WisdomTree
RESEARCH

DIVIDEND GROWTH'S DRIVERS: PICKING APART QUALITY

Authored by: Jeff Weniger (CFA®, Asset Allocation Strategist)

WISDOMTREE®

"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it."

- Albert Einstein

THE INTERNALS OF DIVIDEND GROWTH

Consider a simple and unlikely scenario: three indexes, with three very different dividend growth rates, experiencing the same underlying stock price appreciation over five years. Figure 1 shows the return experience, with each index initially priced at 100, sporting 3% dividend yields, each witnessing capital appreciation of 3% per year.

Look what happens at the end of the horizon: Index A, the slowest dividend growth index of the three, ends with a yield of 2.86%, considerably lower than the yield of the rapidly growing Index C, which would seemingly have a premium valuation at the end of such a run (gauged by the dividend yield), not a discount. That is why this is an unlikely scenario.

Figure 1: Investment Profile, 3% Equity Price Appreciation

		Div. Growth Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total Return on Investment	Year 5 Div. Yield
Index A	Dividend	2%	$3.00	$3.06	$3.12	$3.18	$3.25	$3.31		2.86%
	Price		$100.00	$103.00	$106.09	$109.27	$112.55	$115.93		
	Total Capital		$100.00	$106.06	$112.46	$119.20	$126.32	$133.83	6.00%	
Index B	Dividend	5%	$3.00	$3.15	$3.31	$3.47	$3.65	$3.83		3.30%
	Price		$100.00	$103.00	$106.09	$109.27	$112.55	$115.93		
	Total Capital		$100.00	$106.15	$112.74	$119.82	$127.41	$135.57	6.27%	
Index C	Dividend	8%	$3.00	$3.24	$3.50	$3.78	$4.08	$4.41		3.80%
	Price		$100.00	$103.00	$106.09	$109.27	$112.55	$115.93		
	Total Capital		$100.00	$106.24	$113.04	$120.45	$128.57	$137.46	6.57%	

Source: WisdomTree. FOR ILLUSTRATIVE PURPOSES ONLY. Performance data is hypothetical in nature and is not representative of any actual investment. Hypothetical example assumes starting "price" of an investment tracking the index of $100, an initial dividend of $3 and dividends reinvested. You cannot invest directly in an index.

Now witness what happens when we tease this scenario so that all three indexes end each year with a 3% dividend yield, the same as they started. A $100 investment tracking Index A grows to $127.99 due to index appreciation to $110.41 plus several years of reinvested dividends of $3+. Indexes B and C grow considerably more, resulting in an 8.15% total return for B and 11.24% for C, both several hundred basis points more than the lackluster return for Index A. Such is the eighth wonder of the world—compound interest—that Einstein was talking about.

