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The World of Indexing... and Beyond

Emerging Markets. Emerging Core?

Live Webinar

July 9, 2009 2–3 p.m. EDT

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WISDOMTREE

Emerging Markets. Emerging Core?

Definition & Structure

Benefits & Risks

Evaluating Choices



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Tom Lydon

President
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What Are Emerging Markets?

Developed

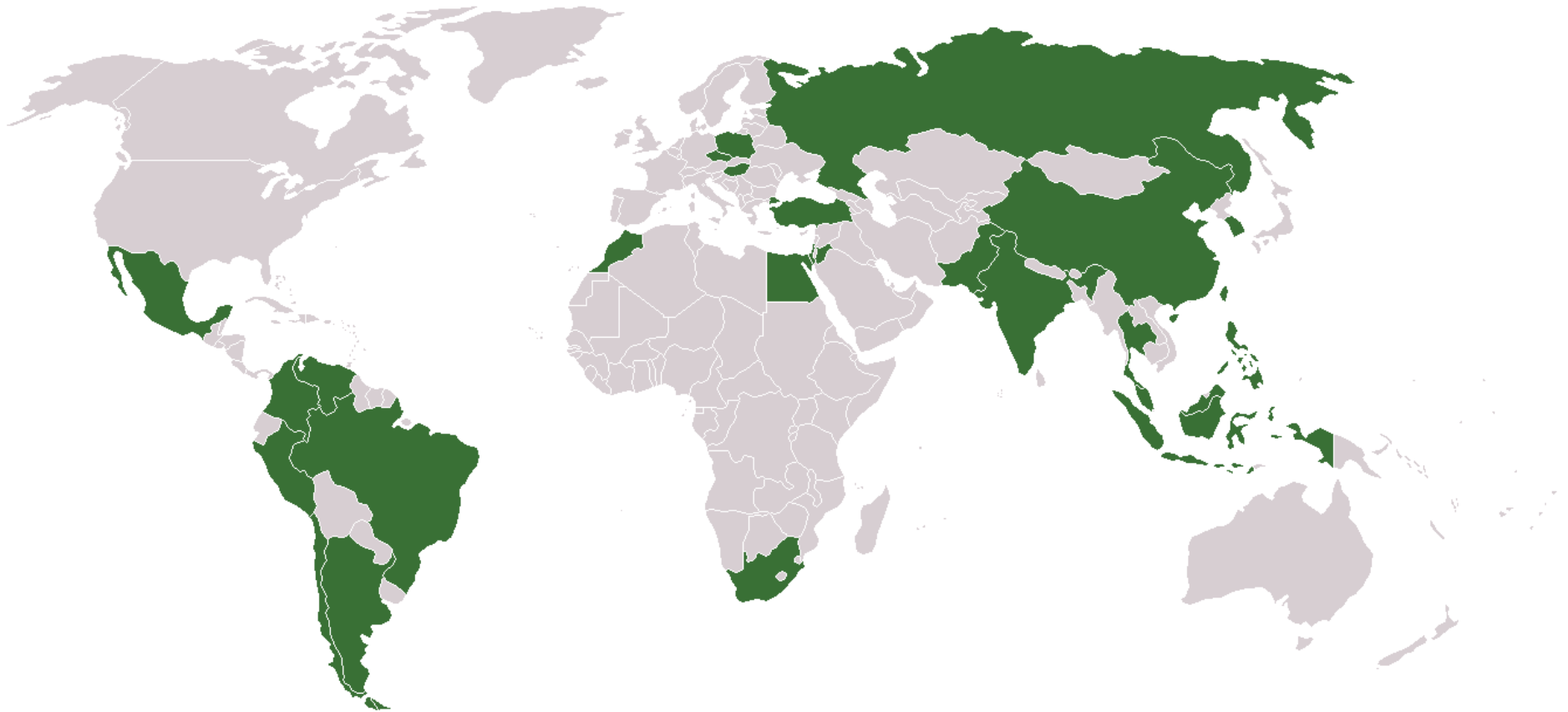
Emerging

Frontier

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What Are Emerging Markets?



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The Eye Chart

<u>MSCI</u>	<u>DJ TSM</u>	<u>S&P BMI</u>
Argentina	Argentina	Argentina
	Bahrain	Bermuda
Brazil	Brazil	Brazil
	Bulgaria	
Chile	Chile	Chile
China	China	China
Colombia	Colombia	
Czech Republic	Czech Republic	Czech Republic
Egypt	Egypt	Egypt
		Hong Kong
	Estonia	
Hungary	Hungary	Hungary
India	India	India
Indonesia	Indonesia	Indonesia
		Israel
		Italy
	Jordan	Jordan
	Kuwait	Luxembourg
	Latvia	
	Lithuania	
Malaysia	Malaysia	Malaysia
	Malta	
Mexico	Mexico	Mexico
Morocco	Morocco	Morocco
	Pakistan	
Peru	Peru	Peru
Philippines	Philippines	Philippines
Poland	Poland	Poland
	Romania	
Russia	Russia	Russia
	Slovakia	
	Slovenia	
South Africa	South Africa	South Africa
South Korea		
	Sri Lanka	
Taiwan		Taiwan
Thailand	Thailand	Thailand
Turkey	Turkey	Turkey

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Why Care About Emerging Markets?



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Why? Portfolio Diversification



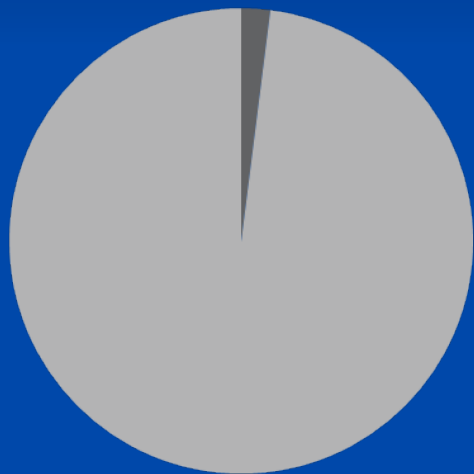
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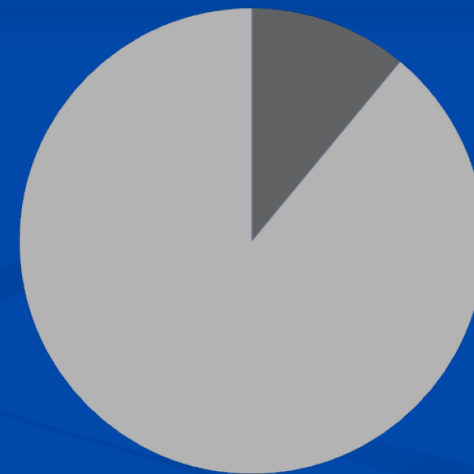
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Why? Emerging Weights

