

NOT ALL EMERGING MARKETS ARE CREATED EQUAL: DISSECTING A STANDOUT PERFORMER

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While emerging market equities have not been a favorite asset class over the past few years, some emerging market strategies have performed better than others. The [WisdomTree Emerging Markets Dividend Growth Index](#) (Dividend Growth) has been quite strong during the first part of 2014¹; to date, it has returned nearly 8%. So what's driving it? Put simply: country breakdown. By design, Dividend Growth's ability to access pockets of surprisingly strong performance within different emerging market countries has set it apart. The chart below illustrates how it differs from the [MSCI Emerging Markets Index](#) (MSCI EM). **What's Behind Dividend Growth's Strong Start to 2014?**

| | Average Weight ¹ | | Dividend Growth | | | Total Attribution ⁵ |
|---|-----------------------------|---------|---|---|------------------------------|--------------------------------|
| Index/Country | Dividend Growth | MSCI EM | Total Returns (U.S. Dollars) ² | Total Returns (Local Currency) ³ | Currency Impact ⁴ | Dividend Growth vs. MSCI EM |
| Full Index | 100.0% | 100.0% | 8.0% | 5.5% | 2.4% | 3.3% |
| Top 4 Country Contributors to Dividend Growth's Relative Performance | | | | | | |
| Indonesia | 12.2% | 2.6% | 29.4% | 22.6% | 6.8% | 2.3% |
| Thailand | 10.4% | 2.2% | 12.3% | 11.7% | 0.6% | 0.8% |
| Taiwan | 6.9% | 12.1% | 15.2% | 16.5% | -1.3% | 0.6% |
| Brazil | 14.8% | 10.9% | 11.7% | 4.6% | 7.1% | 0.5% |
| Bottom 4 Country Contributors to Dividend Growth's Relative Performance | | | | | | |
| Turkey | 2.0% | 1.6% | 11.4% | 7.9% | 3.5% | -0.2% |
| Mexico | 9.6% | 5.3% | -2.8% | -4.4% | 1.6% | -0.5% |
| South Africa | 14.2% | 7.7% | 3.1% | 1.9% | 1.3% | -0.7% |
| India | 4.0% | 6.7% | 9.6% | 3.6% | 5.9% | -0.8% |

Sources: WisdomTree, Bloomberg, for period 12/31/2013 to 5/23/2014. Past performance is not indicative of future results. You cannot invest directly in an Index.

¹Average weight: Average weight in specified market from 12/31/2013 to 5/23/2014.

²Total returns (U.S. dollars): Returns that are impacted by currency performance in specified emerging markets.

³Total returns (local currency): Returns that are not impacted by currency performance in specified emerging markets.

⁴Currency impact: Total returns (U.S. dollars) minus total returns (local currency), with result attributable to component of the U.S. dollar return attributable to currency performance versus the U.S. dollar. A positive number means the currency of the specified market has appreciated.

⁵Total attribution: Comparison of performance to isolated positions that helped and hurt relative performance between the two indexes.

The Highlights: • Indonesia

Has Been Strong: Indonesian equities are a prime example of an emerging market that went from being among the worst performers of 2013 to one of the strongest in 2014 over this period. Dividend Growth represents a nearly 10% over-weight position compared to the MSCI EM—and this was a major component of the relative outperformance. Within Indonesia, Dividend Growth had its biggest exposure within the Financials sector, which has delivered greater than 40% returns to start off 2014. Based on Dividend Growth's stock selection criteria—namely its focus on three-year average [return on equity](#) (ROE) and [return on assets](#) (ROA)—Indonesian firms looked strong, which is a big reason for their prominent over-weight. • **Currencies Are Coming Back:** Of the eight markets shown above, Taiwan is the only one that indicated a depreciating currency against the U.S. dollar over this period. Emerging market currencies, generally speaking, faced difficulties throughout 2013 as the U.S. Federal Reserve discussed [tapering](#). Specifically, if we gauge the performance of the Indonesian rupiah, Brazilian real and Indian rupee over 2013—the three strongest shown in this table—we see -19.54%, -13.15% and -11.01% respectively.² Clearly these currencies have been coming back in 2014, and this

is a major factor helping the performance of the Dividend Growth Index. • **Bottom Contributors Are Still Performing Positively:** It speaks to a strong shift in sentiment when even the markets that are detracting from Dividend Growth's relative performance against the MSCI EM are performing positively. During 2013, positive performance across emerging markets was tough to find, but thus far in 2014, that picture has shifted. India deserves special mention here—especially with the strong equity performance following the recent election. Its 4.0% average weight in 2014 may not seem like much, but across WisdomTree's broad-based emerging market Indexes focused on dividend payers, it is actually the highest exposure to India available.³ Dividend Growth captures qualifying Indian equities because they tend to have above-average [long-term earnings growth expectations](#) as well as above-average measures of ROE and ROA. The only thing they don't have is high levels of cash dividends, which explains how the 4.0% average weight is still well below the weight in the MSCI EM over the same period. **The Case for Future EM Dividend Growth** Even though uncertainty may roil emerging market equities, concepts like "dividend growth" and "quality" tend to remain attractive to investors. The fact that the MSCI EM has over 95% of its weight in firms that have paid at least one dividend in the past twelve months is a testament to the fact that emerging markets provide a rich hunting ground for dividend payers.⁴ WisdomTree's unique selection criteria provide a more precise focus on firms with potential to deliver ongoing dividend growth through a focus on growth (long-term earnings growth expectations) and quality (three-year average ROE and ROA). While [volatility](#) similar to what was seen in 2013 can be an ever-present risk, we are very excited about the potential for this Index over the medium to long term and look forward to seeing what it can do over the coming market cycles.

¹Specific period is 12/31/13 to 5/23/14. ²Source: Bloomberg, for 12/31/12 to 12/31/13. ³Sources: WisdomTree, Bloomberg, as of 5/23/14. ⁴Source: Bloomberg, for 12-month period prior to 4/30/14.

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DEFINITIONS

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.

MSCI Emerging Markets Index: a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

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.

Tapering : A shift in monetary policy by which the Federal Reserve would begin decreasing the amount of bonds it purchases.

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 3 to 5 years, sourced from Bloomberg.

Volatility : A measure of the dispersion of actual returns around a particular average level.