INDIA'S 2012 PERFORMANCE RUN EXTENDING TO EARLY 2013

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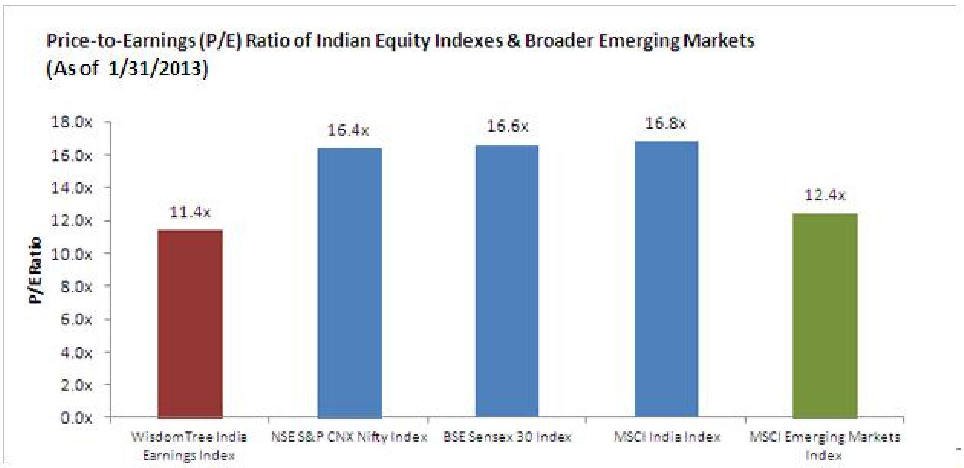
Emerging market (EM) equities–as measured by the MSCI Emerging Markets Index–delivered strong performance in 2012, but India in particular did even better. India's equities–as measured by the popular BSE Sensex 30 Index (Sensex)–outperformed the EM by over 6%, for a return of nearly 25% and a strong bounce back from the dismal 38% decline the Sensex experienced in 2011. **Let's look at valuation multiples after the strong 2012 performance** While the Reserve Bank of India (RBI) and the Indian government recently have been active with reforms supportive of economic growth, we believe it is of the utmost importance to look beyond the purely macroeconomic story and to the valuation landscape. Within the Sensex, three sectors–Consumer Discretionary, Financials and Industrials–stood out with performance greater than 40% in 2012, and two others–Consumer Staples and Health Care–were not far behind, delivering returns of 30% or better. After such a strong run, many might wonder if some of these stocks have become expensive. The price-to-earnings (P/E) ratio of the Sensex is about 16.6x. Notably, there are only two sectors with P/E ratios above 20x: Consumer Staples at approximately 33x and Telecommunication Services at approximately 27x. I believe the Consumer Staples sector may be the sector within the Sensex that is the most at risk of a potential correction, as it is the sector with the highest expectations for long-term growth.[1] In many ways, the Consumer Staples sector embodies India's fundamental growth story[2] and its equity market in general. India's equities–on a market capitalization-weighted basis[3]–sell at a premium P/E ratio to emerging market equities. What this means is that since India's equities are more expensive compared to broader emerging market equities, the Indian firms that are comprised in these indexes must exhibit higher rates of earnings growth in order to justify those prices. For instance, the MSCI Emerging Markets Index has a P/E ratio of approximately 12.4x, while India's market cap-weighted benchmarks were all approximately 32%–35.5% higher.



Sources: Bloomberg, Standard & Poor's

When people think of

India's future economic growth, they tend to see the potential of India's billion-plus people rising out of poverty and into a vibrant middle class. The investment thesis then focuses on all the consumption potential (especially for products originating from the Consumer Staples sector) they will likely unlock along the way. We believe that this is a good reason to be optimistic about India's potential growth, especially over the longer term. Yet this is not to say one must accept that, in thinking of India's equities, every index measuring the performance of these shares is trading at premium prices compared to the broader emerging markets.[4] WisdomTree created the India Earnings Index to help manage the valuation multiples of owning equities in India back in late 2007. The Index does so by weighting constituents by earnings, meaning that firms generating the greatest levels of profits receive the greatest weights.[5] Compared to market capitalization weighting, this approach can have the effect of tilting the Index's exposure away from companies with higher P/E ratios and focusing on those that have grown their earnings. Put simply, the Index naturally provides a disciplined focus on valuation in an equity market where we believe this is of the utmost importance. **Why consider the WisdomTree India Earnings Index?** The most common measures of India's equity performance typically are either the Sensex or the National Stock Exchange S&P CNX Nifty Index (Nifty)—indexes that include 30 and 50 stocks, respectively. We believe these are very narrow slices of India's markets. India possesses a vibrant and deep equity market with many mid- and small-cap companies. The India Earnings Index contained 220 constituents as of January 31, 2013. We thus believe this Index—especially compared to the Sensex with its 30 or the Nifty with its 50 stocks—provides a more complete gauge of the equity performance of Indian firms.[6] Another benefit of weighting by earnings is that it can help manage risk—and there can be little question that India is a developing country with lots of room to grow. Many firms within these equity markets—especially the smaller, more newly established ones—could be quite risky. For firms to gain eligibility in the WisdomTree India Earnings Index, they must demonstrate positive earnings on a cumulative basis over the four quarters prior to the annual Index screening date. In short, these companies must demonstrate a capability to be profitable. **Conclusion** I believe India is one of the most underappreciated and underinvested countries of the often-cited "BRIC" basket of countries. Given its large population, India has a great long-term growth story, and there are a number of potentially positive catalysts brewing from government reforms to monetary policies. This combination could have the potential to positively affect equity performance. **Data source is Bloomberg unless otherwise noted.** [1]Long-term growth refers to growth of earnings. Earnings growth expectations are an important driver of equity price movements, but if high expectations are ultimately not met, this could have the potential to indicate a difficult period ahead. [2]India's fundamental growth story relates to its large population (second only to China's as of 12/31/2012), which is starting to increase its consumption. [3]Refers to the Sensex, the NSE S&P CNX Nifty Index (Nifty) and the MSCI India Index, all of which are market capitalization weighted. [4]Refers to how three widely noted market capitalization-weighted indexes of India's equity performance exhibited higher P/E ratios than the MSCI Emerging Markets Index as of 1/31/2013. [5]The WisdomTree India Earnings Index has constituents weighted by their core earnings streams. Standard & Poor's constructed the core earnings measure in an attempt to capture earnings from ongoing business operations and mitigate the impact of extraordinary events. Core earnings per share are multiplied by shares outstanding, and each constituent is weighted by its proportional contribution to the total earnings of all firms within the Index. WisdomTree also adjusts constituent weights to account for foreign ownership restrictions in certain Indian firms. A firm that is limited by these restrictions would see its weight reduced below the level indicated by its contribution to the Index earnings stream. [6]The MSCI India Index contained 73 constituents as of 1/31/2013. Source for all constituent data: Bloomberg.

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