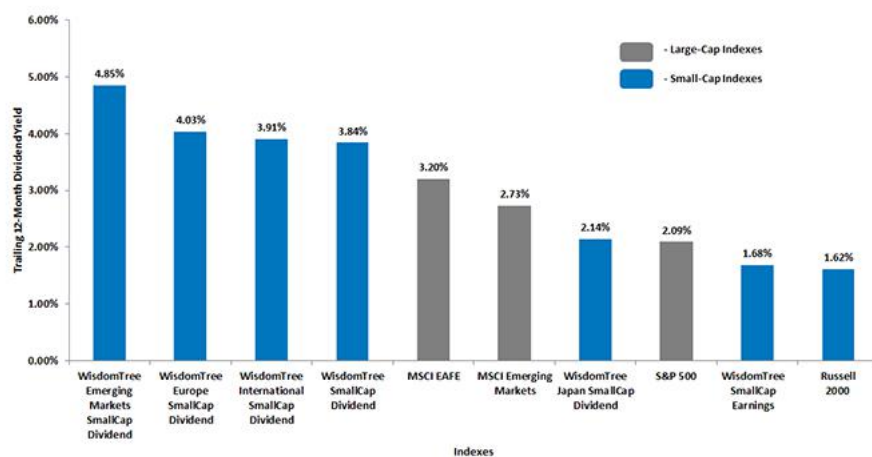


GLOBAL SMALL CAPS FOR INCOME

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In today's low-interest-rate environment, [dividend](#)-paying equities have become an attractive alternative source of income not only because of the current income they provide but also because of their potential for growth. Unfortunately, when investors think of dividends, they tend to think of mature [large-cap](#) companies as the primary source. As a result, we feel that many investors mistakenly overlook [small-cap](#) equities as attractive income options. **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 this view stereotypes all small-cap companies, and there are many small-cap companies that have proven business models with relatively stable earnings streams. We believe these companies have the ability to pay out dividends to shareholders and grow them over time. Below we will compare a cross section of WisdomTree's small-capitalization Indexes across the global landscape with common large-cap indexes to highlight the differences in the global small-cap opportunity set. • We will use the [S&P 500](#), [MSCI EAFE](#) and [MSCI Emerging Markets](#) indexes to represent domestic, developed international and emerging market large-cap equities, respectively. • Also, we will use the [Russell 2000 Index](#) to represent a broad measure of U.S. small-cap equities. These indexes were chosen because of their scope in their respective asset classes and their general popularity for tracking and measuring these segments. [Trailing 12-Month Dividend Yield](#)



Sources: Bloomberg, WisdomTree (09/30/13). Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

• International Indexes

Typically Have Higher Yields – Whether looking at the large-cap or the small-cap indexes above, we typically see higher trailing dividend yields outside the United States. The Russell 2000 Index had the lowest dividend yield of the indexes examined and the [WisdomTree Emerging Markets SmallCap Dividend Index](#) had the highest, a full 3 percentage points higher than U.S. small caps. • **WisdomTree SmallCap Dividend Indexes Exhibited Higher Yields** – WisdomTree's dividend Indexes are rebalanced annually to include only dividend-paying companies, and then the Indexes are weighted by their respective [Dividend Streams®](#). While potentially not as broadly focused as market capitalization-weighted indexes, when combined, this approach has tended to produce higher trailing 12-month dividend yields. Greater trailing 12-month dividend yields can be interpreted to mean that the index trades at a more inexpensive valuation than comparable indexes. A disciplined annual rebalancing process back to the underlying fundamentals is important, especially given the tendency for valuations in the small-cap space to become stretched. • **Dividend Weighting in International Markets** – WisdomTree feels that dividends are an important fundamental measure in determining equity valuations. Furthermore, weighting by dividends in international markets may be even more important because there are many accounting differences across various regions of the world. Dividends paid in

cash represent a metric that is independent of accounting differences, making it easier to determine how one firm should be weighted against another in accordance with its fundamentals. **Importance of Valuations** From a valuation standpoint, we think it is important to be mindful of the strong performance these indexes have displayed year-to-date and what that means for current portfolio allocations. With [market capitalization-weighted](#) indexes, when constituents increase in price compared to other stocks, they are gaining a greater weight and impact on the performance of the index. WisdomTree Indexes employ a rules-based rebalancing mechanism that adjusts relative weights based on underlying [fundamentals](#). During the rebalancing process, which occurs once per year for each Index, the relationship between share price performance and either dividend growth or earnings growth is measured. We believe this gives WisdomTree Indexes the potential to sell stocks that have become more expensive and buy stocks that have become less expensive relative to their underlying fundamental. In essence, this could be one way to manage risk after a market rally.

Conclusion Adding exposure to small caps can offer increased diversification and return potential but also potentially increase overall portfolio yield. Weighting eligible companies in the WisdomTree dividend Indexes by dividends enables WisdomTree to potentially increase the trailing 12-month dividend yield compared to market capitalization-weighted indexes that represent similar equity markets. At WisdomTree, we believe this focus on fundamentals is necessary, but that it is even more important after periods of such strong short-term performance. Read the full research [here](#).

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You cannot invest directly in an index.

DEFINITIONS

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

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

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

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

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.

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.

WisdomTree Emerging Markets SmallCap Dividend Index : A subset of the WisdomTree Emerging Markets Dividend Index measuring the performance of the smallest firms by market capitalization weighted by cash dividends.

Dividend Stream : Refers to the regular dividends per share multiplied by the number of shares outstanding.

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.