Introducing a New Index to Reflect the Rise of the Emerging Market Consumer

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One of the major themes that we believe will drive much of the global economy over the coming years is the rise in potential growth from emerging market (EM) consumers. Given EM's youthful demographics and the potential for their low per capita incomes[1] to catch up with those of the developed world, the potential ramifications of this trend could be quite large.

Despite the importance of this major shift, the options that could reflect and measure the performance of equities that benefit from it are quite limited. Yes, there are plenty of broad-based emerging market indexes and even a few sector-specific indexes.

But the rise of the middle class in the emerging markets is more than a "sector" idea. Companies from a wide cross-section of the economy and markets—such as insurance companies and health care companies—could have as much potential to benefit from a growing emerging market middle class as your typical car company (Consumer Discretionary) or food company (Consumer Staples). The Index we have created thus broadly reflects the growth in purchasing power of consumers within these local economies by including a broad cross-section of EM companies that we believe are positioned to benefit from these trends.

In this Market Insight, we will discuss the key trends in the growth of the emerging market consumer and discuss the new Index we have created and how it is positioned in comparison to traditional emerging market equity indexes.

THE DRIVERS OF GLOBAL GROWTH

Below is the International Monetary Fund's (IMF) characterization of world growth in 10-year increments going back to the 1980s. Through the decades, EM has become a large driver of world growth, and this trend is expected to continue. The IMF forecasts that by 2018 the developing economies will grow at a pace of 6.2%, while the developed nations are set to grow at a paltry 2.5%.[2] As EM is expected to be the engine of global growth, key contributors to EM economies are critically important. As we will show in the next section, the emergence of the EM consumer is the fuel needed to keep this engine running.

[1] Per capita income: The sum total of the goods and services produced in a particular country divided by the country's population. Higher numbers imply a higher standard of living per person.
[2] Source: International Monetary Fund, World Economic Outlook Report, April 2013.

FIGURE 1: CHARACTERIZATION OF WORLD GROWTH: DEVELOPING ECONOMIES VS. ADVANCED ECONOMIES

[12/31/1980–12/31/2012, with estimates to 2018]

IMF's Characterization of World Growth (%)							
	1981-1990	1991-2000	2001-2010	2011-2012	2013*	2014*	2018*
World	3.4%	3.2%	4.2%	3.6%	3.3%	4.0%	4.5%
Advanced Economies	3.1%	2.4%	2.2%	1.4%	1.2%	2.2%	2.5%
Developing Economies	4.2%	5.5%	6.3%	5.8%	5.3%	5.7%	6.2%

Source: International Monetary Fund, World Economic Outlook Report, April 2013.
*2013, 2014 and 2018 data is based on International Monetary Fund Estimates.

