A GROWTH STYLE CHARACTERISTIC FOR A DIVIDEND ETF

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WisdomTree recently created a new Index and corresponding exchange-traded Fund (ETF) to generate exposure to a specific segment of the U.S. dividend-paying equity market: stocks with growth characteristics. One question that has been asked: Isn't the U.S. dividend-focused ETF market a crowded and saturated market, with a lot of big ETFs, which makes it tough for newer funds to gain traction? Well, the answer depends on how the focus on U.S. dividend payers is achieved. In addition to our selection methodology to focus on a basket of stocks with dividend growth potential that we discussed here, we believe the dividend-oriented ETF we have created with the WisdomTree U.S. Dividend Growth Fund (DGRW) boasts some other interesting attributes. **In the Growth Style Box** Nearly half of U.S. dividend-focused ETF assets and half of the dividend-focused ETFs by number (12 out of 23) are categorized as "large-cap value" funds by Morningstar. This large-cap value classification for most of the assets implies a high degree of overlap with various dividend strategies—meaning that their underlying methodologies end up generating portfolios with similar style [1] characteristics. For this analysis, our initial universe consisted of ETFs listed on U.S. exchanges that track the performance of indexes that consist only of U.S. dividend payers. Any ETFs utilizing leverage or sector-specific exposures were excluded because we wanted to focus only on options that were broad based.[2]

U.S. Equity ETFs Focusing on Dividend Payers: 23 total with $64.02 Billion in assets under management

	Value	Blend	Growth
Large	12 Funds $29.83 Billion 47% of Assets	6 Funds $20.01 Billion 31% of Assets	1 Fund $5 Million 0% of Assets
Mid	3 Funds $13.52 Billion 21% of Assets	0 Funds	0 Funds
Small	1 Fund $650 Million 1% of Assets	0 Funds	0 Funds

Source: Morningstar Direct, May 28, 2013.

For definitions of

terms and indexes, visit our Glossary. • There were 23 funds in the universe of broad-based U.S.-listed ETFs, and these had a total of more than $64 billion in total assets. • Approximately 99% of the assets in these 23 ETFs were classified by Morningstar as Large Value, Large Blend, or Mid-Cap Value. If new broad-based dividend ETFs come into existence that are classified in these areas of the style box, they might have a more difficult time differentiating themselves from the options already in existence. • The style boxes that are notably “light” fall within the small-cap row as well as along the growth column. The singular funds represented in these areas are both WisdomTree Funds, the WisdomTree SmallCap Dividend Fund (DES) in the Small Value box, and the WisdomTree U.S. Dividend Growth Fund (DGRW) in the Large Growth box. We believe a major reason asset levels are currently small is that investors aren’t aware that dividend-focused options actually exist in small caps or in growth-oriented equities. DGRW was created with a methodology to select dividend-paying stocks with growth characteristics. The selection factors of DGRW include a multi-factor ranking process based on long-term earnings growth expectations, historical three-year average return on equity and historical three-year average return on assets. Historically, these variables tend to coincide largely with growth stocks—and stocks we believe have the most potential to grow dividends over time. **Conclusion** As people try to make sense of the myriad investment options that exist within ETFs, our hope is that the above chart might help simplify the dividend-focused picture of U.S. equities. Many options exist, but most of them are categorized within a very limited portion of the style box. We’d encourage investors to recognize that U.S. dividend payers (and ETFs focused on them) can exist within the small-cap row as well as the growth column of the style box, giving the potential to offer differentiated exposure to complement existing dividend-focused strategies. [1]Style: Morningstar defines its style box along two axes—large, mid and small, as well as value, blend and growth. If two strategies are in the same style box, it does not mean that they hold the exact same portfolios, but it could mean that it might be harder to generate significantly different returns, as compared to strategies in different style boxes. [2] The style box classifications and asset levels were sourced from Morningstar Direct, current as of May 28, 2013.

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DEFINITIONS

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Sector-specific exposures : Strategies that specifically generate exposure to a single industry or sector rather than diversifying across all sectors.

Large Blend : Characterized by exposure spanning across stocks exhibiting both value and growth attributes. This is achieved while focusing on relatively larger companies.

Mid-Cap Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This is achieved while focusing on mid-cap companies.

Long-Term Earnings Growth Expectations : Compilation of analyst estimates of the growth in operating earnings expected to occur over the next full business cycle, typically 3 to 5 years, sourced from Bloomberg.

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.