

# AN UPDATE ON DGRW, DLN, IHDG AND XSOE

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*As 2020 comes to a close, we thought it would be helpful to provide investors with a quick update on some of our major strategies.*

## **DGRW – WisdomTree U.S. Quality Dividend Growth Fund – U.S. Large Blend**

**Performance:** Roughly in line with the [S&P 500](#) since 2013 inception, despite zero exposure to FB, AMZN, NFLX or GOOG<sup>1</sup> the whole time.

**Notable positives:** DGRW is a major Fund in [Large Cap Core](#), with AUM of \$4.5 billion. Particularly high exposure to [quality](#) stocks, the result of a [return on equity \(ROE\)](#) of 20%, about double the S&P 500's ROE (11%).

**Valuation:** [Forward price-to-earnings \(P/E\)](#) = 19.5; [Dividend yield](#) = 2.3%. S&P 500 = 24.9; Dividend yield = 1.7%. Focus = quality + value.

**Why long term:** The original wisdomTree dividend concepts + quality safeguards. Academic research indicates the quality factor can generate both outperformance and [risk](#) mitigation relative to the broad market.

**Why now:** Quality can protect help mitigate losses in down markets. Example: Its NAV outperformed the S&P 500 by 217 [basis points \(bps\)](#) in the COVID-19 crash.

## **DLN – WisdomTree U.S. LargeCap Dividend Fund – U.S. Large Value**

**Performance:** Outperforming value peers and the [S&P 500 value Index](#) in 2020, consistent with prior years. The concept has benefited from the low-rate environment.

**Notable positives:** A history of buffering downside, beating the S&P 500 five of the last six times the market went down 6% or more. It also beat the S&P 500 Value in 16 of the last 17 such drawdowns since its inception in 2006.

**Valuation:** P/E (fwd) = 18.8, Dividend yield = 3.2%. S&P 500 value (P/E)= 19.6, Dividend = 2.9% (vs. 1.7% for S&P 500).

**Why long term:** Stocks with zero dividend yield beat the market by more than 6% a year in the 10 years to October 2020. Is that sustainable? Professor Jeremy Siegel's research finds dividend payers beat non-payers by 2% per year from 1957 to 2019.

**Why now:** DLN could stand to benefit if the economy recovers. If not, it has historically had better experiences in bear markets than the S&P 500 Value Index. In the COVID-19 crash, its NAV outperformed that Index by 142 bps.

## **IHDG – WisdomTree International Hedged Quality Dividend Growth Fund – Developed Mkt Growth**

**Performance:** Nearly flat this year in a sea of red ink (-1.9% vs. -10.3% for [MSCI E AFE](#)).

**Notable positives:** Light exposure to banks and energy has helped in a shaky economic environment. Risk is cut by hedging foreign currency exposure.

**Valuation:** P/E (fwd) = 22.7; Dividend yield = 2.5%. MSCI EAFE = 20.7; Dividend = 2.7%. IHDG is particularly high quality (ROE = 16% vs. 5% for MSCI EAFE). This helps temper concerns that overseas equities are inherently risky.

**Why long term:** The asset class is depressed. Example: MSCI EAFE touched 1999 levels this year.

**Why now:** Many overseas companies cut dividends heavier than U.S. firms; reinstatement may be a positive catalyst.

**XSOE – WisdomTree Emerging Markets ex-State-Owned Enterprises Fund – Diversified EM –**

**Performance:** Handily outpacing MSCI Emerging Markets (+12.6% vs. +2.5%) in 2020.

**Notable positives:** Political push to divest from state-owned enterprises (SOEs) may be of aid relative to other emerging markets mandates. Naturally embraces “future of emerging markets” companies like Alibaba and Tencent, which are 9.0% and 7.0% of the Fund, respectively, as of 11/6/2020.

**Valuation:** P/E (fwd) = 22.4; Dividend yield = 1.6%. MSCI EM P/E = 17.8; Dividend yield = 2.2%. Focus: advantageous growth prospects.

**Why long term:** P/E spread appears wide, but we cut out low P/E Chinese banks and Russian oil. Non-SOEs = younger firms, not stodgier legacy companies.

**Why now:** XSOE could defend portfolios from western political pressure on companies with close government ties.

To see the Morningstar ratings of each of the Funds mentioned in this piece, please go [here](#).

Standardized performance is found here: [DGRW](#), [DLN](#), [IHDG](#), [XSOE](#).

*Unless otherwise stated, all data as of 11/6/20, from WisdomTree Digital Portfolio Developer.*

<sup>1</sup> As of November 11, 2020, none of the Funds mentioned in this blog post hold FB, AMZN, NFLX or GOOG.

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Professor Jeremy Siegel is a Professor of Finance at The Wharton School and WisdomTree's Senior Investment Strategy Advisor.

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## DEFINITIONS

**Large-Capitalization (Large-Cap)**: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term “large market capitalization”. Market capitalization is calculated by multiplying the number of a company’s shares outstanding by its stock price 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.

**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.

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

**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.

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

**S&P 500 Value Index**: A market capitalization-weighted benchmark designed to measure the value segment of the S&P 500 Index.

**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.