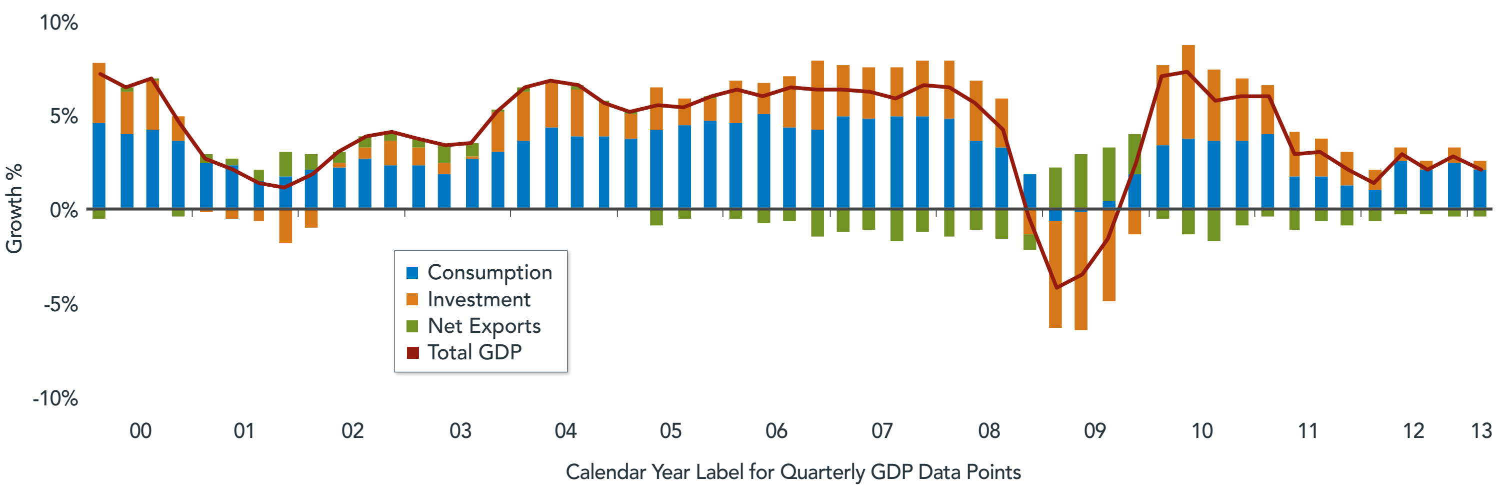
PROFILING EMERGING MARKET CONSUMPTION GROWTH

The EM consumer has driven much of the growth story in EM since 2000. The average gross domestic product (GDP)[3] growth in the emerging markets has been 4.09%, and consumption contributed 3%—or 75% of the total growth.

In addition, the consumer component of EM GDP has been the least volatile contributor to growth over the past 10 years.

+ **After the 2009 slowdown, the EM consumer has reemerged as the dominant driver of growth and has been responsible for 70% of growth since 2010[4].**
+ **Net exports[5] have tended to shift from being positive to being negative at different points in time.**
+ **Investment[6] tended to gain in importance between 2004 and 2009 but has dropped in importance from 2010 on.**
+ **Consumption, on the other hand, displayed only a slightly negative contribution to GDP growth during 2009 and was positive over the rest of the periods for which we have available data, encompassing the past 13 years.**

FIGURE 2: CONSUMPTION HAS BEEN A STABLE AND LARGE CONTRIBUTOR TO GDP GROWTH IN EMERGING MARKETS (% Y/Y) [3/31/2000–3/31/2013]



Source: Bhanu Baweja and Christine Li, "EM by the Numbers: Trying to Get That Engine Going", UBS Investment Research, July 26, 2013.

[3] Gross domestic product (GDP): The sum total of all goods and services produced across an economy.
[4] Baweja, Bhanu and Christine Li. "EM by the Numbers: Trying to get that Engine Going." UBS Investment Research. July 26, 2013.
[5] Net exports: For a given country, the sum of the value of all exports minus the sum of the value of all imports, with negative values indicating a country imports more than it exports.
[6] Fixed investment: Application of resources meant to enhance the future productive capacity of a particular economy.

While few would disagree that the EM consumer has been an important driver of GDP growth for these regions, the more important point lies in analyzing what may sustain the force of EM consumption in the future.

Primarily, we see these factors as:

+ **Growing population (more people)**
+ **Rising incomes (more money)**

In essence, EM countries have younger and faster-growing populations, with incomes that are expected to rise at a faster rate than those of the developed world—as they are starting from a much lower base.

Key statistics on the population profiles:

Over the last 43 years, there has been a large difference in the population trends between the G7 developed countries[7] and the emerging markets.

+ **G7 population growth: 33%[8]**
+ **EM population growth: 87%[8]**

The developed world societies are getting older and entering retirement, while most of the emerging market countries have young population profiles. Highlighting the percentage of the population older than 65 years for Brazil, Russia, India and China (the BRIC countries), we see:

+ **India: 6%[9]**
+ **Brazil: 7%[9]**
+ **China: 10%[9]**
+ **Russia: 15%[9]**

Developed countries are much older: For example, 17% of the US population is over the age of 65, and in Japan, that number is 26%—more than one-quarter.

Ultimately, we believe the age profiles of emerging market countries are supportive of a continuing trend of EM countries vastly outpacing the population growth of developed markets.

TRENDS IN GLOBAL SPENDING 2009–2030

The rapidly growing ranks of middle-class consumers span a wide array of emerging nations, not just the fast-growing BRIC countries, and include almost 1 billion people spending a total of $7.5 trillion annually, approximately 35% of global middle-class consumption.

