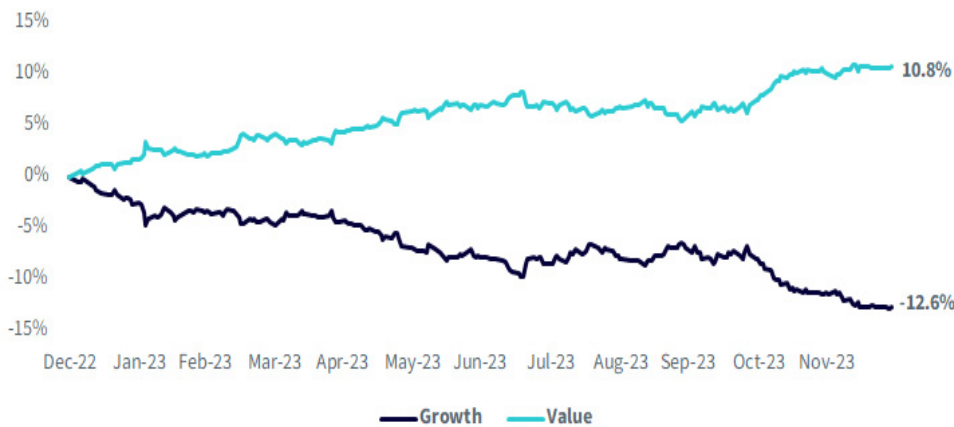


# INTRODUCING THE WISDOMTREE U.S. MIDCAP AND SMALLCAP QUALITY GROWTH FUNDS

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Different selection processes among benchmarks can lead to [vastly different portfolio holdings](#), as evidenced by the wide dispersion in returns this year across indexes with the same goals of tracking [growth](#) or [value](#) factors.

## Cumulative Year-to-Date Return Difference: S&P vs. Russell



Sources: WisdomTree, FactSet, 12/30/22–1/17/24. You cannot invest directly in an index. Past performance is not indicative of future returns. The Growth line represents S&P 500 Growth Index performance - Russell 1000 Growth Index performance. The Value line represents S&P 500 Value Index performance - Russell 1000 Index performance.

The performance impact of these deviations, even for broad-based benchmarks, is especially magnified in the often more volatile and less efficient [mid-](#) and [small-cap](#) universes.

The dark blue line of the [large-cap](#) indexes in the below chart hovers closest to a 0% return difference. A [market cap-weighted](#) index of the 500 stocks from S&P or of the 1,000 largest stocks from [Russell](#) largely mirror each other.

However, moving beyond the largest stocks, the differentials magnify in the mid- and small-cap indexes, showing return differences of over 8% in certain rolling three-year periods.

## Return Differentials

### Rolling 3-Year Return Difference: S&P vs. Russell Benchmarks



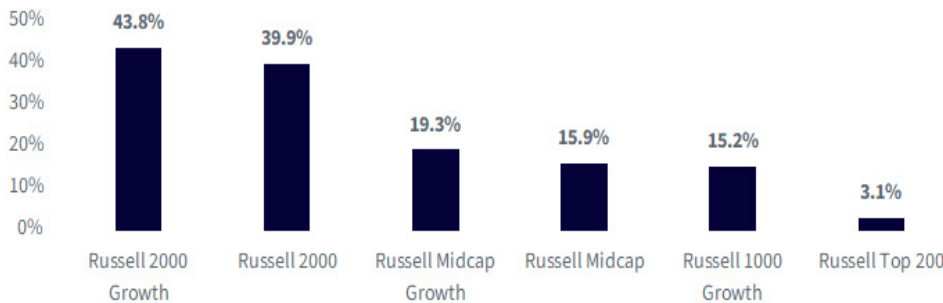
Sources: WisdomTree, S&P, Russell, 4/30/1994–11/30/2023. Rolling 3-Year return differentials are annualized. Large-Caps measured by S&P 500 and Russell 1000. Mid-Caps measured by S&P 400 and Russell Midcap. Small Caps measured by S&P 600 and Russell 2000. Past performance is not indicative of future results. You cannot invest directly in an Index.

A major driver in relative performance among the small-cap benchmarks is the weight that unprofitable companies—which are generally excluded from initial inclusion into S&P indexes—account for in each universe.