Figure 2: Investment Profile, End Yield of 3%

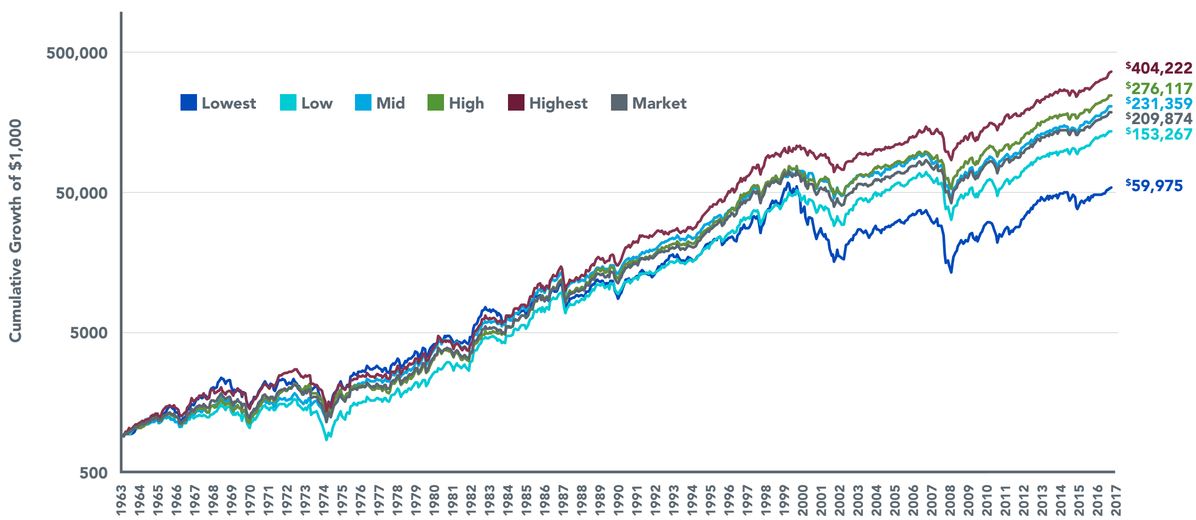
		Div. Growth Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total Return on Investment	Year 5 Div. Yield
Index A	Dividend	2%	$3.00	$3.06	$3.12	$3.18	$3.25	$3.31		3.00%
	Price		$100.00	$102.00	$104.04	$106.12	$108.24	$110.41		
	Total Capital		$100.00	$105.06	$110.38	$115.96	$121.83	$127.99	5.06%	
Index B	Dividend	5%	$3.00	$3.15	$3.31	$3.47	$3.65	$3.83		3.00%
	Price		$100.00	$105.00	$110.25	$115.76	$121.55	$127.63		
	Total Capital		$100.00	$108.15	$116.96	$126.50	$136.81	$147.96	8.15%	
Index C	Dividend	8%	$3.00	$3.24	$3.50	$3.78	$4.08	$4.41		3.00%
	Price		$100.00	$108.00	$116.64	$125.97	$136.05	$146.93		
	Total Capital		$100.00	$111.24	$123.74	$137.65	$153.12	$170.34	11.24%	

Source: WisdomTree. FOR ILLUSTRATIVE PURPOSES ONLY. Performance data is hypothetical in nature and is not representative of any actual investment. Hypothetical Example assumes starting "price" of an investment tracking the index of $100, an initial dividend of $3 and dividends reinvested. You cannot invest directly in an index.

We see that the driver of long-term compound returns is dividend growth, but what drives the driver? Corporate profitability. In fact, using more than 50 years of data,[1] a strategy that identified the top 20% of stocks by profitability outperformed the bottom quintile of stocks by 384 bps per year (11.63% vs. 7.79%). And that's because profitability breeds dividend growth, as we see in the next section.

[1] Source: Kenneth French Data Library 6/30/1963 – 12/29/2017

Figure 3: Equity Performance, Grouped by Profitability



	Avg. Annual Return	Sharpe Ratio
Highest	11.63%	0.45
High	10.86%	0.40
Mid	10.50%	0.39
Low	9.67%	0.32
Lowest	7.79%	0.16
Market	10.30%	0.37

Source: Kenneth French Data Library, with data as of 12/31/17. Period based on availability of operating profitability returns sorted into quintiles, beginning 6/30/63. Universe is U.S.-listed equities grouped on the basis of operating profitability. Past performance is not indicative of future results. Sharpe ratio: Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

SPARKING THE DIVIDEND FLAME

A key to getting the firepower under dividend growth—future dividend growth, not past growth—is a high return on equity (ROE).[2] But thinking about ROE involves so much more than just looking at a number.

How do companies generate high or low ROE? We can pick up those dynamics with the DuPont model.

Donaldson Brown at the DuPont Corporation developed the concept a century ago,[3] and it says that ROE can be broken into the interaction among profit margins, asset turnover[4] and the equity multiplier,[5] all of which are explained further below. It's an interesting story, and the DuPont website explains that Brown's formula led to the company taking a major stake in General Motors in the early days of the auto industry. In later decades, the DuPont method became a business staple, referenced in finance textbooks and CFA Program curriculum[6].

[2] Return on equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
[3] Source: DuPont.
[4] Asset turnover: Sales divided by total assets. A higher ratio indicates that a company can generate greater sales per dollar of assets than a company with a lower ratio.
[5] Equity multiplier: Total assets divided by total equity.
[6] CFA Program curriculum: The collection of study materials provided by the CFA Institute to candidates for its exam. Those who pass earn the exam become Chartered Financial Analyst charterholders.