[7] G7 developed countries: France, Germany, Italy, Japan, United States, United Kingdom and Canada.
[8] Source: World Bank Data accessed through Bloomberg, for period 12/31/1970 to 12/31/2012 with World Bank estimates through 12/31/2014.
[9] World Bank Data accessed through Bloomberg, as of 12/31/2012.

+ **Three Billion New Entrants to the Middle Class: The EM middle-class population is projected to grow from 1 billion people in 2009 to approximately 4 billion people by 2030.**
+ **Expected Doubling in Percentage of Global Spending: The middle-class expenditure in the EM space is projected to grow from 35% of global middle-class spending in 2009 to 70% by 2030. In essence, EM middle-class consumers are projected to become the dominant force in global consumption within the next 20 years**

FIGURE 3: DIVISION OF MIDDLE-CLASS CONSUMPTION BETWEEN DEVELOPED (DM) AND EMERGING MARKETS

[12/31/2009, with estimates to 12/31/2030]

Spending By the Global Middle Class, 2009 to 2030 (millions of 2005 dollars, utilizing Purchasing Power Parity (PPP)* exchange rates)						
	2009		2020		2030	
Developed Market Estimate[1]	13,740	64%	16,164	46%	17,174	30%
Emerging Market Estimate[2]	7,538	35%	18,882	54%	38,506	70%
North America	5,602	26%	5,863	17%	5,837	10%
Europe	8,138	38%	10,301	29%	11,337	20%
Asia Pacific	4,952	23%	14,798	42%	32,596	59%
World	21,278	100%	35,045	100%	55,680	100%

Source: Homi Kharas, "The Emerging Middle Class in Developing Countries," OECD Development Centre, January 2010.
*Purchasing Power Parity (PPP): Academic concept stating that exchange rates should adjust so that equivalent goods and services cost the same across countries, after accounting for exchange-rate differences.

BUILDING AN INVESTMENT STRATEGY THAT INCORPORATES VALUATION

Given these powerful demographic and economic trends, how does one position an equity portfolio to capitalize on this opportunity set? When it comes to emerging market equities, it is important to remember that forces of economic growth, as positive as they tend to be, can display only a tenuous relationship to actual equity performance. A crucial piece of the equation is what part of the higher growth is already factored into prices—so we believe that having a rigorous, ongoing valuation[10] process is important.

Valuation risk is also one of the greatest risks to consumer-oriented stocks and sectors in emerging markets today, in that the valuations in traditional EM Consumer sectors are considerably higher than their longer-term averages and other emerging market stocks more generally.

+ **Over the Past 10 Years: The MSCI Emerging Markets Consumer Discretionary Index traded at an average price-to-earnings (P/E) ratio[11] approximately 5% above that of the broader MSCI Emerging Markets Index, while the MSCI Emerging Markets Consumer Staples Index traded at an average P/E ratio of nearly 50% above this same benchmark.[12]**
+ **As of 8/31/2013: Currently, the MSCI Emerging Markets Consumer Discretionary Index has a P/E ratio about 13.5% above that of the MSCI EM Index (almost three times above its 10-year average), and the MSCI Emerging Markets Consumer Staples Index has a P/E ratio about 100% above that of the broad market.[13]**

[10] 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.
[11] 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.
[12] Source: Bloomberg, as of 8/31/2013.
[13] Source: Bloomberg, as of 8/31/2013.

We make these points to caution potential investors and remind them that while a theme—such as that of the EM consumer—may look attractive, it cannot be considered in a vacuum. Valuation must remain an important question, and in an index methodology meant to reflect this theme, we believe that a sensitivity to valuation must be not only a component piece but a primary focal point.

INTRODUCING THE WISDOMTREE EMERGING MARKETS CONSUMER GROWTH INDEX (WTEMCG)—SELECTION CRITERIA AND RATIONALE

In order to capitalize on the theme of a growing middle class in the emerging markets and the rise in local economic consumption, our goal was to create a broadly diversified index that reflected this theme. Stocks from the two Consumer sectors—Staples and Discretionary—are certainly an important part of this, but they are not the only sectors that benefit from growing emerging market economies. For example:

+ **Financials: These firms may benefit from an increased demand for credit and other services as middle-class consumers earn greater amounts of money.**
+ **Health Care: These firms may benefit from growing populations requiring greater services and innovations.**
+ **Telecommunication Services: These firms may benefit from the ability of consumers to pay for greater data and coverage services as being connected to the global economy becomes ever more important.**
+ **Utilities: These firms may benefit from the fact that consumers will likely need more power and basic services as their incomes grow.**

A key feature of our Index is the inclusion of a geographic revenue filter. Companies that meet our inclusion rules must derive a majority of their revenue from the emerging markets and cannot have undue concentration of their revenues coming from any of the major developed markets .

