

A RELATIVE VALUE REBALANCE CASE STUDY

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With [market capitalization-weighted](#) indexes, when constituents increase in price compared to other stocks, they gain greater weight and impact on the performance of the index. WisdomTree Indexes employ a rules-based [rebalancing](#) mechanism that adjusts relative weights based on underlying [dividend](#) trends. During the rebalancing process, which occurs once per year for each Index, the relationship between price change and [dividend growth](#) is measured. • **WisdomTree Dividend Index** rebalance process typically is driven by both: 1. **Dividend growth: Faster dividend growers see weight increased** 2. **Relative performance: - Underperformers typically see weight increased - Outperformers often see weight decreased** In what follows, we outline how the [annual screening](#) impacted the sector composition of the [WisdomTree Equity Income Index \(WTHYE\)](#). **Sector Changes for the WisdomTree Equity Income**

Sectors in WTHYE		Prior Weight ¹	Sector Performance ²	New Weight ³	Change in Weight	Performance of Sector Relative to Index
Underperforming Sectors	Energy	6.8%	0.7%	15.4%	8.6%	-17.1%
	Consumer Discretionary	2.8%	4.8%	7.1%	4.4%	-13.1%
	Materials	3.0%	5.0%	3.4%	0.4%	-12.8%
	Industrials	7.0%	8.1%	7.9%	0.8%	-9.7%
	Telecommunication Services	8.5%	13.3%	10.3%	1.8%	-4.5%
	Consumer Staples	15.1%	17.7%	15.4%	0.3%	-0.1%
Outperforming Sectors	Health Care	14.0%	20.0%	9.0%	-4.9%	2.2%
	Financials	19.0%	20.2%	18.1%	-0.9%	2.4%
	Utilities	11.4%	24.9%	10.1%	-1.3%	7.1%
	Information Technology	12.4%	34.7%	3.2%	-9.2%	16.9%
		Prior Weight ¹	Median Sector Performance ²	New Weight ³	Change in Weight	Median Performance of Sector Relative to Index
Sectors That Underperformed		43.2%	6.6%	59.5%	16.3%	-11.3%
Sectors That Outperformed		56.8%	22.5%	40.5%	-16.3%	4.7%

Sources: WisdomTree, Bloomberg, as of 11/30/14.

¹Index weight before 11/30/14 screening.

²Performance of specified sector from last year's rebalance date to 11/30/14.

³Index weight after rebalance, based on 11/30/14 screening.

Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

Index

deserves special note within WTHYE, because it added more than 8.6% to its weight as of the November 30, 2014, Index screening and became the third-largest sector represented. The mechanism driving this change was average sector dividend growth, coupled with below-average performance over the period, improving the relationship between dividends and price. Exxon Mobil Corp. was a noticeable addition to the Index with a maximum weight of 5.0%. Between annual screening dates, Exxon's price declined 3.2%, but its dividends per share increased 9.5%, which increased its [dividend yield](#) 35 [basis points \(bps\)](#), from 2.63% to 2.98%¹. Dividend yield is relevant to WTHYE because the Index first ranks eligible securities by dividend yields to screen the top 30% of the universe for inclusion before weighting them by their dividends. • The Information Technology sector also saw a significant change within WTHYE; its weight was lowered by 9.2%. The sector saw significant outperformance over the period but exhibited below-average dividend growth, weakening the relationship between dividends and price. Two noticeable deletions from the Index were Microsoft and Intel, representing decreases of 5.4% and 2.9%, respectively. Between annual screening dates, Microsoft's dividends per share increased 10.7%, but its price increased 25.4%, lowering its dividend yield by 14 bps. Intel's dividends per share increased by 6.7%, but its price increased by 56.3%, lowering its dividend yield by 135 bps².



Conclusion The WisdomTree annual rebalance is a key element of the added value of WisdomTree's Index methodology. It is at each rebalance when WisdomTree engages in a disciplined process to adjust weight based on changes in relative value as well as in the relationship between dividend growth and price growth. This process was clearly exhibited within WTHYE's rebalance as weight shifted from the best-performing sector, Information Technology, which exhibited below-average dividend growth, toward the worst-performing sector, Energy, which displayed higher dividend growth. For current holdings of the WisdomTree Equity Income Index, [click here](#). ¹Source: Bloomberg, from 11/30/13–11/30/14. ²Source: Bloomberg, from 11/30/13–11/30/14.

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.

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You cannot invest directly in an index.

DEFINITIONS

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.

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

Dividend growth : The growth in trailing 12-month dividends for the specified universe.

WisdomTree Dividend Index : Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.

Annual screening date : The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

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

Basis point : 1/100th of 1 percent.