

IMPROVING RISK-ADJUSTED RETURNS WITH U.S. QUALITY DIVIDEND GROWTH

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In a year of moderate economic growth, cash dividend payouts have also grown at a steady pace. The U.S. [Dividend Stream®](#), which sums the indicated dividend payments of all U.S. listed payers, has grown at a 5.4% rate over the previous 12 months, close to the 5.8% annual figure since 2007.¹

Of the 20 largest dividend payers in the U.S. market, 18 have grown their payments this year. The [WisdomTree U.S. Quality Dividend Growth Index \(WTDGI\)](#) held 12 out of these 18 securities in 2023, which contributed to its dividend growth of 6.6% exceeding the broad U.S. market by north of 1%. It is important to highlight how WTDGI did not hold the only two non-growers, AbbVie and AT&T.

20 Largest U.S. Dividend Payers				Dividends Per Share		Dividend Stream (\$Bn)		% Change	WTDGI
Rank	Ticker	Name	Sector	11/30/22	11/30/23	11/30/22	11/30/23		
1	MSFT	Microsoft	Information Technology	\$2.72	\$3.00	\$19.26	\$21.18	10.29%	Yes
2	XOM	ExxonMobil	Energy	\$3.64	\$3.80	\$14.99	\$15.22	4.40%	No
3	AAPL	Apple	Information Technology	\$0.92	\$0.96	\$14.64	\$14.93	4.35%	Yes
4	JNJ	Johnson & Johnson	Health Care	\$4.52	\$4.76	\$11.82	\$11.46	5.31%	Yes
5	JPM	JPMorgan Chase	Financials	\$4.00	\$4.20	\$11.73	\$12.14	5.00%	No
6	VZ U	Verizon Communications	Communication Services	\$2.61	\$2.66	\$10.96	\$11.18	1.92%	No
7	ABBV	AbbVie	Health Care	\$5.92	\$5.92	\$10.47	\$10.45	0.00%	No
8	CVX	Chevron	Energy	\$5.68	\$6.04	\$10.43	\$10.80	6.34%	No
9	PFE	Pfizer	Health Care	\$1.60	\$1.64	\$8.98	\$9.26	2.50%	No
10	PG U	P&G	Consumer Staples	\$3.65	\$3.76	\$8.66	\$8.87	3.01%	Yes
11	T US	AT&T	Communication Services	\$1.11	\$1.11	\$7.91	\$7.94	0.00%	No
12	PM U	Philip Morris Intl	Consumer Staples	\$5.08	\$5.20	\$7.88	\$8.07	2.36%	Yes
13	HD U	Home Depot	Consumer Discretionary	\$7.60	\$8.36	\$7.75	\$8.32	10.00%	Yes
14	KO U	The Coca-Cola	Consumer Staples	\$1.76	\$1.84	\$7.23	\$7.56	4.55%	Yes
15	MRK	Merck & Co	Health Care	\$2.76	\$2.92	\$7.00	\$7.40	5.80%	Yes
16	AVGO	Broadcom	Information Technology	\$16.40	\$18.40	\$6.83	\$8.17	12.20%	Yes
17	MO U	Altria Group	Consumer Staples	\$3.76	\$3.92	\$6.74	\$6.93	4.26%	Yes
18	BAC	BofA Corp	Financials	\$0.88	\$0.96	\$6.35	\$6.84	9.09%	No
19	PEP	PepsiCo	Consumer Staples	\$4.60	\$5.06	\$6.34	\$6.96	10.00%	Yes
20	CSCO	Cisco Systems	Information Technology	\$1.52	\$1.56	\$6.24	\$6.34	2.63%	Yes

Sources: WisdomTree, FactSet, as of 11/30/23. Data from 11/30/22 to 11/30/23.

The [WisdomTree U.S. Quality Dividend Growth Index \(WTDGI\)](#), tracked by the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), selects companies that look attractive across measures of profitability, like [ROE](#) and [ROA](#), and earnings growth prospects and weights them by their Dividend Stream. As highlighted above, this fundamental model has allowed WTDGI to gain exposure to dividend growers and stay away from companies at risk of cutting or suspending dividend payments.

