

# INTRODUCING THE WISDOMTREE GLOBAL HEDGED SMALLCAP DIVIDEND FUND

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WisdomTree has been a pioneer in two important categories of indexes and exchange-traded funds (ETFs): [small-cap equities](#) and [currency-hedged equities](#). For more than nine years, WisdomTree has offered solutions for small-cap [dividends](#) in various regional and country markets, including the United States, developed international, Europe, Japan and emerging markets. With the launch of the [WisdomTree Global SmallCap Dividend Index \(WTGS\)](#) and the [WisdomTree Global Hedged SmallCap Dividend Index \(WTGSH\)](#), WisdomTree combines our innovative small-cap dividend methodology into a global index and also allows the choice to currency hedge. [WTGSH's selection and weighting methodology is exactly the same as WTGS](#). In summary, WTGSH is a [fundamentally](#) weighted index that measures the performance of the 1,000 largest small-capitalization companies that rank within the bottom 5% of the [WisdomTree Global Dividend Index](#) by [market capitalization](#) and is designed to remove from index performance the impact of changes to the value of foreign currencies compared to the U.S. dollar. **Does It Make Sense to Layer Currency Exposure on Top of Equities?** [Small companies can offer big potential the world over](#)—and approximately 50% of the world's investment opportunities are outside the United States.<sup>1</sup> So, in our opinion, there is no question that investing globally is a smart idea—whether the investor hedges the currencies or not. Currencies have sometimes pushed returns higher, but also lower, so the question then becomes whether investors want to take on the additional risk. Unhedged international strategies inherently have a [bullish](#) opinion on foreign currencies. So for investors without an opinion on currency direction, hedged strategies can make a lot of sense. Plus, it's worth noting that currency-hedged strategies provide access to the local equity returns as they essentially mitigate currency risk. We often hear from WisdomTree investors that they use hedged and unhedged strategies together. Consider that:

- **Currency Adds Risk, Not Returns:** During the full period available, from May 31, 1994, to September 30, 2015, and every subperiod, currency exposure detracted from the returns of the [MSCI ACWI Small Cap Index](#).
- **MSCI ACWI Small Caps without Currency Saw Higher Sharpe Ratios in Every Period:** For each period shown, removing the currency exposure raised the Sharpe ratio. This higher Sharpe ratio for the currency-hedged Index indicates just how much additional [volatility](#) came with the currency risk.
- **Higher Current Correlation:** In looking at the correlation between currency and equity, we see that over the full period, the correlation coefficient was 0.26, but over the last five-year period it was 0.55 (twice as high), and over the most recent 10-year period it was 0.52. This shows a trend of currency risk increasing.

**Currency Exposure**

Time Period	Average Annual Returns			Average Annual Standard Deviation			Incremental Change in Risk	Correlation (Equities vs. Currency)	Sharpe Ratio		
	MSCI ACWI Small Cap w/ Currency	MSCI ACWI Small Cap No Currency	MSCI ACWI Small Cap Currency	MSCI ACWI Small Cap w/ Currency	MSCI ACWI Small Cap No Currency	MSCI ACWI Small Cap Currency			MSCI ACWI Small Cap w/ Currency	MSCI ACWI Small Cap No Currency	MSCI ACWI Small Cap Currency
05/31/94-09/30/15	7.22%	7.51%	-0.26%	17.04%	15.80%	3.52%	1.23%	0.26	0.27	0.31	-0.81
3-Year	8.88%	12.64%	-3.34%	10.75%	9.95%	2.24%	0.80%	0.26	0.83	1.27	-1.49
5-Year	8.14%	10.23%	-1.90%	14.43%	12.59%	3.00%	1.84%	0.55	0.56	0.81	-0.64
10-Year	6.52%	6.78%	-0.25%	19.09%	17.16%	3.41%	1.92%	0.52	0.28	0.32	-0.43
20-Year	7.32%	7.88%	-0.52%	17.47%	16.18%	3.31%	1.29%	0.31	0.28	0.34	-0.89

Sources: WisdomTree, Bloomberg, as of 9/30/15. Past performance is not indicative of future results. You cannot invest directly in an index. Incremental Change in Risk: Difference in volatility from taking MSCI ACWI Small Cap with Currency and subtracting MSCI ACWI Small Cap No Currency. Correlation (Equities vs. Currency): Correlation between MSCI ACWI Small Cap Currency and MSCI ACWI Small Cap No Currency over specified period. MSCI ACWI Small Cap w/ Currency refers to Index returns in USD. MSCI ACWI Small Cap No Currency refers to Index returns in local currency. MSCI ACWI Small Cap Currency refers to the underlying currency exposure.

## Increases Volatility

the consistent volatility reduction when currency risk has been removed, investors can see how currency-hedged

Given

strategies might serve as a better strategic baseline exposure for global equities—and that the active decision would be to add in the currency risk if/when an investor has a positive view on it. Very few dividend funds focus on global small-cap companies, and even fewer hedge the currency risk.<sup>2</sup> Now, with the launch of the [WisdomTree Global Hedged SmallCap Dividend Fund \(HGSD\)](#), investors can capture the performance of a broad basket of small-cap dividend payers across the globe in one ETF, while also mitigating currency risk. HGSD is designed to track the performance of the WTGSH before fees and expenses. Although WTGSH is a newly constructed index, the methodology at its core uses the same fundamental rules-based process WisdomTree has been implementing in small caps around the world for almost a decade and the same currency-hedging methodology WisdomTree pioneered. <sup>1</sup>Sources: WisdomTree, 10/31/15.

<sup>2</sup>Sources: WisdomTree, Bloomberg, 10/31/15.

#### 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. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. The Fund uses various strategies to attempt to minimize the impact of changes in applicable foreign currencies against the U.S. dollar, which may not be successful. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. A Fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but can hurt when the foreign currency appreciates against the U.S. dollar.

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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

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## **IMPORTANT INFORMATION**

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You cannot invest directly in an index.

## DEFINITIONS

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

**Currency hedging** : Strategies designed to mitigate the impact of currency performance on investment returns.

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

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

**Market Capitalization** : 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.

**Bullish** : a position that benefits when asset prices rise.

**MSCI ACWI Small Cap Index** : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets, specifically focusing on the small-cap segment of these equity markets.

**Sharpe ratio** : Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

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

**Correlation** : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.