

European Small Caps Separate from the Pack

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While we recognize that past performance is no indicator of future results, we believe that when a fund ranks number one in a particular investment category on a total return basis over the past one year period, it deserves special mention. This is particularly true when the fund category is becoming the prime focus for asset flows and many people want to increase their exposure to that investment theme. The [WisdomTree Europe SmallCap Dividend Fund \(DFE\)](#) was ranked the number one fund out of 113 Europe-focused open-ended (OE) mutual funds and exchange-traded funds (ETFs) in 2013.¹ DFE is alone at the top—not just because of its performance, but also because it is the only exchange-traded fund (ETF) within this particular category that focuses purely on small-cap equities.² Furthermore, there are only three mutual funds dedicated to European small caps, and the largest of them closed to new investors in December 2013, as we discussed in this prior [blog post](#). **Digging into the Results** DFE's strong performance in 2013 was not a one-off. As we look back to its long-term performance, DFE has a compelling track record that includes its ranking as the number two fund out of 104 funds in the three-year ranking, and the fifth-ranked fund of 89 funds with a five-year history on a total return basis, beating at least 95% of its peer group over each of those periods. **DFE versus the Morningstar Europe Stock Peer Group (7/1/2006 — 12/31/2013)**

Fund Name	1-Year			3-Year			5-Year			7/1/2006 to 12/31/2013		
	Return	Percent of Peer Group Beaten	Rank in Peer Group	Return	Percent of Peer Group Beaten	Rank in Peer Group	Return	Percent of Peer Group Beaten	Rank in Peer Group	Return	Percent of Peer Group Beaten	Rank in Peer Group
WisdomTree Europe SmallCap Dividend Fund	47.14%	100%	1	14.94%	99%	2	23.26%	95%	5	6.43%	80%	17
Number of Managers		113			104			89			82	

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

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DFE Average Annual Returns, as of 12/31/2013

Fund	Fund Information			Total Return (NAV)				Market Price			
	Ticker	Exp. Ratio	Fund Inception Date	1-Year	3-Year	5-Year	Since Fund Inception	1-Year	3-Year	5-Year	Since Fund Inception
WisdomTree Europe SmallCap Dividend Fund	DFE	0.58%	6/16/2006	47.17%	14.94%	23.26%	6.98%	45.43%	15.44%	22.92%	6.95%
MSCI Europe Small Cap Index				39.44%	12.83%	23.50%	7.95%	39.44%	12.83%	23.50%	7.95%

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.

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 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.

Background on DFE DFE is designed to track the returns of the WisdomTree Europe SmallCap Dividend Index after costs, fees and expenses. European small caps are not just in focus because of their great performance run discussed above. When investors consider positioning for a European recovery, we believe that small caps are one of the best choices, because:

- Small-cap stocks are more sensitive to a pickup in the local European economy than many exporters, which are more impacted by the global economy
- Small caps often have greater exposure to cyclical sectors such as Industrials and Consumer Discretionary and less exposure to defensive sectors such as health care, utilities and consumer staples
- As a result of the sector positioning, small caps often have higher betas and move more in sync with the market in both up and down environments. While gains certainly were strong for European small caps in 2013, many believe the European economic recovery is just getting started. As far as the valuation of stocks in DFE, WisdomTree believes one of the most important focal points has to be on the relative value discipline built into the Index methodology. The [WisdomTree Europe SmallCap Dividend Index](#) is rebalanced annually. In essence, the process takes a detailed look at the relationship between the dividend growth and price performance of European small-cap dividend-payers. Those that grew their dividends but whose prices may not have responded commensurately typically have the best chances of increasing in weight, whereas those whose prices performed very well but whose dividends did not grow 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. The rebalance that occurs this June will help re-anchor the constituent stocks back to a sense of relative value after such strong performance gains. We continue to believe European small caps should be considered part of an allocation to Europe's budding recovery.

1Universe: Morningstar Europe Stock category of ETFs and open-end mutual funds based on the performance of each eligible competitor within this category with full performance from 12/31/2012 to 12/31/2013. 2Source: Morningstar Direct, as of 12/31/2013. Of all U.S.-listed ETFs in Morningstar's Europe Stock category, DFE was the only one tracking the performance of an index focused purely on small-cap stocks.

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. Investments focused in Europe are increasing the impact of events and developments associated with the region, which can adversely affect performance.