

U.S. QUALITY DIVIDEND GROWTH— 2020 RECONSTITUTION

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Across the globe, [quality](#) stocks were among the best performers in 2020, as companies with high profitability maintained an earnings edge despite Covid-19's impact on the economy.

The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), which seeks to track the [WisdomTree U.S. Quality Dividend Growth Index \(WTDGI\)](#), selects companies that look attractive according measures of profitability like [return-on-equity \(ROE\)](#) and [return-on-assets \(ROA\)](#), and earnings growth prospects, and weights them by their [dividend stream](#).

This fundamental model has allowed WTDGI to garner exposure to dividend growers and stay away from companies at risk of cutting or suspending dividend payments.

The below table shows the 10 largest [S&P 500 Index](#) companies that cut or suspended [dividends](#) since WTDGI's 2019 rebalance.

Excluding Schlumberger NV, which was not in WTDGI's starting universe, these companies cut a total of \$26.3 billion in dividends. WTDGI did not hold any of the companies in the top seven, and the impact to its dividend stream was only \$5.4 billion.

Rank	Ticker	Name	Sector	Dividends Per Share		Dividend Stream (\$Bn)	
				11/29/19	11/30/20	11/29/19	11/30/20
1	WFC	Wells Fargo & Company	Financials	\$2.04	\$0.40	\$8.63	\$1.69
2	BA	Boeing Company	Industrials	\$8.22	\$0.00	\$4.63	\$0.00
3	DIS	Walt Disney Company	Communication Services	\$1.76	\$0.00	\$3.17	\$0.00
4	D	Dominion Energy Inc	Utilities	\$3.67	\$2.52	\$3.02	\$2.07
5	OXY	Occidental Petroleum Corporation	Energy	\$3.16	\$0.04	\$2.82	\$0.04
6	SLB	Schlumberger NV	Energy	\$2.00	\$0.50	\$2.78	\$0.69
7	SPG	Simon Property Group, Inc.	Real Estate	\$8.40	\$5.20	\$2.58	\$1.60
8	LVS	Las Vegas Sands Corp.	Consumer Discretionary	\$3.08	\$0.00	\$2.37	\$0.00
9	F	Ford Motor Company	Consumer Discretionary	\$0.60	\$0.00	\$2.34	\$0.00
10	GM	General Motors Company	Consumer Discretionary	\$1.52	\$0.00	\$2.17	\$0.00

Sources: WisdomTree, Bloomberg, as of 11/30/20. 11/29/19 used as the start date based on Index screening data for WTDGI. Weights subject to change.

WTDGI is [rebalanced](#) annually to reset exposure to these companies and adapt to changing economic conditions. Here are some of the major changes after its December reconstitution.

Fundamentals

WisdomTree recently implemented a [new Composite Risk Screening](#) in the reconstitution process that aims to mitigate exposure to the riskiest dividend payers across our broad Indexes. Because WTDGI already explicitly screens for quality, these additional metrics were more marginal but slightly improved the Index's overall quality profile.

ROA improved from 6.61% to 7.20% and ROE improved over 100 [basis points \(bps\)](#), from

24.12% to 25.57%. Both of these significantly exceed metrics about the S&P 500 Index. Along with improved quality metrics, the post-rebalance basket shows higher implied growth as measured by the [earnings retention](#) times the ROE. WTDGI also has 0.71% higher [dividend yield](#) than the S&P 500, with a 34% discount in forward valuation:

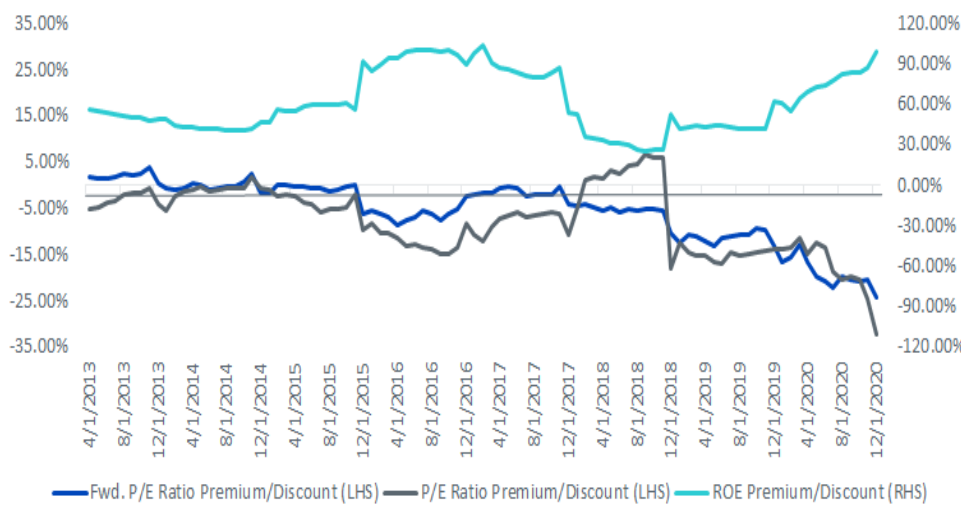
Portfolio	Div. Yield (%)	P/E Ratio	Fwd. P/E Ratio	ROE	ROA	Implied Growth	PE to Long-term Growth	Dividend Payout Ratio
WTDGI Pre Rebal	2.12	23.54	19.82	24.12	6.61	12.08	2.61	49.92%
WTDGI Post Rebal	2.28	21.33	18.44	25.57	7.20	13.11	2.47	48.74%
S&P 500 Index	1.57	31.28	24.64	12.84	2.74	6.55	2.81	48.97%

Sources: WisdomTree, FactSet. Pre-Rebalance data as of 12/18/20 and post-rebalance data as of 12/21/20. You cannot invest directly in an index.

