THE INDIAN BUDGET ROAD MAP

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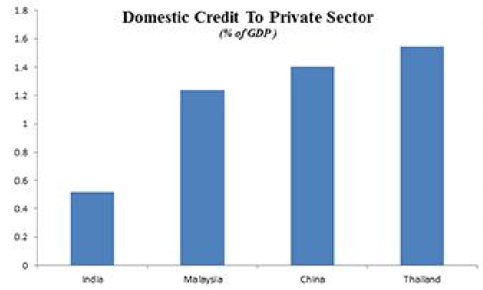
Everyone watching the Indian markets was intensely focused on the February 28 budget announcement. There was even a special trading session set up that day while Finance Minister Arun Jaitley presented the government's budget. 6 out of the last 10 times the budget was presented, the Indian markets subsequently dipped.[1] On this special Saturday trading session, however, India's budget was viewed positively. Indian equity markets reacted with mild enthusiasm to the road map for India's growth. **We found the most important takeaways for investors from the budget announcement to be the following:** • Growth to be boosted by a substantial increase in government capital expenditure of 1.5 trillion rupees, which is a 36% year-over-year increase. Sixty percent of these expenditures are to be on roads and highways (540 billion rupees) and railways (340 billion rupees). These are substantial increases in spending on roads and highways (2.5 times higher) and railways (1.5 times higher). • Increased decentralization from a federal structure, with states likely to spend approximately 60% more than the central government. Expectations are for this spending to be directed to urban and rural infrastructure projects. • Aim to set up national infrastructural funds, which would invest in equity of infrastructural financing agencies where it gets levered for further spending. • Corporate tax rate to be cut from 30% to 25% in stages starting in fiscal year 2017. Many of India's corporations pay a lower effective tax rate already, so this will likely benefit high-tax-paying companies in Consumer Staples more than low-tax-paying companies in Technology, which receives some special tax exemptions. **Finance and Infrastructure in Focus** At a time when investments as a percentage of gross domestic product (GDP) have been flat at around 35% since 2009 and new projects have been consistently declining and stand below 10% of GDP, increased capital spending is good news for infrastructure projects. However, a lot of this spending on projects for roads and railways is expected to percolate to government bodies such as the National Highways Authority. *Getting a direct investment beta to some of these public sector companies may be difficult.* Financials, though, is a different story, and one where investors can access some of the budget's promise, both from direct steps geared to financial companies as part of the budget and because of tailwind from the financing and loan expansion that comes with large infrastructure projects. At a more direct level, the budget announced merging foreign investment limits under foreign institutional investor (FII) and foreign direct investment (FDI) to create one composite limit. We believe such measures would benefit private sector banks and large public sector banks most. Names such as **Axis Bank**, **Yes Bank** and **Federal Bank**[2] stand to see the biggest increase in the number of shares that may become eligible for foreigners. For example, under the new composite limit, investments by foreign investors could go up by 27.7% for Yes Bank and 34.4% for Federal Bank. It's interesting to note that on the day of the budget announcement, investors bought large-cap financial banks in India. Compared to the previous day's close, **Axis Bank** was **+8.01%**; **ICICI Bank**[3], India's second largest bank in terms of assets, was **+3.25%**; and **Yes Bank** was **+5.01%** in local terms on February 28. Moreover, India's economy—as it grows—is going to need substantial financing. There is also a large catch-up potential of India's credit markets, as credit and mortgage lending are very much underutilized within India compared to other emerging market (EM) economies. A catch-up to these other emerging markets could boost lending and profits for financials. **Some further measures in this budget directed toward the financial sector:** • Measures to incentivize credit and debit transactions to minimize currency circulation and minimize tax evasions and black money. • Comprehensive bankruptcy code to fortify recovery of bad credit by banks. • Increased housing and agricultural credit targets. We believe these measures are likely to benefit bigger financial players. **Figures 1 & 2: Retail Credit (Left Chart) and Private Sector Credit (Right Chart) in India vs. Other Prominent Asian EM Countries**



Source: World Bank, as of 2/27/15.

Staying Positive on India

The Indian markets have been performing strongly on the prospects of meaningful change and improvements in the growth climate brought on by the election of Prime Minister Narendra Modi. While this budget lacked a "big bang" reform, there are many positive developments that should support India's equity markets. WisdomTree's India Earnings Fund (EPI), which provides broad exposure to the Indian markets, has its biggest exposure, more than one-quarter of the Fund, in a sector targeted in this budget: Financials[4]. • EPI as of February 27, 2015, had 27.1% in Financials compared to 18.6% for the MSCI India Index. • Because of its earnings-weighted methodology, EPI has a tilt to robust private and public sector banks, with the highest over-weight (relative to MSCI India) being to ICICI Bank with 4.3% in EPI compared to 2.0% in MSCI India. Investors desiring fundamentally robust companies that have a track record of consistent earnings should continue to be rewarded in what we believe will be an infrastructure and Financials-led growth of the Asian Tiger. In an upcoming blog post, we will highlight the surprise post-budget rate cut and its implications for the broader economy and EPI. [1]Sources: Bloomberg, WisdomTree. [2]Weight in the WisdomTree India Earnings Fund (EPI), as of 2/27/15: Axis Bank, 0%; Yes Bank, 0%; Federal Bank, 0.27%. [3]Weight in EPI, as of 2/27/15: ICICI Bank, 4.33%. [4]Holdings subject to change.

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DEFINITIONS

Capital expenditures : Spending by a company typically made to enhance longer-term productive capacity.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Capital spending : Spending by a company typically made to enhance longer-term productive capacity.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Loan expansion : Increased lending by banks.

Foreign direct investment (FDI) : An investment made by a company or entity based in one country into a company or entity based in another country.

Credit market : Lending done by banks.

Profits : Income that a company receives from revenue after costs and expenses are deducted.

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