REAL ESTATE AS AN INCOME GENERATING ASSET CLASS

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Over the past few weeks, the low interest rates of developed market sovereign debt have been nothing short of extraordinary. Historically low U.S. interest rates can be partially explained by a flight to quality and improving fundamentals of the U.S. dollar compared to other developed market currencies, like the euro, the yen and the pound. Falling German interest rates can be explained by a flight to quality within Europe, as well as declining inflation expectations and recent monetary easing action by the European Central Bank. Japanese interest rates can be explained by the Bank of Japan's massive purchase program, as well as the difficulty of truly exiting the deflation that has persisted there for the past 15 years.[1] Falling interest rates have created a shortage of income-producing assets. Real estate, in our view, is one possible solution that not only produces an income stream, but also is a direct beneficiary of the low global interest rate environment as a large borrower of loans. **The WisdomTree Global ex-U.S. Real Estate Index (WTGRE)** This Index was created with a focus on real estate in mind. The positive attribute of these securities is simple: **income potential**. Within this Index, that potential is emphasized further through the fact that each security is weighted based on the cash dividends it has paid over the year prior to the annual screening date. By looking at the top 10 country exposures within WTGRE as of August 31, 2014, we asked ourselves the following: • Have 10- year government bond interest rates fallen over August 2014? • How does the MSCI Country Index dividend yield compare to the country exposure defined within WTGRE? • How does the MSCI country index performance through August 2014 compare to that which is defined within WTGRE? **Income Potential & Performance**

Country	10-Year Gov't Bond		Dividend Yield		YTD Performance through 8/31/2014	
	Yield	August 2014 Yield Change	Country	WTGRE	Country	WTGRE
Hong Kong	1.88%	-0.17%	3.53%	3.91%	9.85%	16.73%
Australia	3.29%	-0.21%	4.37%	4.64%	13.13%	27.16%
Singapore	2.26%	-0.19%	3.50%	4.51%	7.91%	13.76%
France	1.25%	-0.28%	3.29%	3.59%	-0.56%	11.78%
Canada	1.99%	-0.16%	2.57%	4.67%	14.00%	12.32%
United Kingdom	2.37%	-0.23%	4.63%	3.36%	4.23%	17.50%
Japan	0.49%	-0.04%	1.92%	1.61%	-0.94%	-4.76%
South Africa	7.98%	-0.33%	2.87%	6.22%	12.58%	9.82%
Netherlands	1.05%	-0.28%	2.66%	5.10%	-1.85%	24.53%
Thailand	3.67%	-0.04%	2.90%	2.81%	23.94%	46.74%

Source: Bloomberg, with data as of 8/31/14. August 2014 yield change refers to the change in the 10-year government bond yield for each respective market shown from 7/31/14 to 8/31/14. Year-to-date performance refers to period from 12/31/13 to 8/31/14. Time period was chosen in order to capture the most recent downward trend in interest rates. Past performance is not indicative of future results. For comparison purposes, each country above represents their respective MSCI Country Index for the displayed country dividend yields and country performance. You cannot invest directly in an index.

For current performance of WTGRE click here. *For definitions of terms and Indexes in the chart, visit our glossary.* • **10-Year Government Bond Yields Drop:** We call particular attention to France, the United Kingdom and the Netherlands, in that all of their 10-year interest rates dropped significantly. When people think about falling interest rates presently, Europe is one of the first places they look. The real estate exposure in WTGRE performed quite well in each of these markets. • **Dividend Yields:** In general, equity dividend yields look compelling within developed markets compared to 10-year government bond yields. In seven out of 10 cases, we see that WTGRE's country exposure has led to a dividend yield that is even higher than that of the broad country equity market defined by the respective MSCI country index.• **Performance:** In seven out of 10 cases, the country exposure defined within WTGRE has outperformed the respective MSCI country index through August 31, 2014. We believe this is indicative of the fact that these income-generating assets have been in demand. **Managing Valuation Risk with a Rebalance Back to Fundamentals** Some might look at the nearly 30% return within WTGRE's Australia exposure or 46% return within its exposure to Thailand and think, what if these markets are becoming overvalued? This could be particularly true in an environment where the broad MSCI ACWI ex-U.S. Index is up a mere 5.1% over the same period. Of the 10 exposures within WTGRE, Japan's is the only one underperforming this figure[2]. Fortunately, on September 30, 2014, WTGRE will undergo its annual screening, which helps to avoid valuation risk concerns.• Constituents that have seen significant increases in share price performance but whose dividends have not commensurately grown could see decreases in weight. • Constituents that have seen significant increases in their dividends but have not seen similar increases in their share prices may see increases in weight. Thinking of this at the country aggregate level means that countries that maintain significant exposure after positive performance are delivering not only share-price performance but also dividend growth. **One Option in the Search for Income-Generating Solutions** In the current interest rate environment, a big theme that we often write about regards thinking of dividend-paying equities as potential income solutions. Focusing on the real estate sector—accomplished here with WTGRE—could be an even more precisely tuned income focus within the current equity landscape outside of the United States. [1]Source for paragraph: Bloomberg, with 10- year sovereign debt used for the interest rates of each market. Data from 7/31/14 to 8/31/14. [2]Source for paragraph: Bloomberg, with data from 12/31/13 to 8/31/14.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Investments in real estate involve additional special risks, such as credit risk, interest rate fluctuations and the effect of varied economic conditions.

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Interest rates : The rate at which interest is paid by a borrower for the use of money.

Sovereign Debt : Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

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

Inflation : Characterized by rising price levels.

Monetary easing policies : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

Deflation : The opposite of inflation, characterized by falling price levels.

10-year government bond : a debt instrument backed by a government guarantee with an original maturity of 10 years.

MSCI Country Index : a free float-adjusted, market capitalization-weighted equity index designed to measure the performance of a specific countries market.

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

Valuation risk : The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.

MSCI ACWI ex-U.S. Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets excluding companies based in the United States.

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

10-year sovereign debt : a debt instrument backed by a sovereign or government guarantee with an original maturity of 10 years.