

WisdomTree Investments Inc (WETF)

Alert: Flows Re-Accelerate To Finish 2Q

- **Solid AUM/flow update for W/E 6/29** — WETF posted AUM/flow disclosure through 6/29 and we view the disclosure favorable as the data suggest: 1) flows accelerated in the last two weeks of 2Q; 2) WETF continues to gain share; and, 3) rate of organic growth likely exceeded peers/industry in 2Q, we believe. Additionally, AUM at 6/29 of \$15B came in higher than our forecast – providing support to recently reduced estimates.
- **WETF continues to outgrow peers in 2Q** — 2Q annualized organic growth totaled ~9% and likely represents among the faster growing Traditionals especially as LT flow dynamics remain idiosyncratic across our coverage. According to the ETF Industry Association, the total ETF industry in April/May produced a 4.1% annualized growth rate while WETF produced a 13.1% annualized growth rate in that same period. Additionally, YTD net inflows through 6/29 total \$2.6B, or a ~43% annualized growth rate, reinforcing share gains, in our view.
- **AUM down ~4% Q/Q** — AUM at 6/29 totaled \$15B, down ~\$700M, or 4% Q/Q while 1.6% higher W/W. 2Q average AUM totaled \$15.1B and AUM was up ~600M in June or ~4%. Fee realization remained unchanged W/W at 54 bps suggesting mix holding steady and skewed to equities.
- **Net flows finish quarter strong** — Net inflows totaled \$65M during the week ended 6/29 (23% annualized growth rate) [Figure 1]. The \$65M net inflows during the week ended 6/29 follow \$128M inflows during the prior week (45% annualized growth), and improved following some weakness intra-quarter due to a difficult macro backdrop, we believe.
- **Share gains led by equities** — Management recently boosted share targets from 3%-5% range to >5% as equity volumes build and continue to outpace peers. To be sure, WETF has produced an 8% share of YTD industry equities ETF flows – see our 6/29 report, [If You Want Exposure To Greatest Structural Change To Business In 50 Years, WETF Is The Play; Management Meeting Takeaways](#). WETF remains the purest play on rising usage of ETFs in our coverage universe, in our view, followed by BLK (iShares) and IVZ (Powershares), which are also well positioned given scale, footprint, and first-mover advantages.
- **Maintain Buy; \$8.50 12-month price target** — We are encouraged around: 1) WETF's growth and margin expansion story as the firm is a major beneficiary of passive encroachment and a share gainer; and, 2) rising scarcity value as it is becoming more difficult for new(er) ETF entrants - and likely to drive an ultimate change of control premium, we believe. Additionally, higher than forecast 6/29 AUM of \$15B provides support for our recently reduced estimates as we plan to revisit our model prior to 2Q EPS.

Company Update

Buy	1
Price (02 Jul 12)	US\$6.77
Target price	US\$8.50
Expected share price return	25.6%
Expected dividend yield	0.0%
Expected total return	25.6%
Market Cap	US\$838M

Price Performance (RIC: WETF.O, BB: WETF US)



William R Katz

+1-212-816-5394

william.katz@citi.com

Neil Stratton, CFA

neil.stratton@citi.com

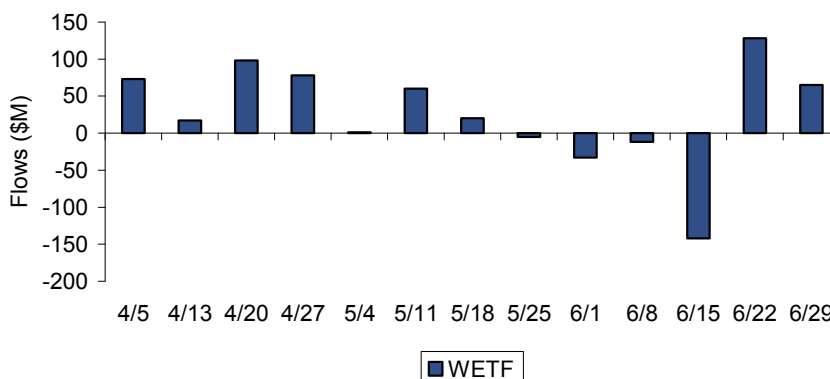
Steven J Fullerton

steve.fullerton@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Flows Finish The Quarter On A Strong Note