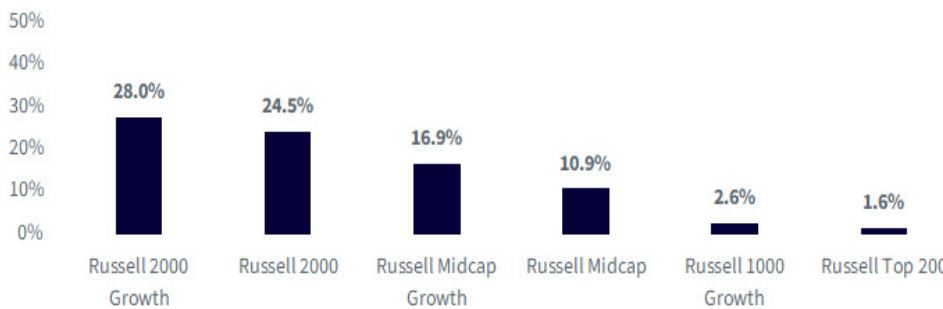
In mid- and small-cap indexes, particularly small-cap growth indexes, unprofitable companies can make up over one-fourth of the weight of the index, and over 40% of the company count.

**Unprofitability across Indexes**

**Count of Unprofitable Companies**



**Weight of Unprofitable Companies**



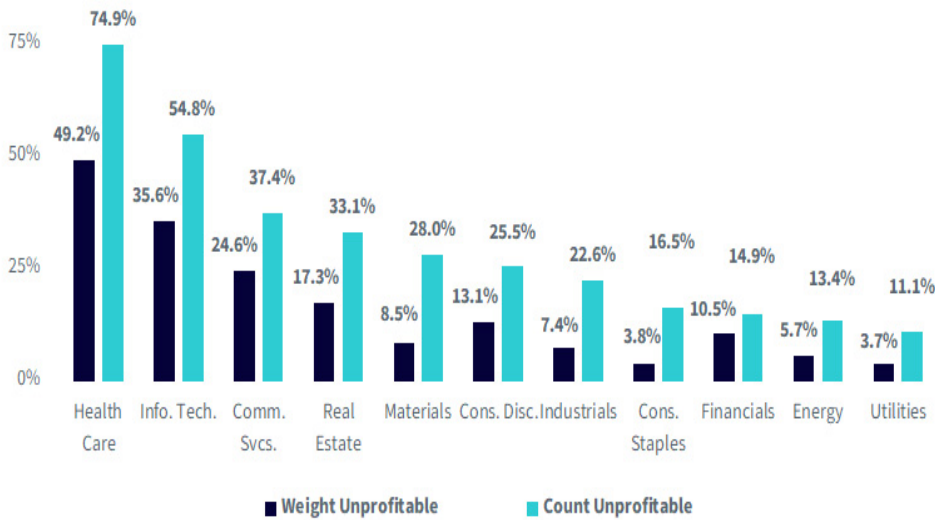
Sources: WisdomTree, FactSet, as of 11/30/23. You cannot invest directly in an Index.

In general, these unprofitable companies are found in the Health Care and Information

Technology sectors; almost 75% of mid- and small-cap Health Care and 55% of Information Technology companies are unprofitable.

Screening for [quality](#) (profitability) in a growth universe, by design, results in underweights to these unprofitable companies.

**Unprofitability across Sectors**



Sources: WisdomTree, FactSet, as of 11/30/23. You cannot invest directly in an index.

**Why Quality for Mid-Caps and Small Caps**

Investors are familiar with the standard value, [blend](#) and growth styles.

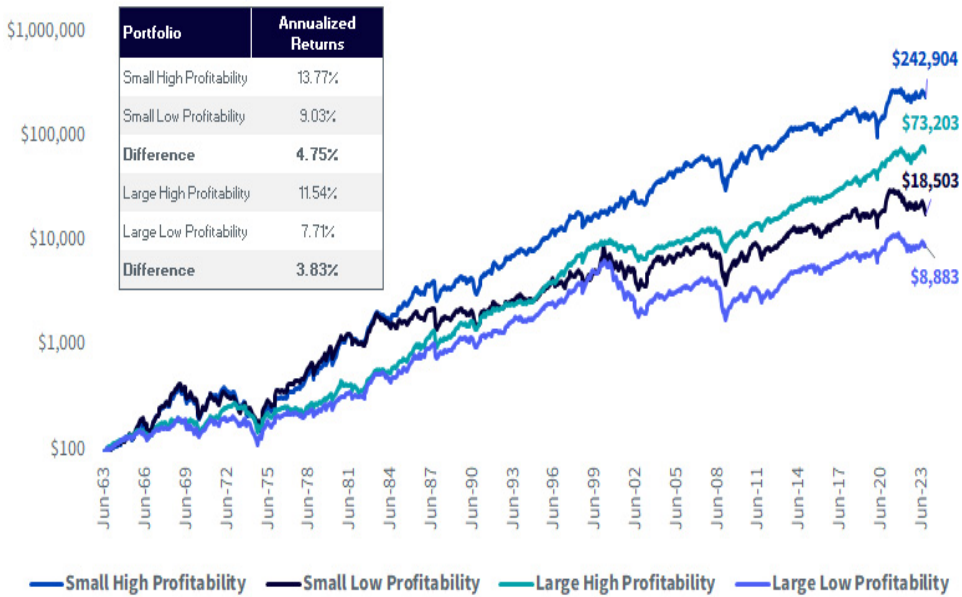
Why quality?

