WHY INTERNATIONAL SMALL CAPS MATTER

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In the U.S., at least $325 billion is currently invested in the three biggest large-cap exchange-traded funds (ETFs), all of which track the S&P 500 Index. At the same time, roughly 20% that total, or $63 billion, is invested in the three largest small-cap ETFs—a ratio of roughly 5 to 1 in favor of the large caps. When we turn to the developed world, we find that investors own international small caps in a much smaller percentage. The three largest developed world ETFs currently total roughly $110 billion in assets under management (AUM). But the three largest international small-cap ETFs currently total just $10 billion in AUM—a ratio of 11 to 1 in favor of predominately large-cap developed world exposure. Given this disparity, investors may well be underallocated to international small caps. Over the last 10 years, their international stock returns were likely lower than they could have been because of that oversight. As shown in the table below, using the MSCI EAFE Index as a proxy for stocks in the developed world, international stock returns have been paltry—1.7% per year in U.S dollars over the last 10 years. But international small caps, as measured by the MSCI EAFE Small Cap Index, advanced 4.1% over the same period. Moreover, if one used only dividend-paying international small-cap stocks, as we do in our WisdomTree International SmallCap Dividend Index, the average annual return for the asset class was 5.1% over the past 10 years, more than 3 percentage points ahead of the broader MSCI EAFE Index. And it did so over that period without taking on more market risk than the MSCI EAFE Index or more volatility than MSCI EAFE Small Cap Index.

Index	WT Index Inception	Average Annual Total Returns as of 8/31/2016 YTD	1-Year	3-Year	5-Years	10-Year	Since WT Inception
WisdomTree International SmallCap Dividend	6/1/2006	5.17%	8.23%	6.51%	8.55%	5.12%	5.33%
MSCI EAFE Small Cap		2.15%	5.41%	7.08%	8.04%	4.13%	3.80%
MSCI EAFE		0.49%	-0.12%	2.47%	5.00%	1.71%	2.03%

Index	WT Index Inception	10-Year Summary Statistics as of 8/31/2016 Std Dev (%)	Beta	Alpha (%)	Sharpe Ratio
WisdomTree International SmallCap Dividend	6/1/2006	19.31	0.99	3.53	0.22
MSCI EAFE Small Cap		19.81	1.02	2.57	0.16
MSCI EAFE		18.64	1.00	0.00	0.04

Source: WisdomTree, Zephyr StyleADVISOR, Bloomberg, as of 8/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

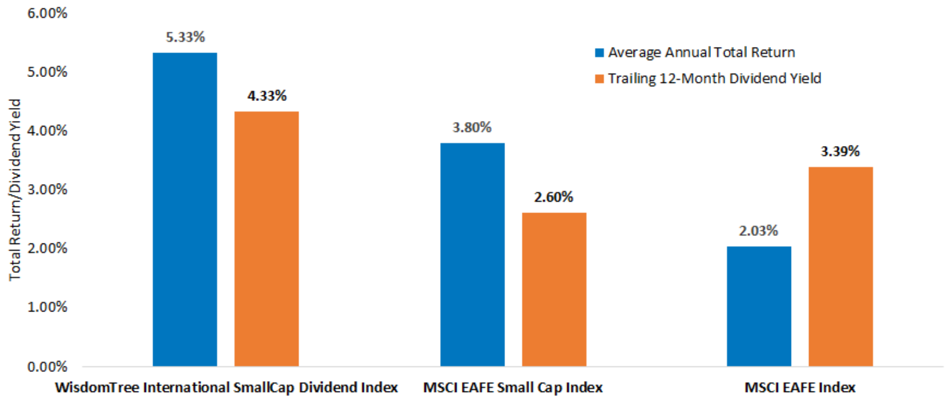
Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of terms and indexes in the chart visit our glossary.

Dividend-Weighting the Developed World

Back in June 2006, WisdomTree launched the ETF industry's first international small-cap ETF, the WisdomTree International SmallCap Dividend Fund (DLS) We did so because we believed the tendency of small caps to outperform their large-cap counterparts over time (the so-called "size premium") was a market phenomenon that could be observed not just in the U.S. but in international markets as well. DLS was unique not just because it was the first ETF that allowed investors to complete their developed world exposure but because it tracked a WisdomTree Index that used only dividend-paying companies and weighted them once a year based on the dividends they pay. Because there are typically more than 1,000 such dividend-paying small-company stocks, WisdomTree has created a small-cap vehicle that has immense investment capacity and has correlated highly to established cap-weighted indexes. However, because WisdomTree weights by dividends, the WisdomTree International SmallCap Dividend Index typically exhibits a higher dividend yield compared to the MSCI EAFE Index. Ten years later, the real-time results of the strategy confirm our earlier intuition. International small caps, dividend weighted, have outperformed the MSCI EAFE Index for the last 1-, 3-, 5- and 10-year periods. The table below shows annualized Index level returns from June 2006 through August 31, 2016, as well as the trailing 12-month dividend yields.

Average Annual Total Returns and Trailing 12-Month Dividend Yields, June 2006 through August 2016



Source: WisdomTree, Bloomberg, as of 8/31/2016. Start date of June 2006 chosen to reflect the inception of the WisdomTree International SmallCap Dividend Index on 6/1/2006. Past performance is not indicative of future results. You cannot invest directly in an index.

Conclusion WisdomTree believes international small caps should be a part of every globally diversified portfolio. As shown here, dividend weighting has efficiently captured the size premium while also raising the dividend yield compared to the market over more than a decade. It has added alpha above and beyond the MSCI EAFE Index, on an absolute and risk-adjusted basis, while exhibiting comparable volatility. Click to learn more about DLS.

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.

Diversification does not eliminate the risk of experiencing investment losses.

Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development.

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S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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 EAFE Small Cap Index : A free float-adjusted market capitalization equity index that captures small-cap representation across developed market countries around the world, excluding the U.S. and Canada.

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

Volatility : A measure of the dispersion of actual returns around a particular average level. .

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.

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.

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

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.

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Risk-adjusted basis : When calculating the return, we refines the return by measuring how much risk is involved in producing that return.