

EUROPE'S DIVIDEND GROWTH EXPLAINED

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An interesting aspect of the WisdomTree annual rebalance process is identifying trends in aggregate regional *Dividend Streams®* of major markets. As we just rebalanced our developed world Indexes, including Europe, we wanted to provide some insight into how Europe's dividends grew in the 12 months prior to the rebalance. The headline figure: Europe's *Dividend Stream* grew 12.4% compared to the 2013 annual screening.¹ Let's look at how this has changed over time and the drivers of this year's growth. **Figure 1: Behavior of Europe's Dividend Stream—Two Consecutive**

Europe Dividend Streams as of Annual Index Screening Dates						
	2008	2009	2010	2011	2012	2013
Europe	\$473.4	\$301.0	\$289.7	\$366.6	\$314.3	\$345.6
Year-over-Year Growth		-36.4%	-3.8%	26.6%	-14.3%	9.9%
Cumulative Growth		-36.4%	-38.8%	-22.5%	-33.6%	-27.0%
						2014
						\$388.3
						12.4%
						-18.0%

Sources: WisdomTree, Standard & Poor's. Refers to companies in the WisdomTree DEFA Index universe that are incorporated in European countries. Past performance is not indicative of future results.

Years of Growth!

• Unlike

the Dividend Stream of the United States,² which has been hitting new record highs recently, Europe's Dividend Stream of \$388.3 billion still must grow 22% to reach its 2008 peak (or similarly put, currently we are 18% lower than 2008 levels). Yet clearly, the Dividend Stream is off its 2010 lows, up more than 34%, signaling positive momentum. • Financials experienced the greatest decline from 2008, going from approximately \$160 billion in 2008 to approximately \$86 billion in 2014. Financials must grow more than \$72 billion (nearly 84%) from 2014 levels to surpass their 2008 peak. To delve into this difference in the dividends of European Financials from 2008 versus 2014, we'd like to note that in 2008, about 220 firms qualified as dividend payers in the European Financials sector, compared with 170 firms today. Royal Bank of Scotland³ is perhaps the most notable dropout, contributing more than \$10 billion to the *Dividend Stream* in 2008 but not paying a dividend since. **Factors Driving Dividend Growth** The 12.4% aggregate growth of the Dividend Stream masked some variability in growth at both a sector and a country level. **Figure 2a: Dividend Stream Growth by**

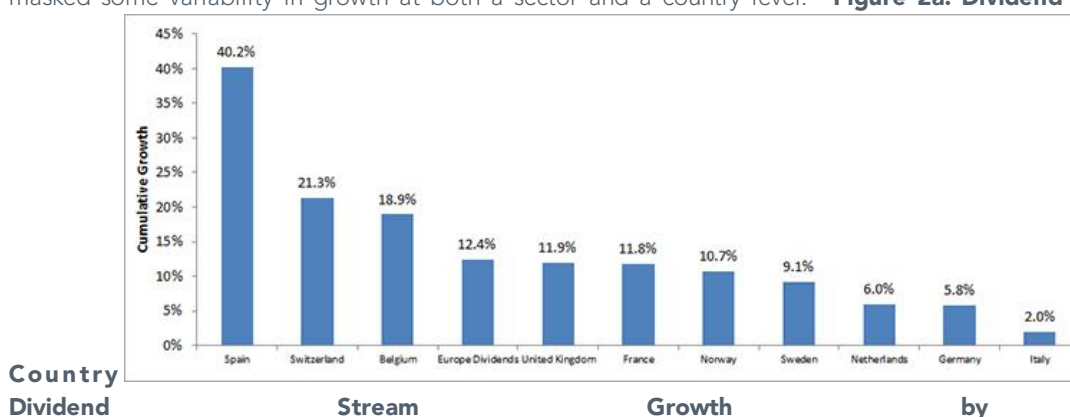


Figure 2b:

Sector

• What Happened in Spain?

