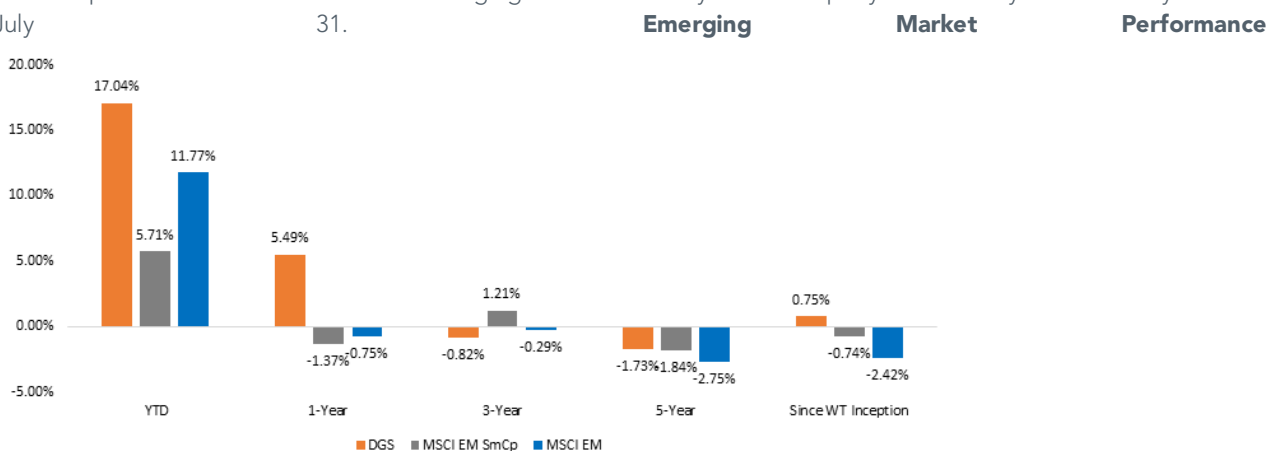


TARGET YOUR EMERGING MARKETS EXPOSURE WITH SMALL CAPS

Jeremy Schwartz — Global Chief Investment Officer

08/11/2016

Emerging markets (EM) are seeing a resurgence of interest and performance in 2016. After five years of disappointing results—when broad emerging market indexes lost 20% cumulatively on a total return basis for the period ending December 31, 2015, while the [S&P 500 Index](#) returned over 80% over the period—we are seeing emerging markets outperforming again in 2016 through July 31.¹ There tends to be a [correlation](#) in sentiment between emerging markets and commodities, and this year is no different—across most regional indexes, the best-performing segments of the market have tended to be energy and materials exposures. However, some of the best returns within the emerging markets are coming from segments that receive little exposure in traditional market benchmarks. And the type of strong returns being shown this year also highlights one of the reasons why [rebalancing](#) toward underlying fundamental metrics can help manage [valuation risk](#). **Small-Cap Dividend Stocks: Outperforming in 2016 and Over the Long Run** Small-cap stocks with a dividend focus, represented by the [WisdomTree Emerging Markets SmallCap Dividend Fund \(DGS\)](#),² have seen returns of greater than 17% through July 31, while a broad index of emerging markets small caps from MSCI, the [MSCI Emerging Markets Small Cap Index](#), was up less than 6%, and the large-cap [MSCI Emerging Markets Index](#) was up 11.8%. This is not a new phenomenon, either. DGS has outperformed both the [cap-weighted](#) MSCI Emerging Markets Small Cap Index and the broader MSCI Emerging Markets Index by over 1.5% per year for nearly the last nine years as of July 31.



Sources: WisdomTree, Bloomberg as of 7/31/16. WT Inception refers to 10/30/07, the inception of the WisdomTree Emerging Markets SmallCap Dividend Fund. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

Attribution: What Is

Driving This Year's Outperformance? The table below shows the top five countries (classified by currency exposure) adding to the returns of DGS compared to the traditional MSCI benchmarks. Some of the key stories for the strongest returns in DGS are out of Brazil, South Africa and Thailand. • Brazil has been a great performer, partly with its currency but also the stock selection within the small-cap side of the market. Brazil small caps in DGS are up over 80% in 2016 and averaged over 9% weight in the DGS. The MSCI EM Small Cap Index had less than 3% weight to Brazil small caps, and this led to 450 [basis point \(bps\)](#) of outperformance over the MSCI Emerging Markets Small Cap Index. Taiwan small-cap

dividend payers, over-weight in DGS, also had better performance than cap-weighted Taiwan small caps, and that led to positive attribution. • Hong Kong exposure—representing China stocks—was another place where the dividend-weighted approach added value from a stock selection basis, as Hong Kong stocks in DGS returned over 6% higher returns than China stocks in the MSCI Emerging Markets Small Cap Index. • South African small-cap dividend payers were up 43%, with approximately 15% coming from currency gains.

