

# WisdomTree Europe SmallCap Dividend UCITS ETF

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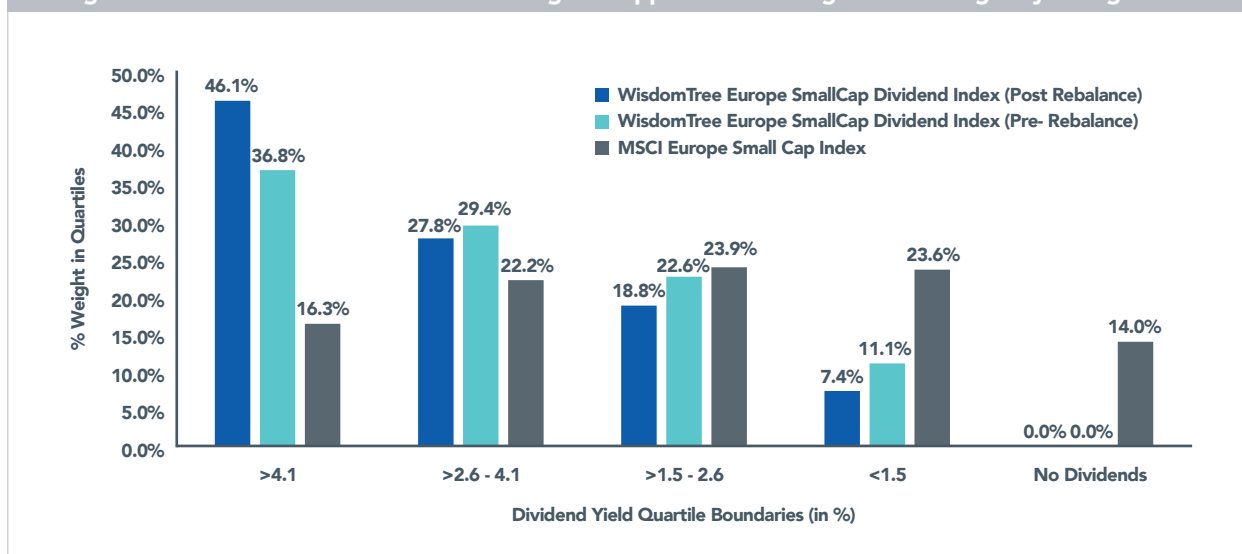
Small-cap stocks elicit excitement among investors, as people aspire to invest in the large caps of tomorrow at a stage of the business life cycle where the potential for profits is greatest. Additionally, the strong historical performance track records of strategies such as 'small-cap value' have increased the popularity of small caps among those with long-term investment time horizons.

## WISDOMTREE'S SMALL-CAP INVESTING PHILOSOPHY

At WisdomTree, we place a strong focus on small-cap stocks and we have developed a number of indices that are designed to provide investors with exposure to smaller companies. In terms of our investing philosophy, we can distil the foundation of our small-cap equity methodologies into two key features:

- 1) Broad-based exposure:** Some strategies attempt to add value by only selecting a small number of 'very strong' stocks for an index, based on a defined stock-screening process. However, the risk of these more selective strategies is that, when individual companies experience problems, it can have a significant impact on the performance of the index. To avoid this predicament, our small-cap indices are designed to be broad-based to enhance diversification and lower overall risk, with the critical selection decision based on whether firms have decided to pay (or not pay) regular dividends.
- 2) A focus on valuation:** When indices are weighted by market capitalisation (share price x number of shares outstanding), there is a risk that companies experiencing rapid share price gains may see increasing index exposure at times when their valuations are becoming more expensive. To avoid this scenario, WisdomTree's small-cap index methodologies purposefully de-link share-price behaviour and constituent weighting. Weighting our indices by cash dividends instead (dividend-per-share x number of shares outstanding) leads to a more disciplined approach to valuation, thereby mitigating the risk of the indices experiencing rapid valuation expansion.

Figures 1: How WisdomTree's dividend-weighted approach tilts weight toward higher-yielding stocks



Source: FactSet, as of most recent Index Screening, 31st May each year. You cannot invest directly in an index. **Historical performance is not an indication of future performance and any investments may go down in value.**

As Figure 1 shows, weighting on the basis of cash dividends causes a pronounced tilt toward stocks with higher dividend yields. In contrast, market capitalisation-weighted indices do not focus on this and consequently, constituents are much more evenly spread across the different dividend yield quartiles. Simply put, WisdomTree's approach results in a higher dividend yield.

### A SOURCE OF DIFFERENTIATION

In the European equity market, and particularly within the small-cap space, focusing solely on dividend-paying companies and weighting by dividends is one avenue through which to achieve an exposure that looks very cyclical—meaning a higher weight to sectors such as Consumer Discretionary, Industrials and Information Technology. In Europe, there are a lot of larger companies in the Consumer Staples and Health Care sectors, which are typically viewed as more defensive in their behaviour. As such, our indices often look quite different to mainstream benchmark indices and can therefore provide investors with diversification benefits.

