

# HOW DID THIS INTERNATIONAL STRATEGY BEAT 97% OF ITS PEERS?

Jeremy Schwartz – Global Chief Investment Officer  
02/12/2015

A big story of the last two years has been the strength of the U.S. dollar and the change in central bank policy prescriptions that led to it. This move has caused strong reverberations across foreign stock funds that are exposed to foreign currency [risk](#). When allocating to foreign stocks, investors typically must take on currency risk in addition to the local equity exposure. Recently, the by-product of this “[currency bet](#)” has detracted from the performance of traditional international funds—the vast majority of which do not [hedge](#) currencies. To address this, wisdomTree launched a broad-based international currency-hedged strategy in 2014 that gives exposure across the major developed world countries but hedges out the currency impact. That hedge is leading to dramatic performance differentials versus the large category of foreign open-ended funds and exchange-traded funds (ETFs). **How Strong Are Currency Headwinds?** There are more than 1,500 open-ended funds and ETFs in the foreign large-cap, large value and large-cap growth categories, according to Morningstar. Below we showcase how the [wisdomTree International Hedged Dividend Growth Fund \(IHDG\)](#) has beaten 97% of its 1,515 peers since its inception. We contrast this with the [MSCI EAFE Index](#) and the [FTSE Developed ex North American Index](#), which have only beaten 45% and 47% of this peer group, respectively. Both of these indexes have exposure to foreign currency risk, which shows how dramatic currency headwind can be. The strong relative returns of IHDG versus the peer group show how currency has become a prime driver of relative performance when investing internationally.<sup>1</sup>

**IHDG Beats 97% of Foreign Large-Cap Funds Percentage of Peers Beaten in MorningStar Category as of December 31, 2014**

Morningstar Category: Foreign Large Blend/Growth/Value (ETF and Open-Ended Funds)	Since Inception* Returns	Peer Group Rank	% of Peer Group Beaten
WisdomTree International Hedged Dividend Growth Fund	-1.24	44	97
MSCI EAFE Index	-8.36	828	45
FTSE Developed ex North America Index	-8.31	809	47
Number of Managers		1,515	

Past performance is not indicative of future results. \*Since inception: 6/1/14–12/31/14.

Source: 2015 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. The percent rank in category is the funds’ total-return percentile rank relative to all funds within the same Morningstar category and is subject to change each month. Regarding ranking of funds, 1 = Best and 100 = Worst. The rankings do not take into account the effects of sales charges.

Returns

as

of

Average Annual  
12/31/2014

	Total Return NAV (%)				Market Price (%)			
	1-Yr.	3-Yr.	5-Yr.	Since Inception*	1-Yr.	3-Yr.	5-Yr.	Since Inception*
WisdomTree International Hedged Dividend Growth Fund	N/A	N/A	N/A	1.30%	N/A	N/A	N/A	0.58%
MSCI EAFE Index	-4.90%	11.06%	5.33%	-6.78%	-4.90%	11.06%	5.33%	-6.78%
FTSE Developed ex North America Index	-4.85%	11.02%	5.60%	-6.53%	-4.85%	11.02%	5.60%	-6.53%

Source: WisdomTree. \*Since inception: 5/7/14–12/31/14.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

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.

## Portfolio

**Characteristics of IHDG** IHDG has a stock selection focus driven by three factors: high [return on equity \(ROE\)](#) and high [return on assets \(ROA\)](#), which are two measures associated with “quality,” and earnings growth expectations. • As a result of these screens, the methodologies tend to be concentrated in Consumer Staples, Consumer Discretionary, Health Care and Industrials. The two consumer sectors are the largest two sectors in IHDG and combine to represent more than a third of the ETF. Combined with Health Care and Industrials, which each represent more than 15% of the Fund, these four sectors make up over 60% of IHDG. The Fund’s three lowest exposures on a sector basis are to Utilities, Financials and Energy. Utilities and Financials are highly leveraged sectors, and the screen for ROA reduces their exposure. • An important element to consider is the ultimate cost of hedging, which can be estimated as the weighted average difference in [short-term interest rates](#) relative to the United States. For IHDG, this figure is approximately 0.2%, a relatively small cost to hedge these developed international currencies. The four biggest exposures are to the euro (more than a third of the ETF), British pound (almost 20%), Swiss franc (13%) and Japanese yen (9%) as of December 31, 2014. WisdomTree believes [currency-hedged investment strategies](#) are growing in prominence due to shifting policy winds among global central banks. We believe that IHDG represents a potentially beneficial marriage of growth and quality characteristics with this added currency-hedged feature. This type of exposure represents to us an attractive holding for core allocations to developed international stocks. <sup>1</sup>All data is as of 12/31/14.

### Important Risks Related to this Article

All holdings and sectors are subject to change. 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. To the extent the Fund invests a significant portion of its assets in the securities of companies in a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. 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](http://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

**Risk**: Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

**Currency bet**: an investment made in a currency in order to profit from a rise or fall in the value.

**Hedge**: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**MSCI EAFE Index**: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

**Return on Equity (ROE)**: Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Return on assets (ROA)**: Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

**Short-term rates**: the rate of interest on a debt instrument maturing in two years or less.