

Middle East Exposure in Focus on MSCI Upgrade

Published June 9, 2014

Jeremy Schwartz, CFA

Global Chief Investment Officer

The decision by the MSCI index family to upgrade Qatar and United Arab Emirates from "frontier markets" to "emerging markets" is causing ripple effects throughout the investment world—in both the performance of the underlying markets and shifting allocations with strategies dedicated to frontier markets. Qatar and UAE have recently been nearly 40% of the MSCI Frontier Markets 100 Index, and their upgrade will result in a shift in higher allocations to Kuwait, another Middle Eastern country, and Nigeria.¹ MSCI released the names of the individual securities being included in the MSCI Emerging Markets Indexes from both Qatar and UAE. Of the 19 stocks MSCI is adding to the MSCI Emerging Markets, 16 are in the WisdomTree Middle East Dividend Index (WT Middle East); as of May 31, these 16 stocks comprised almost half the exposure of this Index. The WT Middle East thus has half its weight in stocks that will be purchased by broad-based strategies tracking the MSCI Emerging Markets Index. But there is another Middle Eastern country in focus as a result of this transition of Qatar and UAE: Kuwait is the largest exposure in the MSCI Frontier Markets 100 Index outside of Qatar and UAE and will see an increase in weight within frontier indexes once Qatar and UAE are removed and the Index and portfolios get rebalanced. Kuwait represents approximately 15% of the exposure in the WT Middle East and together with Qatar (32%) and UAE (29%), they make up more than 75% of the WT Middle East.² In other words, **approximately 75% of the weight of the WT Middle East is being impacted by this transitional upgrade.** The composition of the frontier market indexes is certainly going to undertake a dramatic shift once this upgrade is completed; it is occurring in stages on a monthly basis from the end of May through November.³ The exposures embedded in the WT Middle East offer a way to reflect what is happening in the transitional phase. For a look at the performance of the stocks being upgraded and how they compare versus the broader Middle East, we have provided the below analytics. Highlights:

- Both UAE and Qatar have outperformed the broader Middle East over the last one, three and five years.⁴
- UAE stocks on average have performed better across all periods displayed below compared to Qatar, but they have underperformed if you look back to pre-financial crisis levels.⁵

The financial sector makes up a large part of both markets, but it was a more significant drag on the UAE market. The financial sector has rebounded well and benefited both markets since the crisis lows.

- Kuwait stocks, although not as high as Qatar and UAE, have also been beneficiaries of this transition, with one-year average performance numbers of 12.26%. The MSCI Emerging Markets Index return over the period was 5.37%.⁶

Although the outperformance is not as dramatic compared to UAE and Qatar, this is impressive given the fact that the Kuwait effect has not been a focal point of the upgrade announcement. Many have looked at the performance of frontier market indexes as providing some diversification from general emerging market strategies, with distinct and unique profiles. A key component to the recent

performance over the last three to five years in these indexes had been their Middle East exposure, which is being dramatically cut—as Qatar and UAE go from large weights in the frontier market indexes to smaller weights in the MSCI Emerging Markets Indexes. This may be motivation to increase allocations to the Middle East directly as a stand-alone allocation to help maintain the current exposure or try to participate in stocks that will see more flows with the upgrade announcement. **Middle East Summary**

