

# HOW THE EUROPE SMALL CAP PORTFOLIO CHANGED AT THE REBALANCE

Jeremy Schwartz – Global Chief Investment Officer  
07/17/2014

A key differentiator of the WisdomTree Index methodology is our annual rebalance to focus on changes in [relative value](#). In this blog, we will zoom in on how this approach led to changes in exposure in the [WisdomTree Europe SmallCap Dividend Index](#) (WT Europe Small)—an Index that had some of the strongest gains since the last rebalance. In particular, WT Europe Small was up over 50% since the implementation date of the last rebalance (June 21, 2013). Below is a look at how the Index changed both by sector and by country—with a view to how these segments of the market performed. Typically, the strongest-performing parts of the market will see their weight reduced at the rebalance unless their dividend growth matched those strong increases. And that is what you see in each of the cases below. **Figure 1: Changes in Sector Exposure for WT Europe Small**

	Sectors of WT Europe SmallCap Dividend	Prior Weight <sup>1</sup>	Sector Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Performance of Sector Relative to Index
Underperforming Sectors	Health Care	5.1%	38.1%	4.3%	-0.8%	-11.9%
	Utilities	0.8%	41.7%	3.1%	2.3%	-8.4%
	Materials	7.7%	45.6%	7.1%	-0.6%	-4.5%
	Consumer Staples	6.4%	45.8%	5.6%	-0.8%	-4.3%
	Industrials	26.1%	46.4%	28.8%	2.7%	-3.6%
Outperforming Sectors	Information Technology	14.3%	52.9%	14.5%	0.2%	2.8%
	Energy	2.6%	52.9%	2.5%	-0.1%	2.9%
	Consumer Discretionary	15.2%	53.1%	13.3%	-1.9%	3.1%
	Financials	17.2%	53.5%	17.8%	0.6%	3.5%
	Telecommunication Services	4.6%	98.8%	3.0%	-1.6%	48.8%
		Prior Weight <sup>1</sup>	Average Sector Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Average Performance of Sector Relative to Index
	Sectors That Underperformed	46.1%	43.5%	48.9%	2.8%	-6.5%
	Sectors That Outperformed	53.9%	62.2%	51.1%	-2.8%	12.2%

<sup>1</sup>As of 5/31/13, constituents in the current WT Europe Small.

<sup>2</sup>Measured from 6/21/13 to 5/31/14.

<sup>3</sup>New weights determined by the 5/31/14 Index screening.

Sources: WisdomTree, Bloomberg, Standard & Poor's. Past performance is not indicative of future results. Subject to change.

Utilities and Industrials saw the largest incremental increases in weight. These were underperforming sectors; it makes sense that exposure would be increased to sectors that had underperformed. The largest weight reductions occurred in Consumer Discretionary and Telecommunication Services. The Telecom sector in particular had a blowout year, with the stocks in WT Europe Small in this sector up nearly 100%. No other sector had anything close to this performance. **Figure 2: Changes in Country Exposure for WT**

	Countries of WT Europe SmallCap Dividend	Prior Weight <sup>1</sup>	Country Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Performance of Country Relative to Index
Underperforming Countries	Belgium	1.5%	29.2%	3.3%	1.8%	-20.8%
	Norway	7.8%	30.5%	2.5%	-5.3%	-19.6%
	France	2.5%	38.4%	2.8%	0.4%	-11.7%
	Netherlands	4.0%	39.9%	2.5%	-1.5%	-10.2%
	United Kingdom	25.0%	40.8%	31.1%	6.1%	-9.3%
	Portugal	0.1%	44.1%	2.0%	1.9%	-5.9%
	Finland	2.0%	45.3%	9.0%	7.1%	-4.7%
Outperforming Countries	Sweden	15.7%	50.0%	13.5%	-2.2%	0.0%
	Austria	2.2%	55.2%	2.0%	-0.3%	5.1%
	Switzerland	8.5%	57.6%	4.6%	-3.9%	7.5%
	Germany	10.3%	62.9%	8.5%	-1.8%	12.9%
	Spain	4.0%	63.4%	2.0%	-2.1%	13.3%
	Ireland	2.6%	64.7%	3.1%	0.5%	14.6%
	Denmark	1.7%	70.3%	2.3%	0.7%	20.2%
	Italy	12.1%	76.2%	10.7%	-1.4%	26.2%
		Prior Weight <sup>1</sup>	Average Country Performance <sup>2</sup>	New Weight <sup>3</sup>	Change in Weight	Average Performance of Country Relative to Index
Countries That Underperformed		42.8%	38.3%	53.3%	10.5%	-11.7%
Countries That Outperformed		57.2%	62.5%	46.7%	-10.5%	12.5%

<sup>1</sup>As of 5/31/13, constituents in the current WT Europe Small.

<sup>2</sup>Measured from 6/21/13 to 5/31/14.

<sup>3</sup>New weights determined by the 5/31/14 Index screening.

Sources: WisdomTree, Bloomberg, Standard & Poor's. Past performance is not indicative of future results. Subject to change.

## Europe Small

In aggregate, countries that outperformed the broad Index had returns that ranged from 50% to approximately 77%. Three of the four best country returns were in the peripheral European countries Italy, Ireland and Spain. This speaks to the recovery that occurred in the bond yield spreads for these countries as well. In aggregate, these outperforming countries saw their weight reduced by 10.5 percentage points. The Foundation of this Process Rests on [Fundamentals Market-capitalization-weighted](#) indexes tend to hold greater exposures to securities (therefore also to countries and sectors) that have appreciated in price because this also leads to an increase in market capitalization. What is happening in WT Europe Small is that weight is being lowered to sectors—and even more notably, to countries—that have outperformed, and weight is being added to sectors and countries that have underperformed. Why is this? Because these are precisely the sectors and countries that have seen greater relative dividend growth. For the full research on the WisdomTree European Indexes rebalance, [click here](#).

### Important Risks Related to this Article

Investments focused in Europe are increasing the impact of events and developments associated with the region, which can adversely affect performance. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

### IMPORTANT INFORMATION

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.  
You cannot invest directly in an index.

## DEFINITIONS

**Relative value**: The relationship between a particular attribute, e.g., a dividend, and the firm's share price compared to that of another firm.

**WisdomTree Europe SmallCap Dividend Index**: A fundamentally weighted index meant to measure the performance of small-cap European dividend-paying equities weighted by cash dividends paid.

**Fundamentals**: Attributes related to a company's actual operations and production as opposed to changes in share price.