

# THE POTENTIAL LONG-TERM BENEFITS OF INVESTING GLOBALLY

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One question we are often asked is, “why bother with international investments?” U.S. multinational companies have revenue generated all over the world, so what if [diversification](#) is just a matter of “de-worseifying” and bringing suboptimal outcomes?

I understand this concern, considering that for a long stretch of time, the U.S. has outperformed the rest of the world. Over the past 10 years ending May 31st, the [MSCI USA Index](#) has outperformed the [MSCI EAFE Index](#) by more than 7% annualized per year.<sup>1</sup>

However, we believe there are [long-run benefits of investing globally](#).

There are strong parallels to “[growth](#)” dominating “[value](#)” within the U.S. markets when looking at foreign markets versus the U.S.

Standard [market cap-weighted](#) international indexes have sector exposures akin to U.S. value benchmarks. There is a particular lack of technology sector exposure and over-weight positioning in financials and commodity-dependent sectors.

SECTOR EXPOSURE			
Sector	MSCI EAFE	Russell 1000 Value	S&P 500
Information Technology	7.97%	6.94%	26.21%
Health Care	14.68%	15.42%	15.23%
Communication Services	5.41%	8.63%	10.97%
Financials	15.72%	20.80%	10.44%
Consumer Discretionary	11.61%	5.81%	10.53%
Industrials	14.63%	9.47%	7.96%
Consumer Staples	12.19%	9.98%	7.13%
Utilities	4.05%	7.32%	3.24%
Energy	3.51%	6.28%	2.92%
Real Estate	3.17%	4.82%	2.84%
Materials	7.06%	4.52%	2.53%

Source: WisdomTree, as of 5/31/20. Subject to change. You cannot invest directly in an index.

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

But not all international strategies have these sector tilts.

The WisdomTree international quality dividend growth strategies have a sector balance closer to the [S&P 500](#), particularly being over-weight in Technology versus the MSCI EAFE Index and providing meaningful weights to the Health Care and Consumer sectors.

Below we show the [WisdomTree International Quality Dividend Growth Fund \(IQDG\)](#), which is derived from a developed world universe, as well as the [WisdomTree Global ex-U.S. Quality Dividend Growth Fund \(DNL\)](#), which screens from a global universe (minus the U.S.) that also includes emerging markets.

In shifting the weight away from traditional value benchmarks, they also have little exposure to sectors that are typically value heavyweights, such as Energy and Financials.

SECTOR EXPOSURE			
Sector	IQDG	DNL	MSCI EAFE
Health Care	18.48%	21.49%	14.68%
Consumer Staples	15.58%	10.87%	12.19%
Information Technology	15.16%	13.47%	7.97%
Consumer Discretionary	13.85%	7.02%	11.61%
Industrials	13.20%	12.19%	14.63%
Materials	10.58%	12.37%	7.06%
Communication Services	4.21%	5.62%	5.41%
Real Estate	3.02%	4.35%	3.17%
Financials	2.37%	5.05%	15.72%
Utilities	2.17%	2.18%	4.05%
Energy	1.37%	5.39%	3.51%

Source: WisdomTree, as of 5/31/20. Subject to change. You cannot invest directly in an index.

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

We believe screening for profitability, low [leverage](#) and earnings growth creates a [valuation](#) profile that is more attractive than broader international benchmarks.

Yes, the MSCI EAFE Index is less expensive than the S&P 500 on a [price-to-earnings \(P/E\) ratio](#) basis (by about five points), but the S&P 500 has a [return on equity \(ROE\)](#) that is 65% greater, profit margins that are 35% higher and less leverage. We believe these higher margins and profitability ratios warrant the premium multiple of the S&P 500.

By contrast, when one focuses on these profitability and growth metrics in selecting higher [quality](#) companies, the situation is completely reversed.