Moreover, the sectors that are more globally sensitive and less direct beneficiaries of emerging market local consumption growth—such as Energy and Materials (commodity sectors)—are not eligible for inclusion. Some of the traditional emerging market indexes have heavy exposures to these commodity sectors, so removing these sectors also provides a contrast in exposure compared to other benchmarks.

WTEMCG Index Criteria

+ **Incorporation: Must be incorporated in one of the following 17 emerging market nations: Brazil, Chile, China, Czech Republic, Hungary, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand or Turkey.**
+ **Net Income & P/E Ratio: Must have generated over $5 million in net income over the firm's prior fiscal year leading up to the screening date and must have a P/E ratio of at least 2x as of the screening date.**
+ **Must meet other volume and market capitalization[15] size restrictions as determined by WisdomTree.[16]**

[14] Major developed markets: Refers to Europe, Japan and the United States.
[15] Market capitalization: Market cap = share prices x number of shares outstanding.
[16] Volume and market capitalization size restrictions as of the annual screening date include 1) market capitalization of at least $200 million, 2) trading of at least 250,000 shares for each of the six months prior to the annual screening date, 3) calculated volume factor (the average daily dollar volume for the three-month period preceding the annual screening date / weight of the security in the Index) shall be greater than $100 million, 4) average daily dollar volume of at least $200,000 for each of the six months preceding the annual screening date.

Geographic Revenue Rules

- **Must derive more than 60% of its revenue from emerging markets, and no more than 25% from any one of the following regions: Europe, Japan or the United States.**

Industry Exclusions

- **Companies must not be in commercial services, energy minerals, non-energy minerals, industrial services, process industries, technology services, producer manufacturing, electronic technology; additionally, banks with more than $10 billion in market capitalization are excluded.**

Final Selection Rules

For firms meeting the above criteria, the final screening and selection process zeroes in on 250 companies: 150 from Consumer sectors (specifically Staples and Discretionary) and 100 from the non-Consumer sectors with the best combined rank of growth, quality and valuation.

- **Growth Ranking: One-third weighted based on the rank of long-term earnings growth expectations[17].**
- **Quality Ranking: One-third weighted based on the rank of historical three-year average return on equity (ROE)[18] and historical three-year average return on assets (ROA)[19].**
- **Valuation Ranking: One-third weighted based on the rank of the earnings yield[20].**

Companies that have a combined ranking in the top 150 from the two consumer sectors and the top 100 companies from the eligible non-consumer sectors will be selected for inclusion in the Index.

Weighting Rules

The initial weight of a company in the Index at the annual reconstitution is based on net income over the last four quarters. This earnings-weighted approach is further subject to the following constraints:

- **5% cap to any individual securities at each annual rebalance.**
- **25% cap to any individual countries at each annual rebalance.**
- **Weighting allocation adjustment of 60% will be applied to the two consumer sectors and 40% to all the other sectors as of the annual screening date.**
- **Between annual rebalances, the individual security weights may fluctuate above 5%, individual country weights may fluctuate above 25%, and the weighting allocation adjusted to the two consumer sectors versus all the other sectors may not hold in the exact 60:40 proportion due to market movement.**

[17] Long-term earnings growth expectations: Compilation of analyst estimates of the growth in operating earnings expected to occur over the next full business cycle, typically three to five years .
[18] Return on equity (ROE): Firm profits (after accounting for all expenses) divided by the firm's equity. Higher numbers indicate greater profits relative to the level of equity.
[19] 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.
[20] Earnings yield: Earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.

THOUGHTS ON SELECTION FACTORS

On Earnings Growth Expectations

We expect emerging market consumer stocks to have some of the fastest growth rates among emerging market companies. Our goal in including this sensitivity among our selection factors is simple—we want to make sure that the Index selected from the broad sector base is most consistent with the higher growth part of this category.