1990



2009



■ Emerging Markets

■ Everything Else

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Why? Correlations

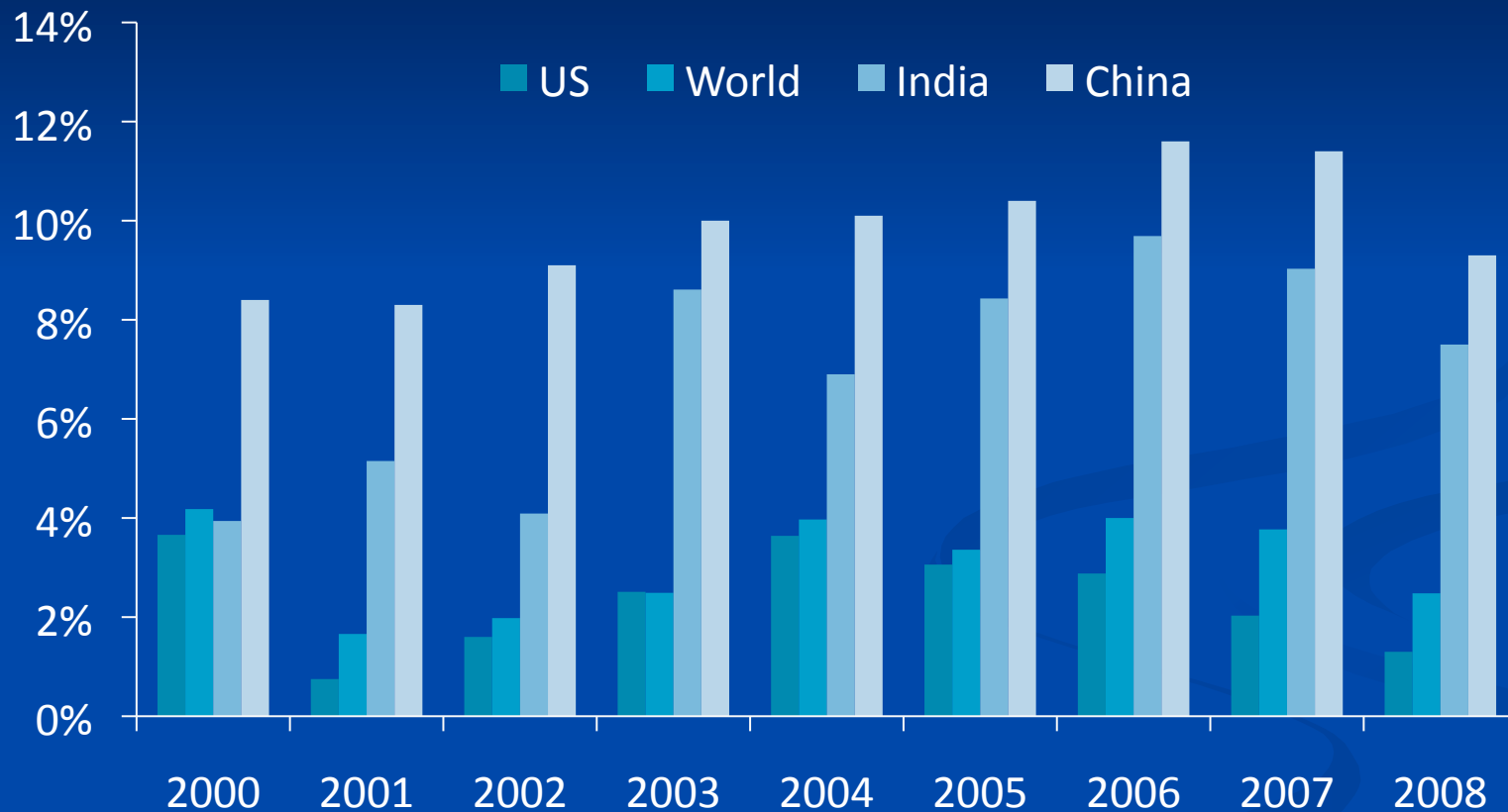
MSCI Emerging Market: Monthly Correlations, 1994-2009

MSCI World	0.82
S&P 500 Total Return	0.58
Russell 2000	0.81
S&P GSCI Total Return	0.82
REITs	0.80
US Treasury 7-10 year	0.65

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Why? GDP Growth!



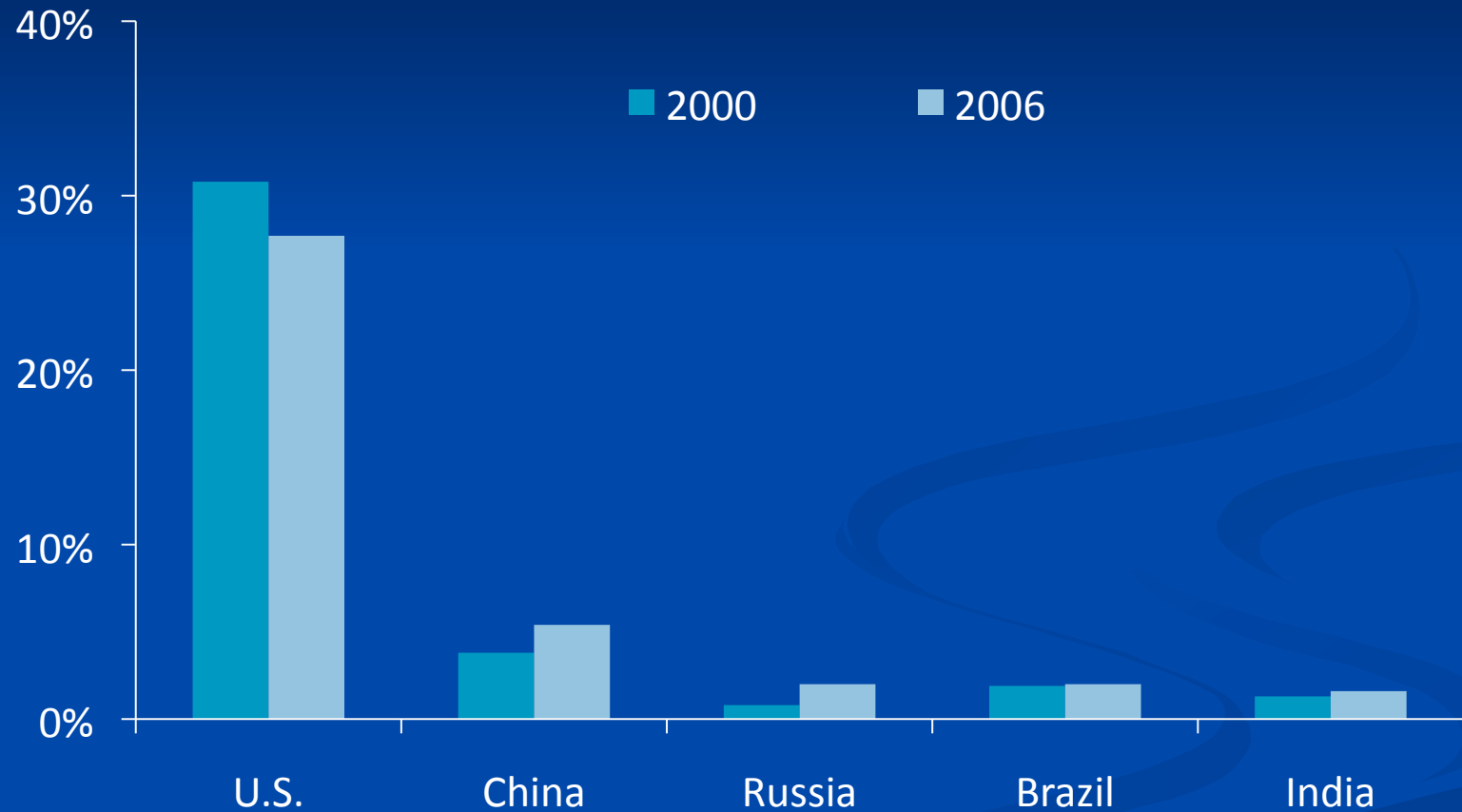
Source: USDA Economic Research Service

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Why? Growth!



