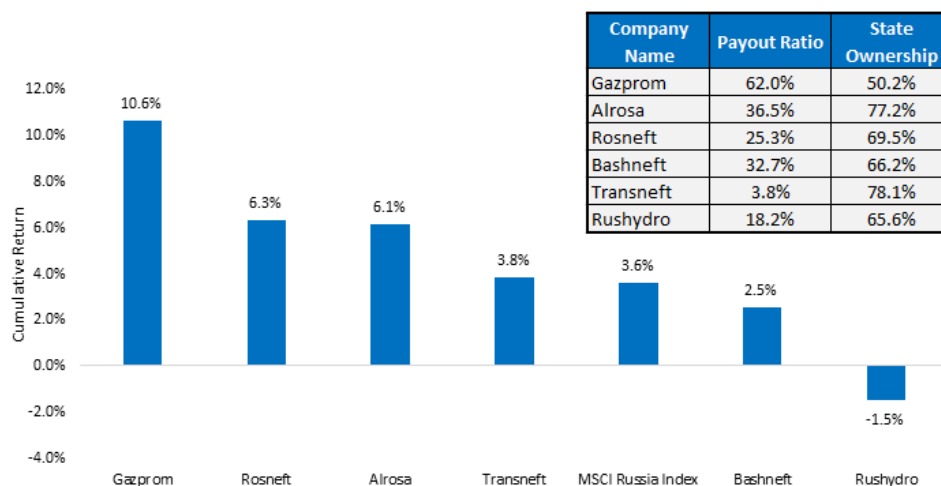


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# RUSSIAN GOVERNMENT MANDATES 50% DIVIDEND PAYOUT RATIO AT EIGHT STATE OWNED FIRMS

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On June 20, 2014, the price per barrel of Brent crude oil was more than \$114. Since that time, we've seen a massive decline, to the point that the price on April 20, 2016—nearly two full years later—was hovering in the \$40 to \$45 range.<sup>1</sup> **Russia: Energy Is More than 50% of Government Budget Revenue**<sup>2</sup> Some emerging markets—like Russia—depend on exporting oil for a significant portion of their government revenue. A greater than 60% decline in the price of oil is a rather large hit. So, how might this shortfall in government revenue get plugged? **One Answer: State-Owned Companies to Pay More Dividends** The Russian government, in a measure that was signed by Prime Minister Dmitry Medvedev on April 18, ordered eight [state-owned companies](#) to pay 50% of net profits as dividends. Net profit can be calculated following [Russian Accounting Standards \(RAS\)](#) or [International Financial Reporting Standards \(IFRS\)](#), and the companies must pay a dividend in accordance with the higher of the two values.<sup>3</sup> WisdomTree has been following dividend-paying companies in emerging markets for nearly nine years. As of the most recent [Index screening](#), September 30, 2015, Russia was characterized as a market made up of a smaller number of rather large dividend payers—leading to just over \$13 billion in cash dividends paid.<sup>4</sup> As of April 20, 2016, Russia was the fourth largest weight in the [WisdomTree Emerging Markets Dividend Index](#)—an Index built to comprise all regular dividend-paying companies in major emerging markets.<sup>5</sup> **Eight Firms Specified in the Mandate** Below, we detail the [payout ratio](#), percentage of state ownership and initial three-day market reaction of the eight firms that were mentioned in the government mandate. We look over the course of multiple days so as to capture less of a single day reaction and more of an initial trend. **3-Day Market Reaction to 50% Payout Ratio**



Sources: Bloomberg, FactSet, with data as of 4/19/16 and returns from 4/18/16 to 4/21/16. Zarubezhneft and Sovcomflot are not publicly listed and were therefore not included in this analysis. Past performance is not indicative of future results. You cannot invest directly in an index.

