

WITH EMERGING MARKET STATUS UPGRADE, MIDDLE EAST COUNTRIES ARE IN FOCUS

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07/11/2013

Qatar and the United Arab Emirates Are Reclassified Morgan Stanley Capital International (MSCI) recently announced its decision to reclassify the [MSCI Qatar](#) and [MSCI UAE](#) indexes from frontier market to emerging market status. According to the press release, the reclassifications will coincide with the May 2014 semi-annual index review. I believe this announcement is positive news for both countries and signals significant progress for the region. Also, there are billions of dollars tracking the [MSCI Emerging Markets Index](#) directly or using it as a performance benchmark, and that money will eventually have to add exposure to these countries as a result of MSCI's announcement. In a [blog](#) earlier this year I discussed how a number of the "emerging" emerging markets—or the countries that are often considered part of frontier market indexes—have diverged from some of the more popular emerging countries. I made the case for potential further gains based on economic growth outlook, per capita income levels and their stock markets still being below their pre-crisis levels. Below I will discuss the most recent [WisdomTree Middle East Dividend Index](#) (Middle East) rebalance and how it might provide context for thinking about the Middle East as part of a broader global and emerging markets portfolio allocation. **Middle East Dividend Stream®** To calculate the Middle East *Dividend Stream*, we start with the 75 investable dividend payers in the [WisdomTree Middle East Dividend Index](#). We then take the dividends per share for each company and multiply them by their current shares outstanding. The table below aggregates the *Dividend Streams* of each company by their respective country and ranks the countries, as of the most recent May 31, 2013,

Rank	Country	Percentage Weight	Dividend Stream (Millions)	Number of Companies	Market Cap (Millions)
1	Qatar	41.06%	\$5,257	20	\$111,124
2	United Arab Emirates	20.60%	\$2,638	15	\$79,824
3	Kuwait	15.72%	\$2,013	17	\$58,792
4	Morocco	8.48%	\$1,086	4	\$24,115
5	Egypt	6.44%	\$825	8	\$10,661
6	Oman	3.94%	\$505	7	\$9,513
7	Jordan	1.97%	\$252	2	\$6,374
8	Bahrain	1.78%	\$229	2	\$4,183
Middle East Total (ME)			\$12,805	75	\$304,586
Emerging Market Total (EM)			\$183,430	1,213	\$6,777,633
Qatar as Percent of EM & ME			2.68%		1.57%
United Arab Emirates as Percent of EM & ME			1.34%		1.13%
Total Middle East as Percent of EM & ME			6.53%		4.30%
Global ex-U.S. Total			\$752,108	3,727	\$23,927,592
Global Total			\$1,092,041	5,052	\$38,729,799

screening. Source: WisdomTree (05/31/13). Subject to change. Past performance is not indicative of future results.

• Qatar Tops

Middle East List – Qatar is the largest dividend-paying country in the region, almost doubling the *Dividend Stream* of the second-largest payer, the United Arab Emirates. Qatar accounts for over 40% of the region's total *Dividend Stream* and for over 35% of the region's market cap. • **United Arab Emirates (UAE) and Kuwait Both Over \$2 Billion** – Rounding out the top three countries in the region are the UAE and Kuwait. Both have a respectable *Dividend Stream* of over \$2 billion and are fairly represented in the Index with 15 and 17 companies, respectively. It is interesting that these two countries together have a smaller *Dividend Stream* than Qatar even though, collectively, they have a larger market cap. • **Middle East in Perspective** – Although these *Dividend Stream* and market cap numbers are large in absolute dollars, they are still relatively small compared to the emerging or global markets overall. Depending on whether you look at market cap or *Dividend Stream*, the Middle East makes up approximately 5% of the emerging markets and about 1% of the global markets. **Market Capitalization Weighting** The MSCI Emerging Markets Index is a [market](#)

[capitalization-weighted](#) index, meaning more weight is given to the companies with the largest market caps. To get an idea of the potential weight these countries might garner after the 2014 index review, I looked at the market cap of the countries in the WisdomTree Middle East Dividend Index. The market cap percentages below are displayed as a percentage of both the WisdomTree Middle East and Emerging Markets Dividend Indexes market cap as of May 31, 2013: • **Qatar – 1.57%** • **United Arab Emirates – 1.13%** **Dividend Stream Weighting** I thought it would also be interesting to see what type of potential weight these countries might garner if they were included in the [WisdomTree Emerging Markets Dividend Index](#). It is important to note that WisdomTree has no plans to add these countries and the below is strictly for hypothetical purposes. WisdomTree weights its Indexes by *Dividend Stream*, so to get an idea of potential weights, I looked at the *Dividend Streams* of both countries and compared them to the current *Dividend Stream* of the WisdomTree Emerging Markets Dividend Index. The *Dividend Stream* percentages below are displayed as a percentage of both the WisdomTree Middle East and Emerging Markets Dividend Indexes Dividend Stream as of 05/31/13: • **Qatar – 2.68%** • **United Arab Emirates – 1.34%** **Exposure to Region** It is impossible to know what the new country weights are going to be in the future, but we do know that market participants will need to add exposure to Qatar and the United Arab Emirates. The WisdomTree Middle East Dividend Index does not provide direct exposure to these countries but does provide exposure to dividend-paying companies in the region. Furthermore, Qatar and the UAE will make up approximately 56% of the WisdomTree Middle East Dividend Index after the annual rebalance is completed. It is important to remember that individual country returns can vary significantly year over year, and it is impossible to time the best-performing countries. As a result, we think it is important to remain diversified across the different emerging countries and not focus just on the largest by market capitalization. The WisdomTree Middle East Dividend Index tracks dividend-paying stocks in countries that tend to be under-weighted in many investors' portfolios.

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You cannot invest directly in an index. There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in the Middle East increase the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as the Middle East are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

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DEFINITIONS

MSCI Qatar Index : A market capitalization-weighted equity index designed to measure the performance of the Qatari equity market.

MSCI UAE Index : A market capitalization-weighted index designed to measure the performance of the UAE equity market.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

WisdomTree Middle East Dividend Index : A fundamentally weighted index that measures the performance of companies in the Middle East that pay regular cash dividends on shares of common stock and meet specified requirements as of the Index measurement date. The Index is dividend weighted and updated to reflect market prices and exchange rates.

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

WisdomTree Emerging Markets Dividend Index : A cash dividend-weighted Index measuring the performance of dividend-paying equities incorporated within emerging markets.