

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 GOOG¹ 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.

¹ 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.