INDIA: A RECAP OF 2014 AND HOW TO GET EXPOSURE IN 2015

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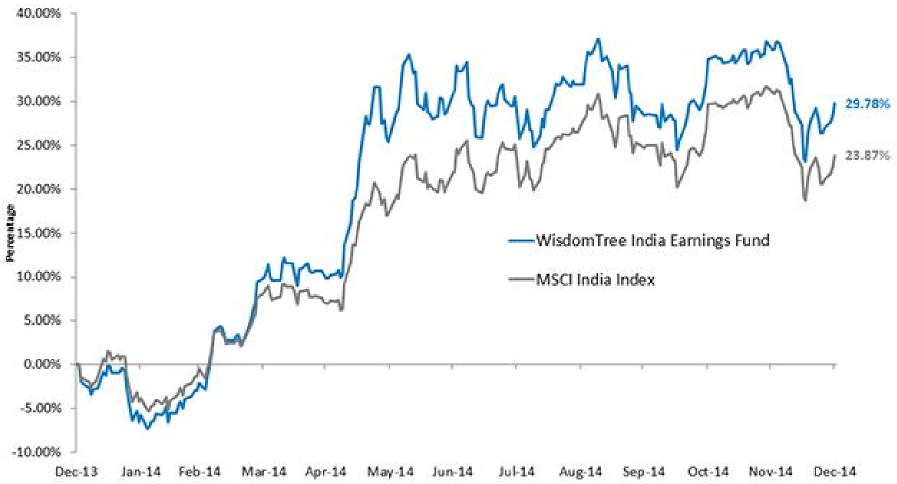
Indian equity markets performed strongly in 2014, mostly due to anticipation of prime minister Narendra Modi's ascension to power, and the market was able to hold onto its gains through the end of the year, thanks to anticipation of investor-friendly reforms and the decline of oil prices. Modi ran on a slogan of "less government and more governance," and he is still expected to unlock India's vast economic potential. As investors look to position themselves for these improvements, we highlight some key considerations for investment vehicles offering exposure to India: • **Breadth of Coverage:** The WisdomTree India Earnings Fund (EPI) currently has 230 holdings,[1] and we believe that it offers the broadest representation of the Indian markets available in the exchange-traded fund (ETF) structure. Many other India-focused strategies are large cap in nature and include only 50 to 70 stocks. These large-cap-focused strategies can miss out on the mid- and small-cap segments of the Indian market, which typically are more sensitive to changes in the prospects for the Indian economy. While the economy suffered from depressed valuation in the past, it is now benefiting from the improved sentiment brought on by Modi's election. Consider: - Only 29 of the companies in EPI would be considered large cap—stocks with a greater than $10 billion market cap—while 70 of the stocks are between $2 billion and $10 billion, and 131 are smaller capitalization, having less than $2 billion in market cap.[2] - The smaller-capitalization stocks were also the least expensive: the above-$10 billion stocks had a 15.7x price-to-earnings (P/E) ratio, while the small-cap segment's P/E ratio was only 11.3x.[3] - Traditional indexes for India, such as the MSCI India Index or the Nifty Index, generally have no exposure to this small-cap segment and less exposure to the mid-cap segment than EPI. • **Local Economy Focus:** Mid- and small-cap stocks have reacted the most in 2014 to hopes of Modi's reform agenda, leading to stronger gains for EPI than for most traditional (large-cap) indexes.[4] The graph illustrates the performance differential that different exposures can create by showing the cumulative performance for the WisdomTree India Earnings Fund (EPI) against its benchmark, the MSCI India Index, for the 2014 calendar year. **2014 Calendar Year Cumulative Performance**



Sources: WisdomTree, Bloomberg, 12/31/13–12/31/14
Past performance is not indicative of future results. You cannot invest directly in an index. A fund's performance, especially for very short time periods, should not be the sole factor in making an investment decision.

