INDIA ELECTION SPURS GAINS: HOW TO BEST PARTICIPATE

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The landslide victory in the Indian elections by Narendra Modi and his party has garnered much attention. Newly elected Prime Minister Modi is described as a self-made man who broke through the dynastic rule of the Gandhi party to raise India's hopes. Modi ran on a slogan of "less government and more governance"—and he brings expectations of unlocking India's vast economic potential. The Indian stock market began to anticipate a Modi victory and climbed to new highs in May as a result.[1] Yet the Indian rupee is still well off its highs, so Indian exchange-traded funds (ETFs)—which inherently contain exposure to both the local stock market and the currency—still have to gain over 25% or more before they reach the previous highs set in November 2010. As investors look to position themselves for the improved sentiment Modi has brought to India, the following are key considerations for investment vehicles offering exposure to India: • **Breadth of coverage:** The WisdomTree India Earnings Fund (EPI) has 170 holdings[2], and WisdomTree believes it is the broadest and most representative representation of the Indian markets available in the ETF structure. Many of the other India-focused strategies are large cap in nature and only include 50 to 70 stocks in them. These large-cap-focused strategies can miss out on the mid- and small-cap segment of the Indian markets, which typically are more sensitive to changes in the prospects for the Indian economy, which has suffered from depressed valuation and is now benefiting from the improved sentiment brought on my Modi's election. o Only 31 of the companies in EPI would be considered large cap—stocks with a greater than $10 billion market cap—while 70 of the stocks are between $2 billion and $10 billion, and another 69 are smaller capitalization and have less than $2 billion in market cap. o The smaller-capitalization stocks were also the cheapest: the above-$10 billion stocks had a 14.2x price-to-earnings (P/E) ratio, while the small-cap segment's P/E ratio was only 11.0x.[3] o Traditional indexes for India, such as the MSCI India Index or the Nifty Index, have roughly no exposure to this small-cap segment and less exposure to the mid-cap segment.[4] • **Local Economy Focused:** Mid-and small-cap stocks have reacted the most in 2014 on the hopes for Modi's election. Last year large-cap technology stocks did really well on the back of the weak rupee, which helped exports.[5] But in 2014 the more local economy, rupee-sensitive sectors and small caps are doing well, leading to stronger gains for EPI than for most traditional (large-cap) indexes.[6] **Attribution**[7]

	Average Weight		Total Return		Total
	EPI	MSCI India	EPI	MSCI India	Attribution
	100.0%	100.0%	27.8%	18.2%	9.6%
Financials	25.2%	22.7%	40.6%	32.4%	2.5%
Energy	19.3%	12.2%	35.5%	32.6%	1.9%
Information Technology	15.6%	23.1%	-2.6%	-2.4%	1.3%
Industrials	6.4%	4.8%	62.6%	52.3%	1.2%
Utilities	5.6%	3.6%	33.6%	27.9%	0.6%
Consumer Discretionary	9.3%	6.5%	23.2%	19.8%	0.6%
Health Care	5.1%	6.8%	11.8%	4.3%	0.6%
Materials	8.5%	6.7%	29.0%	25.1%	0.5%
Consumer Staples	3.8%	11.2%	6.4%	7.1%	0.4%
Telecommunication Services	1.1%	2.3%	8.5%	5.9%	0.1%

Sources: WisdomTree, Bloomberg, 12/31/13–05/20/14. Past performance is not indicative of future results. Attribution returns are in USD. Holdings subject to change.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investors shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Click here for EPI's standardized performance. • Industrials have led the market up this year, returning over 60% during the period. Financials and Energy, the two largest sector weights in EPI, were both up over 35% through the end of the period. This is a direct reversal of last year's disappointing performance. • The Information Technology sector, which led the market in 2013 based on the weak rupee, was negative during the period on a stronger rupee. EPI's under-weight position in that sector had been one of the contributing factors to its performance during the period. • Consumer Staples, viewed as a more defensive sector and also which performed quite well in 2013, lagged the broader gains present in cyclical sectors over the most recent period. EPI's under-weight to this sector also contributed positively to performance through the period. **Earnings Weighting Lowers the P/E Ratio** One potential concern for investors when there are such large gains in a short period is that the market may become expensive—and India historically tends to trade at premium prices versus emerging markets more generally.[8] WisdomTree's earnings-weighted approach for India helps focus on lower-priced segments of the Indian market, and the Index and Fund will rebalance in September to help manage thevaluation risk from the big winners. Our research shows the WisdomTree India Earnings Index (WTIND)[9]has historically traded at a 35% discount to the MSCI India Index since WTIND's inception, and the discount typically widens after the rebalance.**Conclusion** Less than 12 months ago, India was considered part of a group of "fragile" emerging market countries with large vulnerabilities that sent its currency into a tailspin. The first start to improved sentiment came with the appointment of a new head of the Indian central bank, Dr. Raghuram Rajan. Rajan's appointment coincided with the lows for the rupee and the bottom of the equity markets after he aggressively hiked interest rates to combat high levels of inflation. A worry concerning this policy was that it would hamper economic growth by raising the cost to borrow money. But now, with the new government, growth sentiment is improving. With the tag team of Modi-Rajan, investors are seeking more gains for India. WisdomTree is a long-term bull for India based on its very favorable demographic trends. A key risk for India has typically been very high market expectations, high inflation rates and government corruption, which has been a bottleneck on the economy. The trends appear to be going in the right direction. For those looking for continued improvement, having EPI—which is broadly representative of the Indian market and economy but also employs a process to manage equity valuation risk—as part of their equity strategy might be an attractive way to gain exposure to India. [1]As measured by MSCI India Index measured in local prices[2]Source: WisdomTree, as of 5/20/14. Holdings subject to change[3]Sources: WisdomTree, Bloomberg, as of 5/20/14[4]Source: Bloomberg, as of 5/20/14 [5]Source: Bloomberg, 12/31/12–12/31/13 [6]Sources: WisdomTree, Bloomberg, 12/31/13–5/20/14 [7]Please keep in mind that high double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A fund's performance, especially for very short periods, should not be the sole factor in making your investment decision [8]Source: Bloomberg; refers to the price-to-earnings ratio of the MSCI India Index compared to the MSCI Emerging Markets Index for the period 4/30/04–4/30/14 [9]Sources: WisdomTree, Bloomberg, 12/03/07–4/30/14

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. As this Fund has a high concentration in some sectors, the Fund can be adversely affected by changes in those sectors. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. A fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

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Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price per share.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund’s weight.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

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.

MSCI India Index : A market capitalization-weighted index designed to measure the performance of the Indian equity market.

Nifty Index : The National Stock Exchange of India’s benchmark index for the Indian equity marke.

Defensive sectors : Consumer Staples, Health Care, Telecommunication Services and Utilities.

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

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.

WisdomTree India Earnings Index : A fundamentally weighted Index that measures the performance of companies incorporated and traded in India that are profitable and that are eligible to be purchased by foreign investors. Companies are weighted in the Index based on their earnings in their fiscal year prior to the Index measurement date, adjusted for a factor that takes into account shares available to foreign investors.

Inflation : Characterized by rising price levels.