

HOW TO DIVERSIFY YOUR EXPOSURE TO THE MIDDLE EAST

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At WisdomTree, we tend to do things differently, and in doing so we offer unique exposures to factors, markets or asset classes that we believe may be underrepresented. For some, it may come as a surprise that we have been offering exposure to Middle Eastern [dividend](#)-paying stocks for more than nine years, but for us it is just another one of our options that is coming up on a 10-year live track record. This unique exposure provides access to emerging and frontier markets that tend to benefit from oil but also have potential to use their oil wealth to grow their economies and diversify into other industries.

One major country that has been missing from the beginning was Saudi Arabia. Exchange-traded funds (ETFs) tend to be [liquid](#) vehicles, but they can only be as liquid as the underlying asset class they offer exposure to, and Saudi Arabia wasn't freely open to foreign investors until recently. Beginning in April 2015, we began closely monitoring the Saudi market for inclusion in the [WisdomTree Middle East Dividend Index](#), and this year at the [annual rebalance](#) we decided to add Saudi Arabia. Specifically, the Index selected the 30 largest Saudi stocks by [market capitalization](#) that passed the eligibility requirements to be included.

Another adjustment we made this year was applying an investability weighting factor across the [Dividend Stream®](#) of all companies. Historically, we have weighted each constituent by its full dividend market cap, meaning there is no adjustment for privately held or non-publicly traded shares (i.e., float). With the addition of Saudi companies, we thought now would be a good time to apply this factor across all constituents, which we believe will help with investability by scaling down the weight of companies with low float.

Country and Sector Changes

Countries	Before	After	Difference
Saudi Arabia	0.00%	25.00%	25.00%
United Arab Emirates	25.59%	23.52%	-2.06%
Qatar	19.04%	20.33%	1.29%
Kuwait	28.33%	14.27%	-14.06%
Morocco	14.40%	4.35%	-10.06%
Egypt	4.80%	3.74%	-1.07%
Oman	4.91%	3.15%	-1.76%
Jordan	2.56%	2.94%	0.37%
Bahrain	0.37%	2.70%	2.33%

Sectors	Before	After	Difference
Financials	59.47%	59.84%	0.37%
Telecom Services	26.82%	17.76%	-9.06%
Materials	0.40%	9.03%	8.63%
Industrials	10.16%	6.80%	-3.37%
Utilities	1.29%	1.76%	0.47%
Consumer Staples	0.13%	1.67%	1.53%
Energy	0.87%	1.63%	0.76%
Consumer Discretionary	0.32%	1.25%	0.93%
Health Care	0.52%	0.25%	-0.27%

Source: WisdomTree, as of 9/30/17. Subject to change.

- **Saudi Exposure Caps Out at 25%**—It is no surprise to us that the Saudi exposure capped out at 25%, and the weight would have been approximately 45% without the capping. Although the Saudi market has been closed to foreign investors until recently, it is the largest market of the eligible countries by a wide margin and one of the largest economies in the Middle East.
- **Reducing Weight to Midtier Countries Kuwait & Morocco**—Previously, these countries saw an increase in weight due to the capping of the UAE and Qatar. The addition of Saudi Arabia has changed the capping dynamics from a country perspective, and ultimately less weight is being redistributed to Kuwait and Morocco.

Top 10 Saudi Additions

Ticker	Company Name	Sector	Final Weight
SABIC AB	Saudi Basic Industries Corp	Materials	4.709%
RJHI AB	Al Rajhi Banking & Investment Corp.	Financials	3.905%
NCB AB	National Commercial Bank	Financials	2.472%
STC AB	Saudi Telecom	Telecom Services	2.093%
SAMBA AB	Samba Financial Group	Financials	2.003%
RIBL AB	Riyadh Bank	Financials	1.148%
YANSAB AB	Yanbu National Petrochemicals Company	Materials	1.021%
SECO AB	Saudi Electricity Company	Utilities	0.906%
SACCO AB	Saudi Cement Company	Materials	0.613%
ALINMA AB	Alinma Bank	Financials	0.601%

Source: WisdomTree, as of 9/30/17. Subject to change.

Specifically looking at Saudi Arabia, above we highlight the 10 largest additions and their respective weights. As you can see, the additions are slightly diversified across sectors, but no surprise dominated in the Financial Services sector. As a result of the oil wealth, the market cap of the entire gulf region tends to be concentrated in the Financial Services sector, and the same holds true for Saudi Arabia. We think there is opportunity in the region to diversify this wealth and grow other sectors of the economy. For investors looking to gain exposure to this region, we believe the recent addition and refresh of the Index provides a great opportunity.

Important Risks Related to this Article

Investments in frontier markets such as the Middle East 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.

Diversification does not eliminate the risk of experiencing investment losses.

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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DEFINITIONS

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

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

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.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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