Many investors often think large cap when they think of quality.

High-profitability small caps have outperformed high-profitability large caps over the long run.

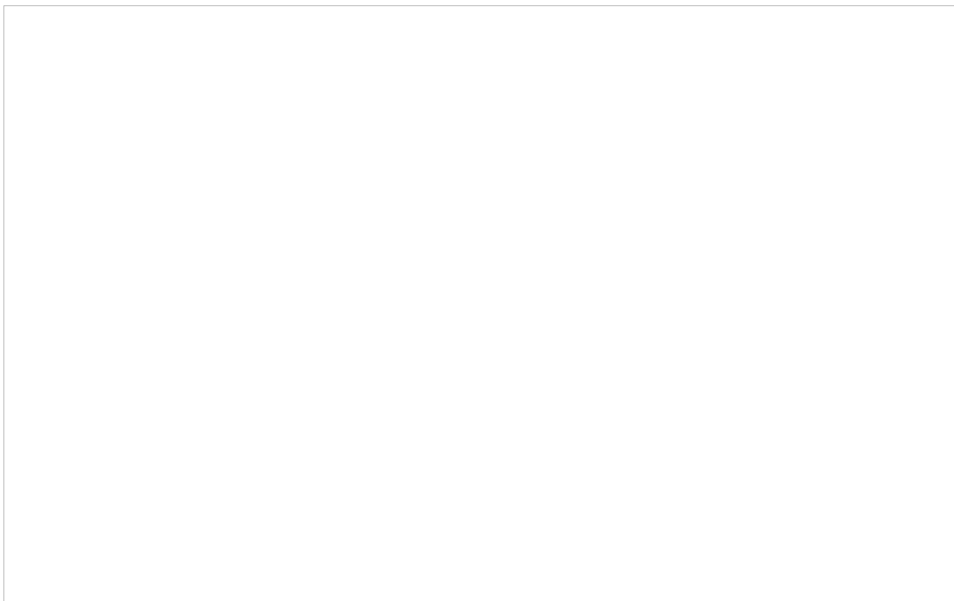
The performance spread between high-profitability and low-profitability companies is even greater within small caps than large caps.

**Cumulative Growth of \$100**



Source: Kenneth French Data Library, 6/30/1963-10/31/2023. Period based on availability of annual operating profitability returns sorted into six portfolios on size and operating profitability, which begins 6/30/1963. Market is U.S.-listed equities grouped on the basis of operating profitability and market capitalization. "Small High" refers to high profitability small caps. "Small Low" refers to low profitability small caps. "Large High" refers to high profitability large caps. "Large Low" refers to low profitability large caps. Past performance is not indicative of future results.

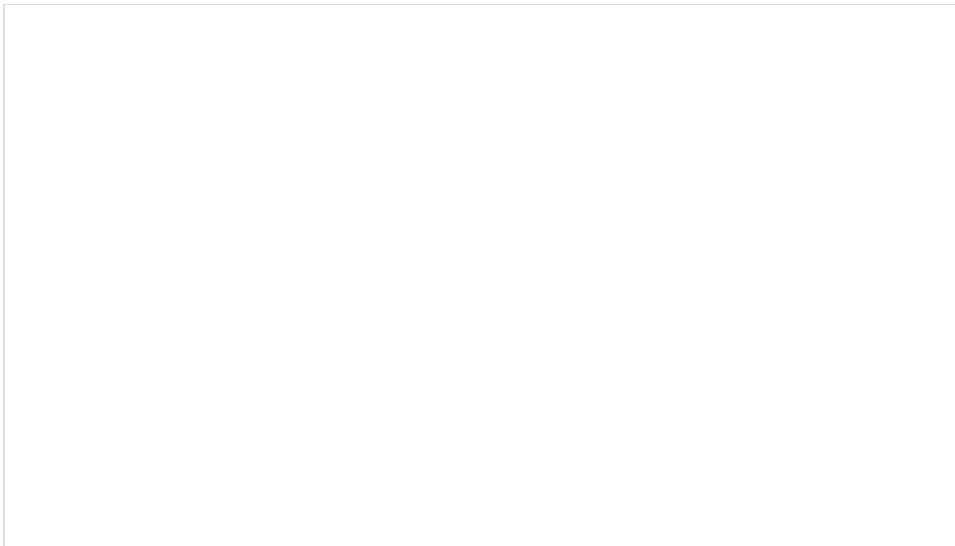
### WisdomTree U.S. MidCap and SmallCap Quality Growth Indexes



