

The Challenge for Active Managers in U.S. Mid Caps

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In the 16 calendar years between 2000 and 2015, mid-cap active managers outperformed more than 50% of the [S&P MidCap 400 Index](#) only three times: in 2006, 2007 and 2013. **The S&P MidCap 400 Index Is Tough to Beat** As of the end of 2015, the S&P MidCap 400 Index had beaten almost 90% of mid-cap active managers on a 10-year basis. It beat more than three-quarters of mid-cap managers on a five-year basis and more than 60% on a three-year basis. **Years When Majority of Active Managers Outperform the S&P MidCap 400 Index Are Tough to Come By**

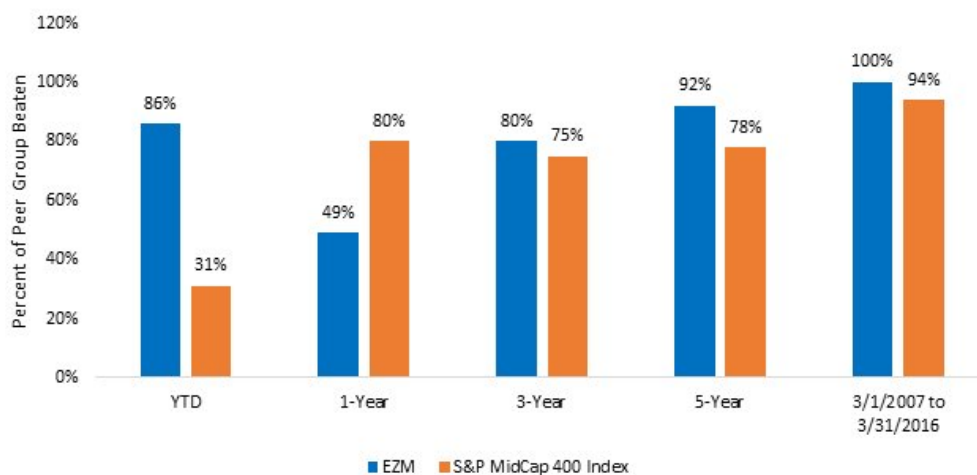


Sources: S&P Dow Jones Indices LLC, CRSP, from within SPIVA U.S. Scorecard, published for the year-end 2015 period. Data as of 12/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

Being an active mid-cap manager in U.S. equities has clearly been challenging. Attempting to select mid-cap managers who have remained open and are poised to outperform is also notably challenging.

WisdomTree Picks Up the Gauntlet Any asset manager wants to show performance that is better than what clients may logically define as a market benchmark. One strategy may be to select a “lower quality” benchmark, but as shown from the performance record above, the S&P MidCap 400 Index would not be

such a benchmark. Of course, the other option is to design a methodology or investment strategy that can actually outperform a more difficult benchmark such as the S&P MidCap 400 Index. **Fully Transparent, Rules-Based Methodology for U.S. Mid-Caps** Our fully transparent, rules-based methodology that rebalances annually was able to beat the S&P MidCap 400 Index, after fees, over the standardized periods spanning nearly 10 years. It has no complicated stock selection—in fact, compared to the so-called “smart beta” indexes we’ve seen, this is on the more basic end of the spectrum. The [WisdomTree MidCap Earnings Fund \(EZM\)](#) is designed to track the performance of the [WisdomTree MidCap Earnings Index](#), before fees. This strategy: 1. Finds all **profitable** companies in U.S. equity markets 2. Defines the mid-cap universe, zeroing in on the majority of exposure between \$2 billion and \$10 billion in market capitalization 3. Weights this mid-cap universe by the *Earnings Stream*—in other words, the companies generating the greatest profits receive the most weight 4. Repeats this process annually **Performance against Mid-Cap Managers & ETFs**



Source: Morningstar Direct. Peer group is mid-cap blend and includes all mutual funds and ETFs in this peer group during the respective periods shown. Number of managers for YTD: 476; 1-Year: 437; 3-Year: 396; 5-Year: 342; and 3/1/07 to 3/31/16: 251.

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[Click here for standardized performance of EZM.](#) **Generating This Impressive Performance** Of course, even with EZM's incredible ranking against its peer group from March 1, 2007, to March 31, 2016, the approach did not generate as strong a ranking over each and every subperiod of this slightly more than nine-year span. • **Strong in Big Up Markets:** 2009 and 2013 were examples of years that U.S. equities performed very strongly. In both of these years, EZM performed strongly and captured this upward trend. This contrasts with dividend-focused U.S. strategies that may not perform as strongly in up markets. • Approaches like those taken by the WisdomTree MidCap Earnings strategy have the potential to steer around issues had by firms that have not been able to demonstrate profitability. That being said, during

periods in which these more speculative firms perform well—which does occur—this strategy may not perform as strongly on a relative basis. **Raising the Bar for Active Managers** People considering mid-cap strategies may consider adding EZM to any of their investment screens, which, in any case, would raise the performance bar for mid-cap active managers.

Important Risks Related to this Article

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