For definitions of terms in the table, please visit our [glossary](#).

It is worth pointing out that WTDGI is trading at its largest [valuation](#) discount versus the S&P 500 Index since its inception in April 2013. In the chart below we can see how both the [trailing](#) and [forward P/E ratios](#) are at their largest discounts, while the relative improvement in quality as shown by the ROE premium, on the right-hand axis, is near an historical maximum.

Relative Valuation



Sources: WisdomTree, FactSet, as of 12/31/20. Past performance is not indicative of future results. You cannot invest directly in an index.

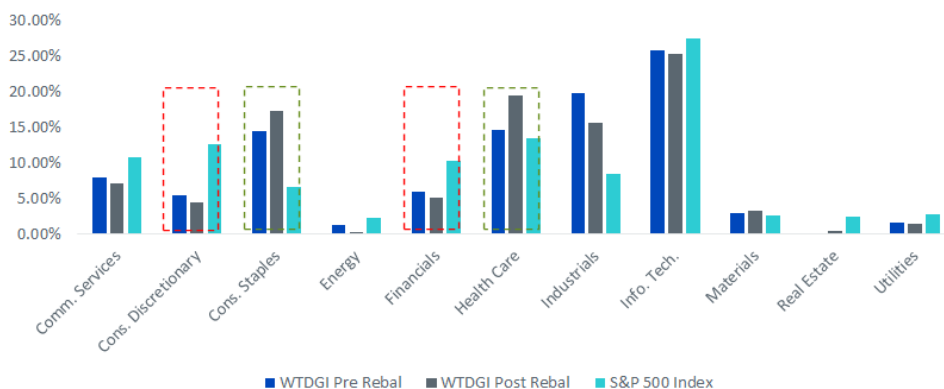
Sector Exposure

Another new feature in WTDGI’s 2020 rebalance relates to its sector caps. Starting in 2020, WTDGI will have a 25% cap in the Information Technology sector, better reflecting current market characteristics, while keeping a 20% cap in all other sectors.

During this latest reconstitution, the Health Care sector had the biggest percentage weight increase, driven by the addition of companies like Johnson & Johnson and Pfizer Inc, with weights of 4.61% and 3.68%, respectively. The Consumer Staples sector also saw an increase in exposure driven by the addition of The Coca-Cola Company at a 3.29%.

Noteworthy weight reduction came from the Industrials sector. Companies with large weight reductions were Raytheon Technologies, UPS and Union Pacific Corp.

Overall sector tilts versus the S&P 500 Index remain consistent as WTDGI remains underweight Financials and Consumer Discretionary while being overweight Health Care and Consumer Staples.



Sources: WisdomTree, FactSet. Pre-Rebalance data as of 12/18/20 and post-rebalance data as of 12/21/20. You cannot invest directly in an index.

Single-Company Changes

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

Top 10 Adds

Company	Wgt	Sector
Johnson & Johnson	4.61%	Health Care
Pfizer Inc.	3.66%	Health Care
Coca-Cola Company	3.29%	Consumer Staples
Cisco Systems, Inc.	2.56%	Information Technology
International Paper Company	0.38%	Materials
Kellogg Company	0.37%	Consumer Staples
Intercontinental Exchange, Inc.	0.31%	Financials
Allstate Corporation	0.31%	Financials
Republic Services, Inc.	0.25%	Industrials
Hormel Foods Corporation	0.25%	Consumer Staples

Top 10 Drops

Company	Wgt	Sector
Gilead Sciences, Inc.	1.50%	Health Care
Raytheon Technologies Corporation	1.03%	Industrials
Blackstone Group Inc. Class A	0.73%	Financials
American Express Company	0.68%	Financials
Marathon Petroleum Corporation	0.47%	Energy
Valero Energy Corporation	0.43%	Energy
Sysco Corporation	0.40%	Consumer Staples
ViacomCBS Inc. Class B	0.25%	Communication Services
Discover Financial Services	0.25%	Financials
Synchrony Financial	0.23%	Financials

Sources: WisdomTree, FactSet, as of 12/21/20, the screening date for the annual reconstitution of the WisdomTree Global ex-U.S. Quality Dividend Growth Index. You cannot invest directly in an index. Weights subject to change.

At a time when many are concerned about valuations of [speculative stocks](#), wisdomTree believes a focus on higher-quality stocks that pay dividends is a tried-and-true formula for long-term returns.

With the record valuation discounts we see from the launch of this quality index, we think 2021 is a particularly opportune time for this strategy.

Important Risks Related to this Article

There are risks associated with investing, including possible the loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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For the top 10 holdings of DGRW please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dgrw>

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](#).

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DEFINITIONS

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 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.

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

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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

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.

Basis point: 1/100th of 1 percent.

Earnings Retention: Proportion of a firm's earnings that are not paid out to shareholders in the form of a dividend but rather reinvested back into the business. Higher numbers indicate a greater percentage of earnings are being reinvested.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its 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.

Trailing Earnings: The amount of profit that a company produces during prior fiscal year.

Forward P/E ratio: Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

Speculative stocks: Higher-risk, more aggressive stock with uncertain prospects