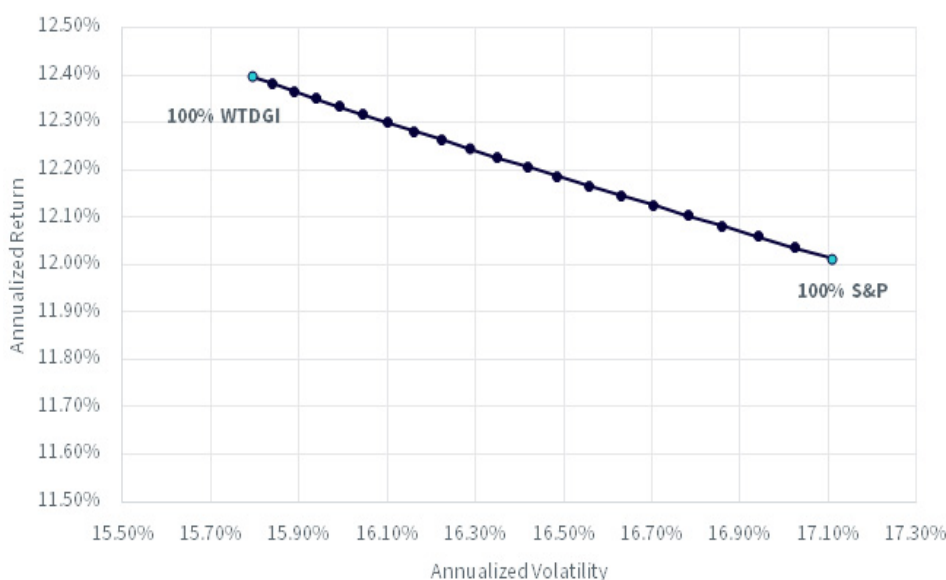
Improving Risk-Adjusted Return of a Core Allocation

In a post we wrote to celebrate [WTDGI's 10-year anniversary](#) last year, we highlighted how since its inception in 2013, WTDGI has managed to outperform the [S&P 500](#) by about 40 [basis points](#) annually and do so with 1.3% lower [volatility](#).

The efficient frontier below shows the annualized return and volatility of portfolios built by combining WTDGI and S&P 500. The data used for this chart stems from April 11, 2013, to December 6, 2023, and assumes that the allocation is rebalanced semiannually at the end of April and October. Each dot on the curve shows a 5% shift in allocation from one asset to the other.

Given their high correlation, which ranges from 0.91 to 0.99 in rolling one-year periods, it is not surprising to see the straight-line nature of the efficient frontier rather than the typical curve of lower correlation assets. This being said, it is important to highlight how combining these two would've helped investors reduce volatility without coming at the cost of performance or, rather, also be a benefit in performance.

Asset Allocation: WTDGI vs. S&P 500



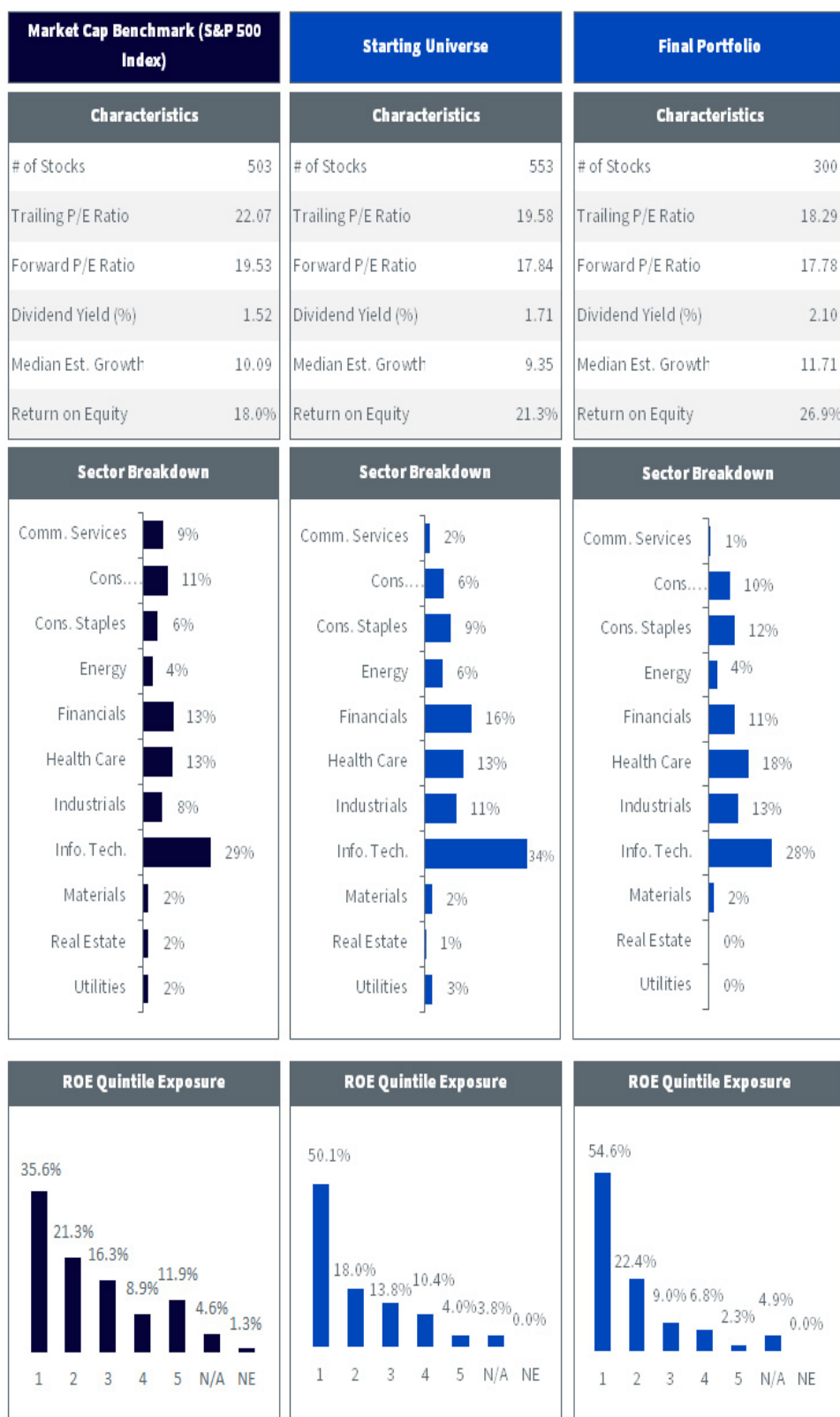
Sources: WisdomTree, FactSet. Data from 4/11/13–6/12/23. Past performance is not indicative of future results. You cannot invest directly in an index.

