

WisdomTree Emerging Markets SmallCap Dividend UCITS ETF

DGSE

Emerging markets (EMs) economic growth is expected to remain stable at 4.7% overtaking slowing growth in Developed Markets (DM) at 2.1%¹. The EM growth story is largely underpinned by strong domestic consumption, favourable demographics and improving productivity levels owing to increased adoption of technology. EM economies originally agrarian and labour-intensive in nature are now transforming into technological innovation hubs. Emerging markets continue to have a substantial productivity growth advantage over mature economies. Emerging and developing economies saw an increase in output per worker at 2.6%² in 2018, compared to 1%² for the developed economies.

While the investment case for EMs over the long term paints a compelling narrative, WisdomTree focuses on a niche segment within EMs – small cap dividend paying companies. We believe that investors shouldn't just own EM small caps, but they should own small-cap dividend payers. By virtue of EM small caps ability to derive a greater portion of their revenues organically, they provide:

- + A differentiated performance compared to their large-cap counterparts
- + Higher degree of insulation from the ongoing global trade frictions
- + Equip investors with a well-rounded EM allocation

The WisdomTree Emerging Markets SmallCap Dividend Index (WTEMSC) was built to deliver all the advantages of the small-cap value segment within EMs.

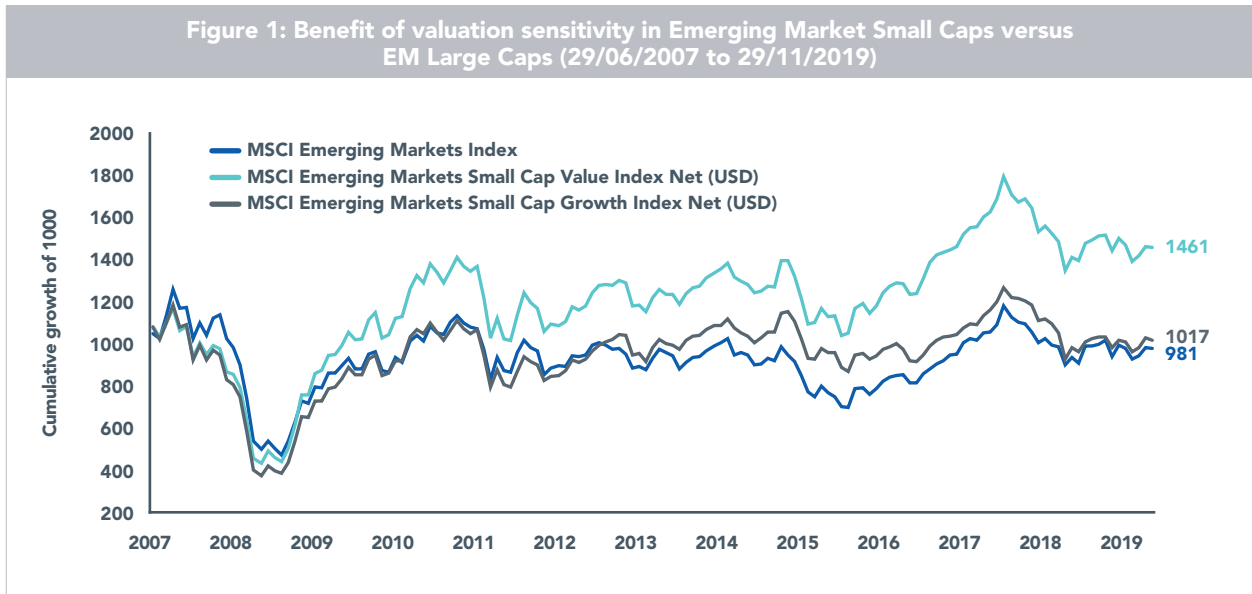
SMALL COMPANIES AND THE VALUE PREMIUM

Eugene Fama and Kenneth French put forth the concept that stock returns are often a function of a stock's exposure to various "risk premiums." In theory, these risk premiums provide additional returns for small caps over large caps and for value overgrowth. In fact, the historical returns in emerging markets over the past decade are evidence of this theory, illustrating that the value premium exists in emerging markets, as small-cap value outperforms small-cap growth:

- + **Small cap outperforms Large cap:** Since June 2007, a \$1,000 investment in EM small-cap value investment outperformed the same investment in EM large caps by 51%. EM small-cap growth also outperformed EM large caps by 4% over the same period.
- + **Value outperforms Growth:** Since June 2007, a \$1,000 investment in EM small-cap value investment outperformed the same investment in EM small-cap growth by 45%.

