

WHAT DID OUR ANNUAL INDEX REBALANCE UNCOVER? VALUE OPPORTUNITY IN EMERGING MARKETS

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At WisdomTree, a critical way for us to identify [valuation](#) opportunities is through our annual Index rebalancing. 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 by typically:

- 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. While the U.S. markets¹ have been on a tear over the last five years, emerging markets have shown lackluster returns. This relative underperformance may be creating some special valuation opportunities for [value](#)-minded investors. We analyze below how the exposure characteristics of each WisdomTree Index changed at the most recent annual rebalance. The fact that, outside of the [WisdomTree Emerging Markets Dividend Growth Index](#), each exhibited a higher [trailing 12-month dividend yield](#) after the rebalance was not surprising. However, the behavior of the [price-to-earnings \(P/E\) ratio](#) is, by and large, a welcome bonus. While the screening methodology does not specifically focus on earnings for any of the Indexes shown, we note that four out of five exhibit lower P/E ratios following the rebalance.

Summarizing the Impact of the Rebalance

Valuation Statistics	P/E Ratio		Dividend Yields (%)	
	Pre-Reconstitution ¹	Post-Reconstitution ²	Pre-Reconstitution ¹	Post-Reconstitution ²
WT Emerging Markets Equity Income	10.3x	9.7x	5.71%	6.10%
WT Emerging Markets SmallCap Dividend	12.7x	11.1x	4.31%	4.60%
WT Emerging Markets Dividend Growth	14.9x	14.5x	3.66%	3.65%
WT Middle East Dividend	14.1x	14.1x	4.08%	4.41%
WT Emerging Markets Dividend	11.6x	11.3x	4.46%	4.54%

¹Pre-Reconstitution: Refers to Index statistics measured as of 9/30/14.

²Post-Reconstitution: Refers to Index statistics measured as of the 9/30/14 Index screening and accounts for changes occurring as a result of the annual application of the Index screening methodology.

Sources: WisdomTree, Bloomberg, Standard & Poor's. Past Performance is not indicative of future results.

For definitions of terms and

Indexes in the chart, please visit our [glossary](#). For more information on these Indexes and full rebalance details, click [here](#).

¹Refers to S&P 500 Index universe; source: Bloomberg, as of 9/30/14.

Important Risks Related to this Article

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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.

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

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

WisdomTree Emerging Markets Dividend Growth Index : A fundamentally weighted index designed to track the performance of dividend-paying emerging market companies that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by trailing 12-month cash dividends.

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.