Country	Company	Ticker	Market Cap (\$)	WTEMME Index Weight	YTD	1-Year	3-Year	5-Year
QA	Industries Qatar	IQCD QD	\$ 31,376,340,837	6.87%	18.57%	20.13%	20.68%	18.38%
QA	Qatar National Bank	QNBK QD	\$ 34,982,175,281	6.34%	9.96%	26.59%	17.47%	29.09%
QA	Ooredoo	ORDS QD	\$ 13,634,907,772	2.51%	16.29%	31.09%	17.82%	21.40%
QA	Commercial Bank of Qatar	CBQK QD	\$ 5,856,404,390	2.28%	25.06%	26.66%	12.95%	10.40%
QA	Masraf Al Rayan Bank	MARK QD	\$ 13,514,812,729	2.28%	118.08%	150.48%	46.48%	42.55%
QA	Doha Bank	DHBK QD	\$ 4,471,287,616	1.96%	16.28%	42.47%	18.29%	21.05%
QA	Qatar Islamic Bank	QIBK QD	\$ 7,133,349,091	1.77%	67.71%	67.94%	17.94%	13.55%
QA	Qatar Electricity & Water	QEWS QD	\$ 6,043,208,944	1.28%	25.72%	57.71%	19.50%	23.86%
QA	Barwa Real Estate	BRES QD	\$ 4,617,615,954	1.18%	52.70%	71.71%	19.32%	6.09%
UAE	First Gulf Bank	FGB UH	\$ 19,059,611,484	6.31%	29.80%	62.69%	46.22%	38.94%
UAE	Abu Dhabi Commercial Bank	ADCB UH	\$ 14,290,066,530	4.50%	50.42%	92.09%	55.92%	45.52%
UAE	National Bank of Abu Dhabi	NBAD UH	\$ 22,243,135,654	3.73%	40.14%	62.33%	40.64%	34.71%
UAE	Dubai Islamic Bank	DIB UH	\$ 8,342,495,882	2.33%	50.70%	145.52%	63.77%	33.31%
UAE	Emaar Properties	EMAAR UH	\$ 20,370,348,444	2.19%	52.54%	95.21%	57.36%	29.54%
UAE	DP World Ltd.	DPW DU	\$ 17,986,100,000	1.52%	23.93%	38.91%	19.25%	24.92%
UAE	ALDAR Properties	ALDAR UH	\$ 9,419,015,233	1.38%	62.58%	110.66%	50.86%	3.49%
KW	Mobile Telecommunications Company	ZAIN KK	\$ 10,386,963,830	4.92%	6.30%	3.16%	-7.33%	2.80%
KW	National Bank of Kuwait	NBK KK	\$ 16,899,247,340	3.27%	21.84%	13.20%	2.76%	7.99%
KW	Kuwait Projects Company	KPROJ KK	\$ 3,814,568,793	0.94%	27.02%	45.01%	35.35%	17.46%
KW	Kuwait Finance House	KFIN KK	\$ 12,596,170,828	0.90%	17.63%	29.95%	4.75%	3.21%
KW	Agility	AGLTY KK	\$ 3,157,216,277	0.82%	23.39%	20.83%	43.11%	4.94%
KW	Kuwait Food Company	FOOD KK	\$ 4,048,530,780	0.79%	16.32%	27.95%	26.80%	18.71%
KW	Boubyan Petrochemical Company	BPPC KK	\$ 1,341,765,957	0.62%	20.05%	20.83%	17.49%	15.46%
KW	Ahli United Bank/Kuwait(ALMUTAHED)	ALMUTAHE KK	\$ 3,452,348,908	0.48%	6.70%	3.74%	4.90%	16.90%
KW	Burgan Bank	BURG KK	\$ 3,446,889,501	0.34%	10.33%	-3.98%	7.94%	10.59%
KW	Mabane Company	MABANEE KK	\$ 2,934,207,574	0.31%	7.39%	6.84%	19.69%	19.24%
KW	Ikarus Petroleum Industries Company	IKARUS KK	\$ 489,361,702	0.27%	18.41%	38.49%	13.46%	15.32%
KW	Kuwait Portland Cement Company	PCEM KK	\$ 457,748,582	0.21%	8.11%	36.85%	13.11%	29.87%
KW	Commercial Real Estate Company	ALTIJARI KK	\$ 602,983,688	0.21%	15.40%	7.51%	18.78%	-0.60%
KW	International Bank of Kuwait	KIB KK	\$ 1,158,715,213	0.17%	9.32%	0.49%	-0.15%	5.45%
KW	KGL Logistics Co KSCC	LOGISTIC KK	\$ 308,735,362	0.10%	-21.50%	-30.93%	1.25%	N/A
KW	Aviation Lease and Finance Co. K.S.C.C	ALAFCO KK	\$ 718,937,801	0.08%	-7.04%	-12.04%	-7.40%	8.45%
KW	Kuwait Financial Centre	MARKAZ KK	\$ 267,534,043	0.07%	-3.28%	0.55%	6.24%	8.34%
QA	Qatar		\$ 121,630,102,614	26.5%	38.93%	54.98%	21.16%	20.71%
UAE	United Arab Emirates		\$ 111,710,773,226	22.0%	44.30%	86.77%	47.72%	30.06%
KW	Kuwait		\$ 66,081,926,178	14.5%	10.38%	12.26%	11.81%	11.51%
WisdomTree Middle East Dividend Index			\$ 416,457,859,680		24.45%	41.07%	19.56%	17.52%

Sources: WisdomTree, Bloomberg, 5/31/09–5/31/14. Returns are in USD. Country summary performances are averages. All index holdings are not displayed above. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

1Source: MSCI, as of 4/30/14 2Source: WisdomTree, as of 5/31/14 3Source: MSCI, MSCI Frontier Markets 100 Index Revised Methodology, April 2014 4Sources: WisdomTree, Bloomberg, as of 5/31/14 5Sources: WisdomTree, Bloomberg, 7/1/08–5/31/14 1WisdomTree, Bloomberg, 5/31/13–5/31/14. Kuwait stocks defined as MSCI Kuwait Index. The MSCI Kuwait Index is a market capitalization-weighted equity index designed to measure the performance of the Kuwaiti equity market

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets such as the Middle East 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.