

# INTRODUCING NEW GLOBAL INDEX METHODOLOGIES

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Each year, we monitor the global [Dividend Stream®](#) for growth so that we can refresh the weights of the underlying constituent companies in various WisdomTree Indexes. • The global *Dividend Stream* of the [WisdomTree Global Dividend Index](#) ("Global Dividend Index") saw growth over the period of 7.2% on a local basis, but fell 1.5% on a dollar basis. The primary drivers of this growth were U.S. constituents, growing their [dividends](#) almost 8% compared with the 2014 Index screening. Global ex-U.S. markets grew their dividends approximately 7% in local terms, but their dividends dropped 6% in dollar terms due to currency depreciation. • In terms of share of the global *Dividend Stream*, the U.S. has been on a strong upward trend since the 2011 Index screening, when its constituents made up only about one-quarter of the global *Dividend Stream*. As of the 2015 Index screening, U.S. constituents had increased their share to more than 36%, at the expense of both developed international and emerging market dividend payers. • A review of criteria outlining what Chinese companies were included resulted in Chinese companies being added to the emerging market universe—some from the developed market WisdomTree universe and some newly added companies. We estimate about 1.4% of the developed world's *Dividend Stream* was reclassified to emerging markets and 0.9% was from the addition of new companies. Stay tuned for a future blog post, in which we will go into more detail around this point.

**Dividend Stream Growth across All Three Regions Shown, but Only U.S. Increases Share**

	5/31/2008	5/31/2009	5/31/2010	5/31/2011	5/31/2012	5/31/2013	9/30/2014	9/30/2015
United States	26.6%	31.1%	28.4%	25.3%	29.2%	31.1%	33.1%	36.2%
Developed World	60.9%	56.0%	57.8%	57.8%	53.9%	52.1%	51.3%	48.1%
Emerging Markets	12.5%	12.9%	13.8%	16.9%	16.9%	16.8%	15.6%	15.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Sources: WisdomTree, Standard & Poor's.

Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. Data calculated for each annual Index screening date from 5/31/08 to 9/30/15. Universe for entire chart refers to the constituents of the WisdomTree Global Dividend Index.

**WisdomTree Global**

**Dividend Indexes** This year, we incorporated a new global Index methodology covering three Indexes—[Global High Dividend](#), [Global SmallCap Dividend](#) and [Global Quality Dividend Growth](#)—which aims to provide more diversified regional exposures. This is accomplished by two methods: 1. **Regional Stock Selection:** Our prior methodology would take the entire global universe and apply a [factor selection](#) methodology from the entire universe. When focusing on stock selection by [dividend yield](#), the U.S. tended to have below-average yields and so would get under-weighted more dramatically in a yield-based selection methodology. By selecting either a [quality](#) factor or yield factor within three regions (the U.S., developed world and emerging markets), we are helping to neutralize the regional biases of certain markets having below-average yield or quality variables and thus providing more of a bias in the strategy. The [WisdomTree Global High Dividend Index](#) selects the top 30% of stocks with the highest dividend yields from each region, while the [WisdomTree Global Quality Dividend Growth Index](#) selects the 300 stocks with the best quality and growth ranking from each region, resulting in 900 total stocks. The small-cap Index does not have a regional stock selection and just takes the 1,000 largest stocks from the bottom 5% of the total global market capitalization of the WisdomTree Global Dividend Index. 2. **Capping Regional Exposures:** Further, to make the global Indexes more about the specific factors for those regions instead of implying a relative over-weight to foreign markets because of their above-average dividend yields compared to the U.S., we have capped regional exposures to their [market cap-weighted](#) representative size. The new methodology ensures that regional exposures resulting from dividend weighting are not dramatically under-weight U.S. and results in more pure factor exposures to global high dividends, quality dividend growth and global small caps.

