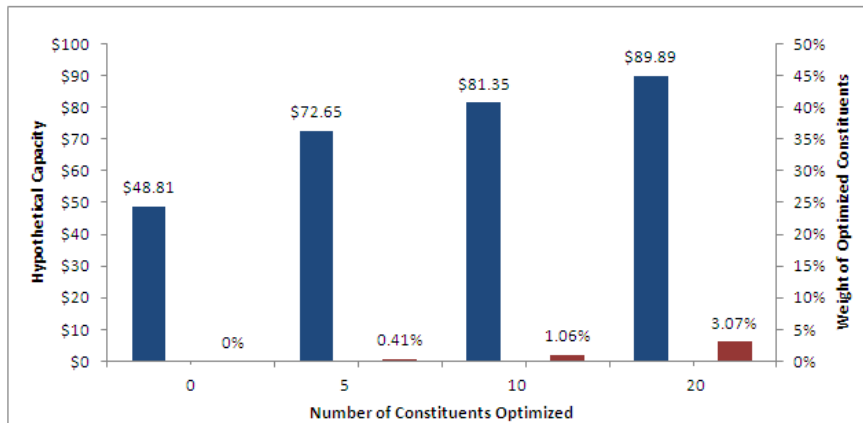


THOUGHTFUL INDEX CONSTRUCTION BRINGS SCALE TO EMERGING MARKETS INVESTING

Jeremy Schwartz – Global Chief Investment Officer
04/17/2013

Until fairly recently, investors relied on [actively managed mutual funds](#) to gain exposure to the markets—especially for the emerging markets, where many believe that opportunities are ripe for active managers to add value. Some of these active strategies have delivered exceptional performances and, as a result, have attracted large pools of assets. However, many active managers admit that with greater asset levels comes greater difficulty in continuing to deliver superior performance. So far in 2013, we have seen a number of actively managed funds focused on emerging market equity investments announce that they are shutting their doors to new investors. **Index-Based Strategies Offer a New Option** During the last decade a plethora of index-based emerging market investments have gained traction—from traditional [index-based mutual funds](#) to exchange-traded funds (ETFs), each designed to track the performance of a particular index after accounting for requisite fees and expenses. Some of these indexes are quite broad and feature greater numbers of constituents than typical actively managed mutual funds. Active managers add value through selecting only stocks that look favorable according to their own metrics, whereas indexes typically generate exposure to a large universe of equities in accordance with a defined set of rules. Index methodology and design is crucial to determining both capacity and representation, as not every index tracking the performance of emerging market equities is designed with scale in mind. For example, indexes focused on weighting by [dividend yield](#) or dividend per share—which work more like [modified equal-weighted indexes](#)—have a bias toward small-cap stocks and have a greater probability of placing larger weights on smaller companies. This may boost the index's dividend yield, but by the same token, as assets grow within any strategies tracking these indexes, it may also increase the percentage ownership in these underlying companies and reduce the strategy's capacity. **Building Scalable Indexes** WisdomTree built its Indexes with scalability in mind. To accomplish more capacity in its Index tracking strategies, WisdomTree designed its Indexes to emphasize the cash dividends that each company pays—but to do so in a way that gives greater weight to bigger companies. In most cases, WisdomTree weights and rebalances its Indexes annually according to their [dividend stream](#). *Dividend Stream® = Dividends per share x shares outstanding* By including shares outstanding in the weighting, we believe we introduce greater capacity to our Index tracking strategies. It is important to set a baseline when discussing the concept of capacity, as it can mean a number of different things. We define one measure of capacity as: “At what asset level would an index-tracking strategy hold more than 10% of a particular underlying holding?” **The WisdomTree Emerging Markets Equity Income Index Incorporates Significant Scalability**



Sources: WisdomTree, Standard & Poor's. Data as of 3/22/2013.

(For definitions in

this chart, please refer to our glossary: [Hypothetical capacity](#), [Number of constituents optimized](#), [weight of optimized constituents](#).)

• **Scalable Methodology:** On March 22, 2013, the [WisdomTree Emerging Markets Equity Income Index \(WTEMHY\)](#) had 331 constituents. Almost \$49 billion of hypothetical assets could track WTEMHY prior to that strategy holding 10% of an underlying firm. • **Optimization Helps Further:** were any hypothetical strategy tracking WTEMHY to optimize around the 5, 10 or even 20 most constraining firms, the level of hypothetical assets prior to reaching a 10% position in any underlying firm could become significantly larger. To be fair, optimization such as this could lead to greater potential for tracking error, but we believe it is important to note that even with taking the 20 most constraining firms out of the mix, this would represent only about 3% of WTEMHY's total weight. **Innovative Methodology Drives This Result** WTEMHY is designed to weight relatively high-yielding equities within emerging markets on the basis of their cash dividend streams. In contrast to different yield-focused weighting methodologies, weighting by cash dividend stream lends a degree of scalability to the Index in that it accounts for the number of shares outstanding—something that weighting solely by dividend yield does not do. The closing of a number of high-profile active strategies re-emphasizes a benefit of index-based strategies, both in terms of their potential scalability and larger capacity. For current holdings in the WisdomTree Emerging Markets Equity Income Index (WTEMHY), [click here](#).

Important Risks Related to this Article

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 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.

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)

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

Actively managed mutual funds: Investment strategies that are not designed to track the performance of an underlying index.

Index-based mutual funds: Investment strategies designed to track the performance of an underlying index.

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.

Modified equal-weighted indexes: Equal-weighted indexes place an equal weight on each constituent, the major result being that index weight has no connection to company size. Modified equal-weighted methodologies similarly disconnect index weight from company size but do not prescribe exactly equal weights for each constituent.

Dividend Stream: Refers to the regular dividends per share multiplied by the number of shares outstanding.

Hypothetical capacity: Refers to a hypothetical capacity level for assets tracking the performance of the WisdomTree Emerging Markets Equity Income Index, which denotes the level of assets where the Index would prescribe taking its first 10% position in an underlying constituent.

Number of constituents optimized: These numbers refer to hypothetical optimizations in which every security in the Index is held ("0") to omitting the 20 most constraining positions ("20").
Weight of optimized constituents: The weight of the constituents excluded as a result of any optimization. A lower number indicates that the assets tracking the Index are closer to holding every security within the Index in its prescribed weight.

Weight of optimized constituents: The weight of the constituents excluded as a result of any optimization. A lower number indicates that the assets tracking the Index are closer to holding every security within the Index in its prescribed weight.

WisdomTree Emerging Markets Equity Income Index: A subset of the WisdomTree Emerging Markets Dividend Index measuring the performance of the higher-yielding stocks as measured by trailing 12-month dividend yields, weighted by cash dividends.