

Introducing the WisdomTree U.S. MidCap and SmallCap Quality Growth Funds

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Different selection processes among benchmarks can lead to [vastly different portfolio holdings](#), as evidenced by the wide dispersion in returns this year across indexes with the same goals of tracking growth or value factors.

Cumulative Year-to-Date Return Difference: S&P vs. Russell



Sources: WisdomTree, FactSet, 12/30/22–1/17/24. You cannot invest directly in an index. Past performance is not indicative of future returns. The Growth line represents S&P 500 Growth Index performance - Russell 1000 Growth Index performance. The Value line represents S&P 500 Value Index performance - Russell 1000 Index performance.

The performance impact of these deviations, even for broad-based benchmarks, is especially magnified in the often more volatile and less efficient mid- and small-cap universes.

The dark blue line of the large-cap indexes in the below chart hovers closest to a 0% return difference. A market cap-weighted index of the 500 stocks from S&P or of the 1,000 largest stocks from Russell largely mirror each other.

However, moving beyond the largest stocks, the differentials magnify in the mid- and small-cap indexes, showing return differences of over 8% in certain rolling three-year periods.

Return Differentials

Rolling 3-Year Return Difference: S&P vs. Russell Benchmarks



Sources: WisdomTree, S&P, Russell, 4/30/1994–11/30/2023. Rolling 3-Year return differentials are annualized. Large-Caps measured by S&P 500 and Russell 1000. Mid-Caps measured by S&P 400 and Russell Midcap. Small Caps measured by S&P 600 and Russell 2000. Past performance is not indicative of future results. You cannot invest directly in an Index.

A major driver in relative performance among the small-cap benchmarks is the weight that unprofitable companies—which are generally excluded from initial inclusion into S&P indexes—account for in each universe.

In mid- and small-cap indexes, particularly small-cap growth indexes, unprofitable companies can make up over one-fourth of the weight of the index, and over 40% of the company count.

Unprofitability across Indexes

Count of Unprofitable Companies



Weight of Unprofitable Companies

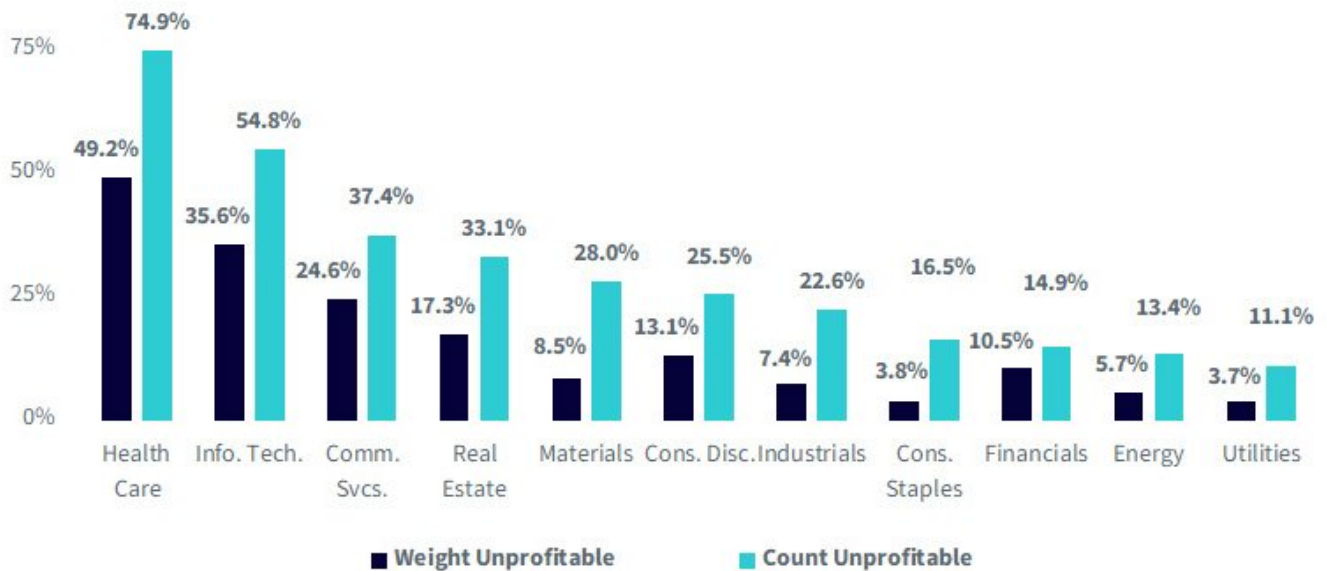


Sources: WisdomTree, FactSet, as of 11/30/23. You cannot invest directly in an Index.

In general, these unprofitable companies are found in the Health Care and Information Technology sectors; almost 75% of mid- and small-cap Health Care and 55% of Information Technology companies are unprofitable.

