TEN YEARS LATER: REVISITING CASE FOR INTERNATIONAL SMALL CAPS

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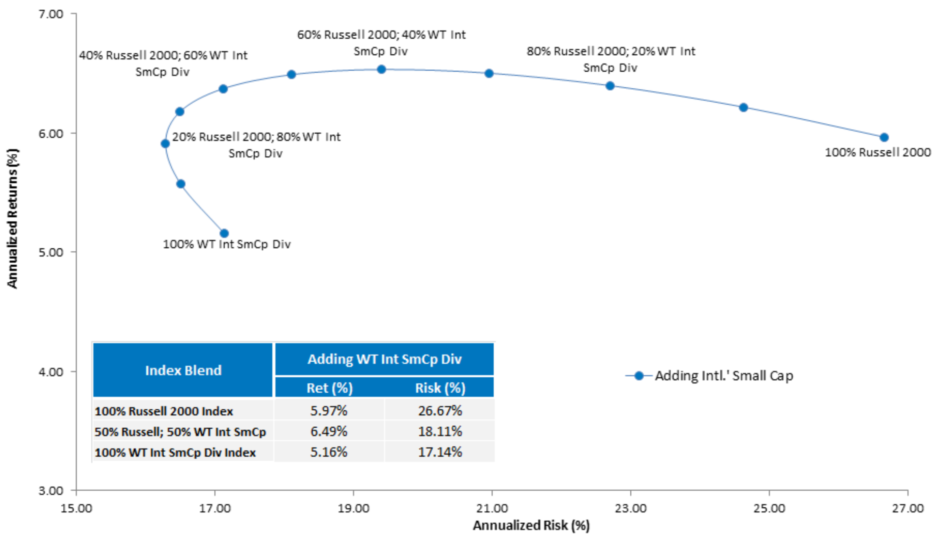
05/23/2016

In June 2006, WisdomTree launched the first international small-cap exchange-traded fund (ETF), the WisdomTree International SmallCap Dividend Fund (DLS). WisdomTree was early to recognize that the "size factor" was just as important in allocating to stocks in foreign markets as it was for the United States. Yet prior to the launch of DLS, no other ETFs provided access to the small-cap factor for the developed world (think MSCI EAFE Index) universe. Since the inception of DLS, we believe international small caps have added meaningful value to international portfolio allocations compared to international large caps. The WisdomTree International SmallCap Dividend Index, which DLS is designed to track before fees and expense, for instance, has out performed the MSCI EAFE Index by approximately 300 basis points (bps) per year over this nearly 10-year history (5.16% vs. 1.75%) and 45.42% on a cumulative basis.[1] **Foreign Markets for Dividends and Value** Increasingly, investors are looking toward foreign markets as an opportunity based on a relative valuation basis, and there is definitely a major difference between U.S. small caps and foreign small caps from a historical risk and valuation perspective. U.S. small caps, as exemplified by a market cap-weighted universe like the Russell 2000 index, tend to be characterized by higher volatility than large caps and greater allocations to more speculative growth companies. Currently almost 18% of the Russell 2000 is in unprofitable companies, and 45% in non-dividend-paying companies. This makes the dividend characteristics of the Index a nonfocus, with average dividend yields close to 1.6% and companies typically being net share issuers[2] (not conducting net buybacks) to fund their growth. By contrast, the International SmallCap Dividend Index had an average dividend yield close to 4%, a price-to-earnings ratio (P/E) of 16x and a price-to-sales ratio of 0.7x.[3] From a risk perspective, international small caps surprisingly typically show lower volatility than U.S. small caps. **Adding International Small Cap1 to U.S. Small Cap Allocations (6/1/2006 - 3/31/2016)**



Index Blend	Adding WT Int SmCp Div	
	Ret (%)	Risk (%)
100% Russell 2000 Index	5.97%	26.67%
50% Russell; 50% WT Int SmCp	6.49%	18.11%
100% WT Int SmCp Div Index	5.16%	17.14%

Refers to the WisdomTree International SmallCap Dividend Index and the Russell 2000 Index from 6/1/06 to 3/31/16. The start date reflects the inception of the WisdomTree Index. 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.

How Are You Managing Currency Risk? While international small-cap stocks have traditionally had lower volatility than U.S. stocks, we believe there is an approach to international equities that can help lower volatility: by focusing on just the stock component and not layering currency risk on top. I believe the question today is no longer to hedge or not hedge your foreign currency, but really *how* are you hedging your foreign currency risk. WisdomTree offers three currency approaches to its international small-cap dividend strategy:

- The **WisdomTree International SmallCap Dividend Fund (DLS)**: The original unhedged option launched 10 years ago
- The **WisdomTree International Hedged SmallCap Dividend Fund (HDLS)**: The static, fully currency-hedged strategy launched in 2015
- The **WisdomTree Dynamic Currency Hedged International SmallCap Equity Fund (DDLS)**: A dynamic currency-hedged strategy that was launched in January 2016

Many investors look at the decision to hedge currencies as a tactical trade that, in the past, was specific to Japan and Europe, the two regions in which currency hedging most resonated and helped to introduce the concept to investors. However, I view the long-term expected return from taking currency risk to be zero, while it can certainly add to your expected risk profile for broad-based international regions. Having a process to determine when to hedge currency can be a way to further add value. We have seen early interest in the dynamic approach from our broad-based dynamic hedged strategy. In my mind, the logical next piece of the asset allocation pie to apply this to is international small caps. I believe now is a great time to consider these foreign allocations. The U.S. markets look expensive compared to foreign markets, and valuations on these small-cap Indexes appear reasonable. I would suggest investors approach this category for long-term allocations by choosing to either passively or dynamically hedge the currency. WisdomTree has a track record of providing innovative and first-to-market solutions. Such was the case when DLS launched about 10 years ago as the first small-cap-factor ETF for international markets. Now, with the dynamic currency hedge on top of the original equity strategy—with DDLS—investors can apply a currency risk management process that can help add to returns—we think potentially as much as 100 basis points per year over fully hedged or unhedged strategies. Read more research on the dynamic hedging process that drives DDLS.

[1]Sources: WisdomTree, FactSet as of 3/31/16. [2]Sources: WisdomTree, Bloomberg as of 3/31/16. [3]WisdomTree, FactSet as of 3/31/16.

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You cannot invest directly in an index.

DEFINITIONS

Size Factor : the average returns of small portfolios minus the average returns of the large portfolios after adjusting for growth or value tendencies.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Basis point : 1/100th of 1 percent.

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

Market capitalization-weighting : 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.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.