SOUTH KOREAN DIVIDENDS MAY STILL HAVE ROOM TO GROW

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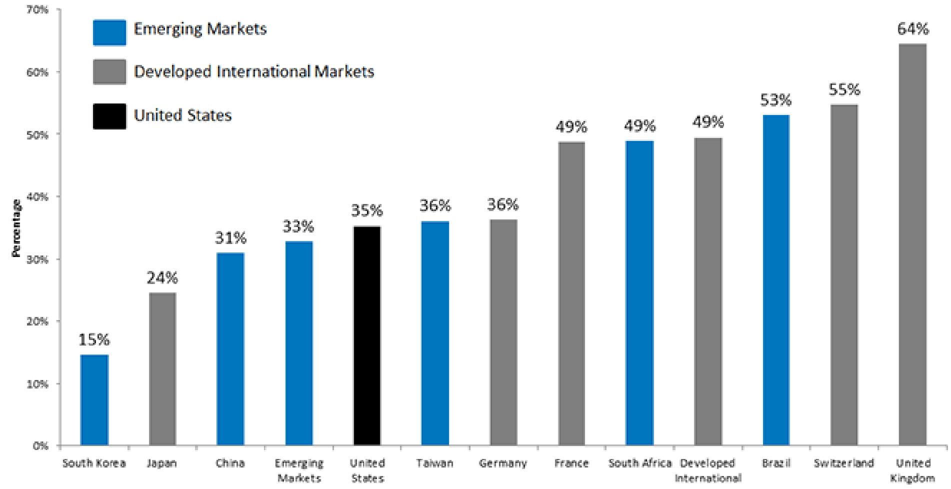
South Korea's market returns have been lackluster, primarily due to weaker corporate profitability as a result of competitive headwinds from corporate Japan and a strengthening won. We do not think South Korea will sit idly by and watch its competitiveness evaporate, and we are already seeing signs of government intervention, which could be just the beginning. If South Korea is successful at stopping the ever appreciating won, it could help profitability rebound and support local equity prices. There are also positive changes at the government level that are a potential catalyst for better corporate governance from companies. South Korea has remained one of the lowest dividend-paying countries for years, and new tax incentives are boosting the motivation of companies to return cash to shareholders. **Government Encourages Higher Dividends** In December 2014, South Korea's National Assembly passed a set of tax reforms. One of the reforms was a corporate accumulated earnings tax, which will be imposed on excess cash accumulated by large corporations. A few ways companies can reduce the potential tax is by spending cash on investments, dividends and certain qualified capital redemptions. This tax should have a positive impact on corporate governance, causing more cash flow to be distributed to shareholders through dividends—instead of having cash pile up on balance sheets. We are already seeing positive signs, with several companies increasing their dividends. A few examples: • Samsung Electronics recently raised its dividend by approximately 40% and repurchased KRW 2.45 trillion of stock. Robert Yi, Samsung's head of investor relations, said, "We've been reviewing ways to enhance shareholder value through increasing shareholder return, especially with stagnated stock price last year due to a decline of earnings as well as a weak domestic stock market. … We expect the increased dividend will not only directly enhance shareholder value but also contribute to stimulate domestic economy. In addition, as you know, we announced a buyback program in November to address the undervalued stock price relative to the growth momentum that we have."[1] • Hyundai Motor Company raised its dividend by 53.8%. James Jung, a member of Hyundai Motor's investor relations team, commented that the company is willing to pay more dividends or take other investor-friendly actions.[2] Hyundai's sister company, Kia Motors Corp., also raised its dividend by 42.9%. **Dividend Payout Ratios**



Sources: WisdomTree, Bloomberg, as of 4/30/15. Each country above represents its respective MSCI country index, except for the United States, which uses the S&P 500 Index. Developed International and Emerging Markets represent the MSCI EAFE and MSCI Emerging Markets Indexes, respectively.

For definitions of indexes in

the chart, please visit our glossary. • **South Korea's Dividends Have Room to Grow Higher —** Although the dividend percentage increases mentioned above seem high, we are constructive on future dividend growth due to the low starting levels and historically low payout ratios. In aggregate, South Korean companies paid out around one-sixth of their earnings, the lowest among large emerging market and developed international countries. Taiwan implemented a dividend imputation credit and a tax on undistributed earnings in 1998. At the time of passage, its dividend payout ratio was around 20%, and today its payout ratio is 36%. **Will Government Take Further Action?** The government continues to implement its "Three-Year Plan for Economic Innovation," which includes expansionary monetary and fiscal policies, structural labor market reforms, enhancements to industrial capacity and other pro-growth initiatives. We are constructive on all of these policies and believe that, if successful, they will be supportive for equity prices, but we think more could be done, and the key question is, will the government do more to protect the country's global market share? We think the higher dividend payments, a relatively low starting valuation, coupled with the central bank's action toward stimulating the economy may provide for an attractive combination of prospective returns to South Korea's stocks. *Read our market insight South Korea at a Crossroads. View current holding of the WisdomTree Korea Hedged Equity Index here.* [1]Earnings Conference Call, Samsung, 1/28/15. [2]Earnings Conference Call, Hyundai Motor, 1/22/15.

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DEFINITIONS

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

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

Dividend Payout Ratio : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

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.