

Capitalizing on the Emerging Markets Rally

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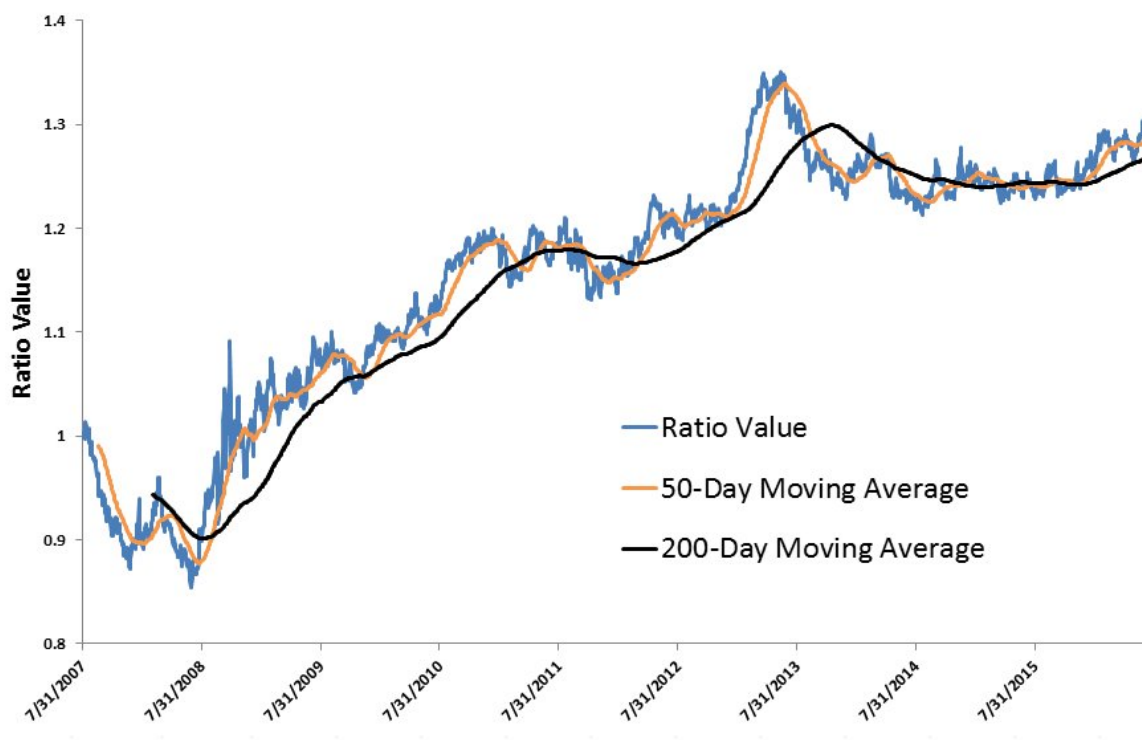
In recent weeks, investors have been caught off guard by the surging [S&P 500](#), which has once again broken out into all-time highs. After seeing just \$66 billion in net inflows through the first six months of the year, \$47 billion flowed into the exchange-traded fund (ETF) industry in the month of July alone. And \$30 billion, or almost two-thirds of that total, flowed into U.S. equity ETFs. But 2016 is shaping up to be a year in which one of the largest rallies among the major asset classes is actually taking place in emerging markets (EM). After returning essentially nothing to investors over the past nine years, the MSCI Emerging Markets Index is suddenly up almost 12% on the year, outpacing the S&P 500 by 4 percentage points through July 31. From April 2015 through the recent January 2016 bottom, emerging market stocks fell by more than 34%. In that same time frame, small caps in that region fell by over 27%. But as oil and other commodity prices have recovered, attractively valued EM stocks have rallied, and as prospects for earnings growth pick up globally, investors are once again looking at the asset class. When we look at year-to-date returns through July 31, we note that the dividend-paying portion of emerging market equities has actually led the advance.

Index	WT Index Inception	YTD as of 7/31/2016	Average Annual Returns as of 6/30/2016			
			1-Year	3-Year	5-Year	Since WT Inception
WisdomTree Emerging Markets SmallCap Dividend Index	8/1/2007	17.57%	-8.33%	-2.01%	-1.78%	2.06%
MSCI Emerging Markets Small Cap Index		5.71%	-12.76%	-0.01%	-2.29%	-0.23%
WisdomTree Emerging Markets Dividend Index	6/1/2007	14.84%	-11.71%	-3.73%	-4.37%	1.31%
MSCI Emerging Markets Index		11.77%	-12.06%	-1.56%	-3.78%	0.25%

Sources: WisdomTree, Bloomberg as of 7/31/16. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein. Additional Index information is available at www.wisdomtree.com.

The [WisdomTree Emerging Markets Dividend Index](#), which measures the performance of nearly 1,300 dividend-paying stocks in the developing world, has outperformed the cap-weighted MSCI benchmark by more than 3 percentage points year-to-date. More notable has been the outperformance of dividend-paying small caps in the emerging world. The [WisdomTree Emerging Markets SmallCap Dividend Index](#), for example, has outperformed the MSCI Emerging Markets Small Cap Index by nearly 12 percentage points, and it has outpaced the broader MSCI Emerging Markets Index by 580 basis points (bps) through July

31, 2016. WisdomTree created the Index and the ETF that tracks it, the [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#), back in 2007 to give investors a way to access the “size premium” in emerging markets. WisdomTree does so by selecting companies that rank within the smallest 10% by market capitalization of the WisdomTree Emerging Markets Dividend Index, and then weights those companies based upon the dividends they pay. WisdomTree then rebalances the Index once a year, resetting stock weights based on this measure of relative value. This approach typically raises the dividend yield on the underlying Index, and can give the WisdomTree strategy an advantage on relative valuation compared to the broader market. As of July 31, the WisdomTree Emerging Markets SmallCap Dividend Index exhibited a trailing dividend yield of 4.1% compared to the 2.7% of the MSCI Emerging Markets Index. And the [price-to-earnings ratio \(P/E\)](#) on the WisdomTree Emerging Markets SmallCap Dividend Index was less than 13, when the S&P 500 was trading at 20 times trailing earnings. Although emerging market small-cap dividend payers have shown relative strength compared to the broader EM universe in 2016, the truth is, we have seen small-cap dividend payers outperform the MSCI Emerging Markets Index pretty consistently since we launched the strategy back in 2007. One way to show that is to divide the WisdomTree Emerging Markets SmallCap Dividend Total Return Index by the MSCI Emerging Markets Total Return Index. Any ratio value greater than 1.0 denotes relative outperformance. Note, too, how the 50-day moving average on that ratio crossed above the 200-day moving average in December 2015, signaling renewed strength for dividend-weighted EM small-cap exposure relative to a broader index that market-cap weights the EM universe. **WisdomTree Emerging Markets SmallCap Dividend Total Return Index Divided by MSCI Emerging Markets Total Return Index, August 2007 to July 2016**



Sources: WisdomTree, Bloomberg as of 7/31/16. Past performance is not indicative of future results.

Conclusion Emerging markets is currently a phoenix asset class, rising from the ashes to lead global equity returns in 2016. For investors looking to increase or change their exposure to EM, WisdomTree has two solutions that can be used in the core of one's EM allocations: The [WisdomTree Emerging Markets Dividend Fund \(DVEM\)](#), which provides broad exposure to the dividend-paying companies across the EM universe; and the [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#), which provides access to the smaller-cap segment of emerging market dividend-paying companies. ***Unless otherwise noted, data source is Bloomberg, as of 7/31/16.***

Important Risks Related to this Article

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

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