¹ International Monetary Fund 2019.

² The Conference Board.



Source: Bloomberg, WisdomTree as of 29/11/2019. **Historical performance is not an indication of future performance and any investments may go down in value.** You cannot invest directly in an index. EM small-cap growth refers to the MSCI Emerging Markets Small Cap Growth Index. EM small-cap value refers to the MSCI Emerging Markets Small Cap Value Index. EM Large Caps refers to the MSCI Emerging Markets Index.

The WisdomTree Emerging Markets SmallCap Dividend Index (Bloomberg Ticker: WTEMSC Index) was built to capture the small-cap value segment of the emerging markets. It does so by maintaining sensitivity to valuation through its annual rebalance.

THE PROOF IS IN THE PERFORMANCE

The WisdomTree Emerging Markets SmallCap Dividend Index has provided higher returns with less risk over the long term, as illustrated by Figure 2 on an average annual return basis for the one-year, three-year, five-year and 10- Year period:

- + **Long-term outperformance:** WTEMSC outperformed both the MSCI Emerging Markets and MSCI Emerging Markets Small Cap indices – and with relatively low risk.
- + **Higher Sharpe ratio:** WTEMSC’s Sharpe ratio (return per unit of risk) was also higher, proving the Index provides attractive risk-adjusted returns.
- + **Lower risk:** How was this higher Sharpe ratio achieved? One big driver was lower risk. WTEMSC had lower risk than the MSCI Emerging Markets Index over the one-year, three-year, five-year and since-inception periods.

Figure 2: Risk and Return Measures: WisdomTree Emerging Markets SmallCap Dividend Index