The WisdomTree [U.S. MidCap](#) and [SmallCap Quality](#) Growth Indexes are market cap-weighted Indexes that consist of companies with quality and growth characteristics.

The Indexes are comprised of the top 30% of companies with the highest composite scores. Real Estate, Utilities and Banks are excluded from the Indexes because companies from these sectors tend to have lower earnings growth and/or high earnings [volatility](#) (lowering earnings quality).

#### Investment Process



These Indexes are each narrower in terms of number of holdings than the corresponding Russell indexes, representing a higher conviction quality growth basket that more selectively weeds out “junkier” companies.

Each Index skews toward a smaller weighted average market cap than the Russell indexes, with the difference more pronounced in the mid-cap version, where the Russell indexes have more than one-quarter of their weight in companies with over \$10 billion in market cap.

As each Index selects companies that are both profitable and have higher growth, we see consistently higher profitability metrics and generally higher growth metrics.

#### **Index Characteristics**





For definitions of terms in the tables above please visit the [glossary](#).

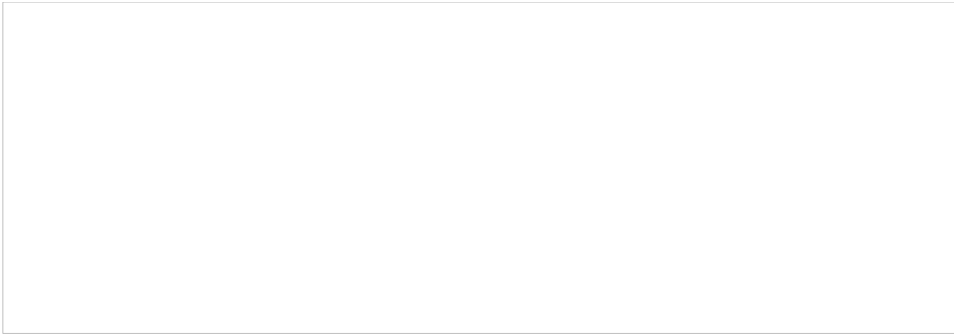
Introducing the [WisdomTree U.S. MidCap Quality Growth Fund \(QMID\)](#) and the [Wisdom Tree U.S. SmallCap Quality Growth Fund \(QSML\)](#)

The [WisdomTree U.S. MidCap Quality Growth Fund \(QMID\)](#) seeks to track the price and yield performance, before fees and expenses, of the [WisdomTree U.S. MidCap Quality Growth Index](#).

The [WisdomTree U.S. SmallCap Quality Growth Fund \(QSML\)](#) seeks to track the price and yield performance, before fees and expenses, of the [WisdomTree U.S. SmallCap Quality Growth Index](#).

Why [QMID/QSML](#)?

- Gain core exposure to U.S. mid- and small-market capitalization companies that display strong quality and growth characteristics
- Avoid the mid- and small-cap “story stocks” with low, or negative, profitability



**Important Risks Related to this Article**

**QMID:** There are risks associated with investing, including the possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified and, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

**QSML:** There are risks associated with investing, including the possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. Funds focusing their investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. The Fund is non-diversified and, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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.

**Related Funds**

- + [WisdomTree U.S. MidCap Quality Growth Fund](#)
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For more investing insights, check out our [Economic & Market Outlook](#)

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



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**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.

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You cannot invest directly in an index.

## DEFINITIONS

**Growth**...: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Value**...: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Mid-Cap**...: Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

**Small caps**...: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

**Large-Capitalization (Large-Cap)**...: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**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 1000 Index**...: A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

**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.

**Blend**...: Characterized by exposure spanning across stocks exhibiting both value and growth attributes.

**Volatility**...: A measure of the dispersion of actual returns around a particular average level.&nbsp;