USING COMMODITY MOVES TO FIND OPPORTUNITIES IN AUSTRALIA

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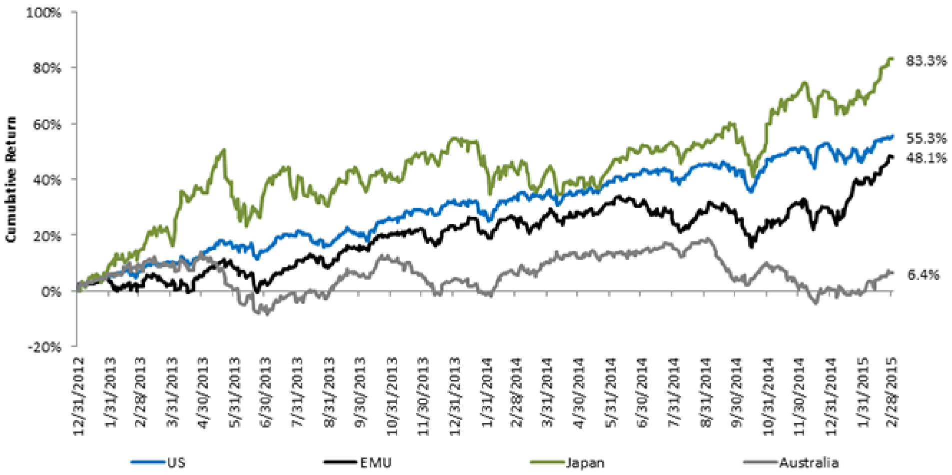
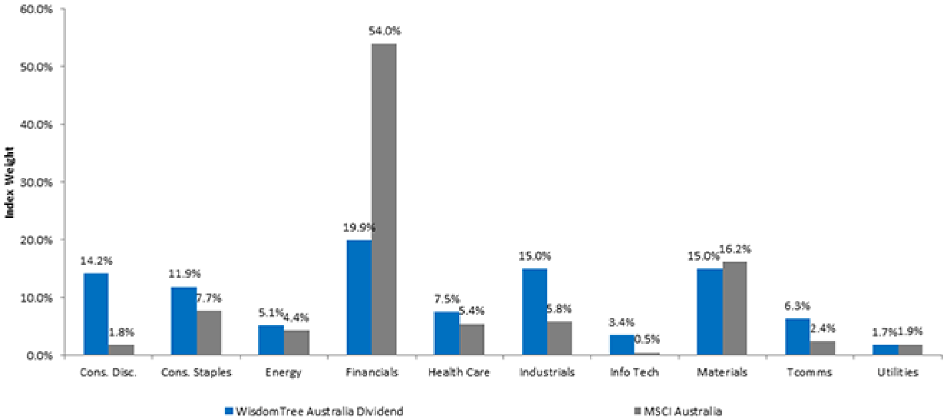
One of the biggest defining market movements of 2014 was the shocking decline in commodity prices[1] —especially oil. The Bloomberg Commodity Index lost almost 20% of its value over the year. **Big Moves Create Big Opportunities** Whenever markets are faced with such surprises, the critical question to ask is whether opportunities have been created. When we looked at the performance of global equity markets—specifically those in the developed international space—we saw that one market that tends to be highly leveraged to commodities has tended to lag others over the past few years, a period strongly influenced by central bank activity.[2] That market is Australia. **Australia Lags While Other Developed Markets Deliver Strong Returns (12/31/12–3/2/15)**