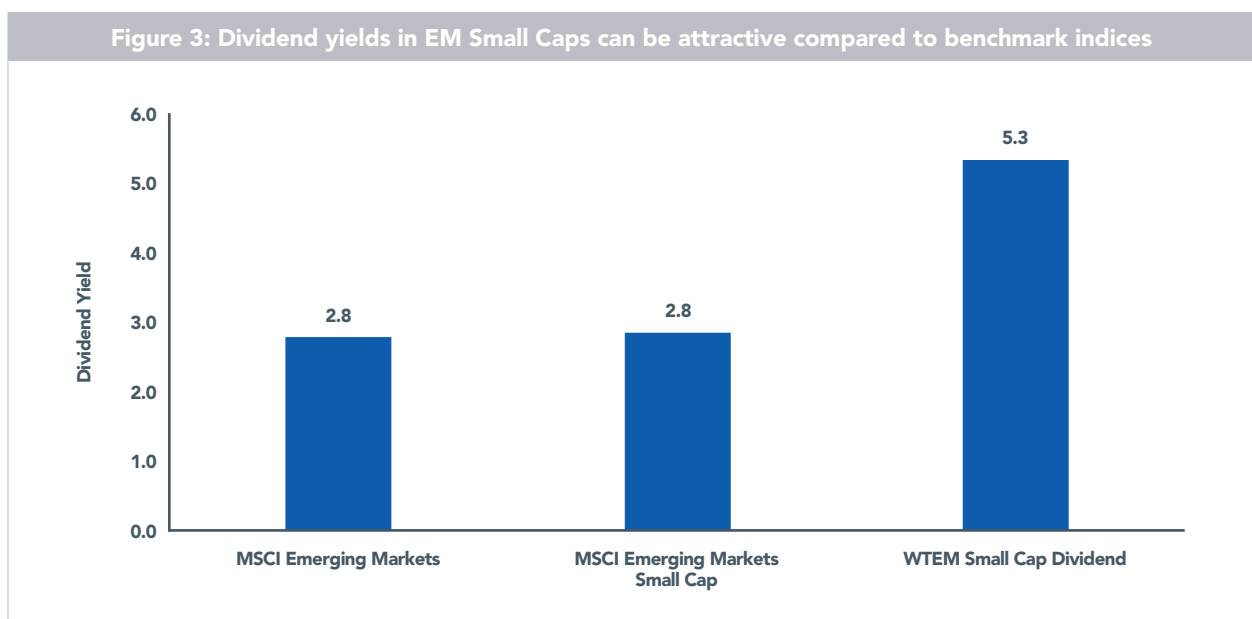
Period	Index	Avg. Ann. Return	Std. Dev.	Sharpe Ratio	Beta ³
YTD	WisdomTree Emerging Markets SmallCap Dividend Index	11.82%	10.35%	0.93	0.87
	MSCI Emerging Markets Small Cap Index	5.08%	9.16%	0.31	0.73
	MSCI Emerging Markets Index	10.20%	11.61%	0.69	1.00
1-Year	WisdomTree Emerging Markets SmallCap Dividend Index	9.88%	11.35%	0.65	0.87
	MSCI Emerging Markets Small Cap Index	3.39%	10.41%	0.09	0.74
	MSCI Emerging Markets Index	7.28%	12.56%	0.38	1.00
3-Year	WisdomTree Emerging Markets SmallCap Dividend Index	9.53%	11.11%	0.68	0.83
	MSCI Emerging Markets Small Cap Index	4.56%	10.49%	0.25	0.76
	MSCI Emerging Markets Index	9.01%	12.45%	0.56	1.00
5-Year	WisdomTree Emerging Markets SmallCap Dividend Index	4.48%	12.71%	0.24	0.85
	MSCI Emerging Markets Small Cap Index	1.17%	12.55%	-0.02	0.77
	MSCI Emerging Markets Index	3.12%	14.40%	0.12	1.00
10-Year	WisdomTree Emerging Markets SmallCap Dividend Index	5.66%	13.26%	0.36	0.83
	MSCI Emerging Markets Small Cap Index	2.99%	13.49%	0.16	0.80
	MSCI Emerging Markets Index	3.33%	15.35%	0.16	1.00

Sources: Bloomberg, as of 29/11/2019. **Historical performance is not an indication of future performance and any investments may go down in value.** You cannot invest directly in an index.

Beta³ : Measured relative to the MSCI Emerging Markets Index.

SMALL COMPANIES. LARGE DIVIDENDS.

Although many investors may believe large companies pay the highest dividend yield, this is not necessarily the case. As Figure 3 illustrates, the WisdomTree Emerging Markets SmallCap Dividend Index currently provides a far higher dividend yield than other emerging market equity indices – thus providing investors with much greater income potential.



