

---

# WHAT'S DRIVING THE QUALITY DIVIDEND GROWTH PERFORMANCE?

Matt Wagner – Associate Director, Research  
06/27/2018

In December 2013, WisdomTree added a novel approach to its stable of international [dividend-focused](#) Indexes with the launch of the [WisdomTree International Hedged Quality Dividend Growth Index](#). This Index utilizes an annual screen on fundamental metrics, including [dividend payout ratios](#), [return on equity \(ROE\)](#), [return on assets \(ROA\)](#) and long-term estimated earnings growth in selecting 300 dividend-paying companies. These metrics were chosen with the aim of constructing a unique rules-based process that targets quality dividend-paying companies with high ability to grow their dividends over time.

As a result of this screening process and weighting by annual cash dividends, some of the characteristics of this Index are materially different from its [cap-weighted](#) benchmark. Attribution analysis of some of these key differences is discussed below to provide deeper insight into the Index's drivers of outperformance since inception.

## ROE Quintiles: Nearly Three Times the Weight in the Top ROE Quintile

Breaking down exposures into ROE [quintiles](#) helps show the impact of the Index's quality screen on tilts toward profitable companies and how that has affected performance. This attribution starts by creating ROE categories from the market cap index (five quintiles, separate from two buckets of negative return and a category for when there is no data). After assigning categories, we can then compare the relative weights of each index by category and its performance. The sum of the total attribution in this case shows 221 [basis points \(bps\)](#) annualized outperformance for the quality index versus its market cap benchmark, the [MSCI EAFE Local Currency Index](#).

- The WisdomTree Index has 64.49% allocated to the top ROE quintile versus just 22.51% for the market cap-weighted index, a differential of nearly three times. This higher allocation was the primary driver of outperformance (1.14% of the 2.21%).
- The bulk of the quality index's 42% over-weight in the top quintile was approximately offset by its 38% under-weight in the bottom three quintiles. In aggregate, this under-weight helped contribute another 108 bps to the Index's outperformance. This supports the notion of outperformance being critically tied not only to what is included but to avoiding lower quality companies as well.

- When reviewing the returns of the categories in the market cap benchmark in the far-right column, one segment that stands out relative to others is the outperformance of the negative return category. This category’s return of 7.52% was the second best-performing category in the benchmark, even outperforming the highest ROE quintile by 30 bps. With the benchmark having less than 4% weight to this segment, idiosyncratic factors may play a part in defying the trend of underperformance seen from the bottom two quintiles.

WTIDGH - WisdomTree International Hedged Dividend Growth Index				vs.	MXEA - MSCI EAFE Local Currency Index				
Return on Equity Attribution		As of: 5/31/2018		MTD	QTD	YTD	1Y	3Y	Since Inception
Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
1st Quintile (Highest ROE)	0.00%	0.39%	0.75%	1.14%	64.69%	22.51%	42.18%	8.96%	7.22%
2nd Quintile	0.00%	0.43%	-0.22%	0.21%	23.72%	23.24%	0.48%	10.12%	7.88%
3rd Quintile	-0.03%	0.97%	-0.59%	0.35%	7.29%	19.04%	-11.75%	12.30%	7.18%
4th Quintile	0.50%	0.12%	-0.09%	0.53%	2.41%	17.60%	-15.18%	4.41%	3.40%
5th Quintile (Lowest ROE)	0.03%	2.06%	-1.89%	0.20%	1.42%	12.85%	-11.43%	21.82%	5.88%
Negative Return	-0.14%	0.68%	-0.73%	-0.19%	0.13%	3.94%	-3.81%	19.34%	7.52%
N/A	-0.04%	0.02%	-0.01%	-0.02%	0.33%	0.82%	-0.49%	18.00%	7.42%
<b>Total</b>	<b>0.32%</b>	<b>4.68%</b>	<b>-2.79%</b>	<b>2.21%</b>	-	-	-	<b>9.36%</b>	<b>7.15%</b>

Sources: WisdomTree, FactSet, for the period 12/2/13–5/31/18. Past performance is not indicative of future results. You cannot invest directly in an index.

### Sector and Country Attribution

In addition to differentiated exposures to fundamentals such as ROE, sector and country attributions help drill into another way to analyze exposures and returns. The sector exposure has tended to be more heavily weighted in the Consumer sectors and Health Care, and significantly less in Financials. From a country perspective, the most notable weight differential in either direction has been an under-weight in Japan of 11.65%. Low dividend payment levels, while growing, have minimized the weights assigned to Japanese constituents relative to market cap weighting—10.92% compared with 22.58%. This under-weight in Japan contributed 50 bps to outperformance for the period.

Chronically low ROEs have left many large financial institutions out of the Index since inception. As of May 31, 2018, the screening date for the WisdomTree International Index [annual rebalance](#), [MSCI EAFE Financials](#) have an ROE of 8.25%, compared with 11.1% for the broader Index.<sup>1</sup> Persistently low [interest rates](#), sluggish growth and regulatory guidelines to bolster capital buffers all point toward continued headwinds for the sector on this key measure of profitability.