Source: Bloomberg
U.S. refers to the S&P 500 Index. EMU stands for the European Monetary Union and refers to the MSCI EMU Local Currency Index. Japan refers to the MSCI Japan Local Currency Index. Australia refers to the MSCI Australia Index.
Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms and Indexes in the chart, visit our glossary. • **Since End of 2012, Developed Market Equities Have Been Strong:** Europe—for all its issues—is up nearly 50% cumulatively over this period. The U.S., in nearly a straight upward trend, is up 55%. The impact of Abenomics is quite clear in Japan over this period—up more than 83%. • **Australia Up Only 6.4% Since End of 2012:** The performance of Australia—definitely a major developed international market in its own right—has clearly been different. One big reason for this is Australia's currency, which has depreciated 25.3% cumulatively over this period against the U.S. dollar. Another factor most certainly tied into both Australia's equity market and currency performance has been the lackluster performance of commodities, since the country is a major global commodity supplier. **What about Valuation?** On a forward price-to-earnings (P/E) ratio basis, Australia trades at about 16.9x, which is less than the United States.[4] Australia's dividend yield[5] at the end of 2014 was about 5%—more than twice that of the United States.[6] For those more worried about U.S. valuations with markets at or near record highs, it's possible that Australia could be worth a look. Even the euro area[7] relatively high dividend yield over 3% was not a match for Australia's. We also looked at the nearly 45 years of available history for the MSCI Australia Index, to place Australia's dividend yield at the beginning of 2015 into a more appropriate historical context. The median dividend yield to end any year was 3.8%, and 2014 ended, as we said, at nearly 5.1%, placing it eighth out of the 44 available data points.[8] Years following dividend yields above the median level, historically speaking, have been associated with higher average returns than years following dividend yields below the median level. Of course, there is no way to know what future returns could be, but it is an interesting way to look at where Australia ended 2014 relative to its own historical context. **China May Provide Stimulus in 2015, Which Could Be Good for Commodity Demand** China's growth slowed to just below 7.5% during 2014, its slowest pace of economic growth in 24 years. Already, 2015 has seen a 0.5% reduction in the required reserve ratio. This is roughly equivalent to injecting $100 billion into China's economy.[9] There have also been reports that Beijing may approve 300 infrastructure projects worth a total of $1.1 trillion in 2015. This could be linked to even larger plans for industry specific stimulus, including oil and gas pipelines, health, clean energy, transportation and mining.[10] While anything to do with China's government is far from certain, we think that the bottom line is that China's demand for the natural resources that Australia can provide may increase. **Thinking about Australia's Equity Indexes** All equity indexes are not created equal, and that is very apparent in Australia. On a market capitalization-weighted basis, Australia's equity market[11] is over 50% exposed to Financials.[12] **Introducing the WisdomTree Australia Dividend Index for Broader Sector Exposures (as of 3/2/15)**



Source: Bloomberg

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In our opinion, any time any index has a greater than 50% exposure to a single sector, there is significant risk. We remind investors that Australian equities are more than just Financials and that options exist to be more broadly exposed to this market. [1]Refers to the performance of the Bloomberg Commodity Index from 12/31/13 to 12/31/14. [2]We looked at the period from 12/31/12 to 3/2/15. This period encompassed quantitative easing from the United States and Japan and announcements of quantitative easing from the European Central Bank. [3]European Monetary Union refers to the 19 countries that use the euro as their currency. [4]Source: Bloomberg, with data as of 3/2/15. [5]Refers specifically to the trailing 12-month dividend yield. [6]Source: Bloomberg, with data as of 3/2/15. [7]Euro area refers to the universe of the MSCI EMU Index. [8]Sources: WisdomTree, MSCI, with data extending from 12/31/69 to 12/31/14. [9]Mark Thompson, "China Pumps $100 Billion into Banks to Boost Economy," CNN Money, 2/4/2015. [10]Steven Yang et al. "China Said to Accelerate $1 Trillion in Projects to Spur GDP," Bloomberg Business, 1/5/15. [11]Refers to the MSCI Australia Index universe. [12]Source: Bloomberg, with data as of 3/2/15.

Important Risks Related to this Article

Investments focused in Australia are increasing the impact of events and developments associated with the region, which can adversely affect performance.

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Bloomberg Commodity Index Total Return : formerly known as Dow Jones-UBS Commodity Index Total Return (DJUBSTR), tracks a broadly diversified basket of commodity futures contracts.

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

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.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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

Median : The median is the value within a dataset at which 50% of all observations occur above and 50% occur below.

WisdomTree Australia Dividend Index : Index designed to measure the performance of dividend-paying companies in Australia. At maximum the 10-largest Australian dividend-paying companies are selected from each of the 10 sectors on the basis of their market capitalizations. Weighting is by dividend yield.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

MSCI EMU Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of the markets in the European Monetary Union.