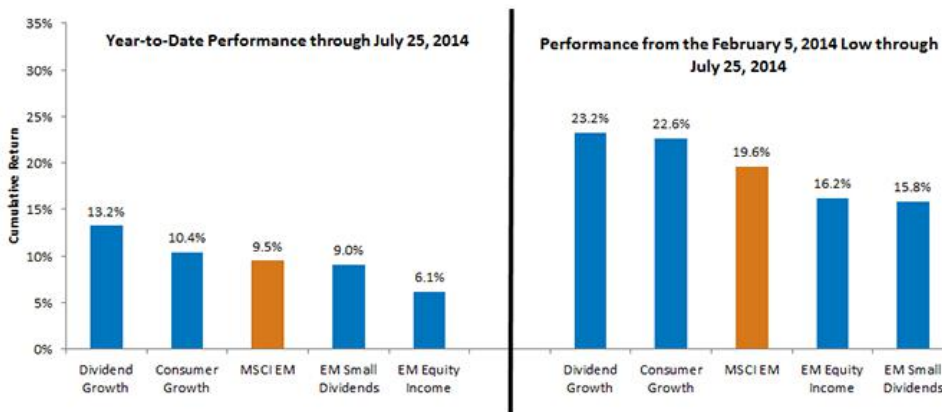


EMERGING MARKET EQUITIES RECOVERING IN 2014

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In 2013, equity markets in Europe, Japan and the United States delivered strongly.¹ Emerging markets EM, on the other hand, were disappointing.² However, it is at precisely these times—after being disappointed—when emerging market equities probably warrant a closer look. Mapping Emerging Markets with WisdomTree’s Indexes During 2013, WisdomTree launched two broadly focused emerging market equity Indexes: 1. [WisdomTree Emerging Markets Dividend Growth Index \(Dividend Growth\)](#): This Index was designed to focus on dividend payers within emerging markets that exhibit relatively strong [earnings growth](#) potential as well as relatively higher [quality](#) metrics. 2. [WisdomTree Emerging Markets Consumer Growth Index \(Consumer Growth\)](#): This Index was designed to focus on profitable companies within emerging markets that have the potential to benefit from consumer growth in emerging markets, rather than focus on emerging market multinationals that tend to export to developed countries. Gauging the performance of these Indexes, in addition to the [WisdomTree Emerging Markets Equity Income \(EM Equity Income\)](#) and [WisdomTree Emerging Markets SmallCap Dividend \(EM Small Dividends\)](#) Indexes, can allow us to better understand what components of emerging market equities are tending to perform best (or worst) over different periods. For reference we included the [MSCI Emerging Markets Index \(MSCI EM\)](#), the most widely followed benchmark for the performance of EM equities. **WisdomTree Broad EM Equity Scorecard for 2014**



Source: Bloomberg, with year-to-date measured from 12/31/13 to 7/25/14 and performance from the 2/5/14 low measured as of the lowest point for the MSCI Emerging Markets Index between 12/31/13 and 7/25/14. Past performance is not indicative of future results. You cannot invest directly in an index.

• **Dividend Growth &**

Consumer Growth Outperform MSCI EM YTD and Since the February 5 Low³ o Dividend Growth: A greater than 9.5% average over-weight to Indonesia and a greater than 8% average over-weight to Thailand were primary drivers of outperformance. Both of these markets had a tumultuous 2013 but have been on the comeback trail in 2014. Surprisingly, even a 7.8% average over-weight to Russia contributed to outperformance by focusing on the combination of growth and quality. Exposures in South Africa and India saw positive total returns, but being under-weight in India and poor stock selection in South Africa hurt relative performance. o **Consumer Growth:** This Index is actually the

only one shown that is not weighted by dividends, but rather by earnings. As a result, instead of being under-weight to India compared to the MSCI EM, it maintained an approximate over-weight of 2.6% when India's market was roaring. Additionally, the fact that the Materials and Energy sectors are ineligible leads to very small weight within Russia. The largest average country weight was to China, and exposure here was positive, but not as positive as that of the MSCI EM, causing it to contribute negatively to relative performance. • **WT EM Equity Income and EM Small Dividends Still Positive**⁴

- o **EM Equity Income:** Of the Indexes shown, this one can be characterized as the valuation hunter. Some of the least expensive, largest payers of cash dividends within emerging markets are those within the Russian Energy sector, which was hit with negative headline risk in March 2014 and then again in July 2014. It's worth noting the positive performance shown within the chart for this diversified Index even with those exposures.
- o **EM Small Dividends:** A dividend-weighted approach to emerging market small caps has tended toward a large weight in Taiwanese small caps and barely any weight to India's small caps. This year, India's small caps have been on fire, and Taiwan's have been lackluster. Still, a year-to-date return of 9% is strong. **WisdomTree Is Excited about Emerging Market Equities** We remain excited about the [valuations](#) represented within emerging markets today compared to other global markets. The dispersion in performance across the WisdomTree Indexes mentioned speaks, in our view, to their unique exposures. We've emphasized broader signs of strength, and in future blogs we will dig a bit deeper into China and Russia—two markets that have often been in focus in 2014—to further characterize what we believe to be an exciting opportunity in emerging markets today.

¹Source: Bloomberg. Refers to the 12/31/12 to 12/31/13 performance of the [MSCI Europe](#), [MSCI Japan](#) and [S&P 500 Indexes](#), respectively. ²Source: Bloomberg. Refers to the 12/31/12 to 12/31/13 performance of the MSCI Emerging Markets Index. ³Source for all sub-bullets: Bloomberg, with data from 12/31/13 to 7/25/14. ⁴Source for all sub-bullets: Bloomberg, with data from 12/31/13 to 7/25/14.

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Earnings growth estimates: Bloomberg analysts' long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years.

Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

MSCI Emerging Markets Index: a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

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.

MSCI Europe Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of developed equity markets in Europe.

MSCI Japan Index: A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.