THE LOGIC OF THE DUPONT FORMULA

The DuPont method breaks return on equity into three pieces:

$$\text{Return on Equity} = \text{Profit Margin} \times \text{Asset Turnover} \times \text{Equity Multiplier}$$

And each of those is defined as:

$$\frac{\text{Net Income}}{\text{Total Equity}} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Total Equity}}$$

Notice too that some components show up as numerators and denominators. Cross them out in both, and we are left with net income to equity, or ROE. Each one is critical if a firm wants to be truly profitable: Margins need to be high, the amount of sales compared to the asset base should also be high and of course leverage plays a factor in the total assets-to-total equity ratio.

And this is where it gets really interesting. Implied dividend growth is equal to the retention ratio[7] times ROE, with the former being the percentage of earnings that are retained, with the rest going out as dividends (the payout ratio).

Visually:

$$\text{Retention Ratio} \times \text{ROE} = \text{Implied Dividend Growth}$$

PUTTING IT TO WORK

The blue and teal in figure 4 lays out the logic of these dividend-growth forces using the WisdomTree U.S. Quality Dividend Growth Index (WTDGI) against a well-known market capitalization-weighted index.

In this case, we see that WisdomTree's core U.S. equity Index, WTDGI, has a 9.4% profit margin, which is actually slightly above the 9.0% margin posted by the MSCI USA Index (MSCI USA).[8] But as we move to the right in the exhibit, we see that WTDGI has a sharply higher asset turnover ratio, which means that its companies make more efficient use of their resources in generating sales. Next, WTDGI has a lower equity multiplier, which means its components are not using as much debt as MSCI USA's corporations.

[7] Retention Ratio: Refers to the percentage of net income that is retained to grow the business, rather than being paid out as dividends. It is the opposite of the payout ratio, which measures the percentage of earnings paid out to shareholders as dividends

[8] Source: WisdomTree, Bloomberg, as of 12/29/17.

The combination of competitive margins, highly efficient use of assets and, importantly, the ability to generate a 19.4% ROE, despite a more conservative use of debt, really puts WTDGI in proper context relative to MSCI USA. In short, MSCI USA musters a 12.5% ROE because of debt, not efficiency, and its profitability is left wanting even with the use of leverage[9]. Leverage works fine during good times, but maybe not so much during hard times.

Figure 4: WisdomTree U.S. Quality Divided Growth Index vs. MSCI U.S.

	DuPont Model								Dividend Discount Model			
	Net Income / Sales (Profit Margin)	x	Sales / Total Assets (Asset Turnover)	x	Total Assets / Total Equity (Equity Multiplier)	=	Net Income / Total Equity (Return on Equity)		Dividend Yield / Earnings Yield (Payout Ratio)		(1- Payout) x ROE (Implied Div Growth)	
	Profit Margin	WisdomTree Higher Margins than MSCI USA?	Asset Turnover	WisdomTree Higher Sales per Assets than MSCI USA?	Equity Multiplier	WisdomTree Lower Debt Financing than MSCI USA?	Return on Equity	WisdomTree Higher ROE than MSCI USA?	Payout Ratio	WisdomTree Lower Payout Ratio (More Reinvested in the Business) than MSCI USA?	Implied Div. Growth	WisdomTree Higher Implied Div. Growth?
WisdomTree U.S. Quality Dividend Growth Index	**9.4%**		**50%**		**4.1**		**19.4%**		**46%**		**10.4%**	
MSCI USA	**9.0%**	✓	**31%**	✓	**4.5**	✓	**12.5%**	✓	**44%**	✗	**6.9%**	✓
MSCI USA GROWTH INDEX	**10.1%**		**62%**		**3.1**		**19.2%**		**31%**		**13.2%**	
MSCI USA VALUE INDEX	**8.3%**		**23%**		**5.1**		**9.7%**		**53%**		**4.5%**	
WisdomTree Financials	20.7%	✓	5%	✗	5.6	✓	6.2%	✗	35%	✗	4.0%	✗
MSCI USA Financials	14.5%		7%		8.2		8.0%		31%		5.5%	
WisdomTree Energy	4.9%	✓	66%	✓	2.0	✗	6.6%	✓	78%	✓	1.4%	✓
MSCI USA Energy	1.3%		56%		2.0		1.4%		143%		-0.6%	
WisdomTree Materials	12.6%	✓	63%	✓	2.8	✗	22.6%	✓	41%	✓	13.3%	✓
MSCI USA Materials	8.2%		57%		2.5		11.7%		44%		6.6%	
WisdomTree Industrials	9.8%	✓	84%	✓	3.5	✗	29.1%	✓	44%	✓	16.3%	✓
MSCI USA Industrials	8.0%		66%		3.4		18.0%		46%		9.7%	
WisdomTree Telecommunications Services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MSCI USA Telecommunications Services	8.9%		40%		4.4		15.8%		73%		4.2%	
WisdomTree Consumer Discretionary	7.6%	✓	105%	✓	3.5	✓	28.2%	✓	35%	✗	18.3%	✓
MSCI USA Consumer Discretionary	6.3%		77%		3.6		17.6%		34%		11.7%	
WisdomTree Consumer Staples	7.1%	✓	111%	✗	3.5	✗	27.8%	✓	57%	✓	11.9%	✓
MSCI USA Consumer Staples	6.8%		120%		3.1		25.4%		62%		9.6%	
WisdomTree Information Technology	21.0%	✓	51%	✗	2.6	✗	27.2%	✓	40%	✗	16.3%	✓
MSCI USA Information Technology	16.7%		55%		2.3		21.1%		31%		14.6%	
WisdomTree Utilities	12.2%	✓	22%	✗	3.7	✗	10.0%	✗	60%	✗	4.0%	✗
MSCI USA Utilities	11.4%		24%		3.7		10.0%		54%		4.6%	
WisdomTree Real Estate	13.4%	✗	21%	✓	5.8	✗	16.4%	✓	81%	✓	3.2%	✓
MSCI USA Real Estate	19.3%		18%		2.2		7.8%		151%		-4.0%	
WisdomTree Health Care	10.7%	✓	66%	✗	2.7	✗	19.4%	✓	41%	✗	11.4%	✓
MSCI USA Health Care	7.1%		79%		2.6		14.5%		35%		9.4%	

