberg, as of 9/30/15.

For definitions of terms in the chart, please visit our [glossary](#). • **Characteristics:** It is interesting to note that the Hong Kong-incorporated securities displayed the highest [median dividend yield](#), almost 1% higher than the China-incorporated securities. Chinese securities incorporated outside of China and Hong Kong displayed the highest median growth and [quality](#) characteristics, recording more than 2% higher growth expectations and return on equity compared to the median of all Chinese constituents. • **Performance:** Although the Hong Kong-incorporated securities saw the highest median performance over the most recent five years, they have lagged the other two groups over the one- and three-year periods. Chinese securities incorporated outside of China and Hong Kong displayed lower median performance across all periods compared to the median performance of China-incorporated securities and of all China securities.

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Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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You cannot invest directly in an index.

DEFINITIONS

Dividend : A portion of corporate profits paid out to shareholders.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Bloomberg Dollar Spot Index (BBDXY) : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

H-Share : A share of a company incorporated in the Chinese mainland that is listed on the Hong Kong Stock Exchange or other foreign exchange.

Median : The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.