

INTERNATIONAL QUALITY DIVIDEND GROWTH—2020 RECONSTITUTION

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Earlier this month, WisdomTree conducted its annual reconstitution for all developed international [dividend](#) indexes—broad dividends, high dividends and quality dividend growth.

In this post, we will provide a review of the reconstitution of the WisdomTree International Quality Dividend Growth Index.

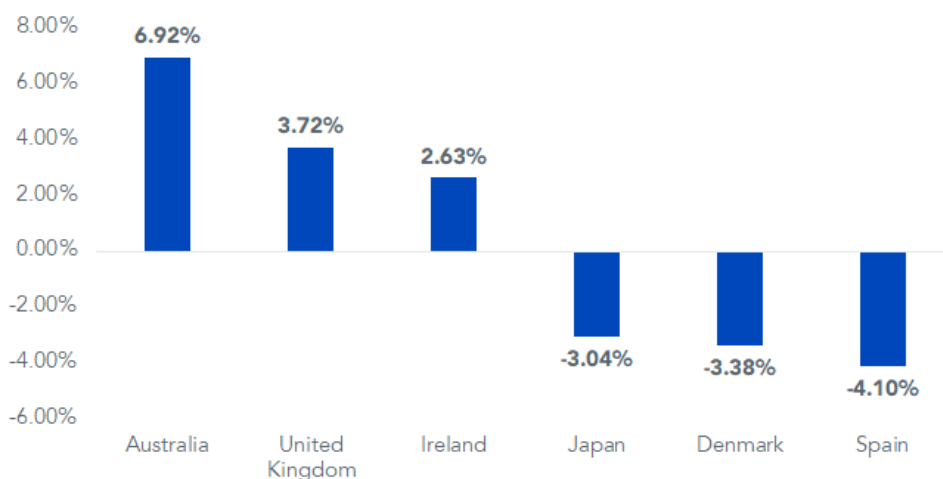
Country and Sector Changes

The biggest single change from a country perspective was Australia, with an increase of 7%. This increase is driven by the addition of two Australian mining companies—BHP Group (4.97% weight) and Rio Tinto Limited (2.12%).

BHP and Rio Tinto are the two largest metals and mining companies in the world. Both have low levels of financial leverage and steady earnings and have benefited from a significant increase in the price of iron ore this year. BHP generates about 40% of its revenue from iron ore; Rio Tinto more than 50%.¹

The United Kingdom had the second largest increase, largely attributed to the addition of the pharmaceutical company GlaxoSmithKline (GSK)—a 4.19% weight.

Top 3 Pre-Rebalance and Post-Rebalance Country Weight Changes



Source: WisdomTree, FactSet. Data as of 9/30/2020, the screening date for the annual reconstitution of the WisdomTree International Quality Dividend Growth Index. You cannot invest directly in an index. Weights subject to change.

When looking at sector changes, Materials had the biggest percentage weight increase, driven by the two Australian companies as well as Linde, an Ireland-incorporated materials company.

The reduction from Information Technology was primarily driven by the [Dividend Stream](#) weighting process that tends to reduce weight to the sectors that had the greatest price appreciation.

Two noteworthy removals from Consumer Staples were British American Tobacco (3.64%) and

Diageo (1.82%).

Overall, the largest sector weight remains Health Care, which is a 5.6% over-weight relative to the [MSCI EAFE Index](#). The weight to Financials increased slightly, but its almost 11% under-weight is the greatest of any sector relative to MSCI EAFE.

Aggregate Sectors

Sector	Pre-Rebalance	Post-Rebalance	MSCI EAFE	Pre- vs. Post-Rebalance	MSCI EAFE vs. Post-Rebalance
Comm. Services	4.93%	4.77%	5.46%	-0.16%	-0.70%
Cons. Discretionary	13.19%	10.86%	11.86%	-2.33%	-1.00%
Cons. Staples	14.67%	10.15%	11.94%	-4.52%	-1.79%
Energy	1.59%	1.33%	2.77%	-0.26%	-1.44%
Financials	2.29%	4.17%	15.07%	1.88%	-10.90%
Health Care	16.89%	20.00%	14.36%	3.11%	5.64%
Industrials	14.58%	13.26%	15.23%	-1.32%	-1.97%
Info. Tech.	16.18%	11.91%	8.62%	-4.27%	3.29%
Materials	11.16%	19.56%	7.62%	8.40%	11.94%
Real Estate	2.48%	2.96%	3.10%	0.49%	-0.13%
Utilities	2.04%	1.02%	3.97%	-1.02%	-2.95%

Source: WisdomTree, FactSet. Data as of 9/30/2020, the screening date for the annual reconstitution of the WisdomTree International Quality Dividend Growth Index. You cannot invest directly in an index. Weights subject to change.

Single Company Changes

The tables below provide additional detail on the largest additions and drops from the Index.

Of the top 10 drops, only Evraz plc (0.69% weight) was removed based on [new enhanced risk screening](#) that was introduced at this rebalance.

WisdomTree's quality dividend growth Indexes were designed for dividend sustainability and a growth emphasis. Because constituents are selected based on quality and estimated earnings growth, there is only a modest impact to our quality Indexes from these new risk screens.