Sources: Bloomberg, WisdomTree, as of 12/29/17. All references to "WTDGI" indicate the WisdomTree U.S. Quality Dividend Growth Index. WTDGI currently has 0% in telecom, thus making comparisons for that sector not applicable. Past performance is not indicative of future results. You cannot invest directly in an Index.

With ROE, once we know it, we can gauge future dividend growth as we seek our proverbial "Index C," to go back to figure 1. In this example, WTDGI has a payout ratio of 46%, denoting the percentage of its earnings that is paid to shareholders. The rest is retained and can be multiplied by the 19.4% ROE to get an estimated 10.4% dividend growth rate, considerably more than the DuPont-implied 6.9% dividend growth rate of general U.S. equities. Cue the Einstein quote about compound interest.

[9] 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.

SECOND VERSE, SAME AS THE FIRST

Figure 5 is a repeat of figure 4, only this time for emerging markets, using the WisdomTree Emerging Markets Quality Dividend Growth Index (WTEMDG). In the emerging market equity case, the subcomponents of ROE—profit margins, asset turnover and the equity multiplier—point to WTEMDG scoring more favorably on all three. The result is a dynamo 20.1% ROE, nearly double that of the MSCI Emerging Markets Index (10.6%).

Once again, moving from the DuPont model to the dividend discount model on the right of figure 5, we see an implied dividend growth rate for the WisdomTree Index of 9.6%. This is higher than even the MSCI Emerging Markets Growth Index, and that one achieves its competitive implied growth rate only because it has a high earnings retention rate of 70% (100% minus 30% dividend payout ratio).

Figure 5: WisdomTree Emerging Markets Quality Divided Growth Index vs. MSCI Emerging Markets