Source: Goldman Sachs, IMF, *New York Times*

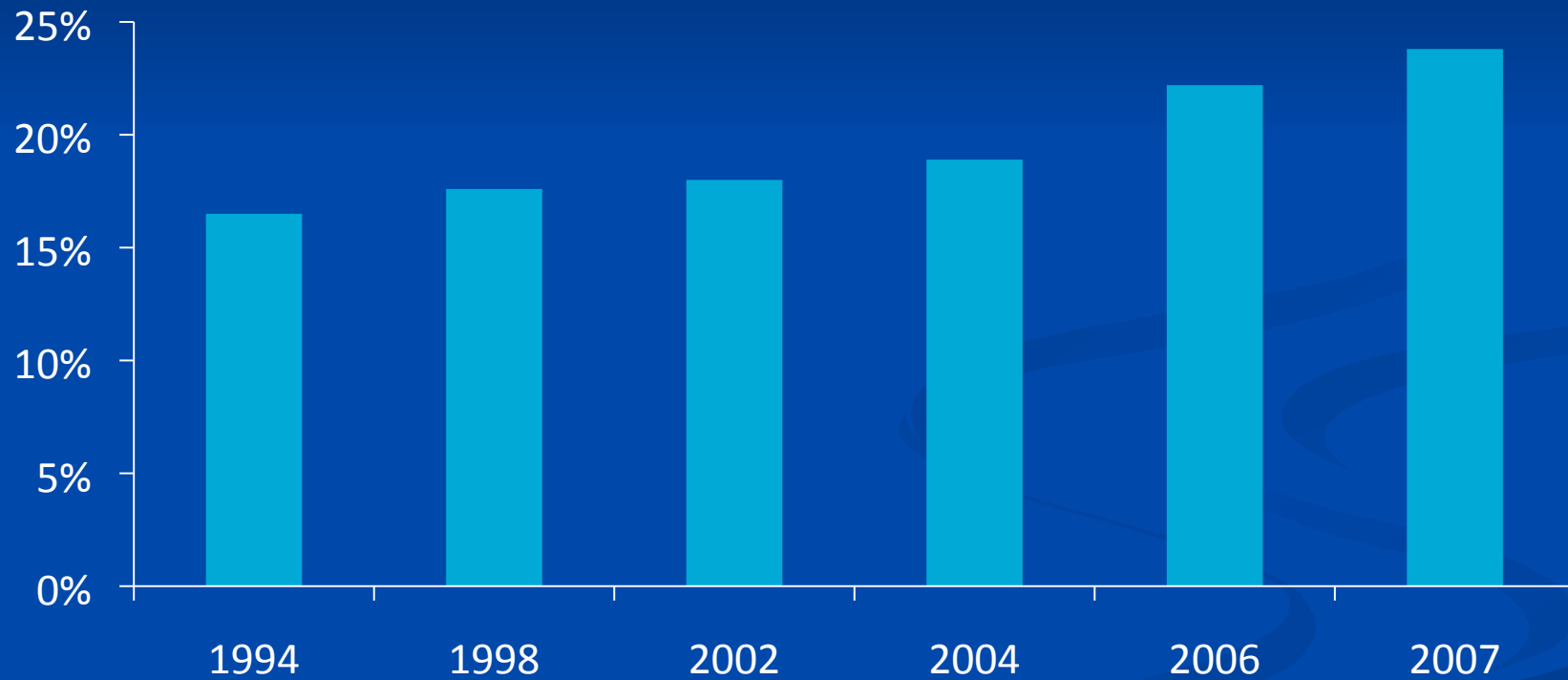
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Why? Growth

Emerging Market % of World GDP



Source: World Bank

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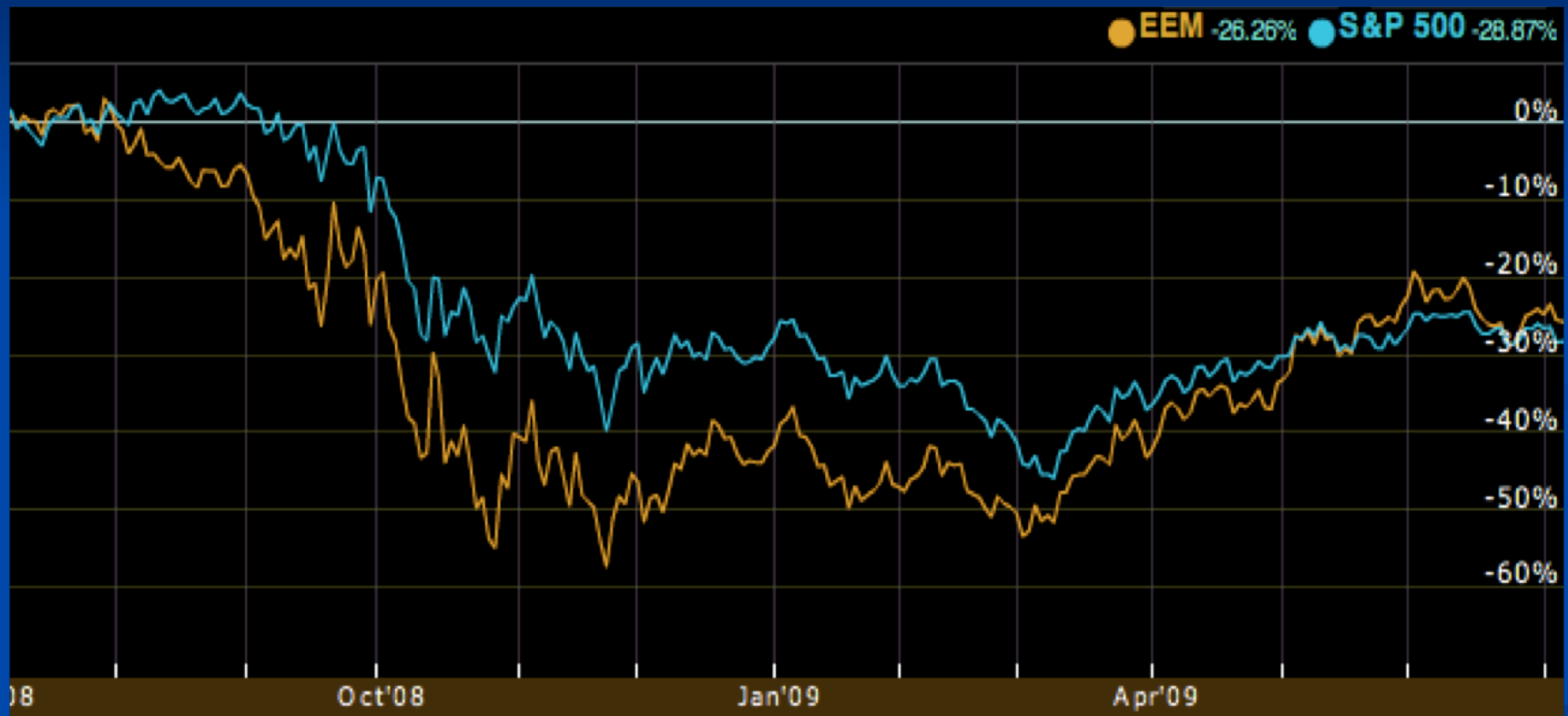
Why? Fundamentals

Country	Index	PE Ratio	Price/Book
Russia	MSCI	6.97	0.94
Italy	FTSE MIB	10.57	0.87
France	CAC 40	11.02	1.13
Brazil	MSCI	11.29	1.78
Argentina	MSCI	11.70	1.24
USA	MSCI	12.58	1.67
South Africa	JSE Top 40	12.70	1.96
Thailand	Thai SET50	15.61	1.47
India	Sensex	17.19	3.26
Germany	DAX Index	26.15	1.24
China	CSI 300	32.21	3.55
UK	FTSE 100	33.25	1.54
Taiwan	Taiwan 50	33.98	1.91

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Does Diversification Still Work?

