

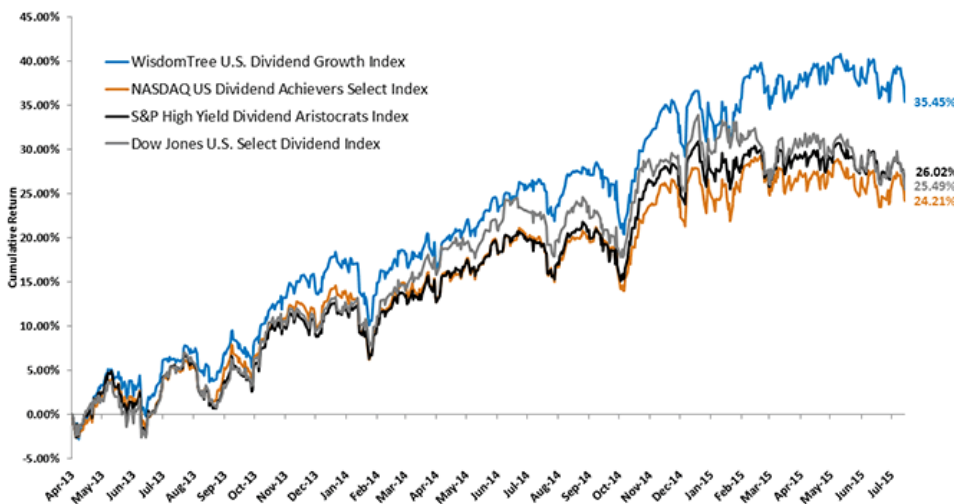
IS YOUR DIVIDEND INDEX PREPARED FOR THE FUTURE?

Tripp Zimmerman — Director, Research
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Some of the most widely followed indexes that focus on [dividend growth](#) employ backward-looking growth screens that require a company to have paid—and in some cases raised—[dividends](#) for five, 10 or even 20 years before becoming eligible for inclusion.¹ And collectively more than \$45 billion is invested in exchange-traded funds designed to track these backward-looking dividend indexes.² This seems like a smart idea, but it keeps many investors from capitalizing on shifting trends in the dividend landscape and positioning for the future, specifically when it comes to newer payers and firms recovering from recent dividend contractions. More than two years ago, WisdomTree created a forward-looking dividend growth index that seeks to capture dividend growth trends that often are not captured by indexes that take a backward-looking approach. The [WisdomTree U.S. Dividend Growth Index \(WTDGI\)](#) looks at [fundamental](#) metrics that could indicate future dividend growth potential. Two categories of variables govern stock selection:

- **Quality:** Defined as companies with high [return on equity](#) and high [return on assets](#)—both key profitability metrics tied to dividend growth potential
- **Growth:** Defined as companies with high [expected earnings growth](#), as future dividends must be funded from cash flows companies generate

It is important to note that WisdomTree’s Dividend Indexes do not require historical dividend growth to be eligible for inclusion. We believe companies with a long history of dividend growth may not be the key drivers of tomorrow’s dividend growth and that it’s necessary to be more dynamic in the selection criteria to capture the current shifting trend in the U.S. dividend market. Recent evidence bears this out. **Comparing Dividend Growth-Focused Index Performance**



Sources: WisdomTree, Bloomberg, 4/12/13–7/24/15. You cannot invest directly in an index. Past performance is not indicative of future results.

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

• **Information Technology:** WTDGI’s forward-looking methodology and quality bias have resulted in the Index being over-weight the Information Technology sector compared to indexes reliant on backward dividend growth trends. This over-weight has added to the relative performance since inception, which makes sense to us because the sector is also one of the dividend growth leaders. Take Apple, for example, which is now the second-largest dividend payer in the United States, after only reinstating its dividend back in 2012. Since that time, Apple has grown its dividend by 37% on a cumulative basis,³ or more than 11% on an average annual basis. And using a backward-looking dividend growth methodology may exclude Apple for many years to come. Among the backward-looking indexes, the NASDAQ US Dividend

Achievers has the largest weight to the Information Technology sector, but it was still a noticeable under-weight allocation to WTDGI over the period. • **Utilities:** WTDGI's focus on quality companies with low [leverage](#) and high future earnings growth has resulted in the Index being under-weight the Utilities sector compared to indexes reliant on backward dividend growth trends. This under-weight has added to the relative performance since inception, which makes sense to us because the sector typically offers low growth and tends to be highly rate sensitive as a result of its leverage. Year-to-date, the Utilities sector is one of the worst performing sectors, which we think is reflective of market participants positioning themselves in front of the [Federal Reserve's](#) rate hike by selling this rate-sensitive sector. As [interest rates](#) increase, these companies' debt burdens will also increase, lowering the chances of potential dividend increases because cash flows have to be diverted to make higher coupon payments. Of the Indexes displayed above, the Dow Jones U.S. Select Dividend Index had the largest exposure to the Utilities sector, which represented nearly one-third of its Index. WTDGI, on the other hand, had less than one quarter of 1% exposure to the sector.⁴ **Preparing for the Future** We believe that backward-looking indexes can keep the companies growing their dividends the fastest out of a portfolio. In fact, dividend indexes that employ backward-looking growth screens may not be able to take advantage of the technology firms and other companies driving today's dividend growth trends for years to come. While no approach can predict which firms will increase their future dividends, we believe that being broad, flexible and forward-looking will enable WTDGI to more quickly respond to—and better capitalize on—the changing U.S. dividend landscape. In turn, we believe this methodology will track the performance of the companies growing their dividends the fastest today—and tomorrow. ¹Refers to the [Dow Jones U.S. Select Dividend Index](#), the [NASDAQ US Dividend Achievers Select Index](#) and the [S&P High Yield Dividend Aristocrats Index](#) which have historical dividend growth requirements of five, 10 and 20 years, respectively, before constituents are eligible for index inclusion. ²Source: Bloomberg, 7/24/15. ³Sources: WisdomTree, Bloomberg, 7/24/12–7/24/15. As of 7/24/15, Apple had a 4.41% weight in the WisdomTree U.S. Dividend Growth Index. ⁴Sources: WisdomTree, Bloomberg, 7/24/15.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

For more investing insights, check out our [Economic & Market Outlook](#)

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IMPORTANT INFORMATION

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.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

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You cannot invest directly in an index.

DEFINITIONS

Dividend growth : The growth in trailing 12-month dividends for the specified universe.

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

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

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.

Earnings growth estimates : Bloomberg analysts' long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years.

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.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Dow Jones U.S. Select Dividend Index : The index is a modified market capitalization approach and weights by dividend yield. Stocks are selected for fundamental strength relative to their peers, subject to various screens such as dividend quality and liquidity.

NASDAQ US Dividend Achievers Select Index : Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 10 or more consecutive years.

S&P High Yield Dividend Aristocrats Index : Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 20 or more consecutive years.