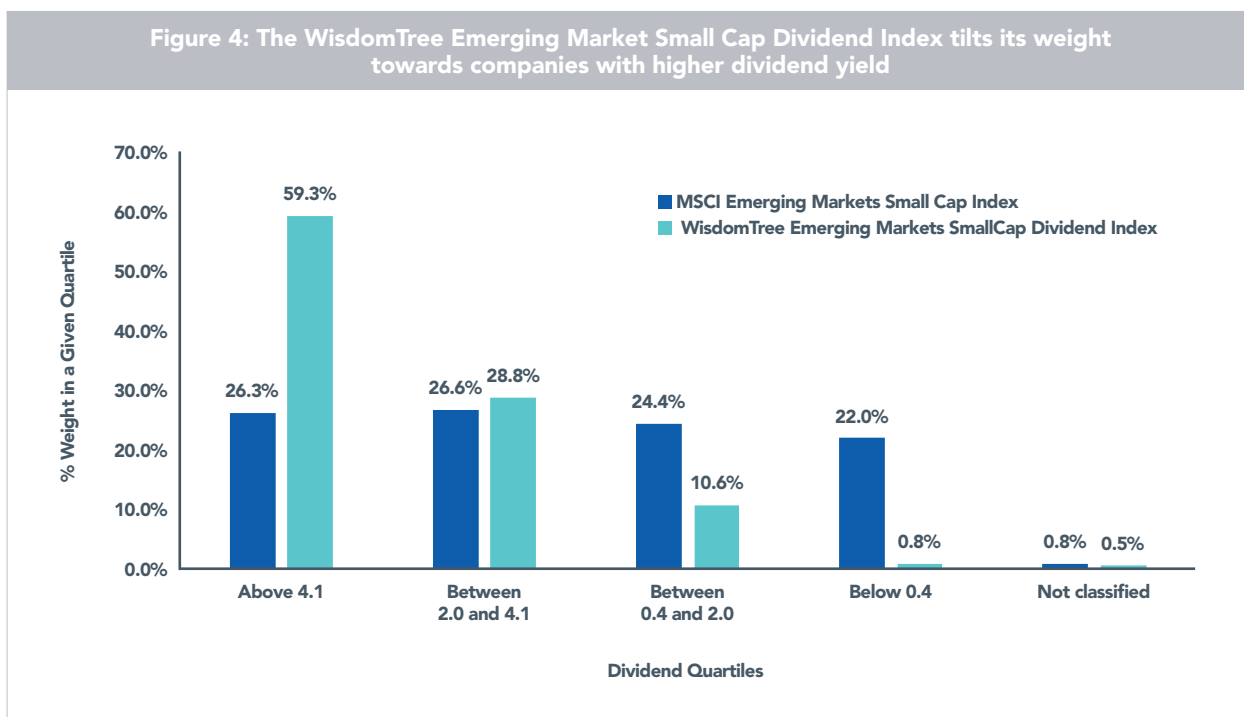
Source: Bloomberg, as of 29/11/2019. **Historical performance is not an indication of future performance and any investments may go down in value.** You cannot invest directly in an index.

We believe that focusing on small-cap dividend payers is a quantitative, disciplined way to access the value premium, avoid speculative companies and locate yield opportunities. So, how do we do it?

WisdomTree Emerging Markets SmallCap Dividend Index weights by dividends. We’ve discovered during our firm’s history that our dividend weighted approach tends to make the greatest difference in less efficient markets.

Most ETFs are market cap weighted – meaning they give more weight to companies selling at higher prices rather than those potentially offering stronger fundamentals. But at WisdomTree, we believe fundamentals such as dividends offer more objective measures of a company’s health, value and profitability than stock price alone. Consider that:

- + Dividends have theoretical and empirical importance in determining stock values
- + The payment of dividends indicates that management is focused on increasing shareholder value
- + Dividend stocks offer the potential for income, income growth and capital appreciation
- + Dividends can provide benefits regardless of the market direction



Source: WisdomTree, Factset as of 29/11/2019. **Historical performance is not an indication of future performance and any investments may go down in value. You cannot invest directly in an index.**

A RULES-BASED METHODOLOGY KEEPS FOCUSING ON DIVIDENDS

The WisdomTree Emerging Markets SmallCap Dividend Index seeks to include a broad array of dividend-paying small-cap stocks – 1020 as of 10 October 2018. Our methodology is designed to work on an ongoing basis, annually rebalancing to maintain its focus on small companies that pay dividends. It’s important to note that focusing on small-cap emerging market dividend payers doesn’t lead to a narrow index.