**Index Valuation Statistics**

Index	Estimated P/E Ratio	Dividend Yield	Median Long-Term Earnings Growth	Return on Equity (ROE)	Return on Assets (ROA)	Leverage	Earnings Retention	ROE x Earnings Retention
WisdomTree Global High Dividend	12.6x	5.09%	6.0%	12.6%	3.8%	3.3x	35.8%	4.50%
WisdomTree Global Quality Dividend Growth	14.1x	2.89%	12.0%	19.1%	8.3%	2.3x	59.3%	11.35%
MSCI ACWI	14.2x	2.72%	9.9%	12.4%	4.4%	2.8x	61.3%	7.60%
WisdomTree Global SmallCap Dividend	14.0x	4.27%	10.1%	10.3%	4.1%	2.5x	40.2%	4.14%
MSCI ACWI Small Cap	16.8x	2.20%	12.0%	9.0%	3.6%	2.5x	63.0%	5.69%

Sources: WisdomTree, Bloomberg, as of 9/30/15. WisdomTree Index constituent weights are based on 9/30 screening file. Return on equity (ROE) and return on assets (ROA) are median-level statistics based on underlying three-year average ROE and ROA.

*For definitions of terms in the*

*chart, visit our [glossary](#).*

**Fundamental Weighting Tilts Toward Factors:** We believe screening and weighting by different fundamentals can provide access to different factors: • **Value:** The WisdomTree Global High Dividend Index screens by dividend yield and then weights by dividends, typically resulting in a deep value exposure. The Index provides a dividend yield advantage of more than 237 [basis points \(bps\)](#) and sells at an 11.3% discount on a [price-to-earnings \(P/E\) ratio](#) basis, compared to the [MSCI ACWI Index](#), as of September 30, 2015. • **Quality:** The WisdomTree Global Quality Dividend Index screens by growth and quality and then weights by dividends, providing access to quality with sensitivity to [valuation](#). The Index had a [return-on-equity \(ROE\)](#) and [return-on-assets \(ROA\)](#) advantage of 6.7% and 3.9%, respectively, compared to the MSCI ACWI Index. The Index also had a growth advantage of more than 2% and lower leverage compared to the MSCI ACWI Index. • **Small-Cap Value:** The WisdomTree Global SmallCap Dividend Index screens by size and then weights by dividends, thereby focusing on small-cap value. The Index provides a dividend yield advantage of more than 207 bps and sells at a 16.7% discount on a P/E ratio basis, compared to [MSCI ACWI Small Cap Index](#).

#### Important Risks Related to this Article

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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You cannot invest directly in an index.

## DEFINITIONS

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

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

**Factor selection** : Refers to selection process that focuses on common attributes (i.e., factors), be it in terms of their fundamentals or their share price behavior, that are associated with higher returns.

**Dividend yields** : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

**Quality** : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

**WisdomTree Global High Dividend Index** : A fundamentally weighted index that measures the performance of high-dividend-yielding companies selected from the WisdomTree Global Dividend Index, which measures the performance of dividend-paying companies in the U.S., developed and emerging markets. At the index measurement date, companies with market capitalizations of at least \$2 billion are ranked by dividend yield, and those companies in the top 30% by dividend yield within each region are selected for inclusion.

**WisdomTree Global Quality Dividend Growth Index** : A fundamentally weighted index that measures the performance of dividend-paying common stocks with growth characteristics selected from the WisdomTree Global Dividend Index. The Index comprises 300 securities with the best combined rank of growth and quality factors from each region (i.e., the U.S., developed and emerging markets).

**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.

**Fundamental value** : The value of a firm that is related to a company's actual operations and production as opposed to changes in share price.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Basis point** : 1/100th of 1 percent.

**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.

**MSCI ACWI Index** : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

**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.

**Return on Equity (ROE)** : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Return on assets (ROA)** : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

**MSCI ACWI Small Cap Index** : A free-float adjusted market capitalization-weighted index that is designed to measure

the equity market performance of developed and emerging markets, specifically focusing on the small-cap segment of these equity markets.