ARE YOU FORGETTING ABOUT GLOBAL SMALL CAPS FOR INCOME?

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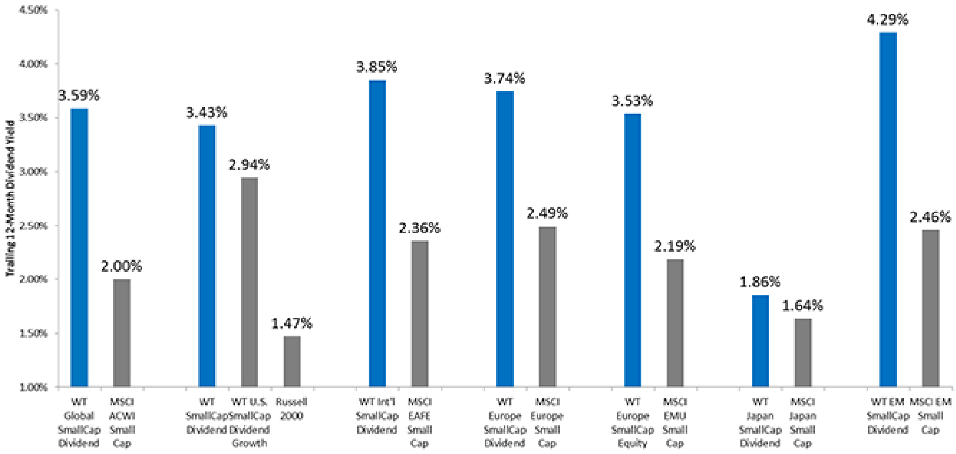
Many investors need their portfolios to generate income, and this percentage is expected to increase as the baby boomers transition into retirement. But higher-yield asset classes are coming under pressure as treasury yields in the U.S. increase on expectations that the Federal Reserve (Fed) is going to raise interest rates. One asset class we feel is often overlooked but that can provide diversification and offer high income potential is small caps, especially international developed and emerging market small caps. **Why Small Caps for Income?** Many investors wrongly assume that small-cap companies can't afford to pay dividends because their main focus is on growth and they need to reinvest their earnings to support that growth. We feel that looking at just the Russell 2000 Index as a proxy for all small caps incorrectly stereotypes all small-cap companies, because many small caps throughout the developed international and emerging markets offer higher dividend yields than both large- and small-cap companies in the United States. Many small-cap companies have proven business models with relatively stable earnings, and we believe these companies have the ability to pay out dividends to shareholders and grow them over time. **The Fundamental Difference** WisdomTree's fundamental Index methodology is notably different from a market capitalization-weighted approach. When WisdomTree applies its dividend methodology, it includes only dividend-paying companies and then weights these companies by their dividends. Each Index is then rebalanced annually by adjusting relative weights based on trends in the underlying fundamentals to help manage valuation risk. When you combine these elements, it tends to produce very different trailing 12-month dividend yields. Below we will compare a cross-section of WisdomTree's small-capitalization Indexes across the global landscape with common market cap-weighted small-cap indexes to highlight the differences in the global small-cap opportunity set. **Small-Cap Trailing 12-Month Dividend Yields**



Sources: WisdomTree, Bloomberg, 8/7/15. Past performance is not indicative of future results.

- **Look Outside the United States for Higher Yields** – Whether looking at the large-cap or the small-cap indexes (displayed above), one typically sees higher trailing dividend yields outside the United States. The Russell 2000 Index had the lowest dividend yield of all the indexes examined above, and the WisdomTree Emerging Markets SmallCap Dividend Index had the highest—over 280 basis points higher, in fact. We also think it is impressive that international developed small caps can offer twice the yield of U.S. small caps, as the WisdomTree International SmallCap Dividend Index offered an advantage of over 230 basis point to the Russell 2000. • **Eurozone Small Caps Also Offer Income Advantage** – It is important to note that the yield advantage of the WisdomTree Europe SmallCap Equity Index was over five times that of the German 10-year government bond and more than 3.5 times that of the French 10-year government bond. The European Central Bank is still in the very early innings of its quantitative easing program; as a result, we feel interest rates in the region could remain low for the foreseeable future. • **Japanese Small Caps Offer Advantage over Government Bonds** – Japanese investors have traditionally invested a majority of their assets in cash or Japanese government bonds (JGBs), which turned out to be a profitable strategy during a period with little or no inflation. Now, with the government's 2% inflation target, we believe investors will move out of cash and into equities to protect their purchasing power. The WisdomTree Japan SmallCap Dividend Index offered a yield advantage over four times that of the JGB yield, which we believe should be very enticing.

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DEFINITIONS

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

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

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.

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

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.

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

Valuation risk : The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Japanese Government Bond (JGB) : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

Inflation : Characterized by rising price levels.