

ANSWERING THE CALL FOR INCOME IN DEVELOPED MARKETS

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In 2013, rising interest rates were a common topic of discussion, and we even started to see the initial stages of this phenomenon during the second half of the year.¹ However, so far in 2014, the trajectory of interest rates in developed international markets has been downward.² **Connection between Interest Rates and Stock Performance** The current demographic reality in developed markets is one of aging populations. In investment terms, this means that there is a need for income, as more and more people will need to replace labor income with investment income. Traditionally, bonds have been the prime beneficiaries of this demand, but with the current low interest rates, bonds cannot shoulder the full burden. People have looked to equities to fill the gap. **WisdomTree’s Top-Performing Broad Developed International Index** The top-performing broad developed international Index at WisdomTree for the year-to-date period ending July 15, 2014, was the [WisdomTree International Dividend ex-Financials Index](#) (WT Int. Div. ex-Financials). Why? We believe that this Index best answered the call for **yield** in these developed market regions. The following table illustrates the critical factors in play. As an important point of reference, we compare the WT Int. Div. Ex-Financials to the [MSCI EAFE Index](#) (EAFE). EAFE does not require constituents to be relatively higher-yielding dividend payers, but it is a broader, widely followed performance benchmark for developed international equities. **Connecting Dividend Yield to Equity Performance**

	Weight		Dividend Yield		Total Return		Attribution ³
	WT Int. Div. Ex-Financials	EAFE	WT Int. Div. Ex-Financials	EAFE	WT Int. Div. Ex-Financials	EAFE	
Full Index	100.0%	100.0%	5.0%	3.4%	8.8%	3.8%	5.0%
Utilities	14.5%	3.8%	5.1%	4.1%	15.6%	13.2%	1.9%
Consumer Discretionary	9.2%	11.7%	3.5%	2.6%	7.4%	0.6%	0.7%
Telecommunication Services	14.9%	5.0%	9.0%	7.8%	7.0%	1.1%	0.7%
Materials	11.9%	8.1%	4.1%	2.9%	10.2%	5.8%	0.6%
Industrials	11.0%	12.6%	4.0%	2.8%	5.2%	1.4%	0.5%
Energy	12.8%	7.2%	5.1%	4.3%	12.0%	10.0%	0.4%
Financials	0.0%	25.5%	N/A	3.5%	N/A	1.5%	0.4%
Consumer Staples	11.3%	11.2%	4.9%	3.0%	6.6%	6.6%	0.0%
Information Technology	5.8%	4.3%	2.0%	1.8%	-1.4%	0.4%	0.0%
Health Care	8.6%	10.7%	3.4%	2.8%	12.3%	11.6%	-0.1%

³Attribution: Term used for performance comparison. Here, positive numbers indicate contributors to the outperformance of the WT Int. Div. Ex-Financials over EAFE, and negative numbers indicate contributors to the underperformance of WT Int. Div. Ex-Financials against EAFE. Sources: WisdomTree, Bloomberg, Standard & Poor’s; weight and dividend yield data as of 7/15/14; total return and attribution data for 12/31/13 to 7/15/14. Past performance is not indicative of future results. You cannot invest directly in an index.

in 2014

Approximately 50% Exposure to Defensive Sectors: We consider the defensive sectors to be Utilities, Telecommunication Services, Health Care and Consumer Staples. In both EAFE and WT Int. Div. Ex-Financials, Utilities and Telecommunication Services are among the highest-yielding sectors. A critical difference regards the weighting—in the WisdomTree Index, approximately 10% more weight was allocated to *each* of these sectors, as of July 15, 2014. Beyond that, we can call attention to the methodology behind WT Int. Div. Ex-Financials. On an annual basis³, outside of Financials, the 300 largest constituents from the [WisdomTree DEFA Index](#) are selected. From there, the 10 highest-yielding stocks from each of the remaining nine sectors are selected. These are weighted on the basis of their dividend yields. EAFE is simply weighted by a function of **float-adjusted market capitalization**. We believe that WisdomTree’s focus on yield is the critical factor behind this Index’s strong performance during this period. • **Nine out**

of 10 Sectors Contribute Positively to Relative Performance: The attribution column of the table is also informative. The biggest contribution to WT Int. Div. ex-Financials' outperformance of EAFE came from the Utilities sector. We're not surprised by this—Utilities are a common starting point for people seeking potentially stable dividend income from equities, as they tend to have stable cash flows and slow but incremental growth, and, in this sector, it is difficult for new entrants to upset the balance of established competitors. The fact that the attribution was positive in every other sector except Health Care, however, is a strong sign and really speaks to WT Int. Div. ex-Financials' preference for higher-yielding stocks across nearly all sectors. It's worth noting that, even though Health Care was the lone detractor from relative performance, it was still one of the top-performing sectors, as its defensive, income-generating nature was in favor. It just so happens that EAFE had the greater weight to the sector, which gave it the advantage. **Where May We Go from Here?** It's worth remembering that, at the end of 2013, there was a widespread consensus that interest rates would continue to exhibit a rising trend in 2014—something that has, thus far, turned out to be incorrect, especially when measured using the [U.S. 10-Year Treasury note](#).⁴ This unexpected behavior has brought higher-yielding dividend payers into favor as potential sources of income replacement. Should rates begin to rise, we might change our view of WT Int. Div. ex-Financials as the most favorably positioned Index, but so long as developed market interest rates remain low, we think it has the potential to zero in on dividend-yield opportunities across developed markets outside the United States. For the full research on the WisdomTree International Developed Indexes rebalance, [click here](#).

¹Refers to the U.S. 10-Year Treasury note, which had an interest rate of 2.49% on 6/30/13 and an interest rate of 3.03% on 12/31/13. Source: Bloomberg. ²We audited the behavior of 10-year government bond yields in five large markets in the MSCI EAFE Index universe of developed international markets. Yields for 10-year government bonds from 7/15/14 and 12/31/13 respectively were: Japan: down to 0.539% from 0.735%; United Kingdom: down to 2.64% from 3.02%; Germany: down to 1.20% from 1.93%; Spain: down to 2.71% from 4.15%; Australia: down to 3.44% from 4.24%. Source: Bloomberg. ³Annual basis refers to the annual Index screening date, 5/31, for WT Int. Div. ex-Financials. ⁴Source: Bloomberg, with data from 12/31/13 to 7/15/14.

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DEFINITIONS

WisdomTree International Dividend ex-Financials Index: Measures the performance of high dividend-yielding stocks outside the financial sector. Selects the 10 largest dividend-paying stocks within each sector outside of financials, then the resulting list is weighted by dividend yield.

12-Month Yield: The sum of the per-share dividends over the last 12 months, divided by the fund's current net asset value (NAV.)

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.

U.S. 10 Year Treasury Note: A debt obligation issued by the United States government that matures in 10 years.