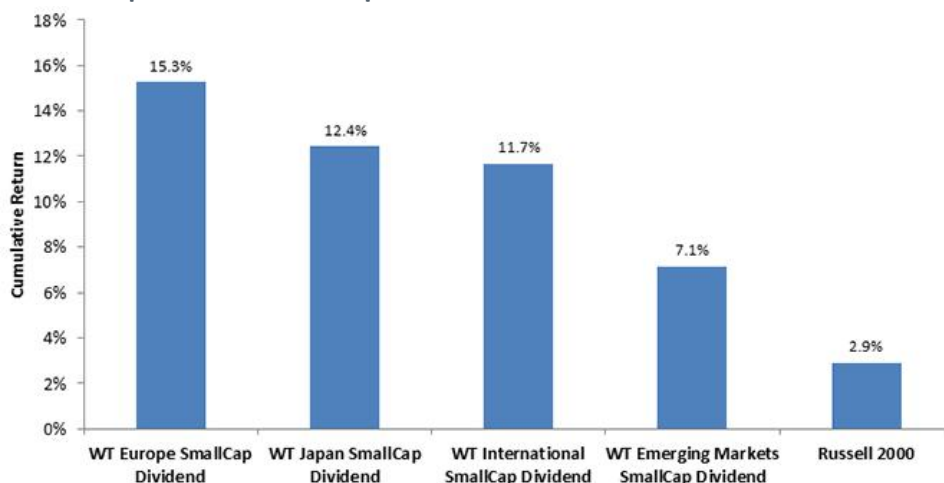


# 2015: THE YEAR OF INTERNATIONAL SMALL CAPS?

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Most people who invest outside the U.S. tend to focus on well-established benchmarks such as the [MSCI EAFE Index](#) or [MSCI Emerging Markets indexes](#). Yet both of these indexes have a particular hole: *Neither provides exposure to international [small caps](#)*. Through May 8, 2015, the [Russell 2000 Index](#) returned less than 3.0%—hardly exciting. But go beyond the U.S., and things get interesting. **Finding Double-Digit Returns in Small-Cap Equities Outside the U.S.**



Source: Bloomberg, 12/31/14–5/8/15. Past performance is not indicative of future results. You cannot invest directly in an index.

**• European Small Caps Looking Strong:** The [WisdomTree Europe SmallCap Dividend Index \(WTESC\)](#) was up more than 15% through May 8, 2015. During the second half of 2014, this Index faced a difficult performance environment, mainly due to depreciating currencies such as the pound and the euro. This year, we’re seeing renewed strength on the back of improving overall economic expectations out of Europe—made more interesting in how WTESC outperformed the [FTSE Developed Europe Index](#) by nearly 6% during the period.

**• Japan Small Caps should not Be Forgotten:** Global multinationals like Toyota<sup>1</sup> are not the only companies in Japan. Although they don’t have recognizable names, Japanese small caps are delivering returns almost on par with their large-cap counterparts.

**• Broad-Based Developed International Small Caps Also in Double Digits:** The [WisdomTree International SmallCap Dividend Index](#) has also been impressive. Markets responsible for this performance include Hong Kong (4.2% average weight, up 32%), the United Kingdom (15.4% average weight, up 14.3%) and Japan (29% average weight, up 12.8%). The lowest-performing market: New Zealand at 1.2%—meaning that developed international small-cap dividend payers were broadly positive.

**• Will 2015 Be the Comeback Year for Emerging Markets?** From a valuation perspective, emerging market equities have been of great interest for the past few years, but their performance has been difficult to stomach. It is interesting to note that the [WisdomTree Emerging Markets SmallCap Dividend Index](#) delivered more than twice the year-to-date return of the Russell 2000

Index. Thus far, strength has been seen in China (9.5% average weight, up 30.2%) and South Korea (9.6% average weight, up 19.1%). Brazil has been one of the weaker markets (7.8% average weight, down 7.6%), but it's interesting to note that only one country (India) experienced negative performance in local currency terms. In other words, small-cap emerging market dividend payers are broadly positive before adjusting for [exchange rate](#) movements. **Added Benefit of International Small Caps at WisdomTree: Income** As of May 8, 2015, the Russell 2000 Index—which does not focus solely on dividend-paying companies—had a [dividend yield](#) of 1.39%. International companies, from what we've seen, initiate dividends sooner and do so in a more flexible manner, where dividend levels relate more closely to how companies are doing. What we are currently seeing in the way of dividend yields could indicate the potential for a [valuation](#) advantage compared to the Russell 2000 Index<sup>2</sup>: • **WisdomTree Europe SmallCap Dividend Index: 3.34%** • **WisdomTree Japan SmallCap Dividend Index: 1.91%** • **WisdomTree International SmallCap Dividend Index: 3.77%** • **WisdomTree Emerging Markets SmallCap Dividend Index: 4.30%** <sup>1</sup>As of 5/8/15, Toyota was a 5.55% weight in the [WisdomTree Japan Hedged Equity Index](#). <sup>2</sup>Dividend yields measured as of 5/8/15.

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## DEFINITIONS

**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.

**MSCI Emerging Markets Index**: a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

**Small-cap premium**: The academic concept that small-cap stocks have tended to outperform large-cap stocks over time.

**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.

**FTSE Developed Europe Index**: Measure of the performance of developed European companies, weighted by market capitalization.

**Exchange rate**: The exchange of one currency for another, or the conversion of one currency into another currency.

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

**Valuation**: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.