Source: WisdomTree Investments Inc., Citi Research

Companies Mentioned: (BLK.N; US\$170.22; 2); (IVZ.N; US\$22.63; 1)

WisdomTree Investments Inc

Valuation

We value WETF using the target P/E method. Our \$8.50 12-month target equates to a 6% market capitalization to AUM ratio, which is applied to our YE2013 estimate and discounted back six months at a 15% discount rate. While the 6% market capitalization/AUM target is well ahead of the 1-2% median for traditional asset managers, we believe a premium valuation is warranted in light of: a) superior organic growth prospects and faster than average AUM build; b) among best in class EPS growth potential; and, c) likely still depressed EPS given net income only inflected positively and the franchise offers high earnings leverage potential. Such growth across multiple metrics is well ahead of likely industry norms.

Risks

In addition to low liquidity, the central risks to our price target are: 1) scale; 2) organic growth; 3) and adverse market depreciation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the share price may have difficulty reaching our target price. If market condition improve faster than anticipated, the share price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment management fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could potentially result in lower revenue.

Redemption risk — Investors can sell ETFs without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations, and business prospects.

Invesco Ltd

Valuation

We value the shares of Invesco using the target P/E method. Our \$27.00 12-month price target is derived by applying a ~14x target P/E to our FTM adjusted EPS estimate. The ~14x target P/E is moderately below the historical GAAP median of 16x but at the high range of the sector.

Risks

The three central risks to our 12-month price target reflect below average markets, and outsized FX swings, the combination of which could reduce our EPS estimates and temper upward P/E multiple revaluation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

BlackRock Inc

Valuation

We value the shares of BlackRock using the target P/E method. Our \$180 12-month target price is derived by applying a 13.5x target P/E multiple to our 2013 adjusted EPS estimate discounted six months. The 13.5x target P/E is below the company's historical average but premium to industry average.

Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target. Other risks include:

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Integration risk — That said, management has an impeccable track record, merging in increasingly sizable State Research and Merrill Lynch Investment Managers platforms. BGI integration will run over two years.

Appendix A-1

Analyst Certification

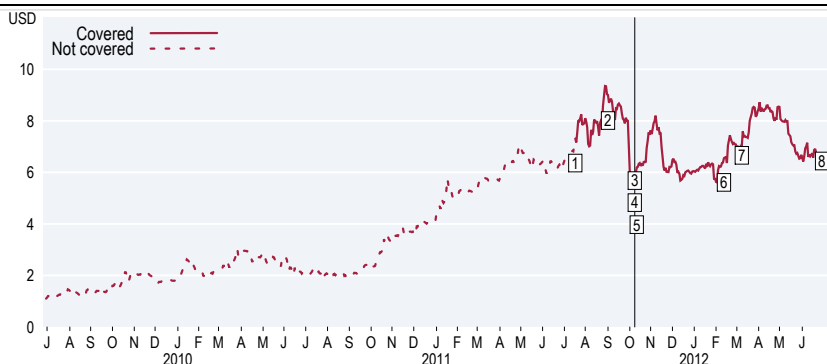
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WisdomTree Investments Inc (WETF)

Ratings and Target Price History Fundamental Research

Analyst: William R Katz
Covered since July 18 2011



	Date	Rating	Target Price	Closing Price
1	18-Jul-11	*1H	*10.00	7.31
2	1-Sep-11	1H	*11.00	9.00
3	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	8-Oct-11	*1	11.00	5.78
5	12-Oct-11	1	*9.00	6.19
6	13-Feb-12	1	*8.50	6.55

	Date	Rating	Target Price	Closing Price
7	8-Mar-12	1	*9.50	7.03
8	29-Jun-12	1	*8.50	6.57

Rating/target price changes above reflect Eastern Standard Time

WisdomTree Investments Inc (WETF)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz
Covered since July 18 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