	Weight			Return USD		Return Local		Attribution	Currency Impact DGS
	DGS	MSCI EM Small Cap Index	+/-	DGS	MSCI EM Small Cap Index	DGS	MSCI EM Small Cap Index		
Total	100	100	0	18.42	6.77	12.75	3.59	11.65	5.67
Brazilian real	9.45	2.66	6.79	82.36	67.08	50.44	37.83	4.52	31.92
Taiwan dollar	27.54	17.54	10	14.73	9.68	10.5	5.64	2.15	4.23
Hong Kong dollar	21.45	19.17	2.28	-0.88	-7.32	-0.75	-7.2	1.13	-0.13
Thai baht	8.59	3.79	4.8	24.1	22.58	19.91	18.44	1.07	4.19
S. African rand	7.64	4.9	2.74	43.48	43.63	28.67	28.81	0.95	14.81
U.S. dollar	0.58	3.57	-2.99	-3.02	-15.94	-3.02	-15.94	0.85	0
Indonesian rupiah	3.28	2.38	0.9	41.87	32.19	34.52	25.34	0.53	7.35
South Korean won	6.72	19.96	-13.24	6.22	2.79	0.38	-2.87	0.35	5.84
Malaysian ringgit	5.01	3.62	1.39	9.05	4.8	2.24	-1.75	0.24	6.81
New Turkish lira	3.2	1.29	1.91	8.51	6.23	11.19	8.86	0.17	-2.68
Chilean peso	1.32	0.94	0.38	38.18	34.44	28.22	24.76	0.15	9.96
Mexican peso	1.29	3.36	-2.07	10.42	1.86	20.54	11.2	0.15	-10.12
Egyptian pound	0	0.6	-0.6		-5.77		6.86	0.07	

Sources: WisdomTree, MSCI, Bloomberg Portfolio attribution 12/31/15–8/1/2016.

Given some of these large gains in countries such as Brazil, Indonesia and South Africa—returns of greater than 40% when average returns were closer to 18% across the region—investors may start to worry about those stocks running too much. Managing valuation risk is a key element of the WisdomTree Index family that incorporates a relative value rebalance. We are coming up on the annual emerging markets rebalance in October, which will look at stocks becoming more expensive relative to their dividends. The WisdomTree Index process is designed to reduce weight in those stocks that have become more expensive (whose prices are appreciating more than dividends) while adding to weight in stocks that are becoming relatively less expensive (whose prices are falling more than dividends or whose dividends are growing relative to prices). This process has added value in terms of higher returns over the long run compared to traditional indexes, and years like 2016 with sharp moves higher are classic cases of why we like to rebalance back to underlying fundamentals of companies. Also, for those investors who think that small-cap companies are more [volatile](#) than large caps and that it sounds especially volatile to allocate to emerging market small caps, it may be surprising that since the inception of DGS, the [beta](#) of this Index relative to the MSCI Emerging Markets Index of large caps was .89 and the volatility was 1.13% lower.³ Given that traditional benchmarks have very little exposure to emerging market small caps, we'd encourage investors to look at emerging market small-cap dividend payers as a diversifier for their emerging market allocations. ¹Sources: WisdomTree, Bloomberg. ²Designed to track the [WisdomTree Emerging Markets SmallCap Dividend Index](#) after fees and expenses. ³Sources: WisdomTree, StyleAdvisor as of 6/30/16. Refers to three-year period ending 6/30/16.

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 on a single sector and/or smaller companies generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Valuation risk : The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.

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

MSCI EAFE Small Cap Index : A free float-adjusted market capitalization equity index that captures small-cap representation across developed market countries around the world, excluding the U.S. and Canada.

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.

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.

Basis point : 1/100th of 1 percent.

Volatility : A measure of the dispersion of actual returns around a particular average level. nbsp;.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.