Screening for quality (profitability) in a growth universe, by design, results in under-weights to these unprofitable companies.

Unprofitability across Sectors



Sources: WisdomTree, FactSet, as of 11/30/23. You cannot invest directly in an Index.

Why Quality for Mid-Caps and Small Caps

Investors are familiar with the standard value, blend and growth styles.

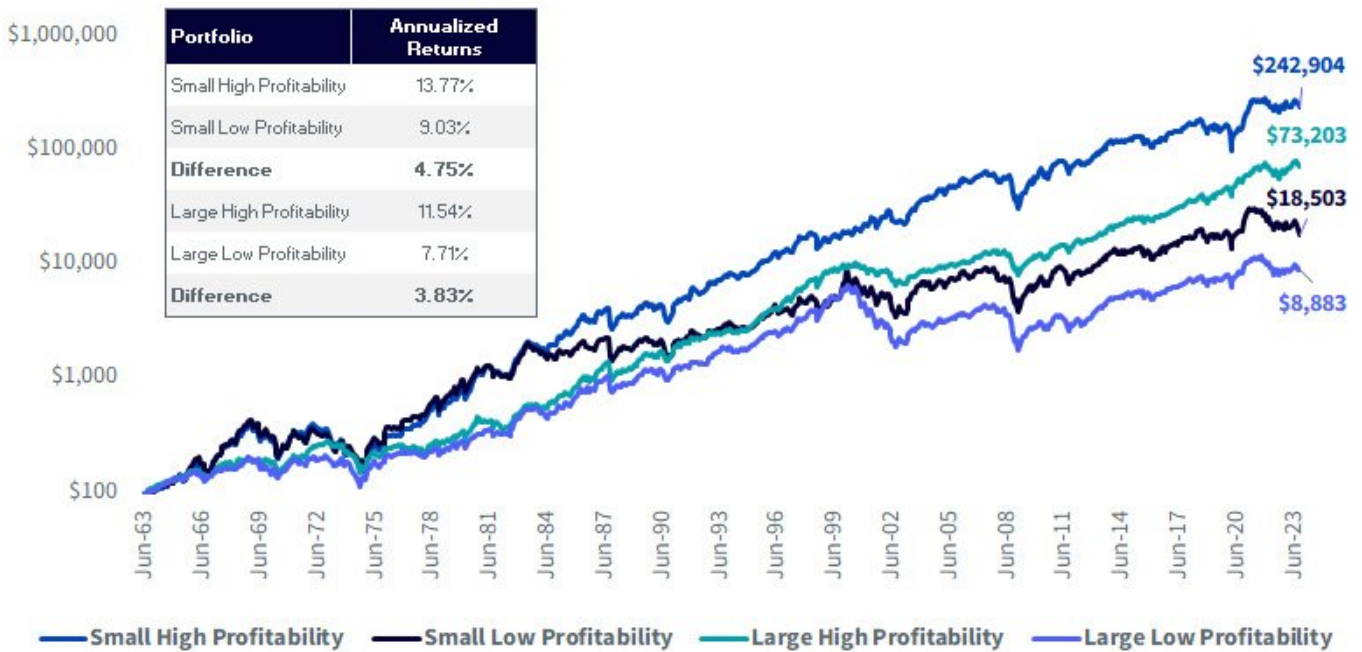
Why quality?

Many investors often think large cap when they think of quality.

High-profitability small caps have outperformed high-profitability large caps over the long run.

The performance spread between high-profitability and low-profitability companies is even greater within small caps than large caps.

Cumulative Growth of \$100



Source: Kenneth French Data Library, 6/30/1963–10/31/2023. Period based on availability of annual operating profitability returns sorted into six portfolios on size and operating profitability, which begins 6/30/1963. Market is U.S.-listed equities grouped on the basis of operating profitability and market capitalization. “Small High” refers to high profitability small caps. “Small Low” refers to low profitability small caps. “Large High” refers to high profitability large caps. “Large Low” refers to low profitability large caps. Past performance is not indicative of future results.

WisdomTree U.S. MidCap and SmallCap Quality Growth Indexes



The WisdomTree [U.S. MidCap](#) and [SmallCap Quality Growth](#) Indexes are market cap-weighted Indexes that consist of companies with quality and growth characteristics.

The Indexes are comprised of the top 30% of companies with the highest composite scores. Real Estate, Utilities and Banks are excluded from the Indexes because companies from these sectors tend to have lower earnings growth and/or high earnings volatility (lowering earnings quality).

Investment Process



These Indexes are each narrower in terms of number of holdings than the corresponding Russell indexes, representing a higher conviction quality growth basket that more selectively weeds out “junkier” companies.

Each Index skews toward a smaller weighted average market cap than the Russell indexes, with the difference more pronounced in the mid-cap version, where the Russell indexes have more than one-quarter of their weight in companies with over \$10 billion in market cap.