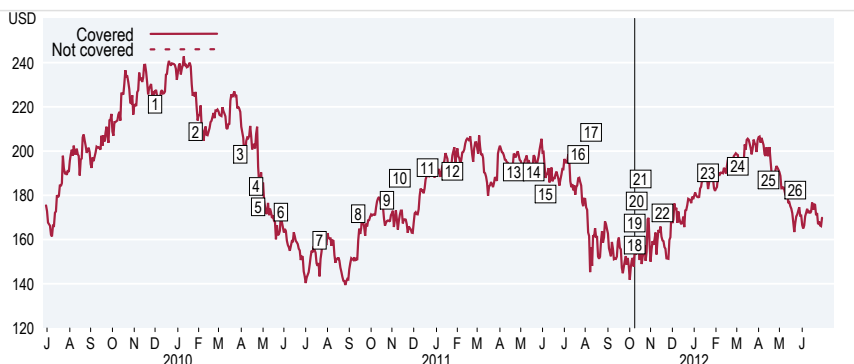
BlackRock Inc (BLK)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	1-Dec-09	1M	*265.00	226.74
2	27-Jan-10	1M	*269.00	226.77
3	31-Mar-10	*3M	*190.00	217.76
4	22-Apr-10	*2M	*198.00	207.79
5	26-Apr-10	2M	*200.00	192.95
6	27-May-10	2M	*175.00	172.39
7	21-Jul-10	2M	*165.00	143.33
8	14-Sep-10	2M	*175.00	159.55
9	25-Oct-10	2M	*180.00	168.39

* Indicates change

	Date	Rating	Target Price	Closing Price
10	11-Nov-10	*1M	*210.00	171.20
11	21-Dec-10	1M	*225.00	192.51
12	25-Jan-11	1M	*240.00	198.01
13	21-Apr-11	1M	*250.00	198.88
14	19-May-11	1M	*265.00	198.10
15	6-Jun-11	1M	*255.00	187.85
16	21-Jul-11	1M	*250.00	187.72
17	9-Aug-11	1M	*225.00	156.54
18	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
19	8-Oct-11	*1	225.00	147.78
20	12-Oct-11	1	*190.00	156.00
21	18-Oct-11	1	*180.00	156.30
22	17-Nov-11	1	*190.00	159.60
23	20-Jan-12	*2	*193.00	182.82
24	2-Mar-12	2	*197.00	198.25
25	16-Apr-12	2	*201.00	198.18
26	23-May-12	2	*180.00	167.50

Rating/target price changes above reflect Eastern Standard Time

BlackRock Inc (BLK)

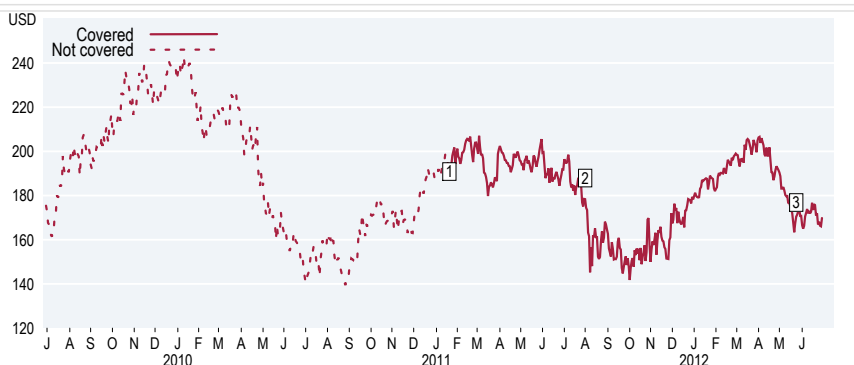
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Nov-11	*ADD MP	-	190.87

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM MP	-	178.36

	Date	Rating	Target Price	Closing Price
3	24-May-12	*ADD MP	-	170.44

Rating/target price changes above reflect Eastern Standard Time

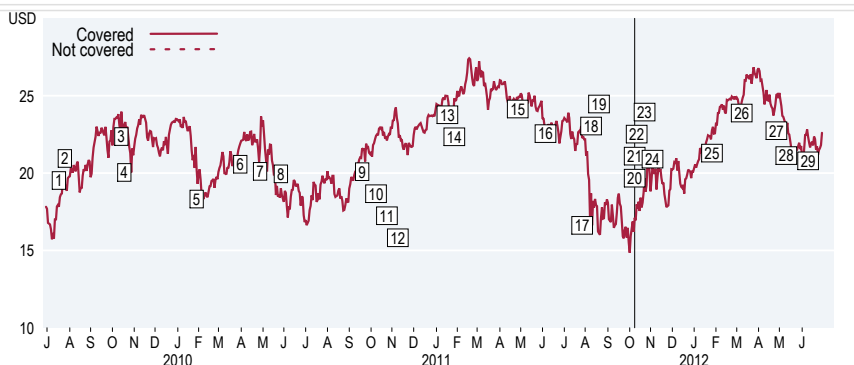
Invesco Ltd (IVZ)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