For standardized performance of EPI, click here. • **Small and Mid-Caps Outperform:** Over the period shown, the small- and mid-cap stocks in the EPI returned 56% and 37% respectively, compared with only 22% for large caps.[5] EPI's broader exposure to small- and mid-cap stocks, compared with MSCI India, contributed positively to its relative performance over the period. • **Strong Performance among Financials:** EPI's stock selection among Financials and its relative over-weight to the sector added to performance over the period. Financials were in focus during the year on expectations that they would benefit from more financial liberation; Financials also benefited from the stabilization of the rupee.[6] • **Industrials Outperformed:** In EPI, the Industrials sector saw the best performance over the period, and better stock selection in this sector in EPI than in MSCI India added to relative performance. Small- and mid-cap industrial firms benefited from anticipation of pro-growth reforms and the decline in oil prices.[7] **Earnings Weighting Lowers the P/E Ratio** One potential concern for investors when such large gains occur in a short period is that the market may become expensive. The majority of Indian indexes are market cap-weighted —meaning they tend to give more weight to companies that sell at higher prices than to those that offer stronger fundamentals. On the other hand, the methodology of EPI's underlying Index, the WisdomTree India Earnings Index (WTIND), is designed to magnify the effect of earnings on weights and total returns. WisdomTree's earnings-weighted approach for India helps keep focus on lower-priced segments of the Indian market, and the annual Index rebalance in September helps manage the valuation risk. Our research shows that, since its inception, the WTIND has traded at a 34% discount to the MSCI India Index; the discount is currently at 27%.[8] **Bringing Credibility to Monetary Policy** Since Raghuram Rajan's appointment as governor of the Reserve Bank of India (RBI), he has worked tirelessly to establish the RBI's reputation as a credible inflation-fighting central bank. The RBI has eased its inflation tone and maintained that monetary policy will be accommodative. More recently, the RBI cut the repo rates 25 basis points, bringing it from 8% to 7.75%.[9] The timing, about a month ahead of India's much-awaited budget, is a strong acknowledgement of reduction in inflationary pressures driven by plummeting global oil prices, which have been a windfall for oil-importing economies like India. Also, the Indian rupee has become much more stable recently, boosting the confidence of foreign investors.[10] WisdomTree is a long-term bull for India based on its very favorable demographic trends. Key risks for India have typically been very high market expectations, high inflation rates and government corruption, which has been a bottleneck on the economy. The trends appear to be going in the right direction. For those looking for continued improvement, having EPI—which is broadly representative of the Indian market and economy but also employs a process to manage equity valuation risk

—as part of their equity strategy might be an attractive way to gain exposure to India. [1]Source: WisdomTree, as of 12/31/14. [2]Source: WisdomTree, as of 12/31/14. [3]Sources: WisdomTree, Bloomberg, as of 12/31/14. [4]Sources: WisdomTree, Bloomberg, 12/31/13?12/31/14. [5]Sources: WisdomTree, Bloomberg, 12/31/13?12/31/14. [6]Sources: WisdomTree, Bloomberg, 12/31/13?12/31/14. [7]Sources: WisdomTree, Bloomberg, 12/31/13?12/31/14. [8]Sources: WisdomTree, Bloomberg, since Index inception, 12/3/07?12/31/14. [9]Source: Reserve Bank of India, 1/15/14. [10]Source: Bloomberg, 12/31/13?12/31/14.

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DEFINITIONS

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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 India Index : A market capitalization-weighted index designed to measure the performance of the Indian equity market.

Nifty Index : The National Stock Exchange of India's benchmark index for the Indian equity marke.

Market capitalization-weighting : 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.

Fundamental value : The value of a firm that is related to a company's actual operations and production as opposed to changes in share price.

WisdomTree India Earnings Index : A fundamentally weighted Index that measures the performance of companies incorporated and traded in India that are profitable and that are eligible to be purchased by foreign investors. Companies are weighted in the Index based on their earnings in their fiscal year prior to the Index measurement date, adjusted for a factor that takes into account shares available to foreign investors.

Valuation risk : The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Inflation : Characterized by rising price levels.

Repo rates : Repo rate is the rate at which the central bank of a country lends money to commercial banks in the event of any shortfall of funds.

Basis point : 1/100th of 1 percent.

Bullish : a position that benefits when asset prices rise.