Figure 5: Methodology matters – how the WisdomTree Emerging Markets SmallCap Dividend Index maintains its focus

Selection Rules	
Eligible Universes	Companies must be incorporated in and list their shares on an exchange in the following emerging market nations: Brazil, Chile, China, Czech Republic, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, Taiwan, Thailand or Turkey. Constituents must also have paid at least \$5 million in dividends during the annual cycle prior to the annual reconstitution in October.
Market Cap Requirement	At least \$200 million as of the annual screening date.
Liquidity Requirements	Average daily dollar volume of at least \$200,000 for each of the six months preceding the screening date and trading of at least 250,000 shares per month for each of those six months. A further volume screen requires that a calculated volume factor (average daily dollar volume for three months preceding the screening date divided by weight of security in Index) shall be greater than \$200 million.
Selection Methodology	All constituents in the WisdomTree Emerging Markets Dividend Index are ranked by market capitalisation as of the annual screening date. The WisdomTree Emerging Markets SmallCap Dividend Index includes firms ranking within the bottom 10% of the total market capitalisation of the WisdomTree Emerging Markets Dividend Index. To be deleted from the Index, companies must rank outside the bottom 13% of total market capitalization of the WisdomTree Emerging Markets Dividend Index.
Weighting Rules	
Weighting	Each company's weight is proportional to its annual cash dividends paid over the annual cycle prior to the Annual Screening Date, or <i>Dividend Stream</i> [®] , compared to that of all other Index constituents. Each company therefore must pay regular cash dividends. Special dividends are excluded.
Capping Rules	Exposure to any country or sector is capped at 25%. These are soft caps, because between annual Index screening dates, sector weights may shift above these caps due to market movement. This capping rule exists because dividend-paying small-cap stocks in emerging markets may concentrate within particular countries or sectors. The methodology is meant to maintain its broadness of exposure.
Liquidity Adjustment Factor	If a security has a calculated volume factor of less than \$400 million, its weight will be reduced proportionally by a liquidity factor that equals the original calculated volume factor divided by \$400 million. Implementation of this adjustment may cause an increase in sector weights above other specified caps.

MANAGING VALUATION RISK THROUGH ANNUAL REBALANCING

The Index is rebalanced annually based on relative value to maintain a focus on the small-cap value premium. The constituents and weights can change depending upon:

+ Share price performance: Since dividend yield is calculated as dividends paid over the prior 12 months divided by share price, the behaviour of the share price does have an impact on the dividend yield. If we assume the dividend is constant, a rising share price would mean a lower dividend yield. Conversely, a falling share price can lead to a less expensive stock and a higher dividend yield.

+ Dividend growth (or reduction): Rising dividends are another way to see a dividend yield potentially rise, just as falling dividends are another way to see a dividend yield potentially fall.

It is important to note that when the Index is rebalanced, caps are set at 25% to sectors and countries in order to mitigate the risk of overexposure. In our opinion, a rules-based process focused on weighting by dividends can offer potential outperformance, higher yields and lower risk than market capitalisation approaches.

INTRODUCING THE WISDOMTREE EMERGING MARKETS SMALLCAP DIVIDEND UCITS ETF

The WisdomTree Emerging Markets SmallCap Dividend UCITS ETF (DGSE) tracks the WisdomTree Emerging Markets SmallCap Dividend Index. The Fund can be a smart way to access emerging market small caps, as it:

1. Provides direct access to local consumer sectors and local economies
2. Enhances the small-cap and value premiums through dividend weighting
3. Provides the potential for additional income
4. Offers a unique country mix
5. Can help complete emerging market allocations

Fund Information: WisdomTree Emerging Markets Small Cap Dividend UCITS ETF							
Ticker	Exchange	ISIN	BBG Code	Reuters Code	Listing Currency	Base Currency	TER%*
DGSE	LSE	IE00BQZJBM26	DGSE LN	DGSE.L	GBx	USD	0.54%
DGSD	LSE	IE00BQZJBM26	DGSD LN	DGSD.L	USD	USD	0.54%
DGSE	Borsa Italiana	IE00BQZJBM26	DGSE IM	DGSE.MI	EUR	USD	0.54%
DGSE	SIX	IE00BQZJBM26	DGSE SW	DGSE.S	CHF	USD	0.54%
WTED	XETRA	DE000A14ND04	WTED GY	WTED.DE	EUR	USD	0.54%

* Total Expense Ratio.

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