Top 10 Additions

Company	Wgt	Sector	Country
BHP Group Ltd	4.97%	Materials	Australia
SoftBank Corp.	4.38%	Comm. Services	Japan
GlaxoSmithKline plc	4.19%	Health Care	United Kingdom
Roche Holding AG	4.19%	Health Care	Switzerland
LVMH Moet Hennessy Louis Vuitton	4.03%	Cons. Disc.	France
Linde plc	2.88%	Materials	Ireland
Rio Tinto Limited	2.12%	Materials	Australia
Hong Kong Exchanges & Clearing	1.54%	Financials	Hong Kong
Bridgestone Corporation	1.03%	Cons. Disc.	Japan
Atlas Copco AB Class A	0.88%	Industrials	Sweden

Top 10 Drops

Company	Wgt	Sector	Country
Industria de Diseno Textil, S.A.	4.05%	Cons. Disc.	Spain
British American Tobacco p.l.c.	3.64%	Cons. Staples	United Kingdom
Kering SA	2.59%	Cons. Disc.	France
Nintendo Co., Ltd.	2.48%	Comm. Services	Japan
Diageo plc	1.82%	Cons. Staples	United Kingdom
Shin-Etsu Chemical Co Ltd	1.71%	Materials	Japan
Telenor ASA	1.55%	Comm. Services	Norway
Koninklijke DSM N.V.	0.92%	Materials	Netherlands
SGS SA	0.89%	Industrials	Switzerland
Evraz PLC	0.69%	Materials	United Kingdom

Source: WisdomTree, FactSet. Data as of 9/30/2020, the screening date for the annual reconstitution of the WisdomTree International Quality Dividend Growth Index. You cannot invest directly in an index. Weights subject to change.

Fundamentals

Post-rebalance fundamentals show reduced valuations—the process of giving greater weight to higher dividend payers rather than price performance applies a valuation discipline—and an increase in quality metrics.

Return on assets (ROA) improves from 7.79% to 8.35%, and return on equity (ROE) improves more than 300 basis points (bps) from 19.52% to 22.79%.

While the discounted valuations of MSCI EAFE relative to the S&P 500 can be explained by significantly lower profitability, the quality dividend growth Index has a lower earnings multiple with higher profitability relative to the S&P 500.

Fundamentals: Pre-Rebalance and Post-Rebalance

Name	Constituents	Div. Yld.	Price-to-Earnings	Price-to-Sales	Return on Assets	Return on Equity
Post-Rebalance	300	2.95%	18.93	2.55	8.35%	22.79%
Pre-Rebalance	239	2.59%	22.79	2.61	7.79%	19.52%
MSCI EAFE Index	902	3.08%	21.91	1.17	0.93%	7.02%
S&P 500 Index	505	1.75%	27.52	2.48	2.81%	13.08%

Source: WisdomTree, FactSet. Data as of 9/30/2020, the screening date for the annual reconstitution of the WisdomTree International Quality Dividend Growth Index. You cannot invest directly in an index.

Factor Tilts

Another way of illustrating the changes to quality and value on the pre-rebalance Index and post-rebalance Index is with WisdomTree’s multifactor scorecard.

By design, each category—good, okay and bad—contains roughly a third (33%) of the total market cap of developed international equities. Tilts away from the market across these categories indicate how an Index taps into these different factors.

Using a composite measure of six ratios for value, the Index increased exposure to the good value stocks from about 25% to about 33%. This indicates a similar weight to good value as a market cap-weighted benchmark.

An even more significant increase can be seen from quality, where the Index improves from about 53% weight in good quality to more than 66%.

Momentum—which is part of the composite risk screening process but not a direct factor used in selecting or weight—also shows a modest increase in exposure to good momentum companies.

Factor Tilts: Pre-Rebalance and Post-Rebalance

Index	Group	Value	Quality	Momentum
Pre-Rebalance	Good	24.7%	52.7%	47.5%
	Okay	37.6%	36.2%	35.8%
	Bad	37.7%	11.1%	16.7%
Post-Rebalance	Good	33.1%	66.3%	51.2%
	Okay	32.2%	24.7%	42.4%
	Bad	34.6%	9.0%	6.4%

Source: WisdomTree, FactSet. Data as of 9/30/2020, the screening date for the annual reconstitution of the WisdomTree International Quality Dividend Growth Index. You cannot invest directly in an index.

While many investors argue that market cap-weighted developed international indexes hold implicit bets on the outperformance of value—and more specifically, banks—the WisdomTree International Quality Dividend Growth Index was designed to have a more balanced factor profile. And with the outperformance of quality during this year’s downturn, this Index has outperformed the MSCI EAFE Index by nearly 1,000 bps year-to-date.²

¹“Big Global Miners: NPV at risk: Iron ore stocks stand out,” Bank of America Global Research, 10/15/20.

²Source: WisdomTree, FactSet. Net total returns from 12/31/19–10/30/20.

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.

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You cannot invest directly in an index.

DEFINITIONS

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

Dividend Stream: Refers to the regular dividends per share multiplied by the number of shares outstanding.

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.

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Quality: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

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.

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

Basis point: 1/100th of 1 percent.

Market Capitalization: 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.

Momentum: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.