	DuPont Model								Dividend Discount Model			
	Net Income / Sales (Profit Margin)		x Sales / Total Assets (Asset Turnover)		x Total Assets / Total Equity (Equity Multiplier)		= Net Income / Total Equity (Return on Equity)		Dividend Yield / Earnings Yield (Payout Ratio)		(1- Payout) x ROE (Implied Div Growth)	
	Profit Margin	WisdomTree Higher Margins than MSCI EM?	Asset Turnover	WisdomTree Higher Sales per Assets than MSCI EM?	Equity Multiplier	WisdomTree Lower Debt Financing than MSCI EM?	Return on Equity	WisdomTree Higher ROE than MSCI EM?	Payout Ratio	WisdomTree Lower Payout Ratio (More Reinvested in the Business) than MSCI EM?	Implied Div. Growth	WisdomTree Higher Implied Div. Growth?
WisdomTree Emerging Markets Quality Dividend Growth Index	**12.0%**		**82%**		**2.1**		**20.1%**		**52%**		**9.6%**	
MSCI EM	**9.3%**	✔	**24%**	✔	**4.8**	✔	**10.6%**	✔	**38%**	✘	**6.6%**	✔
MSCI EMER MKT GROWTH	**10.5%**		**39%**		**3.3**		**13.4%**		**30%**		**9.4%**	
MSCI EMER MKT VALUE	**8.6%**		**21%**		**5.4**		**9.6%**		**42%**		**5.6%**	
WisdomTree Financials	15.5%	✘	6%	✘	1.2	✔	1.1%	✘	62%	✘	0.4%	✘
MSCI EM Financials	17.6%		6%		10.6		11.4%		37%		7.2%	
WisdomTree Energy	26.0%	✔	55%	✘	1.5	✔	22.1%	✔	34%	✔	14.6%	✔
MSCI EM Energy	6.4%		67%		1.9		7.9%		43%		4.5%	
WisdomTree Materials	21.3%	✔	54%	✘	2.9	✘	32.7%	✔	69%	✘	10.1%	✔
MSCI EM Materials	7.2%		59%		2.1		8.7%		47%		4.6%	
WisdomTree Industrials	7.1%	✔	74%	✔	2.1	✔	11.2%	✔	43%	✘	6.3%	✔
MSCI EM Industrials	4.7%		46%		3.4		7.4%		33%		4.9%	
WisdomTree Telecommunications Services	10.2%	✔	69%	✔	3.0	✘	21.2%	✔	77%	✔	4.8%	✔
MSCI EM Telecommunications Services	8.2%		54%		2.2		9.8%		93%		0.7%	
WisdomTree Consumer Discretionary	14.4%	✔	68%	✘	1.6	✔	15.5%	✔	47%	✘	8.2%	✔
MSCI EM Consumer Discretionary	5.9%		73%		2.1		9.1%		30%		6.4%	
WisdomTree Consumer Staples	5.7%	✔	113%	✘	2.1	✔	13.5%	✔	70%	✘	4.0%	✘
MSCI EM Consumer Staples	5.2%		113%		2.1		12.6%		54%		5.8%	
WisdomTree Information Technology	19.9%	✔	68%	✘	1.5	✔	20.2%	✔	32%	✘	13.8%	✔
MSCI EM Information Technology	10.4%		87%		1.7		15.8%		26%		11.7%	
WisdomTree Utilities	32.0%	✔	29%	✘	2.4	✔	21.9%	✔	81%	✘	4.2%	✔
MSCI EM Utilities	7.4%		37%		2.5		6.9%		55%		3.1%	
WisdomTree Real Estate	23.9%	✔	25%	✔	2.6	✔	16.1%	✔	37%	✔	10.1%	✔
MSCI EM Real Estate	18.4%		18%		3.1		10.6%		42%		6.1%	
WisdomTree Health Care	12.2%	✔	70%	✘	1.7	✔	14.9%	✔	47%	✘	7.9%	✔
MSCI EM Health Care	6.7%		75%		2.0		10.2%		40%		6.1%	

Sources: Bloomberg, WisdomTree, as of 12/29/17. Past performance is not indicative of future results. You cannot invest directly in an index.

NON-NORTH AMERICAN DEVELOPED MARKETS

Finally, figure 6 shows the exercise for non-North American international developed equities using the WisdomTree International Quality Dividend Growth Index (WTIDG). In this case, WisdomTree once again runs its screen for high ROE, high return on assets (ROA) and earnings growth, as it does for any of our Indexes that have "quality dividend growth" in the name. Here the result is a basket of securities that score highly on not only profit margin and business efficiency (as measured by asset turnover), but also in its generalized lack of leverage relative to the market capitalization-weighted indexes. The 22% ROE is a standout that is nearly triple the 8.4% ROE of the MSCI EAFE Index of developed market equities, leading to implied dividend growth rates for our Index that are in the double digits.