Developed world: The [WisdomTree International Quality Dividend Growth Fund](#), which seeks to track, before fees and expenses, the price and yield performance of the [WisdomTree International Quality Dividend Growth Index](#), currently has an ROE that is 41% greater than the S&P 500, profit margins 4.7% higher and a leverage ratio that is approximately one-third that of the MSCI EAFE Index and half of the S&P 500. For these better profitability and growth metrics, investors are also not paying a premium multiple to the S&P 500 but getting the market at a two-point P/E discount instead.

Global ex-U.S.: The [WisdomTree Global ex-U.S. Quality Dividend Growth Fund](#), which seeks to track, before fees and expenses, the price and yield performance of the [WisdomTree Global ex-U.S. Quality Dividend Growth Index](#), was able to improve ROE and margin ratios even further and is available at a lower multiple of 15x for the developed world universe.

CHARACTERISTICS					
Characteristic	IQDG	DNL	MSCI EAFE	Russell 1000 Value	S&P 500
Dividend Yield	2.74%	3.21%	3.52%	2.96%	1.94%
Price/Earnings (P/E)	19.41	15.68	16.36	17.22	21.77
Price/Book (P/B)	3.74	3.33	1.44	1.81	3.44
# of Stocks	237	250	915	765	505
Return on Assets (ROA%)	8.78%	9.19%	1.26%	2.00%	3.24%
Return on Equity (ROE%)	21.18%	22.25%	9.09%	10.18%	14.99%
Return on Sales %	18.27%	22.63%	10.14%	11.25%	13.37%
Leverage	2.41	2.42	7.20	5.10	4.62

Source: WisdomTree. Data as of 5/31/20. Performance is historical and does not guarantee future results. You cannot invest directly in an index.

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

While the characteristics of broad international benchmarks are understandably “less expensive for good reasons,” we believe our basket of international quality stocks looks attractively priced versus the S&P 500 for its improvement in quality and growth characteristics.

The performance history appears quite compelling to us as well. Both recently and over the long term, the two funds have outperformed similar broad market indexes that are market cap-weighted. In most cases, they've outperformed by a few percentage points as well, signaling that there have always been opportunities in international markets, despite them being out of favor.

Fund/Index	Net Expense Ratio	Cumulative Returns as of 5/31/2020			Average Annual Returns as of 5/31/2020				
		1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (4/7/2016)
WisdomTree International Quality Dividend Growth Fund (IQDG) (NAV)	0.38%	5.64%	3.16%	-7.40%	8.69%	2.76%	--	--	6.03%
WisdomTree International Quality Dividend Growth Fund (IQDG) (Market Price)	0.38%	7.06%	3.23%	-6.98%	8.81%	2.84%	--	--	6.24%
MSCI EAFE Index	--	4.35%	-3.73%	-14.26%	-2.81%	-0.37%	--	--	4.60%

Fund/Index	Net Expense Ratio	Cumulative Returns as of 5/31/2020			Average Annual Returns as of 5/31/2020				
		1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception (6/16/2000)
WisdomTree Global ex-U.S. Quality Dividend Growth Fund (DNL) (NAV)	0.58%	3.92%	1.96%	-6.56%	14.80%	6.99%	5.35%	5.71%	3.82%
WisdomTree Global ex-U.S. Quality Dividend Growth Fund (DNL) (Market Price)	0.58%	5.40%	2.26%	-6.21%	15.48%	7.27%	5.48%	5.74%	3.89%
MSCI ACWI ex-U.S. Growth Index	--	4.35%	0.94%	-7.33%	7.37%	4.36%	4.02%	6.43%	4.58%

Source: WisdomTree, as of 5/31/20. You cannot invest directly in an index.