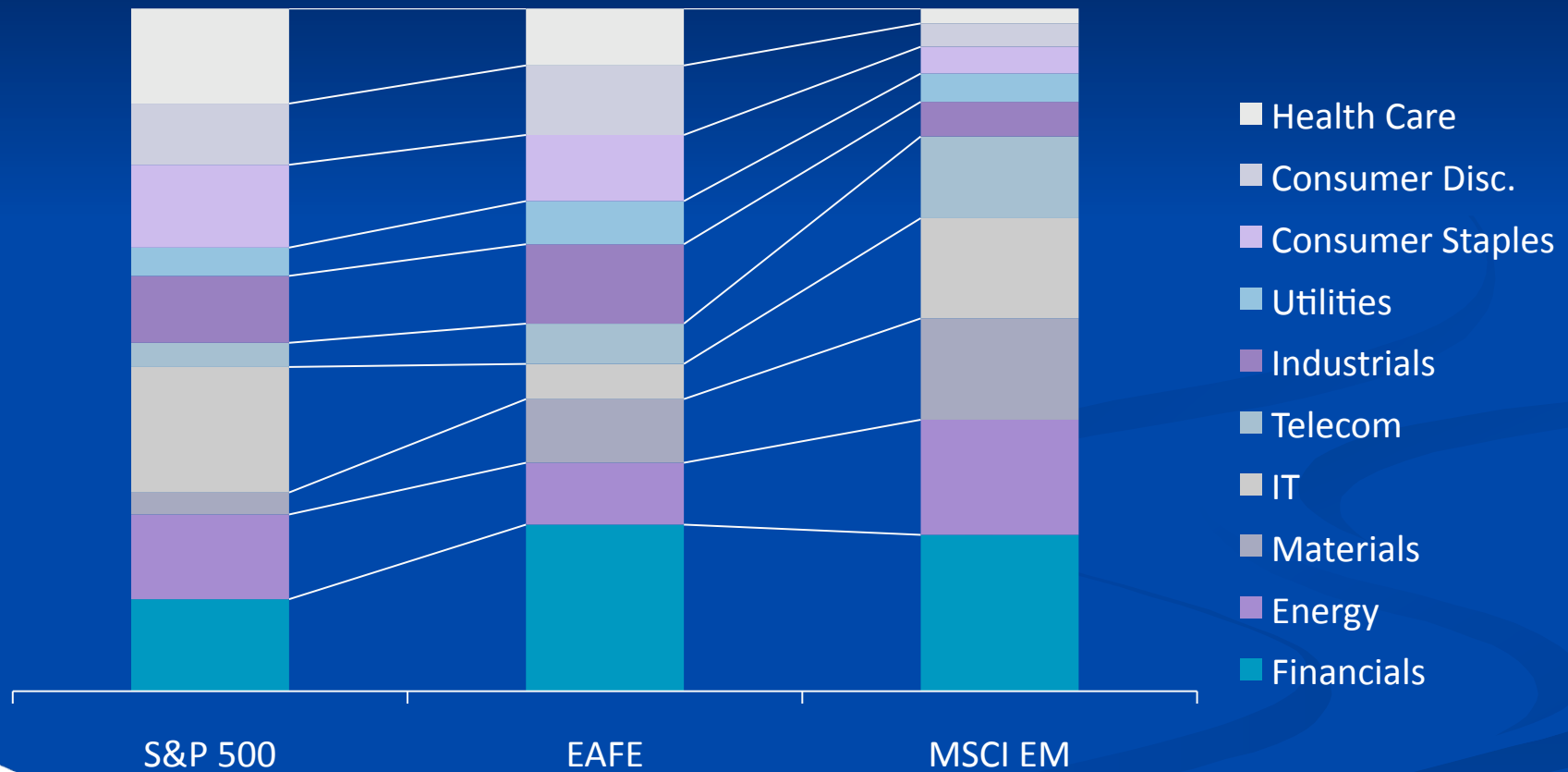


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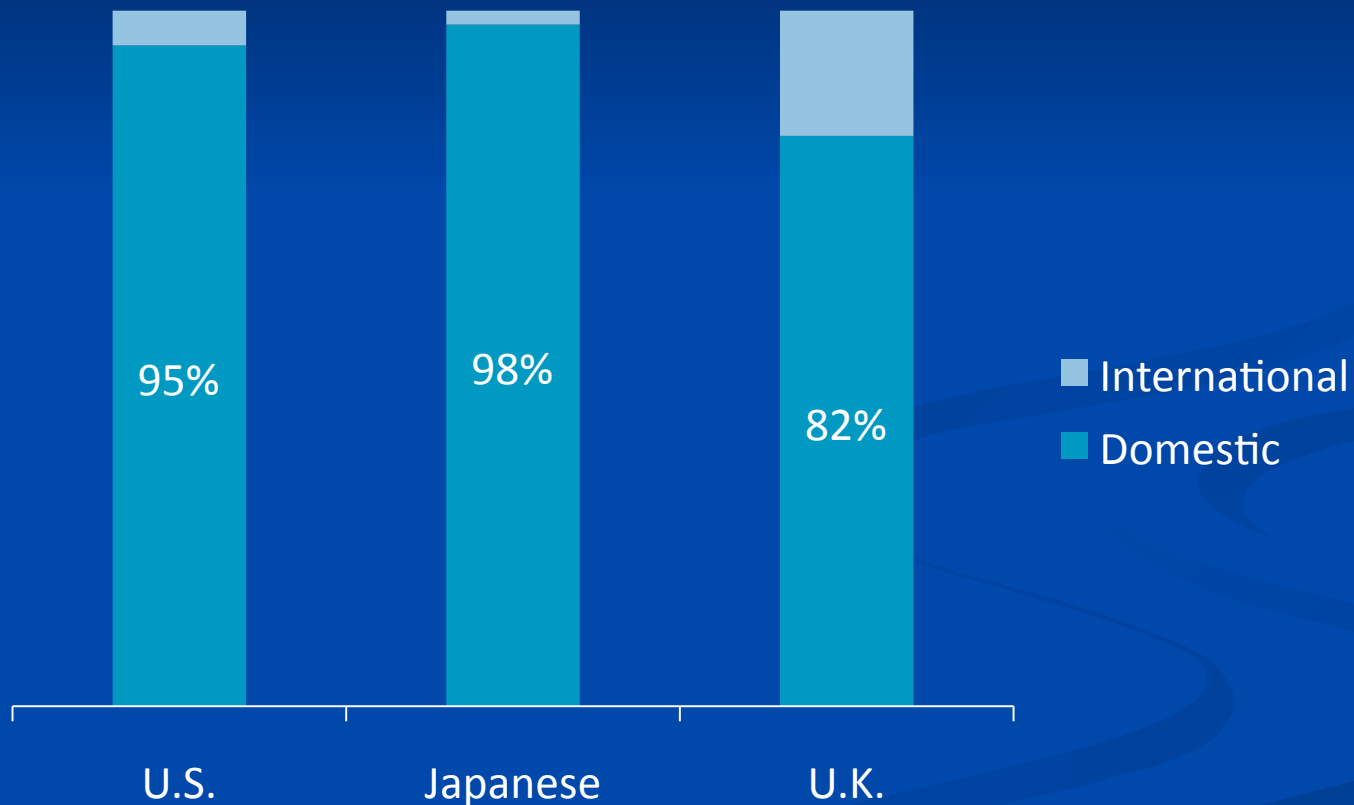
Does Diversification Still Work?