On Quality Rankings

Our research (as well as a growing body of academic research)[21] shows that quality factors such as return on equity and return on assets are important indicators of long-term returns for companies worldwide. Some investors who focus on quality metrics rely on just the return on equity as a key gauge of profitability. We also include return on assets to penalize companies that provide high returns on equity predominantly through the use of leverage [22]. This is because the difference between return on equity and return on assets actually comes down to leverage.

On Valuation

As we outlined earlier in this paper, we find that one of the prime risks to stocks in the emerging market consumer sectors is that their P/E ratios tend to be among the highest in emerging markets. We believe that incorporating a valuation factor both in the selection of constituents and in the weighting is an important way to manage that risk.

Exposure to "Consumer Growth" Sectors

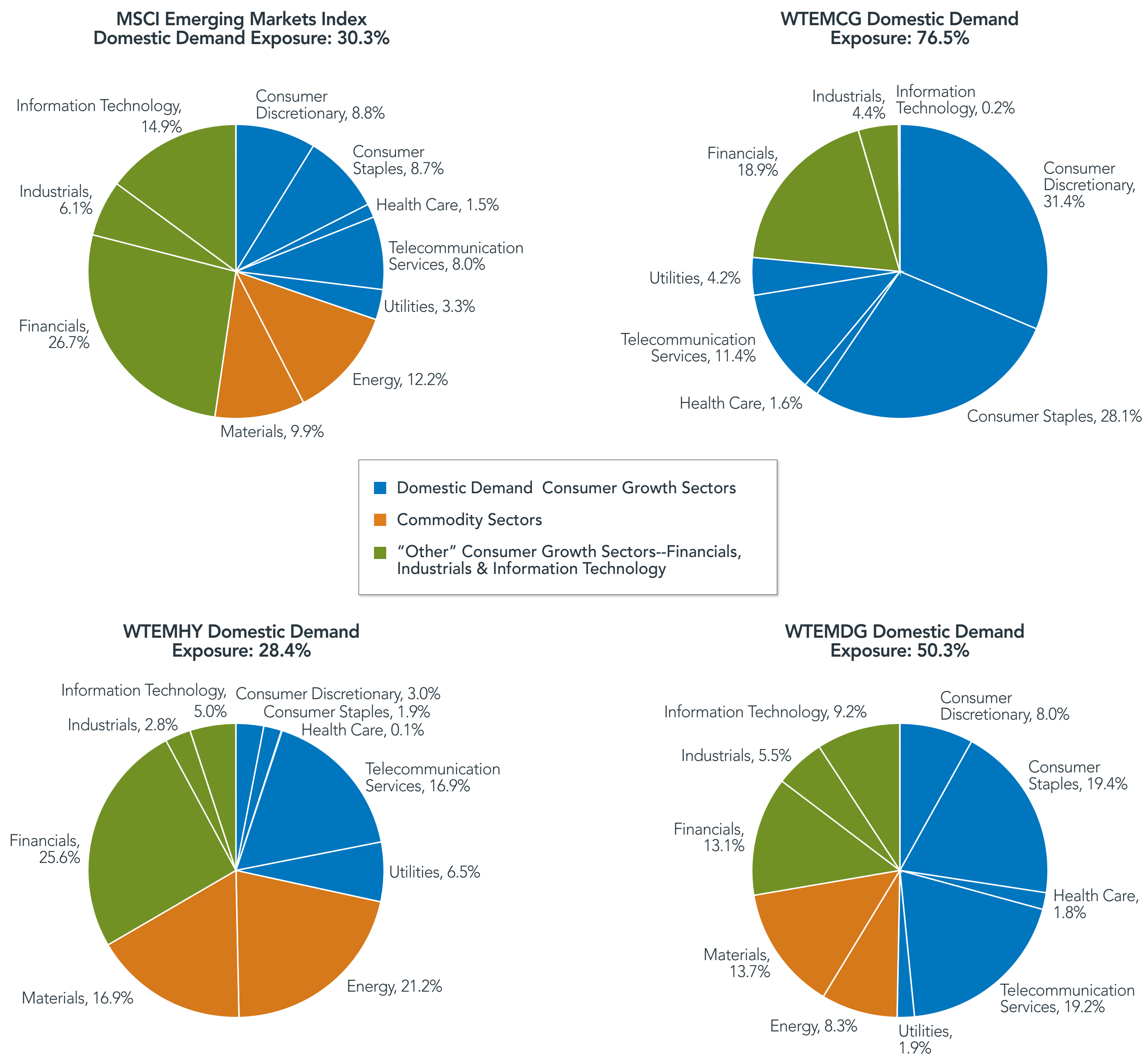
WTEMCG is aimed at helping investors build a portfolio of equities that is responsive to growing consumption in EM. Now, certain sectors are more sensitive to this dynamic than others as a broad characterization. For our purposes, in terms of measuring exposures across different emerging market equity indexes:

+ **Domestic Demand Consumer Growth Sectors: These would include Consumer Staples, Consumer Discretionary, Telecommunication Services, Utilities and Health Care.**
+ **Commodity Sectors: These would encompass Energy and Materials, which are very globally sensitive because commodity prices are often driven by global events. In our view, these sectors are not necessarily as sensitive to the consumer growth theme that we have been discussing in this piece.**
+ **"Other" Consumer Growth Sectors--Financials, Industrials and Information Technology: These three sectors can either be globally influenced or driven more by local EM demand. Certain industrial or technology firms are big exporters and globally sensitive, while others can be more domestically sensitive. The same can be said for Financials in that smaller banks may be in a position to directly benefit from rising incomes across emerging market populations, but larger banks may be more exposed to global risks and less reflective of the theme WTEMCG is trying to capture.**

[21] Robert Novy-Marx, "The Quality Dimension of Value Investing," Simon Graduate School of Business, 2012.
[22] Leverage: Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Below, we compare WTEMCG to the MSCI Emerging Markets Index, a broad index of emerging market equities weighted by market capitalization and an important regional benchmark. We also include comparisons to the WisdomTree Emerging Markets Equity Income Index (WTEMHY) and the WisdomTree Emerging Markets Dividend Growth Index (WTEMDG) to indicate how its sector exposures look compared to two of WisdomTree's other approaches focused on broader exposure to emerging market dividend payers.

FIGURE 4: SECTOR EXPOSURES OF EMERGING MARKET EQUITY INDEXES [as of 8/31/2013]



Sources: Bloomberg, Standard & Poor's. You cannot invest directly in an index. Subject to change.

- **Heavily Weighted toward Domestic Demand Consumer Growth Sectors: More than 75% of the weight of WTEMCG is in the five sectors that we consider most sensitive to domestic demand consumer growth. The other big piece is a Financials sector exposure, and we believe some of the bigger companies included—such as insurance companies—are very consistent with the theme of growth in the emerging markets' middle class consumption..**
- **Contrasting WTEMCG with Other WisdomTree Emerging Market Indexes: It is interesting to see how WTEMCG relates to both WTEMDG and WTEMHY, two broadly focused emerging market equity Indexes that do not focus on generating exposure to the domestic demand consumer growth sectors. With approximately 50% exposure, WTEMDG is somewhat of a midpoint. WTEMHY is on the low end and therefore much more globally sensitive.**
- **The MSCI Emerging Markets Index, a broad market capitalization-weighted index, has over 20% of its exposure in the two commodity-oriented sectors—Energy and Materials—that are excluded from WTEMCG, and approximately 30% of its exposure in the Domestic Demand consumer growth sectors.**

EXPOSURE TO DOMESTIC DEMAND CONSUMER GROWTH COMPANIES

Beyond thinking of broad sector exposures, sometimes it's also illustrative to learn more about the stories behind some of the individual constituents. What are these companies doing? What are they looking to sell? Sometimes understanding the answers to these questions helps us evaluate how successful a particular portfolio is in generating exposure to the concept of consumer growth.

In the chart below, we indicate the top 10 holdings of WTEMCG.