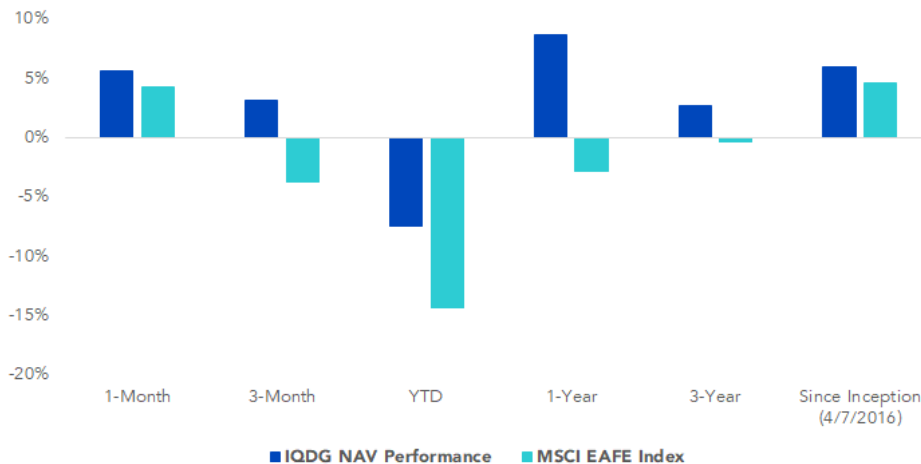
Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [wisdomtree.com](http://wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized fund performance of the Funds in the table, please click their respective tickers: [IQDG](#), [DNL](#).

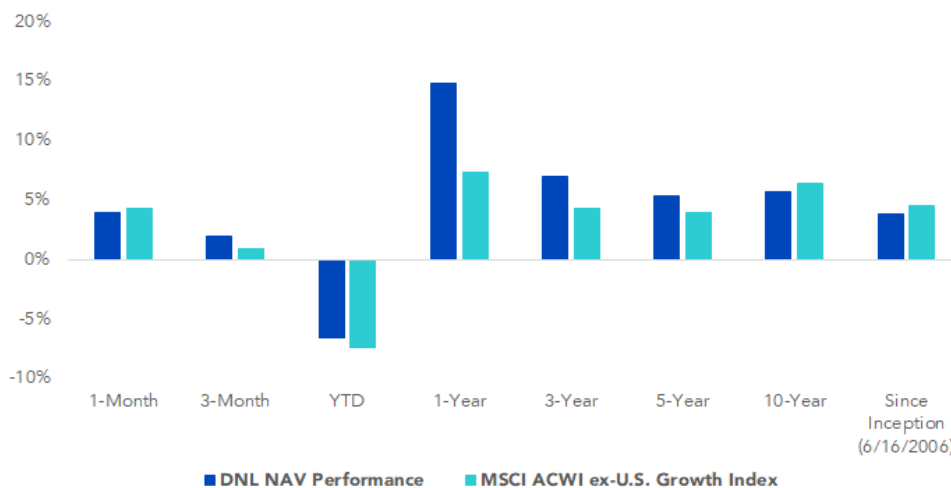
Likewise, the relative performance has demonstrated their appeal in both up-markets and volatile ones. In many cases, the Funds were able to add value the most when the broad indexes declined, resulting in a downside buffer or even outright positive performance.

**IQDG Performance vs. MSCI EAFE**



Source: WisdomTree, as of 5/31/20. Past performance is not indicative of future results. You cannot invest directly in an index.

**DNL Performance vs. MSCI ACWI ex-U.S. Growth Index**



Source: WisdomTree, as of 5/31/20. Past performance is not indicative of future results. You cannot invest directly in an index.

At WisdomTree, we believe there are just as many opportunities in international markets as there are in the United States. The differentiator, however, is accessing them in the right way, and we are confident that a quality and dividend-oriented approach might provide investors with the results they’re looking for when investing overseas.

<sup>1</sup>Source is Bloomberg as of 5/31/2020.

**Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. 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. Heightened sector exposure increases IQDG’s vulnerability to any single economic, regulatory or other development impacting that sector. This may result in greater share price volatility. IQDG invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of IQDG, it may make higher capital gain distributions than other ETFs. Please read each Fund’s prospectus for specific details regarding the Fund’s risk profile.

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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**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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## DEFINITIONS

**Diversification**: A risk management strategy that mixes a wide variety of investments within a portfolio.

**MSCI USA Index**: is designed to measure the performance of large and mid cap segments of the US market.

**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.

**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.

**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 term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Market capitalization-weighting**: 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.

**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.

**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.

**Price-to-earnings (P/E) ratio**: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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

**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.