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How Much Exposure Do Most Investors Have?

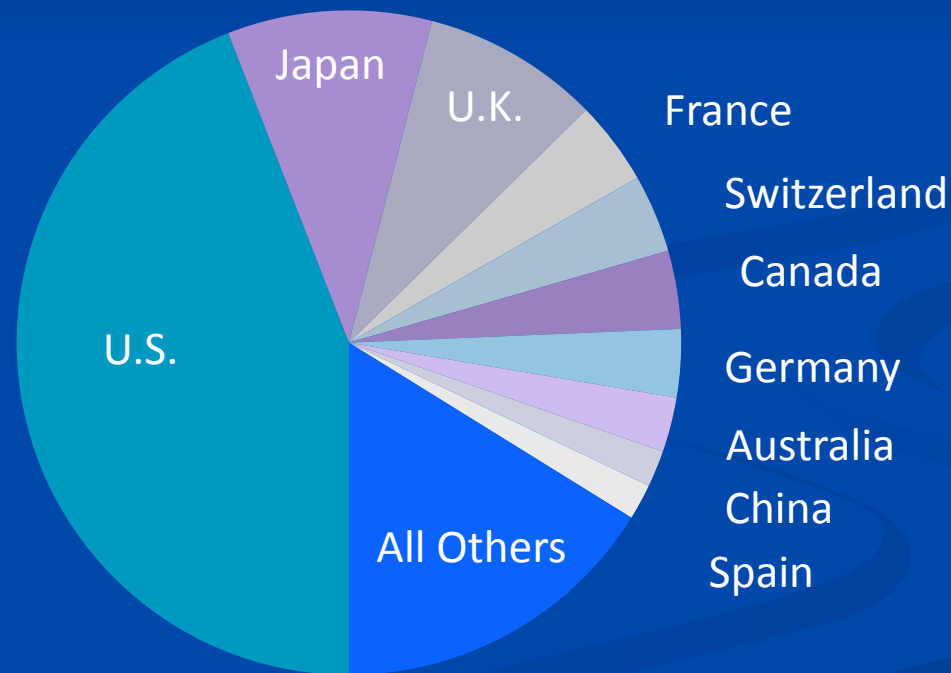


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How Much Exposure Do Most Investors Have?

MSCI ACWI

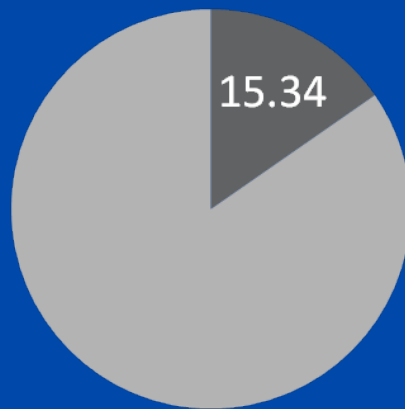


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How Much Exposure Should You Have?

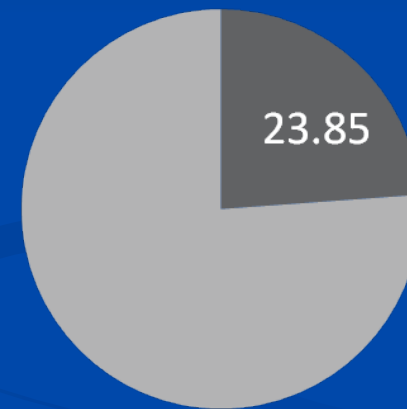
% Global Markets



■ Emerging Markets

■ Everything Else

% Global GDP



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How Much Exposure Should You Have?

	<u>% Global Market Cap</u>	<u>% GDP</u>
China	2.29	5.87
Brazil	1.42	2.41
Russia	2.02	2.36
India	1.63	2.16
Mexico	0.74	1.87
South Korea	1.63	1.78
Turkey	0.31	1.2

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Have Emerging Markets Changed?

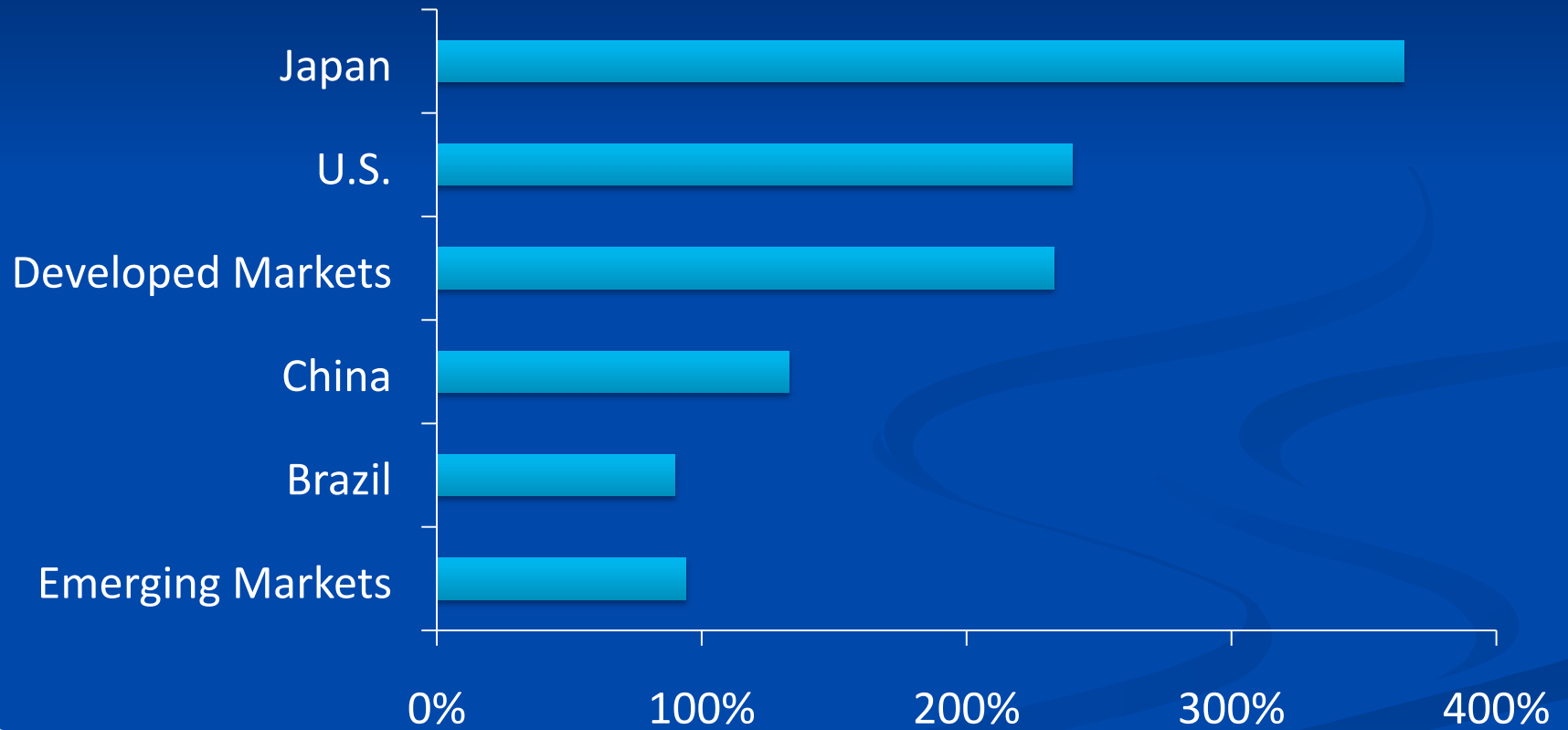
Country	Turmoil
Mexico	1996 Peso devaluation
Russia	1998 Ruble crisis
South Korea	1998 IMF crisis
Thailand	1997 Baht collapse
Argentina	2001-02 Economic crisis

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Have Emerging Markets Changed?