FIGURE 5: DESCRIPTION OF TOP 10 HOLDINGS [as of 8/31/2013]

Company Name	Ticker	Weight	Description
Ping An Insurance (Group) Co of China Ltd H Shares	2318 HK	3.6%	Provides property, casualty and life insurance in China
Astra International Tbk PT	ASII IJ	3.4%	Assembles and distributes automobiles, motorcycles, and related spare parts
America Movil SAB de CV L	AMXL MM	3.4%	Provides wireless communications across Latin America
Cia Bebidas das Americas - Ambev	AMBV3 BS	3.3%	Produces beer, soft drinks, teas, mineral water and sports drinks
Fomento Economico Mexico UBD	FEMSAUBD MM	2.8%	Produces, distributes and markets non-alcoholic beverages throughout Latin America as part of the Coca-Cola system
Dongfeng Motor Group Co. Ltd. H Shares	489 HK	2.8%	Designs, manufactures and markets diesel engines, light trucks, automobiles and related spare parts
MTN Group Ltd	MTN SJ	2.5%	Provides cellular network access and business solutions
PICC Property and Casualty Co. Ltd. H Shares	2328 HK	2.1%	Provides a broad range of property and casualty insurance products in China
Great Wall Motor Co. Ltd. H Shares	2333 HK	1.9%	Manufactures and sells pick-up trucks and sport-utility vehicles in China
FIRSTRAND LIMITED	FSR SJ	1.7%	Provides banking and insurance services to retail, corporate, commercial and public sector customers throughout South Africa as well as some African territories

Sources: Bloomberg, Standard & Poor's. Subject to change.

- **Transportation: Three of the 10 firms listed are involved in transportation—specifically dealing with the manufacture of cars, trucks, engines—things that help people and goods move from one place to another. It is not hard to see that as economic development improves, the potential exists that demand for these items will increase.**
- **Insurance: Three of the 10 firms listed are involved in insurance, with two working predominantly in China. It is widely known that China is the world's most populous nation, and it is also known that as economic development improves and people have more exposure to things such as cars and homes, the demand for insurance increases.**
- **Beverages: Two of the 10 firms listed are involved with the manufacture of beverages. When societies are very poor, citizens tend to drink water and little else, but as standards of living improve, a potential consequence is an increased taste palette for different beverages.**
- **Wireless Communications: Two of the 10 firms listed are involved with wireless communications and networks. As economic development improves, it is typical for people to gain increased access to such communication tools as cell phones.**

For each of the top 10 holdings of WTEMCG, the story relating the firm to sensitivity to consumer growth should be crystal clear. If trends in their local economic growth are long term and persistent, these companies should benefit.

COUNTRY EXPOSURES

A secondary question, beyond thinking about sectors or companies, regards where—or in what countries—the exposure is being generated as a result of our process. It is probably also of interest to note how that country breakdown compares to that of the Dow Jones Emerging Markets Consumer Titans 30 Index (DJ EM Cons Titans) as well as the MSCI EM. DJ EM Cons Titans, as of August 31, 2013, was the most widely followed index of emerging market equities that directly focuses on the consumer theme.

FIGURE 6: TOP 10 COUNTRY EXPOSURES OF WTEMCG [as of 8/31/2013]

Top 10 Countries (WTEMCG)			
Country	WTEMCG	DJ EM Cons Titans	MSCI EM
China	18.5%	7.8%	19.3%
Brazil	14.9%	17.5%	11.2%
South Africa	12.5%	20.2%	7.8%
Mexico	10.0%	18.7%	5.5%
Indonesia	8.6%	3.6%	2.6%
India	7.2%	9.0%	5.7%
Turkey	6.5%	0.0%	1.7%
South Korea	5.3%	0.0%	15.5%
Malaysia	4.7%	6.5%	4.0%
Thailand	4.2%	1.9%	2.5%

Sources: Bloomberg, Standard & Poor's. Subject to change.

- **Consumer Indexes vs. MSCI EM: Both consumer indexes (WTEMCG and DJ EM Cons Titans) under-weight China compared to the MSCI EM, but then over-weight Brazil, South Africa, Mexico, Indonesia, India and Malaysia.**
- **0% Weights in DJ EM Cons Titans: It is interesting to us that DJ EM Cons Titans has 0% weight to both Turkey and South Korea.**

VALUATION, VALUATION, VALUATION

At WisdomTree, we believe in the potential power of fundamentally weighted, which at its core applies a disciplined rebalancing process at regular intervals in order to steer around stocks that have become more expensive and toward those that have become less expensive. We alluded earlier to the fact that one of the biggest risks, especially in the Consumer Staples sector, regards valuation. Investors tend to see this as a potentially defensive sector, and the properties of potential risk mitigation create an ongoing demand for this exposure.