Index Methodology

The methodology of WTDGI's annual rebalance, which happened on December 13, can be explained in the following stages:

- Starting Universe:** The Index's starting universe consists of dividend-paying U.S. equities that meet WisdomTree's liquidity requirements and whose market caps exceed \$2 billion. Companies whose dividend coverage ratios are less than 1 (i.e., dividends exceed earnings) are removed, as are companies flagged as risky by WisdomTree's [composite risk score \(CRS\)](#).
- Composite Score Selection:** Companies are then ranked based on an equally weighted composite score of growth and quality. Growth is defined as consensus estimated earnings growth over the next one to three years, while quality is calculated as a 50/50 score of the company's average three-year ROE and ROA. The top 300 companies are selected into the portfolio.
- Final Portfolio:** The 300 companies selected are *Dividend-Stream*-weighted to reflect the proportionate share of aggregate cash dividends. An individual holding cap of 8% is applied prior to a 20% sector cap for all sectors except Info. Tech. (30%) and Real Estate (10%).

The chart below highlights the different stages of WTDGI's latest rebalance in December 2023 and compares portfolio characteristics versus those of the S&P 500 Index (teal).



Sources: WisdomTree, FactSet. Data as of 9/29/23.

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

Rebalance Highlights

WTDGI's starting universe already shows a quality tilt and improving valuation coming from removing non-dividend payers and companies whose dividends exceed earnings or are at risk of cutting their dividend payments.

Upon selecting the 300 best-scoring companies on the composite score of growth and quality and Dividend-Stream-weighting the basket, the portfolio exhibits stronger quality and growth characteristics. Aggregate ROE exceeds the S&P 500 by almost 9%, and the median estimated growth of the portfolio is 1.5% higher.

More than half of the weight is allocated to the highest ROE companies. Both the trailing and forward valuations of the portfolio are lower than the S&P 500, showing how this process can achieve its tilts by keeping valuations in check and having a higher dividend yield than the market.

Sectors like Consumer Staples, Health Care and Industrials are over-weight while Comm. Services and Utilities are under-weight.

DGRW: The ETF That Tracks WTDGI

[DGRW](#) has been a favored ETF for core exposure to the market, and outperforming the S&P 500 with lower volatility has been a prime feature. Selecting only companies we see as best positioned to deliver dividend growth has led this ETF to have a smoother ride than core indexes with the more volatile non-dividend-paying stocks. Whether you want some value exposure or growth exposure, DGRW plays down the middle, trying to bring elements of selecting high-quality growth stocks but with a dividend and valuation framework involved in weighting.

¹ Sources: WisdomTree, MSCI. Data from 11/30/07–11/30/23.

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You cannot invest directly in an index.

DEFINITIONS

Dividend Stream : Refers to the regular dividends per share multiplied by the number of shares outstanding.

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.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Basis point : 1/100th of 1 percent.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Composite risk score : A term that refers to combining multiple factors—for example quality and momentum—to quantify the potential riskiness of a security relative to comparable companies.