**Requirement**

[For current holdings of the WisdomTree Emerging Markets Dividend Index, click here.](#)

**Gazprom Is the Standout:** Gazprom went up 10.6% over the three day period following the announcement of the dividend mandate. It’s interesting that, based on the [trailing 12-month dividend yield](#) and [earnings yield](#) statistics, as of April 19, 2016, the payout ratio was implied to be 62.0%. We must note that this is not based on the IFRS or RAS calculations, nor does it account for the upcoming earnings announcement, as the earnings upon which those calculations could be based are not yet public. It is believed that Gazprom may double its dividend as a result of this mandate,<sup>6</sup> but it is too soon to view this as a certainty. • The same trailing 12-month measures that we used to calculate the payout ratio for Gazprom imply that the other companies may have a long way to go to get to a 50% level, even if, as in the case of Gazprom, we may not know the exact calculations as of April 19, 2016. **New Dividend Mandate Is Really a Gazprom Story** As of the most recent Index screening date–September 30, 2015–Gazprom was the largest payer of cash dividends in Russia of all qualifying companies in WisdomTree’s Emerging Markets Dividend Indexes. Its largest weight was in the [WisdomTree Emerging Markets High Dividend Index](#) (about 4%).<sup>7</sup> This Index did not include any of the other Russian companies mentioned in this piece. In fact, WisdomTree’s most broadly inclusive Emerging Markets Dividend Index included only Gazprom (1.7% weight), Rosneft (1.0% weight) and Rushydro (0.06% weight)<sup>8</sup>. Alrosa, Bashneft and Transneft were not included in any WisdomTree Emerging Markets Dividend Indexes. Bashneft and Transneft also were not included in the [MSCI Russian Index](#) (which only had 20 constituents) as of March 31, 2016.<sup>9</sup> **WisdomTree’s Turnaround Story of 2016 (Thus Far)** For the past few years, the performance of the WisdomTree Emerging Markets High Dividend Index has been challenged, and a large exposure to Russia’s Energy sector when the price of oil has been declining and the Russian ruble has been volatile has not helped. However, with the relative stability seen in the price of Brent crude oil thus far in 2016–especially since mid-February–this Index has exhibited a big turnaround. As long as the price of oil remains relatively stable, we believe that any potential positive news impacting Russia’s equities could act as a further positive catalyst for this strategy.

<sup>1</sup>Source: Bloomberg, with data as of specified dates. <sup>2</sup>Source: U.S. Energy Information Administration, report on Russia. Last data update: 7/28/15. <sup>3</sup>Source: Jack Farchy, “Russia Orders Companies to Pay Higher Dividends to State,” FT.com, 4/19/16. <sup>4</sup>Source: Standard & Poor’s, with data as of 9/30/15 Index screening. <sup>5</sup>Source: Bloomberg, with data as of 4/20/16. <sup>6</sup>Source: Jack Farchy, “Russia Orders Companies to Pay Higher Dividends to

State,” FT.com, 4/19/16. <sup>7</sup>Source: Standard & Poor’s, as of 4/19/16. <sup>8</sup>Source: Standard & Poor’s, as of 4/19/16. <sup>9</sup>Source: Bloomberg. Date of 3/31/16 conforms with our access to monthly constituent-level data for the MSCI Russia Index.

**Important Risks Related to this Article**

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.

Investments focused in Russia increase the impact of events and developments associated with the region, which can adversely affect performance.

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.

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## DEFINITIONS

**Dividend**: A portion of corporate profits paid out to shareholders.

**State-owned enterprise**: Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.

**Russian Accounting Standards (RAS)**: Accounting standards that govern financial accounting and reporting in Russia.

**International Financial Reporting Standards (IFRS)**: International accounting standards developed by International Accounting Standards Board (IASB) for the preparation of financial statements.

**Annual screening date**: The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

**Payout ratio**: The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

**Trailing 12-month dividend yield**: Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

**Earnings yield**: The earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.

**MSCI Russia Index**: Index weighted by float-adjusted market capitalization designed to measure the performance of the Russian equity market.