Figure 6: WisdomTree International Quality Divided Growth Index vs. MSCI EAFE

	DuPont Model								Dividend Discount Model			
	Net Income / Sales (Profit Margin)	x	Sales / Total Assets (Asset Turnover)	x	Total Assets / Total Equity (Equity Multiplier)	=	Net Income / Total Equity (Return on Equity)		Dividend Yield / Earnings Yield (Payout Ratio)		(1- Payout) x ROE (Implied Div Growth)	
	Profit Margin	WisdomTree Higher Margins Than MSCI EAFE?	Asset Turnover	WisdomTree Higher Sales per Assets Than MSCI EAFE?	Equity Multiplier	WisdomTree Lower Debt Financing Than MSCI EAFE?	Return on Equity	WisdomTree Higher ROE than MSCI EAFE?	Payout Ratio	WisdomTree Lower Payout Ratio (More Reinvested in the Business) than MSCI EAFE?	Implied Div. Growth	WisdomTree Higher Implied Div. Growth?
WisdomTree International Quality Dividend Growth Index	**11.5%**		**77%**		**2.5**		**22.0%**		**51%**		**10.7%**	
MSCI EAFE	**6.6%**	✓	**19%**	✓	**6.9**	✓	**8.4%**	✓	**63%**	✓	**3.1%**	✓
MSCI EAFE GROWTH INDEX	**6.8%**		**39%**		**4.2**		**11.1%**		**52%**		**5.3%**	
MSCI EAFE VALUE INDEX	**6.4%**		**14%**		**8.1**		**7.2%**		**70%**		**2.1%**	
WisdomTree Financials	17.1%	✓	71%	✓	1.7	✓	21.3%	✓	51%	✓	10.3%	✓
MSCI EAFE Financials	8.5%		5%		15.4		6.0%		70%		1.8%	
WisdomTree Energy	4.4%	✓	53%	×	2.8	×	6.6%	✓	55%	✓	2.9%	✓
MSCI EAFE Energy	3.2%		71%		2.3		5.2%		139%		-2.0%	
WisdomTree Materials	10.2%	✓	104%	✓	1.8	✓	19.6%	✓	45%	✓	10.7%	✓
MSCI EAFE Materials	6.6%		73%		2.1		10.3%		48%		5.3%	
WisdomTree Industrials	7.9%	✓	62%	×	2.6	✓	12.8%	✓	53%	×	6.0%	✓
MSCI EAFE Industrials	4.7%		69%		2.8		9.2%		47%		4.9%	
WisdomTree Telecommunications Services	13.6%	✓	56%	✓	3.8	×	28.8%	✓	85%	✓	4.4%	✓
MSCI EAFE Telecommunications Services	6.1%		43%		2.8		7.4%		92%		0.6%	
WisdomTree Consumer Discretionary	9.4%	✓	87%	✓	2.0	✓	16.7%	✓	54%	×	7.7%	✓
MSCI EAFE Consumer Discretionary	5.6%		71%		2.8		11.0%		45%		6.0%	
WisdomTree Consumer Staples	12.5%	✓	66%	×	3.1	×	26.0%	✓	65%	×	9.0%	✓
MSCI EAFE Consumer Staples	6.2%		82%		2.6		13.3%		63%		5.0%	
WisdomTree Information Technology	14.1%	✓	61%	×	1.7	✓	14.8%	✓	40%	✓	8.9%	✓
MSCI EAFE Information Technology	6.7%		71%		1.9		9.1%		46%		4.9%	
WisdomTree Utilities	3.2%	×	179%	✓	4.8	×	27.8%	✓	13%	✓	24.2%	✓
MSCI EAFE Utilities	4.3%		49%		3.5		7.3%		118%		-1.3%	
WisdomTree Real Estate	17.9%	×	29%	✓	2.4	×	12.3%	✓	20%	✓	9.8%	✓
MSCI EAFE Real Estate	31.8%		16%		1.8		9.4%		35%		6.1%	
WisdomTree Health Care	24.3%	✓	75%	✓	2.3	×	41.5%	✓	60%	✓	16.6%	✓
MSCI EAFE Health Care	11.1%		52%		2.2		12.9%		82%		2.3%	

Sources: Bloomberg, WisdomTree, as of 12/29/17. Past performance is not indicative of future results. You cannot invest directly in an index.