Debt/GDP



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Have Emerging Markets Changed?

Foreign Currency Reserves (\$ Bln)

China	1,953,000
Japan	1,056,718
Eurozone	685,406
Russia	383,969
Taiwan	312,642
India	251,952
South Korea	226,927
Brazil	208,738
Germany	201,224
Hong Kong	193,441
Singapore	170,101

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Emerging Markets Are Not All Equal

“It's kind of like the early days of Reagan in emerging markets. You see flat-tax policies, deregulation, privatization and productivity improving at a very rapid pace.”

– Justin Leverenz, Oppenheimer Developing Markets Fund

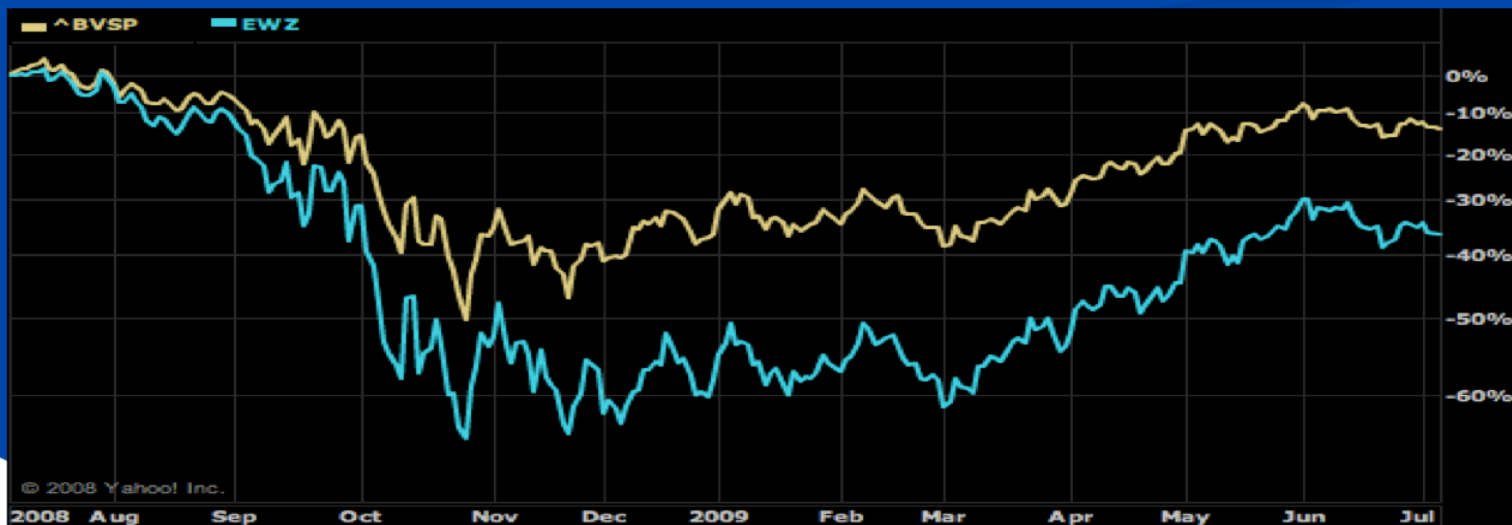
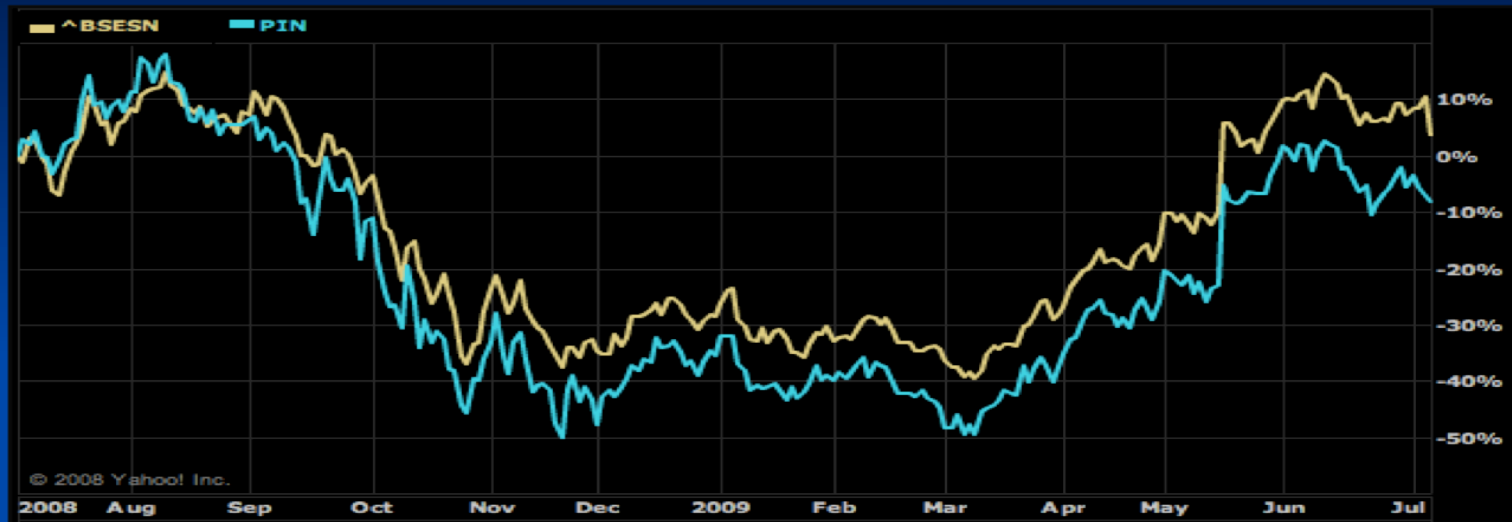
“Although we're still very positive on the prospects for emerging markets in the long term, their economies remain very precarious.”