Figure 2: A European small-cap dividend approach leads to more cyclical sector exposures

Sector Name	WisdomTree Europe SmallCap Dividend Index	MSCI Europe Small Cap Index	MSCI Europe Index
Communication Services	5.92%	5.18%	4.97%
Consumer Discretionary	13.63%	12.10%	9.08%
Consumer Staples	7.80%	4.84%	13.35%
Energy	4.64%	3.87%	8.56%
Financials	13.89%	14.79%	19.12%
Health Care	2.82%	8.61%	13.09%
Industrials	24.62%	22.42%	13.15%
Information Technology	7.48%	8.70%	5.34%
Materials	8.98%	7.49%	8.39%
Real Estate	7.19%	9.70%	1.38%
Utilities	3.03%	2.29%	3.57%

Source: Bloomberg, with data as of 30 September 2018. You cannot invest directly within an Index.

#### A METHODOLOGY THAT MANAGES VALUATION RISK

As well as tilting the profile of total returns toward dividends, our Dividend strategies have a focus on managing valuation risk. Specifically, as our indices are rebalanced annually, we tend to see:

- + Index weight reductions for companies whose share prices have outperformed their dividend growth.
- + Index weight increases for companies whose dividend growth has outperformed their share price performance.

By always trimming the weightings of stocks whose share prices have outperformed fundamentals, WisdomTree's approach helps to manage the overall valuation risk of the portfolio.

Figure 3: WisdomTree's methodology results in lower P/E ratios and higher dividend yields

As of 30 September 2018	Europe Small Cap Equity Indices			
	WisdomTree Europe SmallCap Dividend Index	MSCI Europe Small Cap Index	MSCI Europe Small Cap Value Index	MSCI Europe Index
Forward Price-to-Earnings (P/E) Ratio	13.97x	17.77x	14.60x	14.49x
Dividend Yield	4.12%	2.75%	3.73%	3.55%
Earnings Yield	6.18%	5.12%	5.05%	5.86%
Dividend Yield / Earnings Yield	66.72%	53.69%	73.98%	60.62%
Return on Equity	11.33%	9.45%	7.96%	12.43%
Return on Assets	2.15%	1.86%	1.39%	1.50%
Price-to-Book (P/B) Ratio	1.77x	1.91x	1.40x	1.84x

Source: Bloomberg. Important Note: Fundamental data derived from Bloomberg may not match fundamental data derived from other sources. You cannot invest directly within an Index. **Historical performance is not an indication of future performance and any investments may go down in value.**

In summary, with its focus on dividend-paying smaller companies, our Europe SmallCap Dividend strategy offers investors the chance to profit from fast-growing, cash-generative smaller companies in Europe, while maintaining a focus on both valuation and diversification.

**Figure 4: WisdomTree Europe SmallCap Dividend Index methodology details**

<b>General Eligibility</b>	Stocks must be listed, incorporated and headquartered in one of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, or the United Kingdom.
	Liquidity Screen: Avg. daily dollar volume of \$100,000 for 3 months preceding the screening date
	Dividend Screen: Companies must have paid at least \$5 million in gross cash dividends on shares of their common stock in the annual cycle prior to the annual reconstitution
	Market capitalization: Companies must have a minimum market capitalization of at least \$100 million as of the Index Screening date
	Annual Screening date: 31st May each year
<b>Small Cap Selection</b>	From the list of all European dividend-payers meeting WisdomTree's initial liquidity and market capitalization requirements, the 300 largest companies by market capitalization are removed and the bottom 25% of the remaining market capitalization are included.
<b>Weighting</b>	WisdomTree's Dividend Stream methodology, defined as indicated dividend per share x number of shares outstanding.
<b>Capping Rules</b>	At the annual rebalance, no country can exceed 25% of the Index exposure and no sector can exceed 25% of the Index exposure. Between annual rebalances, countries and sectors may fluctuate above 25% due to market movement.
<b>Volume Factor Adjustment</b>	WisdomTree's approach is sensitive to the liquidity of each underlying constituent. A final adjustment measures the average daily dollar volume of each stock divided by its respective weight in the Index. If this value is less than \$400 million, the weight of the specified constituent would be reduced until its calculated volume factor reached \$400 million. This may cause sector weights to move above previously specified caps.

Source: WisdomTree.

**Fund Info: WisdomTree Europe SmallCap Dividend UCITS ETF**

Ticker	Exchange	ISIN	BBG Code	Reuters Code	Listing Currency	Base Currency	TER %
DFEA	LSE	IE00BDF16114	DFEA LN	DFEA.L	EUR	EUR	0.38%
DFEP	LSE	IE00BDF16114	DFEP LN	DFEP.L	GBx	EUR	0.38%
DFEA	SIX	IE00BDF16114	DFEA SW	DFEA.S	EUR	EUR	0.38%
DFEA	Borsa Italiana	IE00BDF16114	DFEA IM	DFEA.MI	EUR	EUR	0.38%
WTD7	XETRA	DE000A2ARXE2	WTD7 GY	WTD7.DE	EUR	EUR	0.38%
DFEE*	LSE	IE00BQZJC527	DFEE LN	DFEE.L	EUR	EUR	0.38%
DFE*	LSE	IE00BQZJC527	DFE LN	DFE.L	GBx	EUR	0.38%
DFE*	SIX	IE00BQZJC527	DFE SW	DFE.S	CHF	EUR	0.38%
WTES*	XETRA	DE000A14ND46	WTES GY	WTES.DE	EUR	EUR	0.38%
DFE*	Borsa Italiana	IE00BQZJC527	DFE IM	DFE.MI	EUR	EUR	0.38%

\*Indicates distributing classes of shares. TER: Total Expense Ratio.

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