

For International Exposure, Look Beyond Large Caps

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On May 13, 2013, we wrote a blog entitled “[International Mid and Small Caps Offer Size and Sector Diversification](#)” and we followed it up with another [blog](#) focusing on the impact of the May 31, 2013, rebalance screening of the WisdomTree International SmallCap Dividend Index. Although many focus strictly on the MSCI EAFE Index outside the United States, there might be benefits to looking at indexes outside the large-cap end of the capitalization spectrum. This blog addresses how WisdomTree's May 31, 2013, annual rebalance screen impacted the WisdomTree International MidCap Dividend Index (WTIMDI), an Index built to measure the performance of mid-cap dividend payers in developed international markets.

How WisdomTree Rebalances It is important to note that [WisdomTree](#) adheres to a strict focus on [relative value](#) at its annual index rebalance. 1. Companies whose share prices have appreciated significantly but whose dividends haven't kept pace typically see their weights reduced. 2. Companies whose share prices have fallen but whose dividends have stayed constant or increased typically see their weights increased. When we look at the changes in exposures as well as the numbers relative to the MSCI EAFE Index, it's important to note that there are no views being taken—weighting is based on price performance relative to dividends. This rules-based rebalance program is an important part of the WisdomTree Index methodology's added value. Throughout this piece we use the MSCI EAFE Index for comparison purposes due to its broadness of exposure to developed international equity markets. **The Country Picture**

Top 10 Country Weights & Regional Breakdowns: WTIMDI After 5/31/2013 Rebalance Screen

Country	WTIMDI (as of 5/31/2013)			MSCI EAFE Index	WTIMDI Weight (after Rebalance Screen) minus MSCI EAFE Index Weight
	Before Rebalance Screen	After Rebalance Screen	Change		
Japan	21.1%	18.7%	-2.4%	21.4%	-2.7%
United Kingdom	16.1%	15.4%	-0.7%	19.2%	-3.8%
Australia	8.7%	10.3%	1.7%	8.2%	2.1%
France	9.0%	7.8%	-1.2%	9.3%	-1.5%
Germany	3.5%	5.7%	2.2%	8.7%	-2.9%
Sweden	5.3%	4.9%	-0.3%	3.2%	1.8%
Hong Kong	4.3%	4.7%	0.4%	3.1%	1.7%
Italy	3.9%	4.5%	0.5%	2.1%	2.4%
Singapore	4.4%	4.1%	-0.3%	1.7%	2.4%
Spain	5.2%	3.7%	-1.5%	2.8%	0.8%
Europe ¹	60.5%	61.0%	0.5%	64.7%	-3.7%
Asia & Pacific ²	39.5%	39.0%	-0.5%	34.5%	4.4%

• **Changes at 5/31/2013 Rebalance:** Germany saw one of the more significant additions in weight, gaining 2.2%. Japan was one of the larger reductions in weight, losing 2.4% of its exposure. For WTIMDI, the regional breakdown of Europe vs. Asia & Pacific did not change much. • **WTIMDI Weights Compared to MSCI EAFE Index:** Compared to the regional exposures of the MSCI EAFE Index, WTIMDI is over-weight in Asia & Pacific and under-weight in Europe. The MSCI EAFE Index has notably more weight in Japan, the United Kingdom and Germany, whereas WTIMDI has notably greater weight in Australia, Italy and Singapore. **The Sector Picture**

Sector Exposures & Defensive vs. Cyclical Breakdowns: WTIMDI After 5/31/2013 Rebalance Screen

Sector	WTIMDI (as of 5/31/2013)			MSCI EAFE Index	WTIMDI Weight (after Rebalance Screen) minus MSCI EAFE Index
	Before Rebalance Screen	After Rebalance Screen	Change		
Consumer Discretionary	13.9%	12.2%	-1.7%	11.5%	0.7%
Consumer Staples	5.8%	7.6%	1.8%	11.8%	-4.2%
Energy	2.6%	2.6%	0.0%	7.2%	-4.5%
Financials	22.8%	20.8%	-2.0%	25.0%	-4.3%
Health Care	3.4%	4.5%	1.0%	10.4%	-5.9%
Industrials	25.0%	24.4%	-0.6%	12.5%	11.9%
Information Technology	5.2%	5.0%	-0.3%	4.4%	0.6%
Materials	8.8%	9.0%	0.2%	8.5%	0.5%
Telecommunication Services	5.0%	7.5%	2.4%	5.0%	2.4%
Utilities	7.5%	6.6%	-0.8%	3.8%	2.8%
Defensive Sectors ²	21.7%	26.1%	4.5%	31.0%	-4.9%
Cyclical Sectors ²	50.3%	48.1%	-2.1%	39.6%	8.5%

• **Changes at the 5/31/2013 Rebalance:** Telecommunication Services saw the biggest absolute change, with its weight increasing by 2.4%, while Financials saw the largest decrease in weight. In terms of defensive sectors vs. cyclical sectors, weight tilted more toward defensives and less toward cyclicals at this latest rebalance. Of course, it is worth noting that overall, cyclical sectors still comprise approximately twice as much weight as their defensive counterparts.

• **WTIMDI Weights Compared to MSCI EAFE Index:** The sector weights of WTIMDI compared to the MSCI EAFE Index exhibit a much wider dispersion than does the country picture. Industrials are the standout—an 11.9% over-weight. Health Care, Financials, Energy and Consumer Staples represent significant under-weights. WTIMDI is also notable for its 8.5% over-weight to cyclical sectors compared to the MSCI EAFE Index. Generally speaking, WTIMDI's positioning compared to the MSCI EAFE Index, being under-weight in defensive sectors and over-weight in cyclical sectors, represents what we believe is an important diversification potential between the two indexes. **Conclusion** We believe that the [WisdomTree International MidCap Dividend Index](https://www.wisdomtree.com/us/insights/blog/for-international-exposure-look-beyond-large-caps) rebalance affords a further opportunity to build on the picture of developed international mid caps relative to the MSCI EAFE Index. When investors consider equities in developed markets outside the U.S., they tend to think first of the MSCI EAFE Index, but WTIMDI has the potential to focus on similar regions as that index but in a way that provides the opportunity for diversification.

Important Risks Related to this Article

You cannot invest directly in an index. Diversification does not eliminate the risk of experiencing investment loss.