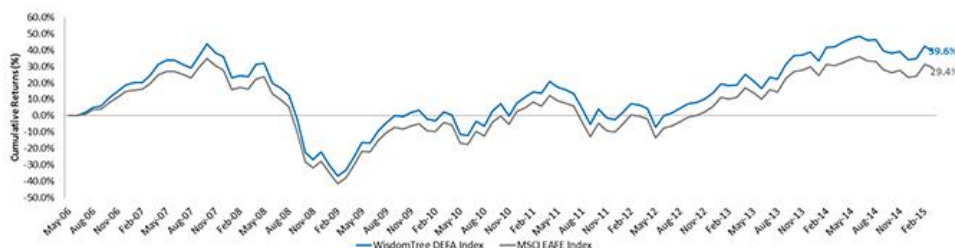


WHAT IS BETA FOR DEVELOPED WORLD DIVIDEND PAYERS?

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One of the key developments thus far in 2015 has been the outperformance of developed world equity markets¹ compared to the U.S. In recent weeks, that return differential has narrowed, as overseas investors discount an “accident” in Greece, while U.S. investors remain focused on the timing of pending Fed rate hikes. Global equity markets may be range-bound until we get greater visibility over how these events unfold—in Greece over the coming weeks, and in Washington over the coming months. As investors pause to [reposition their portfolios](#)—and with global [interest rates](#) likely to remain at historic lows for some time—many investors continue to search for ways to squeeze [dividend](#) income out of their equity exposure. This raises an interesting question: What index should be “[beta](#)” for measuring how well your international dividend exchange-traded fund (ETF) or foreign equity income manager is performing compared to an index of the dividend-paying universe in the developed world outside the U.S.: the [WisdomTree DEFA Index \(WT DEFA Index\)](#). That Index comprises more than 2,400 dividend-paying companies selected from 15 developed European countries, Japan, Australia, New Zealand, Hong Kong, Israel and Singapore.² The Index, which sported a total [market capitalization](#) of more than \$18.5 trillion as of this same point in time, is a barometer for how the dividend-paying part of the market is performing in industrialized countries outside the U.S. and Canada. Many don’t realize this but internationally, dividend-paying stocks could literally be considered the market. For example, about 98% of the weight in the [MSCI EAFE Index](#) consists of dividend-paying securities.³ That means WisdomTree can weight its broad international benchmark based on the cash dividends companies have paid in the prior year, while ending up with a representative measure of the developed world equity market. Since its inception in May 2006, the WisdomTree DEFA Index has exhibited a 0.99 [correlation](#) to the MSCI EAFE Index. One benefit of dividend-weighting an equity market is that the [dividend yield](#) typically increases compared to a comparable cap-weighted index. As of March 31, for example, the WT DEFA Index had a [trailing 12-month dividend yield](#) of 3.72%, at a time when the MSCI EAFE Index was yielding 2.98%.⁴ Yet historically higher dividend yields have not compromised the Index’s ability to generate total returns that exceeded EAFE on a cumulative basis since June 1, 2006. This is important. Sometimes when investors reach for yield, they sacrifice the total return potential of their equity exposure. **WisdomTree DEFA Index vs. MSCI EAFE Index (6/1/2006–3/31/2015)**



Source: Bloomberg, with data from 6/1/06 WisdomTree DEFA Index inception date to 5/31/15. 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.

From 6/1/2006 to 3/31/2015	1-Year	3-Year	5-Year	Avg. Ann. Return	Avg. Ann. Std. Dev.	Sharpe Ratio	Beta	Correlation	Tracking Error	Information Ratio
WisdomTree DEFA Index	-1.8%	9.4%	6.4%	3.9%	19.2%	0.14	1.01	0.99	2.11	0.43
MSCI EAFE Index	-0.9%	9.0%	6.2%	3.0%	18.9%	0.10	1.00	1.00	0.00	0.00

Sources: WisdomTree, Bloomberg, Zephyr StyleADVISOR. Beta, correlation, tracking error and information ratio are calculated relative to the MSCI EAFE Index benchmark.

For definitions of terms and

indexes in the chart, please visit our [glossary](#). As we see in the chart above, on an annualized basis DEFA has outperformed EAFE by 90 [basis points \(bps\)](#) since its inception in June 2006. This is significant because this was a period when [growth](#) stocks in the developed world outperformed [value](#) stocks by 162 bps per year.⁵ In fact, over this period, DEFA not only beat EAFE, it outperformed the growth cut of EAFE—dispelling some myths that fundamentally weighted indexes are merely “value” indexes dressed in the latest garb. The other interesting takeaway is the relatively low [tracking error](#) (about 2%) that the WisdomTree DEFA Index exhibited in relation to the MSCI EAFE Index. When we divide the excess returns by that tracking error, we end up with an [information ratio](#) of .43—a measure of [risk-adjusted return](#). This is a ratio some use to determine whether an investment strategy has added any value when one accounts for the “[active risk](#)” of not using the standard cap-weighted benchmark for that asset class. For all these reasons—representativeness of the asset class, high correlation to MSCI EAFE, comparable [volatility](#), higher historic total and risk-adjusted returns as well as a consistently higher dividend yield⁶—the WisdomTree DEFA Index could easily be considered the “beta” for measuring the dividend-paying part of the developed world. And for those who like the strategy, it is available from WisdomTree in an ETF that is designed to track the WisdomTree DEFA Index before fees and expenses and that has been trading since 2006 as the [WisdomTree DEFA Fund \(DWM\)](#).¹Source: Bloomberg; refers to the MSCI EAFE Index universe versus the [S&P 500 Index](#) universe as of 6/19/15. ²Source: Standard & Poor’s, with data as of the most recent Index screening date, 5/31/15. ³Source: Bloomberg, as of 5/31/15. ⁴Source: Bloomberg, as of 3/31/15. ⁵Source: Bloomberg, with “growth” referring to the MSCI EAFE Growth Index universe, and “value” referring to the MSCI EAFE Value Index universe. ⁶Since the inception of the WisdomTree DEFA Index, 108 month-end, trailing 12-month dividend yields have been calculated through 5/31/15, and all of them have been higher than those of the MSCI EAFE Index measured at the same times.

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You cannot invest directly in an index.

DEFINITIONS

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Dividend : A portion of corporate profits paid out to shareholders.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Basis point : 1/100th of 1 percent.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Tracking Error : Can be discussed as both the standard deviation of excess return relative to a specific benchmark, or absolute excess return relative to a specific benchmark.

Risk-adjusted returns : Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

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

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.