HOW EXPOSED TO THE TECHNOLOGY SECTOR IS YOUR DIVIDEND INDEX?

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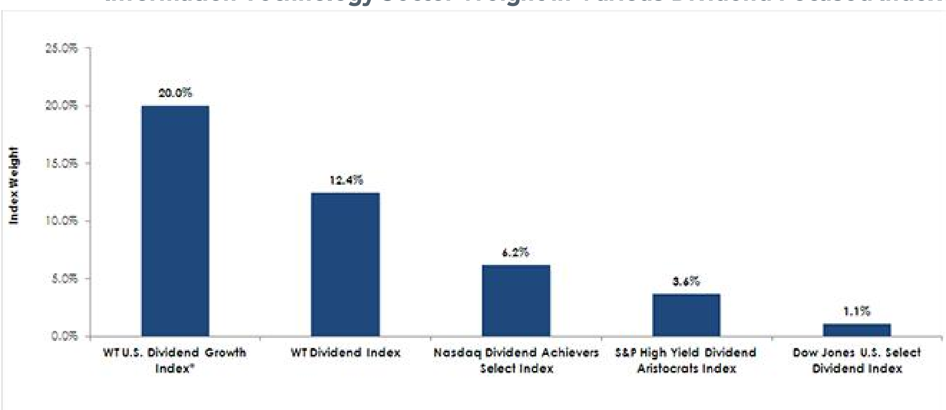
In multiple blogs and commentaries we have emphasized what we believe to be a seismic shift in the composition of the dividend-paying landscape in the United States: Information Technology. In March of 2000, the peak of the so-called "tech bubble," many IT firms were lucky to exhibit positive earnings, much less pay dividends. Since that time, there has been a widespread assumption that tech firms don't pay dividends for two reasons: • Tech firms have been "growth" companies, and growth companies re-invest their profits back into the firm to fund future growth opportunities. Growth companies are often associated with paying fewer dividends. • Tech firms utilize a lot of stock option-based compensation for senior executives. For option holders, share buybacks are preferable to dividend payments. There is still truth to both of these arguments, yet information technology firms have paid almost $43 billion over the 12 months ending March 31, 2013, the third-highest amount of any sector in the United States.[1] And they have been the most notable leader of dividend growth over the last five years.[2] **Unmistakable Dividend Growth** At the November 30, 2007, WisdomTree Dividend Index screening, the Information Technology sector accounted for slightly over 5.5% of all indicated cash dividends in the United States. As of November 30, 2012, merely five years later, the sector had almost tripled its aggregate contribution within this index. This indicates to us that the sector has not only grown significantly on its own, but it's also outpacing the growth of all the other sectors. There are currently three widely followed indexes of U.S. dividend-paying equities that, each in its unique way, screen for dividend growth. At the core, each looks at the history of dividend payments across U.S. dividend-paying companies and determines whether that history is long enough to warrant inclusion. At the short end of the spectrum, five years of dividend payments are required, whereas at the longer end, 20 years of consecutive increases are required. We believe these backward-looking approaches to dividend growth are quite similar in that they contain construction methodologies that ostensibly are attractive but that ultimately inhibit their ability to react quickly to changing conditions.

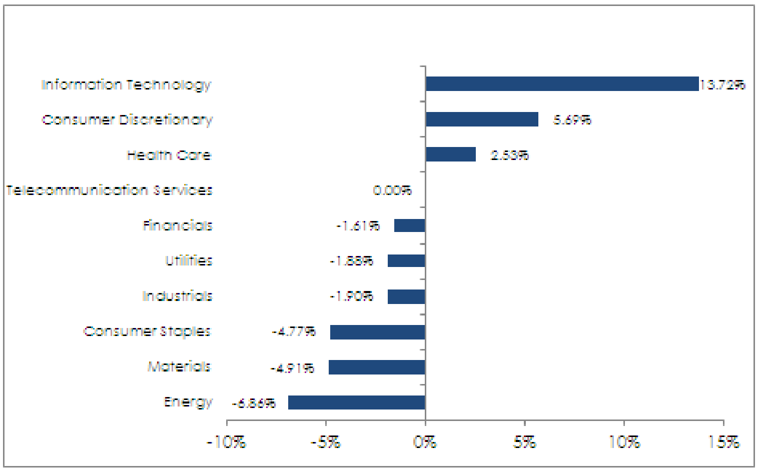
Information Technology Sector Weight in Various Dividend-Focused Indexes (as of 3/31/2013)



*As of the Index screening date for initial constituents, March 31, 2013.
Sources: WisdomTree, Bloomberg. You cannot invest directly in an index.

