

# THINK YOU NEED A MANAGER FOR INTERNATIONAL SMALL CAPS? THINK AGAIN.

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**06/23/2015**

With the increased availability of index-based, [passive](#) approaches for investing in equities, investors are continually analyzing where they fit in the context of the [active](#) vs. passive debate. It is fairly common to hear that in large-cap equities, which are perceived to be more efficient, there is less opportunity for active managers, so passive approaches make sense. However, it is in small caps—especially outside the United States—where active investment philosophies are believed to have greater potential to shine. WisdomTree introduced the first international small-cap ETF in 2006, and our record calls conventional wisdom into question. Some of WisdomTree’s best performance against active and passive peers alike has been in the [international small-cap arena](#). **Managing the Most Important Risk: Valuation** Many times, small-cap stocks can respond quickly to changing conditions, which can lead to large swings in performance. We believe that with this responsiveness comes a responsibility to understand the susceptibility to overvaluation. To confront this risk, the [WisdomTree International SmallCap Dividend Index](#) is rebalanced annually. In essence, the process takes a detailed look at the relationship between dividend growth and price performance of developed international small-cap dividend payers. Once a year, the Index adds weight to stocks that have become less expensive and takes weight away from stocks that have become more expensive. In other words, the Index annually adjusts exposures by:

- **Adding Weight:** Companies that have grown their dividends but whose prices may not have responded commensurately typically have the best chances of increasing in weight.
- **Subtracting Weight:** Companies whose prices have performed very well but whose dividends have not grown commensurately typically have the best chances of decreasing in weight.

WisdomTree believes that taking the chips off the table at regular intervals after strong performance is critical to a strategy seeking to build a strong performance record over time. **Proof in Performance** The [WisdomTree International SmallCap Dividend Fund \(DLS\)](#) is built to track the returns of the WisdomTree International SmallCap Dividend Index after costs, fees and expenses. It has a long track record of almost nine years of live performance, and we look to compare it to active managers and ETFs in the Morningstar Foreign Small/Mid-Cap Value Category. **DLS versus the**

**Morningstar Foreign Small/Mid-Cap Value Peer Group (7/1/2006 to 3/31/2015)**

Morningstar Fund Categories: Foreign Small/Mid-Cap Value	YTD			1-Year			3-Year			5-Year			7/1/2006 to 3/31/2015		
	Total Return	Rank in Peer Group	% of Peer Group Beaten	Total Return	Rank in Peer Group	% of Peer Group Beaten	Total Return	Rank in Peer Group	% of Peer Group Beaten	Total Return	Rank in Peer Group	% of Peer Group Beaten	Total Return	Rank in Peer Group	% of Peer Group Beaten
WisdomTree International SmallCap Dividend Fund	5.8%	27	65%	-5.9%	51	26%	10.4%	20	62%	8.7%	10	77%	5.1%	6	80%
MSCI EAFE Small Cap Index	5.6%	31	61%	-2.9%	29	59%	10.7%	18	67%	8.8%	10	78%	4.0%	11	62%
# of Peers in Fund Category	76			69			51			40			26		

Source: Morningstar Direct. Past performance is not indicative of future results.

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Fund/Index Name	Average Annual Returns as of 3/31/2015												
	FUND INFORMATION			TOTAL RETURN NAV (%)					MARKET PRICE (%)				
	Ticker	Expense Ratio	Fund Inception Date	YTD	1-Year	3-Year	5-Year	Since Fund Incepti	YTD	1-Year	3-Year	5-Year	Since Fund Inception
WisdomTree International SmallCap Dividend Fund	DLS	0.58%	6/16/2006	5.77%	-5.87%	10.36%	8.65%	5.46%	6.91%	-6.11%	10.16%	8.56%	5.39%
WisdomTree International SmallCap Dividend Index				5.67%	-4.82%	11.00%	9.20%	5.92%	5.67%	-4.82%	11.00%	9.20%	5.92%
MSCI EAFE Small Cap Index				5.56%	-2.92%	10.67%	8.80%	4.41%	5.56%	-2.92%	10.67%	8.80%	4.41%

Source: WisdomTree.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where the Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times. You cannot invest directly in an Index.

**Beating 80% Since**

**Inception:** DLS has beaten 80% of its peer group since its inception, with a return of 5.1%. The MSCI EAFE Small Cap Index—an important benchmark for this category—beat nearly two-thirds of the peer group over the same period. Contrary to what many might initially believe—that you need active managers to outperform in small caps outside the U.S., the evidence over this period may suggest otherwise.

**Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. 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. 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.

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.

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You cannot invest directly in an index.

## DEFINITIONS

**Passive** : Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

**Active** : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

**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.