As each Index selects companies that are both profitable and have higher growth, we see consistently higher profitability metrics and generally higher growth metrics.

Index Characteristics

Characteristics	WisdomTree U.S. MidCap Quality Growth	Russell Midcap	Russell Midcap Growth
Weighted Average Market Cap (\$bn)	\$7.4	\$22.8	\$26.2
Over \$10bn	12.3%	77.3%	82.7%
\$2bn-\$10bn	87.2%	22.4%	17.1%
Under \$2bn	0.5%	0.3%	0.2%
Number of Holdings	125	808	332
Valuation			
Price-to-Earnings (Forward ex. Negatives)	15.3	16.3	23.5
Price-to-Book	3.4	2.8	9.5
Price-to-Sales	1.3	1.5	2.3
Profitability			
Return on Equity (ROE)	20.0%	11.8%	21.2%
Return on Assets (ROA)	8.3%	2.7%	3.9%
Intangible Adjusted ROE	19.4%	11.6%	18.1%
Intangible Adjusted ROA	9.3%	3.3%	5.3%
Leverage (Assets/Equity)	2.40x	4.39x	5.46x
Percentage Negative Earnings (TTM)	3.8%	10.9%	16.9%
Growth			
Trailing 3-Year Sales Growth	23.9%	16.7%	23.3%
Trailing 3-Year Earnings Growth	39.6%	32.2%	52.6%
Forward Earnings Growth Estimates	16.9%	14.0%	17.7%

Sources: WisdomTree, FactSet, Russell, as of 11/30/23. Intangible Adjusted ROE/ROA accounts for investments in intangible assets proxied by expenditures in research and development and a fraction of selling, general and administrative expenses. You cannot invest directly in an index.

Characteristics	WisdomTree U.S. SmallCap Quality Growth	Russell 2000	Russell 2000 Growth
Weighted Average Market Cap (\$bn)	\$2.3	\$2.9	\$3.3
Over \$10bn	0.0%	0.6%	1.2%
\$2bn-\$10bn	63.4%	62.4%	71.1%
Under \$2bn	36.6%	37.1%	27.7%
Number of Holdings	329	1958	1070
Valuation			
Price-to-Earnings (Forward ex. Negatives)	12.9	13.5	17.8
Price-to-Book	2.3	1.9	4.0
Price-to-Sales	0.9	1.1	1.7
Profitability			
Return on Equity (ROE)	16.1%	5.1%	5.8%
Return on Assets (ROA)	6.1%	1.0%	1.1%
Intangible Adjusted ROE	15.3%	6.6%	8.1%
Intangible Adjusted ROA	7.6%	2.0%	3.9%
Leverage (Assets/Equity)	2.63x	5.33x	5.29x
Percentage Negative Earnings (TTM)	8.3%	24.2%	27.9%
Growth			
Trailing 3-Year Sales Growth	21.0%	17.7%	21.2%
Trailing 3-Year Earnings Growth	43.8%	65.3%	80.6%
Forward Earnings Growth Estimates	20.1%	18.9%	22.8%

Sources: WisdomTree, FactSet, Russell, as of 11/30/23. Intangible Adjusted ROE/ROA accounts for investments in intangible assets proxied by expenditures in research and development and a fraction of selling, general and administrative expenses. You cannot invest directly in an index.

For definitions of terms in the tables above please visit the [glossary](#).

Introducing the [WisdomTree U.S. MidCap Quality Growth Fund \(QMID\)](#) and the [WisdomTree U.S. SmallCap Quality Growth Fund \(QSML\)](#)

The [WisdomTree U.S. MidCap Quality Growth Fund \(QMID\)](#) seeks to track the price and yield performance, before fees and expenses, of the [WisdomTree U.S. MidCap Quality Growth Index](#).

The [WisdomTree U.S. SmallCap Quality Growth Fund \(QSML\)](#) seeks to track the price and yield performance, before fees and expenses, of the [WisdomTree U.S. SmallCap Quality Growth Index](#).

Why [QMID/QSML](#)?

- Gain core exposure to U.S. mid- and small-market capitalization companies that display strong quality and growth characteristics
- Avoid the mid- and small-cap “story stocks” with low, or negative, profitability

	QMID Key Fund Facts	QSML Key Fund Facts
Index	WisdomTree U.S. MidCap Quality Growth	WisdomTree U.S. SmallCap Quality Growth
Index Base Date	11/30/2023	11/30/2023
Fund Launch Date	1/25/2024	1/25/2024
Fund Expense Ratio	0.38%	0.38%
Number of Stocks*	125	329

Source: WisdomTree, as of 12/18/23.

Important Risks Related to this Article

QMID: There are risks associated with investing, including the possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified and, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

QSML: There are risks associated with investing, including the possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. 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. The Fund is non-diversified and, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.