

China? Commodity Sectors? How to Know Your Emerging Markets Exposures

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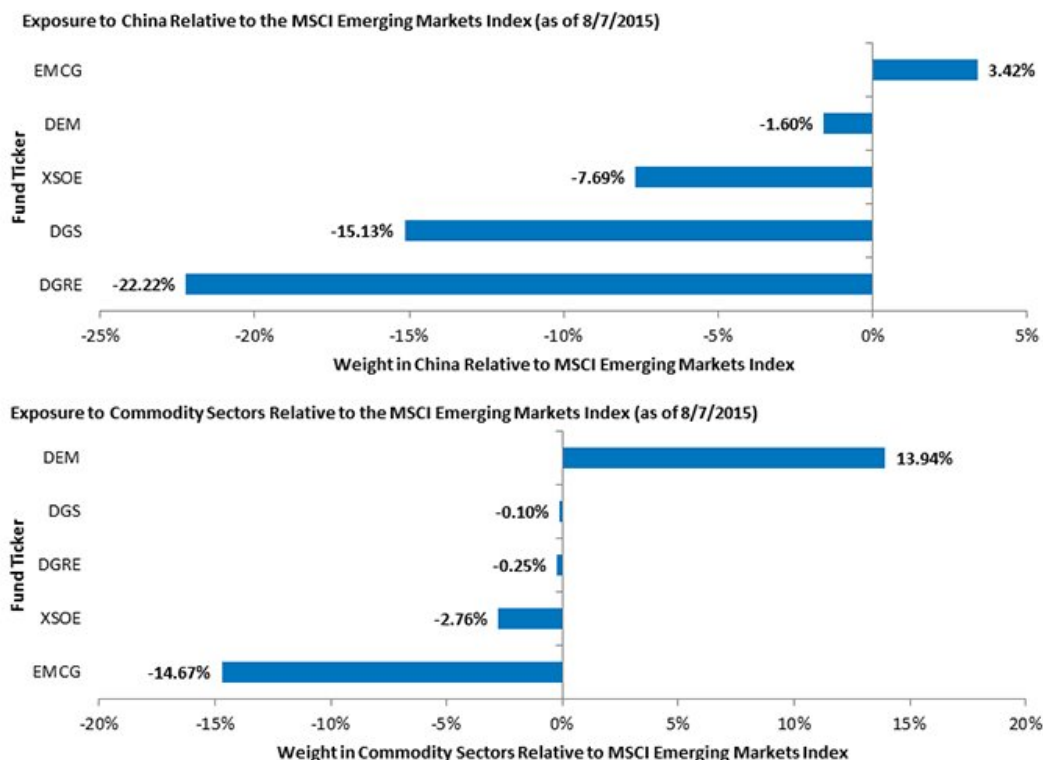
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Emerging markets equities today present an interesting challenge—they have underperformed other global equity markets for some time, and yet there are certain risks that remain influential. Is now the time to think about an emerging markets equity investment? **Not All Broad-Based Emerging Markets Exchange-Traded Funds Are the Same** We are seeing increased interest in understanding different types of emerging markets equity exposure, and we have five exchange-traded funds (ETFs) aimed at broad-based exposure to these equities, albeit in very different ways. • **WisdomTree Emerging Markets Equity Income Fund (DEM)**: This ETF tracks the performance of the [WisdomTree Emerging Markets Equity Income Index](#) before fees. This Index is really a valuation hunter. Every year, it searches for relatively high-yielding¹ dividend payers in emerging markets. • **WisdomTree Emerging Markets Dividend Growth Fund (DGRE)**: This ETF tracks the performance of the [WisdomTree Emerging Markets Dividend Growth Index](#) before fees. This Index finds emerging markets dividend payers with strong growth and quality characteristics. • **WisdomTree Emerging Markets Consumer Growth Fund (EMCG)**: This ETF tracks the performance of the [WisdomTree Emerging Markets Consumer Growth Index](#) before fees. This Index finds emerging markets companies that have the potential to benefit from a rising emerging markets middle class. • **WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (XSOE)**: This ETF tracks the performance of the [WisdomTree Emerging Markets ex-State-Owned Enterprises Index](#) before fees. This Index seeks broad-based exposure to emerging markets companies while eliminating exposure to those firms that have more than 20% ownership by a government entity. • **WisdomTree Emerging Markets SmallCap Dividend Fund (DGS)**: This ETF tracks the performance of the [WisdomTree Emerging Markets SmallCap Dividend Index](#) before fees. This Index seeks broad-based exposure to the rich opportunity set of emerging markets small-cap dividend payers. **Timing Is Difficult, but Managing Exposures Could Be Critical** While it is very difficult to ever know ahead of time when equity markets will rebound, we're seeing more and more careful analysis of emerging markets equity exposures. As a result, we profiled our broad-based emerging markets equity funds on the basis of two characteristics that we see as particularly polarizing today: • **China**: China is a major exposure within the MSCI Emerging Markets Index, and it tends to receive a massive amount of attention. Depending on whether people love or hate this equity market, we wanted to help them understand the exposures taken within our ETF lineup. • **Commodity Sectors**²: Commodity prices have had a tough time in 2015, with the [S&P GSCI Index](#) down 17.3% through August 7. Certain emerging markets sectors can be closely related to the movements of commodity prices, particularly Energy and Materials. We measure the exposure of each of the five ETFs to both China and the commodity sectors, as compared to the MSCI Emerging Markets Index. We choose this index as the base

because it is the most widely followed when it comes to the performance of emerging markets equities.

Mapping the Polarizing Exposures in WisdomTree's Emerging Markets ETFs:



Sources: WisdomTree, Bloomberg, with data measured as of 8/7/15. "Commodity Sectors" refers to the combined weight of the Energy and Materials sectors. You cannot invest directly in an index. Subject to change.

• **China:** For those who like China, EMCG had a nearly 3.5% over-weight versus the MSCI Emerging Markets Index, but it is worth noting that this exposure would not include any large Chinese banks or energy firms. For those on the opposite end of the spectrum, DGRE has a greater than 22% under-weight, avoiding the country almost entirely. • **Commodity Sectors:** For those who think commodity sectors have been beaten down in price and could represent a potential valuation opportunity, DEM represents a nearly 14% over-weight compared to the MSCI Emerging Markets Index. On the other hand, EMCG tracks the performance of an Index that excludes companies within the Energy and Materials sectors. 1Specifically refers to the trailing 12-month dividend yield. 2Source for bullet: Bloomberg, with data measured from 12/31/14 to 8/7/15.

Important Risks Related to this Article

Investments in emerging, offshore or frontier markets 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.

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

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