What kind of premium valuations are thus accorded the WisdomTree Indexes? Actually, not much, and in one case the WisdomTree Index is at a valuation discount to its comparable MSCI Index. The WisdomTree U.S. Quality Dividend Growth Index trades at 18.9 times forward earnings, a tad lower than the 20.3 multiple accorded the MSCI USA Index. For its emerging markets equivalent, the WisdomTree Index's 17.0 multiple is about 3 points higher than MSCI Emerging Markets (14.2). Finally, the WisdomTree International Quality Dividend Growth Index trades at 19.5 times forward earnings, a similar premium to MSCI EAFE's 16.1.

FILLING CORE ALLOCATIONS WITH QUALITY DIVIDEND GROWTH

The ETFs that capture exposure to the aforementioned Indexes are the:

+ WisdomTree U.S. Quality Dividend Growth Fund: **DGRW**
+ WisdomTree Emerging Markets Quality Dividend Growth Fund: **DGRE**
+ WisdomTree International Quality Dividend Growth Fund: **IQDG** and the
+ WisdomTree International Hedged Quality Dividend Growth Fund (**IHDG**), which hedges the currency.

  There is also a dynamically hedged ETF for international quality dividend growth, where its currency exposure is determined based on rules-based metrics.

+ WisdomTree Dynamic Currency Hedged International Quality Dividend Growth Fund is **DHDG**.

Additionally, not covered in this report are quality dividend growth concepts for U.S. small caps, Europe, Japan and global ex-U.S. equities, and WisdomTree offers ETFs that cover each of those exposures as well.

WisdomTree Indexes are constructed in such a way as to identify highly profitable companies. For them to achieve that goal and pass our screens, they need to do so by being efficient with their assets and by posting favorable profit margins. This is prudent investment logic. The ETFs that track our quality dividend growth Indexes can thus be used to represent a portfolio's core exposure to U.S., emerging markets and international developed equities.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473 or visit WisdomTree.com to view or download a prospectus. Investors should read the prospectus carefully before investing.

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. Some Funds invest in derivatives in seeking to obtain a dynamic currency hedge exposure. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Derivatives used by a Fund may not perform as intended. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. As certain Funds can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers. The Funds invest in the securities included in, or representative of, their Indexes regardless of their investment merit, and the Funds do not attempt to outperform their Indexes or take defensive positions in declining markets. Due to the investment strategy of certain Funds, they may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

The WisdomTree International Quality Dividend Growth Index is a fundamentally weighted Index designed to provide exposure to dividend-paying developed market companies. The WisdomTree Emerging Markets Quality Dividend Growth Index is a fundamentally weighted index that measures the performance of dividend-paying stocks with growth characteristics selected from the WisdomTree Emerging Markets Dividend Index. The MSCI USA Index is designed to measure the performance of large- and mid-cap segments of the U.S. market. The MSCI USA Growth Index captures large- and mid-cap securities exhibiting overall growth-style characteristics in the U.S. The MSCI USA Value Index is a large- and mid-cap U.S. equity index aiming to capture securities exhibiting overall value-style characteristics. The Index screens for book value to price, 12-month forward earnings to price and dividend yield as value characteristics. The MSCI Emerging Markets Index is a broad market cap-weighted index showing the performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI. The MSCI Emerging Markets Growth Index is a market capitalization-weighted subset of stocks in the MSCI Emerging Markets Index that have higher share prices relative to their earnings or dividends per share. The MSCI Emerging Markets Value Index is a market capitalization-weighted subset of stocks in the MSCI Emerging Markets Index that have lower share prices relative to their earnings or dividends per share, or lower prices relative to other financial metrics.

The 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. The MSCI EAFE Growth Index is a market capitalization-weighted subset of stocks within the MSCI EAFE Index that have higher share prices relative to their earnings or dividends per share. The MSCI EAFE Value Index is a market capitalization-weighted subset of stocks within the MSCI EAFE Index that have lower share prices relative to their earnings or dividends per share.

Jeff Weniger is a registered representative of Foreside Fund Services, LLC.

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