In looking at figures 2a and 2b, the case of Spain literally leaps off the page, so we looked a bit more deeply into what was driving the 40% *Dividend Stream* growth figure. It's worth noting here that Spain's total *Dividend Stream*, slightly over \$32 billion, is less than 10% of Europe's total *Dividend Stream*, which we saw earlier is \$388.3 billion. Broadly speaking, there are two drivers of Spain's dividend growth:⁴ • **Companies Re-initiating Payments:** Telefonica SA⁵ and Endesa SA⁶ are two examples of this phenomenon. Both failed to make their dividend payments leading up to the 2013

screening date, so they were not eligible to contribute to Spain's *Dividend Stream*. In 2014, Endesa SA had a *Dividend Stream* of over \$2 billion, and Telefonica re-initiated an annual *Dividend Stream* to contribute more than \$4.6 billion.

Companies Growing Dividends Significantly: Repsol SA⁷ is an example of a firm that was included in Europe's Dividend Stream in 2013, but that nearly doubled its dividend per share for this year's screening date. Its contribution was over \$1.7 billion. This is the first of a series of blogs that will discuss our European Index rebalance. In future installments, we'll dig into some specific Indexes and describe how the rebalancing process illustrates a real-time case study of [smart beta](#) at work. For the full research on the WisdomTree European Indexes rebalance, [click here](#).

¹Refers to annual screening dates 5/31/13 and 5/31/14. ²Refers to the universe of the [WisdomTree Dividend Index](#), with most recent Index screening date of 11/30/13. ³Royal Bank of Scotland is not a dividend-paying company and is therefore not included in any [WisdomTree Dividend Index](#).

⁴For entire paragraph and subsequent two bullets, sources are WisdomTree, Standard & Poor's and Bloomberg, with data as of 5/31/14 Index screening. ⁵As of the 5/31/14 Index screening date, Telefonica SA was prescribed to be a 1.09% weight in the [WisdomTree International LargeCap Dividend Index](#), a 0.81% weight in the [WisdomTree DEFA Index](#), a 1.30% weight in the [WisdomTree DEFA Equity Income Index](#), a 1.64% weight in the [WisdomTree International Dividend ex-Financials Index](#) and a 5.77% weight in the [WisdomTree Europe Hedged Equity Index](#).

⁶As of the 5/31/14 Index screening date, Endesa SA was prescribed to be a 0.51% weight in the WisdomTree International LargeCap Dividend Index, a 0.37% weight in the WisdomTree DEFA Index, a 0.61% weight in the WisdomTree DEFA Equity Income Index and a 1.44% weight in the WisdomTree International Dividend ex-Financials Index. ⁷As of the 5/31/14 Index screening date, Repsol SA was prescribed to be a 0.41% weight in the WisdomTree International LargeCap Dividend Index, a 0.30% weight in the WisdomTree DEFA Index, a 0.48% weight in the WisdomTree DEFA Equity Income Index and a 1.24% weight in the WisdomTree International Dividend ex-Financials Index.

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DEFINITIONS

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

Smart Beta : A term for rules-based investment strategies that don't use conventional market-cap weightings.

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.

WisdomTree International LargeCap Dividend Index : A fundamentally weighted index that measures the performance of the large-capitalization segment of the dividend-paying market in the industrialized world outside the U.S. and Canada. The Index comprises the 300 largest companies ranked by market capitalization from the WisdomTree DEFA Index. Companies are weighted in the Index based on annual cash dividends paid.

WisdomTree DEFA Equity Income Index : A fundamentally weighted index that measures the performance of dividend-paying companies in the industrialized world, excluding Canada and the United States, that pay regular cash dividends and are among the 30% highest-yielding equities within the WisdomTree DEFA Index as of the annual Index screening date.

WisdomTree International Dividend ex-Financials Index : Measures the performance of high dividend-yielding stocks outside the financial sector. Selects the 10 largest dividend-paying stocks within each sector outside of financials, then the resulting list is weighted by dividend yield.

WisdomTree Europe Hedged Equity Index : Index designed to provide exposure to European equities while at the same time neutralizing exposure to fluctuations between the Euro and the U.S. dollar. Constituents are European dividend-paying firms with a least 50% of their revenues from outside of Europe. Weighting is by cash dividends paid.