

# UNCOVERING VALUE IN EMERGING MARKETS

Tripp Zimmerman — Director, Research  
12/09/2015

At WisdomTree, a critical way for us to identify [valuation](#) opportunities is through our annual Index [rebalance](#). Our process is designed to evaluate the underlying [fundamentals](#) of Index constituents each year. For our [dividend](#) Indexes, this translates to reweighting companies in an Index relative to their contribution to the [Dividend Stream®](#)—the sum total of all dividends paid within a given Index. We impart a disciplined focus on valuation, typically by:

- Increasing weight to firms that are growing their dividends—especially in cases where share price performance has not yet responded
- Decreasing weight from firms that see their dividends decrease, especially following runs of strong share price appreciation

Looking at current valuations across the world, some of the lowest-priced stocks are found in the emerging markets, and if you screen and weight these securities based on fundamentals, you can improve the valuation characteristics even further. The [WisdomTree Emerging Markets High Dividend Index](#) screens by [dividend yield](#) and then weights by dividends, typically resulting in a deep value exposure. The Index provides a dividend yield advantage of almost 400 [basis points \(bps\)](#) and is priced 22% lower on a [price-to-earnings \(P/E\) ratio](#) basis, compared to the [MSCI Emerging Markets Index](#). Figures 1 and 2 provide detailed changes in sector and country exposures for the WisdomTree Emerging Markets High Dividend Index.

**Figure 1: Changes in Country Exposure for WisdomTree Emerging Markets High Dividend Index**

	Countries of WT EM High Dividend	Prior Weight <sup>1</sup>	Country Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Performance of Country Relative to Index
Underperforming Countries	Brazil	7.4%	-53.0%	8.7%	1.3%	-28.6%
	Indonesia	1.0%	-50.7%	1.8%	0.8%	-26.2%
	South Africa	10.2%	-30.3%	9.2%	-1.0%	-5.9%
	Philippines	1.1%	-30.2%	1.3%	0.2%	-5.8%
	Poland	3.7%	-29.9%	3.1%	-0.6%	-5.5%
	Russia	19.7%	-29.6%	13.2%	-6.5%	-5.2%
	Malaysia	6.2%	-27.5%	5.2%	-1.0%	-3.1%
Outperforming Countries	Thailand	7.0%	-18.3%	7.3%	0.3%	6.1%
	Turkey	2.8%	-17.4%	2.2%	-0.6%	7.0%
	Chile	1.7%	-13.4%	1.6%	-0.1%	11.0%
	Taiwan	13.6%	-10.3%	21.4%	7.8%	14.1%
	Hungary	0.4%	-8.8%	0.3%	-0.1%	15.6%
	Czech Republic	2.0%	-6.7%	2.0%	-0.1%	17.7%
	China	21.3%	-5.6%	21.2%	-0.1%	18.8%
	Mexico	1.6%	-3.6%	0.2%	-1.5%	20.8%
	South Korea	0.3%	19.4%	1.3%	1.0%	43.8%
		Prior Weight <sup>1</sup>	Median Country Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Median Performance of Country Relative to Index
Countries That Underperformed		49.2%	-30.2%	42.5%	-6.7%	-5.8%
Countries That Outperformed		50.8%	-8.8%	57.5%	6.7%	15.6%

Sources: Bloomberg, WisdomTree and Standard & Poor's. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

<sup>1</sup>Prior weight: Refers to the Index weight as of 9/30/15, prior to any Index screening.

<sup>2</sup>Performance: Refers to performance of specified country exposures in the Index, measured from the most recent prior Index rebalance to the 9/30/15 Index screening.

<sup>3</sup>New weight: Refers to anticipated Index weight after rebalance based on the 9/30/15 screening.

• Country Increases:

Typically EM High Dividend's value-seeking rebalancing process leads to adding weight to countries that underperformed and subtracting weight from countries that outperformed, but dividend growth also plays a role. So although Taiwan exhibited decent relative performance, its relative dividend growth was stronger, ultimately increasing the relationship between dividends and prices, earning a larger weight. Weight was also added to South Korea primarily due to strong dividend growth. More classic examples of where this strategy has typically added weight are Brazil and Indonesia. Both of these countries exhibited poor relative performance and had dividends grow at a higher rate than their price performance. • **Country Decreases:** Although Russia exhibited poor performance over the period, its dividends contracted even more, decreasing the relationship between dividends and prices, earning a lower weight. Mexico and Malaysia also saw their weights lowered, both resulting from their dividends falling further than their price depreciation. **Figure 2: Changes in Sector Exposure for WisdomTree Emerging Markets High Dividend Index**

	Sectors of WT EM High Dividend	Prior Weight <sup>1</sup>	Sector Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Performance of Sector Relative to Index
Underperforming Sectors	Materials	10.0%	-36.7%	14.4%	4.4%	-12.3%
	Utilities	6.9%	-33.6%	6.5%	-0.4%	-9.2%
	Energy	19.0%	-33.0%	16.2%	-2.9%	-8.6%
	Health Care	0.1%	-29.5%	0.2%	0.2%	-5.1%
Outperforming Sectors	Consumer Staples	3.6%	-23.9%	1.8%	-1.7%	0.6%
	Telecommunication Services	16.0%	-22.9%	15.0%	-1.1%	1.5%
	Consumer Discretionary	4.4%	-18.3%	5.5%	1.2%	6.1%
	Industrials	5.1%	-13.5%	4.7%	-0.4%	11.0%
	Financials	28.8%	-13.1%	24.6%	-4.2%	11.3%
	Information Technology	6.2%	-11.2%	11.2%	5.0%	13.2%
		Prior Weight <sup>1</sup>	Median Sector Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Median Performance of Sector Relative to Index
Sectors That Underperformed		36.0%	-33.3%	37.3%	1.3%	-8.9%
Sectors That Outperformed		64.0%	-15.9%	62.7%	-1.3%	8.5%

Sources: Bloomberg, WisdomTree and Standard & Poor's. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

<sup>1</sup>Prior weight: Refers to Index weight as of 9/30/15, prior to Index screening.

<sup>2</sup>Performance: Refers to performance of specified sector exposures in the Index, measured from the most recent prior Index rebalance to the 9/30/15 Index screening.

<sup>3</sup>New weight: Refers to anticipated Index weight after rebalance based on the 9/30/15 screening.

• **Sector Increases:** Again, typically EM High Dividend's value-seeking rebalancing process leads to subtracting weight from sectors that outperformed, but dividend growth also plays a role. So although the Information Technology sector displayed the highest relative performance, the sector also displayed the highest dividend growth, receiving a larger weight. Although the Materials sector saw dividends contract over the period, they didn't fall as much as the price performance, ultimately earning a higher weight because the relationship between dividends and price improved. • **Sector Decreases:** It is no surprise to us, given the lower oil prices over the past year, that the Energy sector saw a decrease in weight, primarily driven by dividends decreasing. Financials saw the most significant decrease in weight, but the weight reduction is a result of a 25% sector-capping rule. Financials saw positive relative performance over the year, which allowed its weight to drift higher, so bringing it back in line with the capping rule is part of a rules-based, systematic process.

#### Important Risks Related to this Article

Investments in emerging, offshore or frontier markets 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.

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

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

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

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

## **IMPORTANT INFORMATION**

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

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

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

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

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

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## **DEFINITIONS**

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Rebalance** : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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

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

**Dividend yields** : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

**Basis point** : 1/100th of 1 percent.

**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.