FIGURE 7: VALUATION AND QUALITY STATISTICS [as of 8/31/2013]

		WTEMCG	MSCI EM	DJ EM Cons Titans
Valuation Statistics	Median P/E Ratio[1]	12.0x	12.6x	20.1x
	Median Long-Term Earnings Growth Estimates[2]	14.8%	12.0%	12.3%
	Median Div. Yield[3]	2.8%	2.5%	1.6%
	Median Earnings Yield[4]	8.3%	7.9%	5.0%
	Median Div. Yield/ Median Earnings Yield[5]	34.1%	31.5%	32.2%
Quality Statistics	Return on Equity	28.2%	18.3%	24.7%
	Return on Assets	12.6%	7.2%	11.4%
	Leverage	2.2x	2.5x	2.2x

Source: Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.
[1] Median P/E ratio: P/E ratio of index constituents where 50% of constituent values fall above and 50% fall below.
[2] Median long-term earnings growth estimates: Compilation of analyst estimates of the growth in operating earnings expected to occur over the company's next full business cycle, typically three to five years. Value reflects the point where 50% of values are above and 50% are below.
[3] Median dividend yield: Value of the trailing 12-month dividend yield for a given index for which 50% of values are above and 50% are below.
[4] Median earnings yield: Earnings per share divided by share price. Value reflects the point where 50% of values are above and 50% are below.
[5] Median dividend yield/median earnings yield: Meant to calculate the median payout ratio, which is the median dividend per share divided by the median earnings per share.

DJ EM Cons Titans does not focus on valuation as part of its index methodology—as a result its median P/E ratio is more than 20x. Considering that the broader MSCI EM is trading below 13x, this is certainly a premium multiple. WTEMCG is able to deliver a basket of stocks focused on the potential growth of the emerging market consumer at an approximately equal median P/E ratio to that of the MSCI EM. We'd like to emphasize this point because consumption growth in emerging markets is currently one of the most prevalent investment themes. Delivering this exposure at a P/E ratio that does not represent a premium compared to the broad market, through a focused, disciplined Index methodology, is quite an accomplishment. Moreover, WTEMCG, because of its focus on quality factors such as ROE and ROA, shows better readings on that front as well. Higher-quality companies often deserve higher valuation multiples, and it is encouraging that WTEMCG was able to achieve its higher-quality metrics without raising the valuation multiple.

CONCLUSION

Few would question the importance of the EM consumer theme for global growth in the years ahead. The more difficult question to answer is whether investors can position themselves to profit from it. As index development continues to evolve, especially in emerging market equities, WisdomTree believes two elements are critical: 1) broad diversification, and 2) sensitivity to valuation. While certain indexes limit themselves to two sectors and a relatively short list of firms—not to mention weight by market capitalization, which has no sensitivity to relative valuation—WisdomTree looks to develop a new way to measure the theme of EM consumer growth that accounts for the important risks that have been seen both in these sectors and in emerging market equities in general.

Unless otherwise stated, data source is WisdomTree.

Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Diversification does not eliminate the risk of experiencing investment losses.

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WisdomTree Emerging Markets Equity Income Index: A subset of the WisdomTree Emerging Markets Dividend Index, measuring the performance of the top 30% of stocks with the highest trailing 12-month dividend yields, weighted by cash dividends. WisdomTree Emerging Markets Dividend Growth Index: A fundamentally weighted index designed to track the performance of dividend-paying emerging market companies 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 trailing 12-month cash dividends Dow Jones Emerging Markets Consumer Titans 30 Index: Index designed to measure the performance of the 30 leading emerging market companies in the consumer goods and consumer services industries. Weighting is by float-adjusted market capitalization, subject to diversification requirements. MSCI Emerging Markets Index: A broad market cap-weighted Index showing performance of equities across 21 emerging market countries defined as "emerging markets" by MSCI. MSCI Emerging Markets Consumer Discretionary Sector Index: Index designed to measure the performance of stocks within the MSCI Emerging Markets Index that are of the Consumer Discretionary sector. MSCI Emerging Markets Consumer Staples Sector Index: Index designed to measure the performance of stocks within the MSCI Emerging Markets Index that are of the Consumer Staples sector.

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