Attribution Component					Average Category Weight			Category Performance	
Category	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Consumer Staples	0.32%	0.51%	0.39%	1.21%	19.97%	11.39%	8.58%	13.52%	9.09%
Financials	0.58%	2.57%	-2.43%	0.72%	2.88%	21.39%	-18.51%	15.85%	3.69%
Telecommunication Services	0.30%	-0.22%	0.42%	0.49%	4.10%	4.69%	-0.59%	-4.01%	1.55%
Information Technology	0.20%	0.13%	0.09%	0.41%	8.11%	5.28%	2.83%	14.72%	12.17%
Consumer Discretionary	0.01%	0.14%	0.07%	0.22%	18.96%	12.35%	6.61%	8.09%	6.88%
Industrials	0.08%	0.12%	-0.01%	0.19%	16.99%	13.46%	3.53%	9.45%	8.73%
Real Estate	-0.03%	0.27%	-0.13%	0.11%	2.70%	3.55%	-0.85%	12.81%	6.61%
Utilities	-0.02%	-0.30%	0.29%	-0.03%	1.19%	3.53%	-2.34%	-5.71%	6.07%
Health Care	-0.15%	0.02%	-0.01%	-0.14%	16.85%	11.24%	5.60%	6.83%	6.63%
Energy	-0.16%	-0.78%	0.67%	-0.27%	1.73%	5.59%	-3.86%	-9.70%	7.19%
Materials	-0.20%	-0.43%	-0.10%	-0.72%	6.53%	7.53%	-1.00%	2.82%	9.06%
<b>Total</b>	<b>0.94%</b>	<b>2.01%</b>	<b>-0.74%</b>	<b>2.21%</b>	-	-	-	<b>9.36%</b>	<b>7.15%</b>

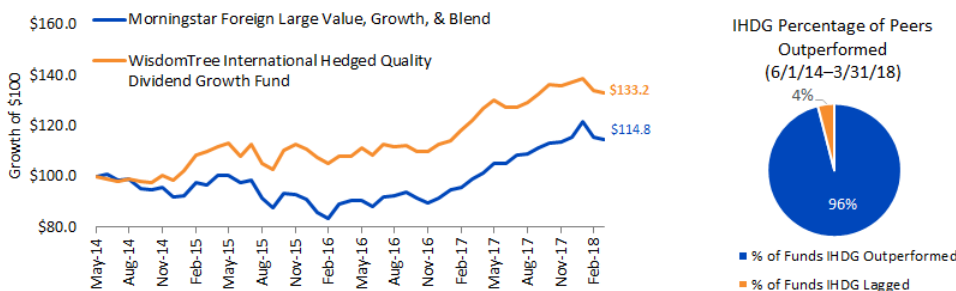
Sources: WisdomTree, FactSet, for the period 12/2/13–5/31/18. Past performance is not indicative of future results. You cannot invest directly in an index. Allocations subject to change.

In reviewing the largest sector contributors, the Consumer Staples sector was the largest contributor to outperformance, adding 121 bps. The under-weight in Financials was the second largest contributor, adding 72 bps; the Financials sector was the second worst-performing in the benchmark.

For those interested in more time periods and methods to attributing this Index’s performance, please check out our [new Index Performance Attribution tool](#).

**WisdomTree International Hedged Quality Dividend Growth Fund (IHDG): Beating 96% of Its Peers since Inception**

The Fund tracking this Index, IHDG, has recently crossed its four-year live track record in May. As of the most recent quarter-end, IHDG is sitting close to the top of its peer group, beating 96% of its peers since inception. For investors looking for a differentiated approach that is grounded in exposures to the time-tested characteristics of quality and dividend growth, we think IHDG should be squarely on the radar.



Fund/Index/Category	Fund Information			Average Annual Total Returns as of 3/31/18									
	Ticker	Exp. Ratio	Inception Date	NAV Returns (%)					Market Price Returns (%)				
				1-Year	Common Period	3-Year	5-Year	10-Year	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree International Hedged Quality Dividend Growth Fund	IHDG	0.58%	5/7/2014	8.8%	7.8%	6.6%	N/A	N/A	9.2%	7.7%	6.7%	N/A	N/A
MSCI EAFE Local Currency Index				5.2%	6.2%	3.3%	8.4%	4.5%	5.2%	6.2%	3.3%	8.4%	4.5%
Morningstar Foreign Large Value, Growth, & Blend				16.1%	3.7%	5.8%	6.4%	2.9%	16.1%	3.7%	5.8%	6.4%	2.9%

© Morningstar, Inc., 2018. 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 % of Peer Group Beaten is the funds' total-return percentile rank compared to all funds within the same Morningstar Category and is subject to change each month.

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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein. Additional Index information is available at [www.wisdomtree.com](http://www.wisdomtree.com).

Sources: Morningstar, WisdomTree, 3/31/08–3/31/18. "Common period" refers to 5/31/14–3/31/18 due to inception of fund. 5/7/14 represents the IHDG inception date.

1, 129 investments included in peer group for Morningstar Foreign Large Value, Growth, & Blend.

*All data as of May 31, 2018, and sourced from WisdomTree and FactSet.*

<sup>1</sup>Sources: WisdomTree, FactSet.

**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. To the extent the Fund invests a significant portion of its assets in the securities of companies of 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 effect 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

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

**Dividend Payout Ratio**: The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

**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.

**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.

**Quintile**: One of the class of values of a variate which divides the members of and batch or sample into equal-sized subgroups of adjacent values or a probability distribution into distributions of equal probability.

**Basis point**: 1/100th of 1 percent.

**MSCI EAFE Local Currency Index**: A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan, with performance measured in local currency term.

**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.

**MSCI EAFE Financials Index**: Captures large and mid cap representation across 21 of 23 Developed Markets (DM) countries around the world, excluding the US and Canada. All securities in the index are classified in the Financials sector as per the Global Industry Classification Standard.

**Interest rates**: The rate at which interest is paid by a borrower for the use of money.