- Peter Elston, Aberdeen Asset Management

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Currency Impact

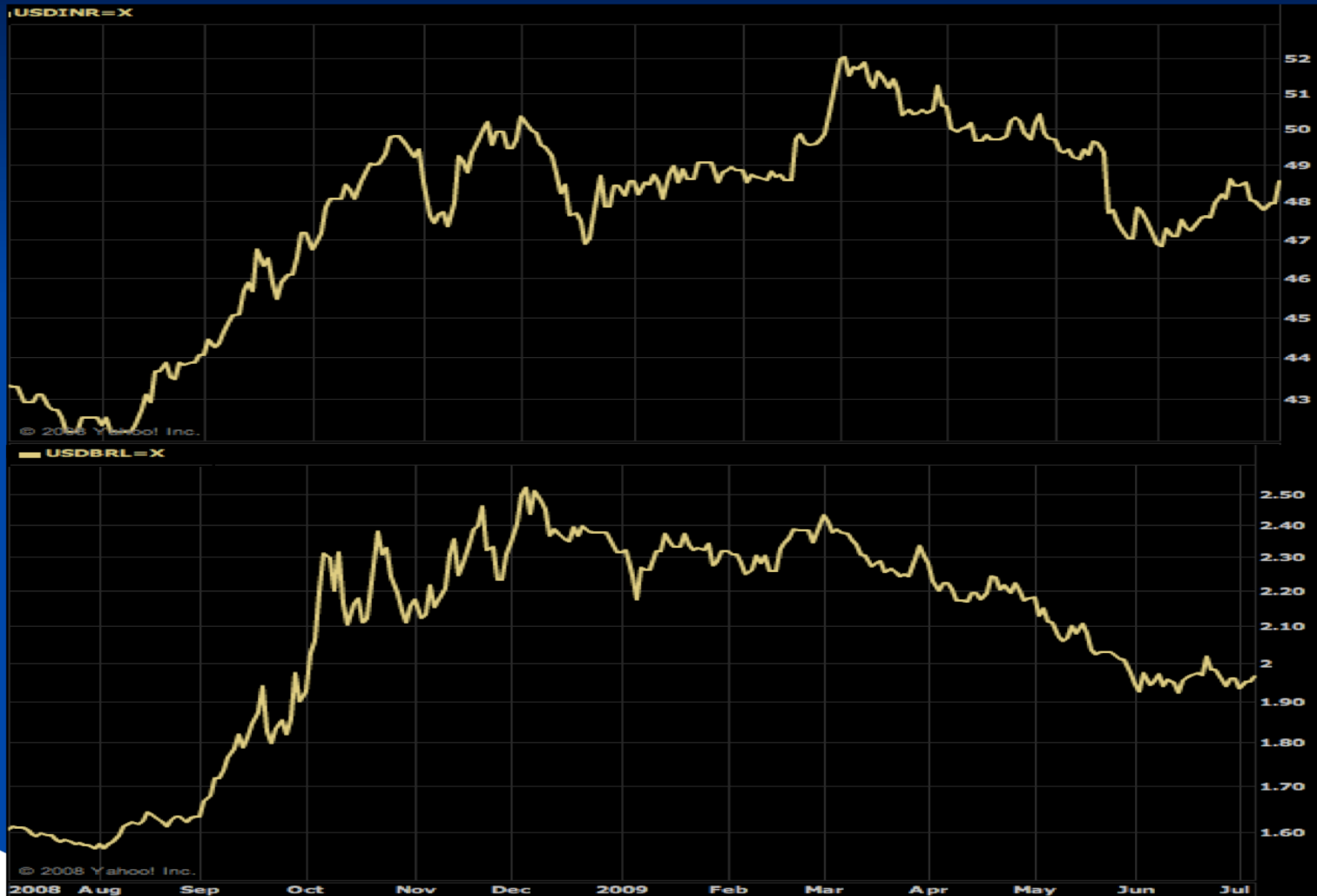


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Currency Strength Is Shifting



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The Current Crisis



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Which is Riskier?

“Weak economic activity will hamper growth for the rest of 2009 and only a gradual recovery will emerge by mid-2010” – European Central Bank

“Unemployment surged across Europe and the United States, data showed on Thursday, with no sign of a peak” – Reuters

Meanwhile . . .

“India should be back on the new trend growth path of 8.5 to 9 percent per annum” – India Finance Ministry

“Industrial production in Brazil rose more than expected in May, marking the fifth straight month-on-month increase” – IBGE (Brazil government statistics agency)

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Drawdowns

MSCI Emerging Markets Drawdowns >20%

<u>Peak</u>	<u>Trough</u>	<u>Decline</u>	<u>Decline Duration</u>
July 1990	November 1990	-29.21	4 Months
September 1994	February 1995	-25.46	5 Months
July 1997	August 1998	-55.98	13 Months
October 2007	October 2008	-56.92	12 Months

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Getting Exposure: Active vs. Index

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Getting Exposure: Active vs. Index

% of Active Emerging Markets Funds
that Fail to Beat the Benchmark (S&P/IFCI Comp.)

<u>One-Year</u>	<u>Three-Year</u>	<u>Five-Year</u>
65.06%	83.93%	89.83%

Average Performance (Equal-Weighted)

	<u>One-Year</u>	<u>Three-Year</u>	<u>Five-Year</u>
S&P/IFCI Composite	-53.73%	-4.29%	8.1%
Emerging Markets Funds	-57.2%	-7.96%	5.47%

Source: Standard & Poor's, period ending 12/31/08

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The Case for ETFs

Low Cost

Tax Efficient

Liquid

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Choosing Between ETFs: The Lineup

51 emerging market equities ETFs
7 emerging market currencies ETFs
2 emerging market bond ETFs

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Broad-Based ETFs Compared

	AUM	12 Month	3 Yr	5 Yr
iShares MSCI Emerging Markets	30,792.7	-32.4	3.89	15.03
Vanguard Emerging Markets	8,800.6	-33.09	3.34	N/A
BLDRs Emerging Markets 50	532.4	-34.5	7.49	18.04
PowerShares FTSE RAFI Emerging Markets	132.2	-29.58	N/A	N/A
WisdomTree EM SmallCap Dividend	96.5	-21.2	N/A	N/A
SPDR S&P Emerging Mkts	71.0	-31.5	N/A	N/A
PowerShares DWA Emerging Mkts Tech Leaders	17.9	-50.89	N/A	N/A
SPDR S&P Emerging Mkts SmCap	14.6	-28.08	N/A	N/A

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Broad-Based ETFs Compared

	12- Month Return	P/E	P/B	Exp. Ratio	Yield
WisdomTree EM SmallCap Dividend	-21.2	8.9	1.3	0.63	3.96
SPDR S&P Emerging Mkts SmCap	-28.08	9.1	1.1	0.65	0.58
PowerShares FTSE RAFI Emerging Markets	-29.58	8.4	1.1	0.85	2.2
SPDR S&P Emerging Mkts	-31.5	10.4	N/A	0.6	2.7
iShares MSCI Emerging Markets	-32.4	1.5	1.1	0.74	2.6
Vanguard Emerging Markets	-33.09	9.2	1.6	0.25	3.65
BLDRs Emerging Markets 50	-34.5	9.6	1.5	0.3	2.7
PowerShares DWA Emerg Mkts Tech Leaders	-50.89	10.4	1.9	0.9	0.57

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Broad-Based ETFs Compared

	AUM	12- Month	3-Yr	5-Yr	P/E	P/B	Yield	Exp. Ratio
iShares MSCI Emerging Markets	30,792.7	-32.4	3.89	15.03	1.5	1.1	2.6	0.74
Vanguard Emerging Markets	8,800.6	-33.09	3.34	N/A	9.2	1.6	3.65	0.25

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Regional ETFs Compared: Asia

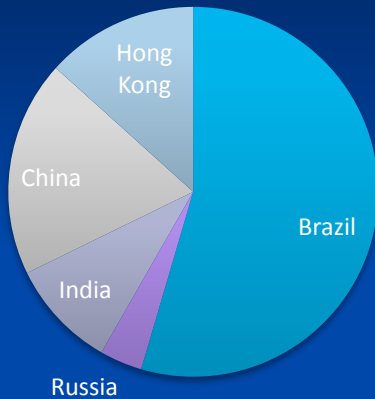
	Ticker	AUM	12 Month	3-Yr	5-Yr	P/E	P/B	Exp. Ratio
iShares MSCI All Country Asia ex-Japan	AAXJ	522.1	N/A	N/A	N/A	11.9	1.5	0.74
iShares S&P Asia 50	AIA	61.7	-40.3	N/A	N/A	12.3	N/A	0.50
PowerShares FTSE Asia-Pacific ex-Japan	PAF	17.7	-31.31	N/A	N/A	6.2	1.3	0.80
SPDR S&P Emerging Asia Pacific	GMF	305.6	-17.7	N/A	N/A	11.4	1.7	0.59
WisdomTree Pacific ex-Japan Total Dividend	DND	46.3	-33.9	N/A	N/A	9.7	2.2	0.48
WisdomTree Pacific ex-Japan Equity	DNH	26.5	-36.5	N/A	N/A	8.7	1.9	0.58