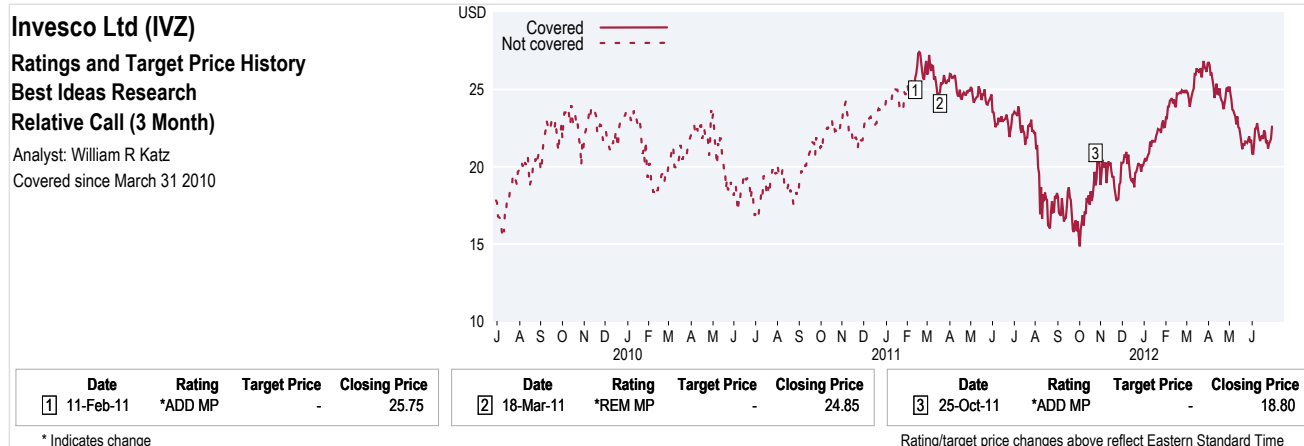
	Date	Rating	Target Price	Closing Price
1	17-Jul-09	1M	*21.00	17.82
2	27-Jul-09	1M	*22.00	19.28
3	14-Oct-09	1M	*27.00	23.97
4	19-Oct-09	1M	*30.00	23.12
5	28-Jan-10	1M	*27.00	20.21
6	31-Mar-10	1M	*26.00	21.91
7	28-Apr-10	1M	*27.00	21.61
8	27-May-10	1M	*25.00	19.02
9	20-Sep-10	1M	*26.00	21.60
10	8-Oct-10	1M	*27.00	22.41

* Indicates change

	Date	Rating	Target Price	Closing Price
11	25-Oct-10	1M	*28.00	22.11
12	9-Nov-10	1M	*26.50	23.20
13	18-Jan-11	*2M	26.50	24.98
14	27-Jan-11	2M	*27.00	24.83
15	27-Apr-11	2M	*25.50	24.82
16	6-Jun-11	2M	*24.50	22.55
17	27-Jul-11	2M	*24.00	22.26
18	9-Aug-11	2M	*18.50	18.69
19	19-Aug-11	2M	*17.00	16.11
20	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
21	8-Oct-11	*2	17.00	16.20
22	12-Oct-11	*1	*21.00	17.98
23	24-Oct-11	1	*23.00	19.67
24	3-Nov-11	1	*25.00	20.45
25	26-Jan-12	1	*27.00	22.78
26	8-Mar-12	1	*30.00	24.60
27	26-Apr-12	1	*31.00	25.06
28	10-May-12	1	*28.50	22.74
29	11-Jun-12	1	*27.00	22.35

Rating/target price changes above reflect Eastern Standard Time



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Data current as of 30 Jun 2012

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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44%	43%	40%	48%	43%	45%

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Citigroup Global Markets Inc

William R Katz; Neil Stratton, CFA; Steven J Fullerton

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