

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

Christopher Gannatti – Global Head of Research
06/19/2014

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?**

Index/Country	Average Weight ¹		Dividend Growth			Total Attribution ⁵
	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.

Important Risks Related to this Article

Investments in emerging, offshore or frontier markets 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. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Performance, especially for very short time periods, should not be the sole factor in making your investment decision.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