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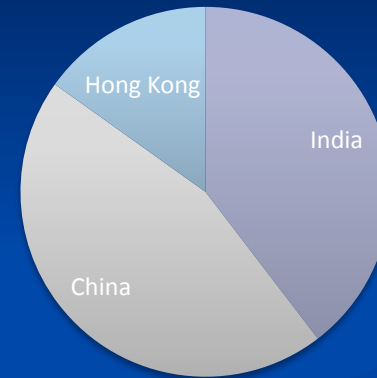


Regional ETFs Compared: BRICs

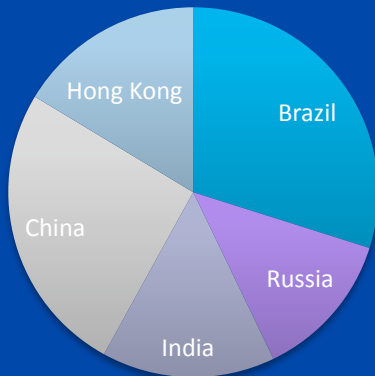
Claymore/BNY BRIC ETF



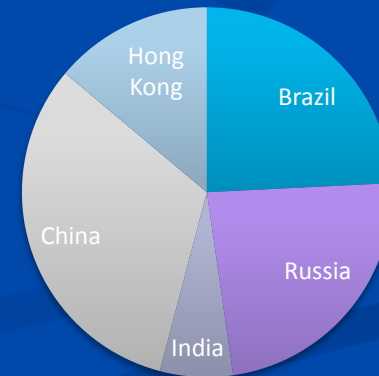
First Trust ISE Chindia



iShares MSCI BRIC



SPDR S&P BRIC 40



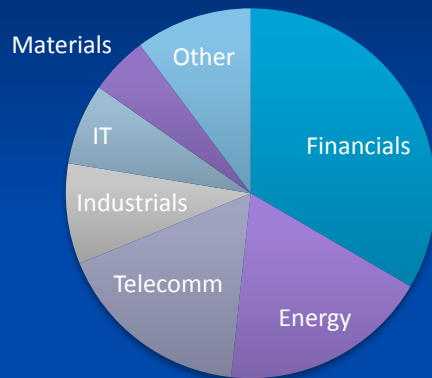
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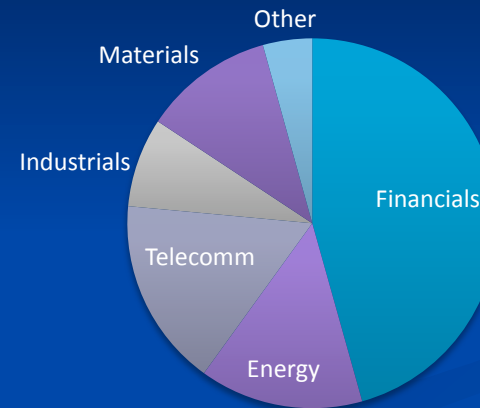
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Country ETFs Compared: China

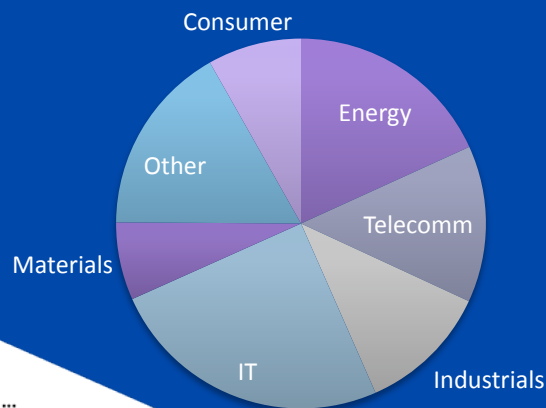
SPDR S&P China



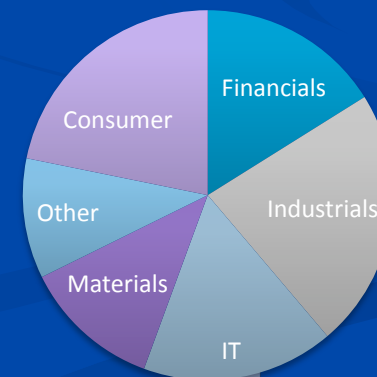
iShares FTSE/Xinhua China



PowerShares Halter USX



Claymore/Alpha China Small Cap



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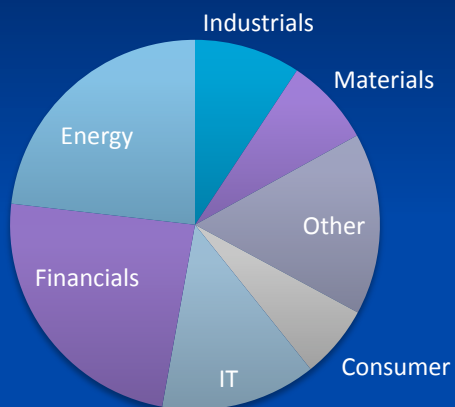


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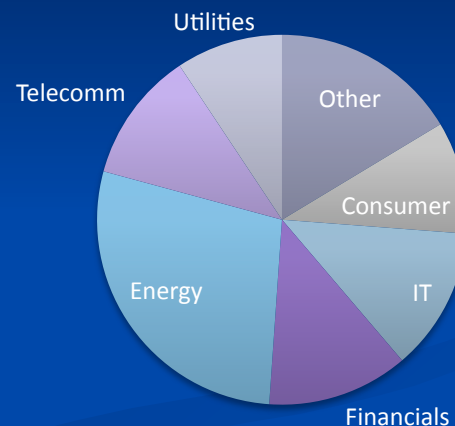
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Country ETFs Compared: India

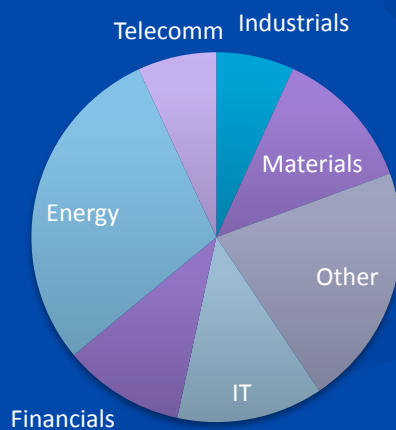
iPath MSCI India Index



PowerShares India



WisdomTree India Earnings Fund



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Other Options: Currency Funds

Emerging Market

Barclays GEMS Index ETN

JEM

Barclays GEMS Asia-8 ETN

AYT

Barclays Asian & Gulf Currency Revaluation ETN

PGD

WisdomTree Dreyfus Emerging Currency

CEW

Yuan

Market Vectors Renminbi ETN

CNY

WisdomTree Dreyfus Chinese Yuan

CYB

Rupee

Market Vectors Rupee ETN

INR

WisdomTree Dreyfus Indian Rupee

ICN

Other Single Currency

WisdomTree South African Rand

SZR

WisdomTree Dreyfus Brazilian Real

BZF

CurrencyShares Mexican Peso

FXM

CurrencyShares Russian Ruble

XRU

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Conclusion



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Our Panelists



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