Information Technology has been the unmistakable dividend growth leader since November 30, 2007. While we can't predict the future with certainty, we do believe that tech firms will continue to generate large amounts of cash, and recent announcements from some of the largest among them signal a commitment to return some of that bounty to shareholders in the form of both dividends and share buybacks. However: • **Setting a Baseline for Analysis:** As of March 31, 2013, the S&P 500 Index (which does not focus on dividend payers or dividend growth in any way) had a baseline exposure to the Information Technology sector of about 18%. This allows us to set somewhat of a baseline exposure of the market capitalization-weighted picture of U.S. equities, with the thought being that, if the sector is believed to be an important dividend growth driver in the future, it may make sense to be over-weight compared to this benchmark. • **Tech's Lack of History:** The problem with Information Technology firms is one of "history," or lack thereof. These firms have largely not been paying dividends for five years, much less increasing them for 10 or 20. The respective weights of the sector in the NASDAQ US Dividend Achievers Select Index (which requires 10 years of consecutive dividend increases), S&P High Yield Dividend Aristocrats Index (20 years of consecutive dividend increases) and Dow Jones U.S. Select Dividend Index (five years of non-negative dividend growth) illustrate this issue. We believe a drawback of these indexes is their failure to emphasize dividend growth potential in their methodologies, which is actually lost in the requirement to have so much history. • **The WisdomTree U.S. Dividend Growth Index:** When people look at equity markets, we believe they look at past performance but are also thinking about future potential. We believe there are better options than solely extrapolating from the past. As a result, we've created our WisdomTree U.S. Dividend Growth Index (methodology detailed in prior blogs). In essence, the methodology is geared toward identifying a basket of companies we think will be above-average dividend growers tomorrow, rather than just selecting the dividend growers of yesterday. **NASDAQ US Dividend Achievers Select Index** This index focuses on firms able to generate 10 consecutive years of dividend increases, and since it doesn't focus on any yield-based selection beyond that (weighting is essentially by market capitalization), we have set it as the market capitalization-weighted benchmark by which the performance of the WisdomTree U.S. Dividend Growth Index (WTDGI) is measured. What we see from the initial picture of sector exposures, based on the screening for initial constituents for WTDGI is this:

Sector Exposures of WisdomTree U.S. Dividend Growth Index minus NASDAQ U.S. Dividend Achievers Select Index



Sources: WisdomTree, Bloomberg
*As of the Index screening date for initial constituents, March 31, 2013. Sector Allocations are subject to change. It is not possible to invest directly in an index.

The standout is clearly the almost 14% over-weight to Information Technology. Companies such as Apple, indicated to be the largest payer of indicated cash dividends in the world as of April 23, 2013,[3] are immediately eligible for inclusion in the WisdomTree Index. It will take until 2023 to determine whether Apple increased its cash dividends year over year for 10 consecutive years. **Conclusion** No index methodology can know ahead of time from where future dividend growth will come. However, we would argue that there are benefits to being flexible and able to steer toward potential dividend growth as opposed to being constrained to waiting long periods before being able to react. We believe that, as index development advances, historical dividend growth screens will cease to be the only option for indexes focused on potential dividend growth in the future. *View Jeremy Schwartz discuss dividends* (Video) *Read our Dividend Growth series here.* [1]Sources: WisdomTree, Standard & Poor's for universe of the WisdomTree Earnings Index, as of 3/31/2013. [2]Sources: WisdomTree, Bloomberg for universe of WisdomTree Dividend Index, measured from the 11/30/2007 screening date to the 11/30/2012 screening date. [3]Source: Apple Press Info, "Apple More than Doubles Capital Return Program," April 23, 2013.

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You cannot invest directly in an index.

DEFINITIONS

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Share buybacks : Firms using cash to purchase their own outstanding shares; may positively impact the share price.

WisdomTree Dividend Index : Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

NASDAQ US Dividend Achievers Select Index : Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 10 or more consecutive years.

S&P High Yield Dividend Aristocrats Index : Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 20 or more consecutive years.

Dow Jones U.S. Select Dividend Index : The index is a modified market capitalization approach and weights by dividend yield. Stocks are selected for fundamental strength relative to their peers, subject to various screens such as dividend quality and liquidity.

WisdomTree U.S. Dividend Growth Index : A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. 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 indicated cash dividends.

Market capitalization-weighting : 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.

WisdomTree Earnings Index : Fundamentally-weighted index that measures the performance of earnings-generating companies within the broad U.S. stock market.