

Fine Tune Your Emerging Markets Exposure

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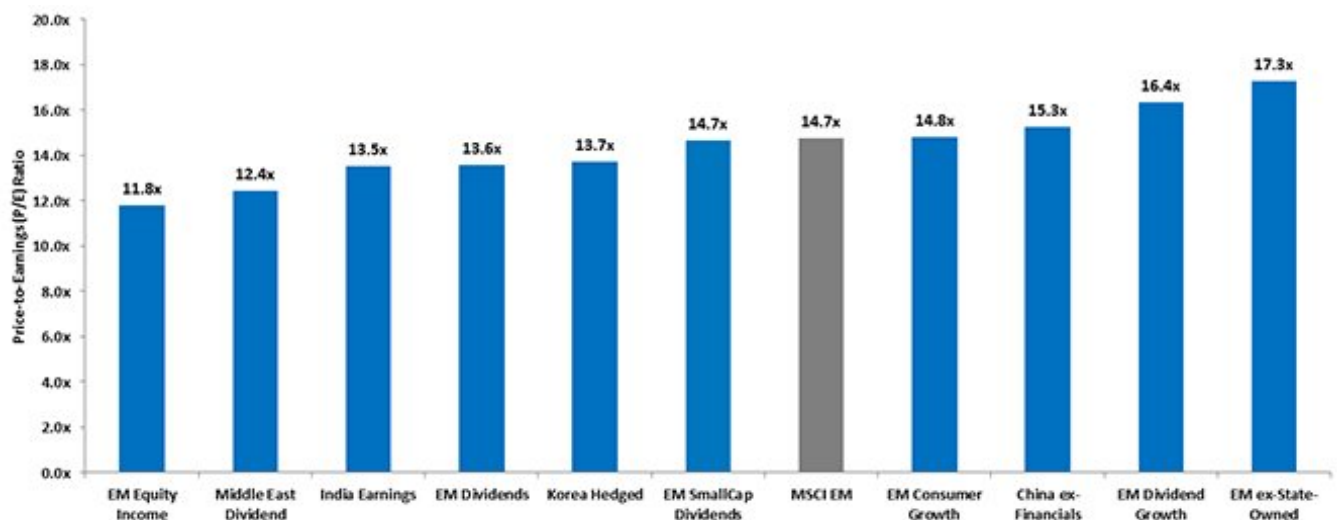
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As investors increasingly look to the emerging markets, investment choices have grown significantly. Rather than the standard broad-based, all-encompassing emerging market equity strategies of yesterday, we're seeing investors looking to explore and understand more finely tuned exposures to this asset class.

Presenting the WisdomTree Emerging Markets Equity Toolkit WisdomTree offers a broad suite of emerging markets equity Indexes, each designed with its own focus and objective. To help investors evaluate the various strategies, we start by looking at valuations, specifically [price-to-earnings \(P/E\) ratio](#).

WisdomTree's Roadmap to Emerging Market Equity Valuations (as of 5/1/15)



Sources: Bloomberg, Standard & Poor's, with data as of 5/1/15. Past performance is not indicative of future results. You cannot invest directly in an Index.

• **Least Expensive Option:** The WisdomTree Emerging Markets Equity Income Index, with its P/E ratio of 11.8x, was the lowest. Why is that? This Index hunts for valuation opportunities across dividend-paying emerging market stocks, weighting them by cash dividends. It just so happens that, since June of 2012, some of the highest-yielding and largest cash-dividend-paying companies in the emerging markets tended to be Russian energy firms and Chinese financials. Thus far in 2015, these segments of the market have been rallying, contributing to the Index having returned 11.45% and beating the returns of the MSCI Emerging Markets Index over the period. • **India's Equities at a Lower Price than the MSCI Emerging Markets Index:** the MSCI India Index had a P/E ratio of nearly 21.0x. Both the [S&P CNX Nifty](#) and [S&P BSE SENSEX indexes](#) were also in the vicinity of 20.0x earnings—a significant premium to broader emerging market equities. However, the WisdomTree India Earnings Index was able to deliver a broader

exposure to India's equities while attaining a P/E ratio more than 30% below those predominantly large-cap options. As we wait for the potential earnings growth to materialize from Indian prime minister Narendra Modi's reform efforts, we believe that being sensitive to valuation is of paramount concern in India's equities today. • **Korea's Equities Are Up Over 12.7% Year-to-Date:** As people think about different countries within emerging markets, we urge them not to forget about South Korea. The WisdomTree Korea Hedged Equity Index is up more than 12.7%. We really like the potential for this market, discussed further [here](#) in a broader, more in-depth piece. • **The WisdomTree "Growth" Strategies in Emerging Markets:** The WisdomTree Emerging Markets Consumer Growth and Dividend Growth Indexes are currently more expensive than the broad MSCI Emerging Markets benchmark on a P/E ratio basis. Intuitively, however, this makes sense because they have sensitivity to higher growth and quality¹ metrics built directly into their stock selection methodologies. The WisdomTree Emerging Markets Dividend Growth Index—with its focus on penalizing highly leveraged firms—avoids many financials, such as the inexpensive, large Chinese banks. The WisdomTree Emerging Markets Consumer Growth Index is unable to include any energy or materials firms or any banks with market capitalization above \$10 billion. Growth and quality are currently a big theme when people look at U.S. equities, but we question why that can't also be the case in emerging markets. • **The Avoidance of Government Ownership:** While very different than what investors generally face in U.S. equity markets, one reality of emerging markets is that government actors can secure very large ownership stakes in companies of their choosing. We created the WisdomTree Emerging Markets ex-State-Owned Enterprises Index to help investors avoid this very specific risk. Currently, this Index looks more expensive than the others because many of the least expensive firms in emerging markets are in fact state owned (which by our definition means more than 20% owned by the government). Thus far this year, it is up 9.6%. **Unless otherwise noted data source is Bloomberg.** ¹Refers to 3-year average return on equity and 3-year average return on assets.

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.