TWO STRATEGIES FOR ONE EMERGING MARKETS APPROACH

Brian Manby – Associate, Investment Strategy
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We recently discussed the benefits of a dividend-weighted approach to investing in small-cap equities in emerging markets, relative to exposure weighted by market capitalization. These benefits include potential for:

- Higher long-term historical returns
- Lower volatility than large caps
- Higher current dividend income and lower valuations

We believe the WisdomTree Emerging Markets SmallCap Dividend Fund (DGS) can serve as one end of a barbell strategy for emerging markets that provides all these same characteristics.

The other end of the barbell would be a large-cap, higher-dividend strategy like the WisdomTree Emerging Markets High Dividend Fund (DEM).

We think this barbell approach can incorporate the best of both worlds among attractive factors.

Let's dig in.

The Role of Dividends in Emerging Markets

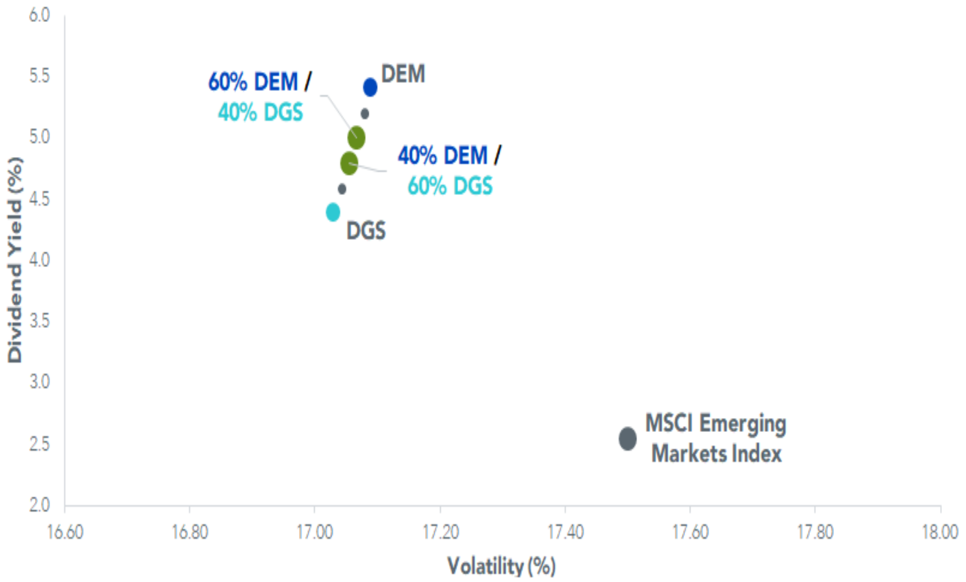
We believe our emerging markets dividend approach offers a distinct advantage in terms of yield relative to the MSCI Emerging Markets Index. Both DGS and DEM have eclipsed the average dividend yield of the index by over 180 and 280 basis points (bps) over the last 10 years.

And this is a meaningful space for dividends. Both the MSCI Emerging Markets Mid Cap and MSCI Emerging Markets Small Cap Indexes have average payout ratios higher than any size segment of the U.S. equity market over the past 10 years, except for U.S. small caps (which have been magnified by high price-to-earnings multiples). They have even exceeded the ratios of the overall value segment of the U.S. market, which should naturally have a greater tilt toward dividend payers.

To understand the advantage of WisdomTree's approach, let's examine an efficient frontier. In modern portfolio theory (MPT), an efficient frontier is a method of illustrating the expected risk and return profile of different portfolios. Typically, investors would want a portfolio offering the highest possible return for a given level of risk.

A Modified Efficient Frontier—The DEM & DGS Barbell

Dividend Yield & Volatility Comparison: DEM & DGS vs. MSCI Emerging Markets Index



Sources: WisdomTree, FactSet, Zephyr StyleADVISOR, as of 6/30/19. 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. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

For standardized performance of the Funds in the chart, please click their respective tickers: DEM, DGS.

In the chart above, we modify the efficient frontier slightly, by replacing return on the Y-axis with 10-year average dividend yield in order to illustrate WisdomTree’s yield advantage over the MSCI Emerging Markets Index. The X-axis uses the 10-year standard deviation of returns as our measure of volatility.

The results are striking.

Not only did DGS and DEM offer more dividend yield historically, but they did so with considerably less volatility.

The riskiest portfolio (100% allocated to DEM) retained a 41 bps volatility cushion compared to the MSCI Emerging Markets Index, while the lowest-yielding portfolio (100% allocated to DGS) exhibited a 184 bps dividend yield advantage. Between these two extremes, the blended DEM/DGS portfolios also maintained the advantage in terms of volatility mitigation and yield potential.

There were also fairly consistent return advantages over most periods. Below is a standard return combination of the blended portfolios. Most added over 200 bps per year over the longest common period.

Blend / Index	Blended Allocation NAV Performance as of 6/30/19				
	1 Year	3 Year	5 Year	10 Year	Since Common Inception (10/30/07)
100% DEM/0% DGS	8.45%	12.55%	1.12%	5.52%	--
80% DEM/20% DGS	7.09%	12.17%	1.47%	5.84%	2.94%
60% DEM/40% DGS	5.73%	11.79%	1.82%	6.16%	2.86%
40% DEM/60% DGS	4.37%	11.40%	2.16%	6.47%	2.77%
20% DEM/80% DGS	3.01%	11.02%	2.51%	6.79%	2.69%
0% DEM/100% DGS	1.65%	10.64%	2.86%	7.11%	2.61%
MSCI Emerging Markets Index	1.21%	10.66%	2.49%	5.81%	0.34%

Sources: WisdomTree, Zephyr StyleADVISOR, as of 6/30/19

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. ET net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread, as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Investing in emerging markets can have daunting levels of risk. Yet many investors continue putting their emerging markets allocation into one cap-weighted product, hoping it pays off without much damage.

At WisdomTree we do things differently. And we believe the method of putting all your eggs in one cap-weighted basket can often have painful consequences. Instead, we suggest that a diversified barbell blend of the WisdomTree Emerging Markets High Dividend Fund and WisdomTree Emerging Markets SmallCap Dividend Fund has the potential to give investors the yield, volatility mitigation and returns they are looking for.

Unless otherwise stated, data source is WisdomTree, FactSet, as of June 30, 2019.

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Diversification does not eliminate the risk of experiencing investment losses.

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You cannot invest directly in an index.

DEFINITIONS

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

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.

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

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.

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.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

MSCI Emerging Market Index : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

Basis point : 1/100th of 1 percent.

MSCI EM Small Cap Index : Includes small cap representation across 21 Emerging Markets countries. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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 tim.

Efficient frontier : An efficient frontier is a method of illustrating the expected risk and return profile of different portfolio.

Modern Portfolio Theory (MPT) : A financial theory that seeks to juxtapose investors’ attitudes toward risk and return by maximizing the expected returns of a portfolio for a given level of risk, since greater expected returns usually involve absorbing additional risk.

Standard deviation : measure of how widely an investment or investment strategy’s returns move relative to its average returns for an observed period. A higher value implies more “risk”, in that there is more of a chance the actual return observed is farther away from the average return.