

# GLOBAL EX-U.S. QUALITY DIVIDEND GROWTH: 2022 RECONSTITUTION

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The [WisdomTree Global ex-U.S. Quality Dividend Growth Index \(WTGDYG\)](#) selects companies from developed international and [emerging markets](#) that score well across measures of profitability like [return on equity \(ROE\)](#) and [return on assets \(ROA\)](#), and earnings growth prospects. Companies in the Index are ranked within their respective regions.

WisdomTree recently conducted the annual reconstitution of WTGDYG, which is tracked by the [WisdomTree Global ex-U.S. Quality Dividend Growth Fund \(DNL\)](#).

This post provides a review of WTGDYG's reconstitution.

## Country and Sector Changes

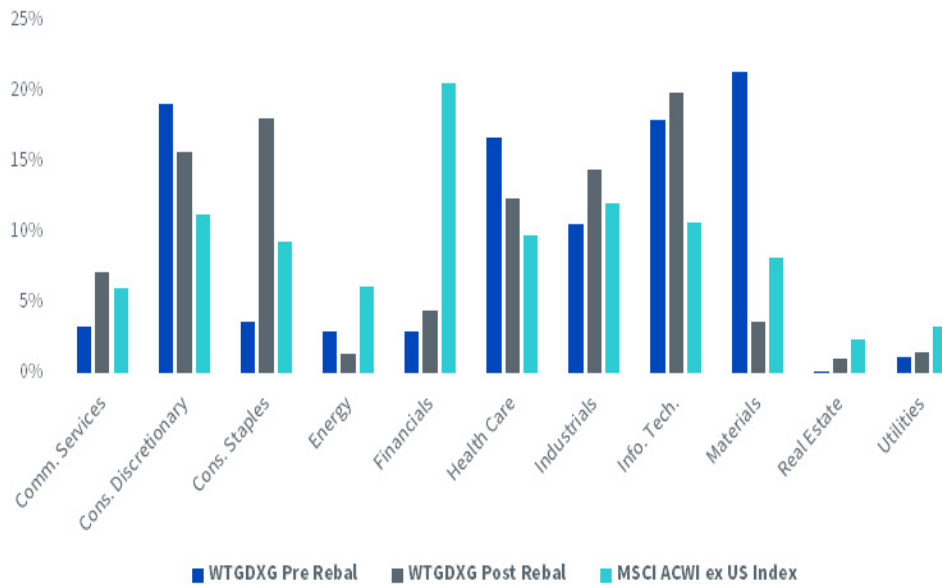
Given the macroeconomic backdrop, WTGDYG saw a significant decrease in its exposure to the Materials sector. Materials companies have experienced 18 months of solid revenue growth on the back of higher [commodity](#) prices. The companies in this sector have negative earnings growth prospects over the medium term and, despite having above-average profitability measures, companies like BHP Group Plc, Anglo American Plc and Vale S.A. were dropped from the Index.

On the other hand, companies in the Consumer Staples sector have shown solid growth over the past year. Market expectation is for this to continue. Therefore, names like Nestle S.A., Unilever Plc and Diageo Plc were added to the Index.

Other noteworthy sector changes can be seen in an increased allocation to the Industrials sector and a reduced allocation to the Health Care sector. Pharmaceutical company Roche Holding was dropped from the Index after being reduced in the 2021 rebalance, while ABB Ltd and Canadian National Railway company were added.

WTGDYG maintains over-weight allocations to the Consumer Discretionary, Health Care and Information Technology sectors relative to its benchmark, the MSCI AC World ex-US Index, and under-weight allocations to the Energy, Financials and Utilities sectors.

## Sector Exposures



Source: WisdomTree, FactSet as of 09/30/2022. Holdings and sector exposures are subject to change without notice. You cannot invest directly in an Index.

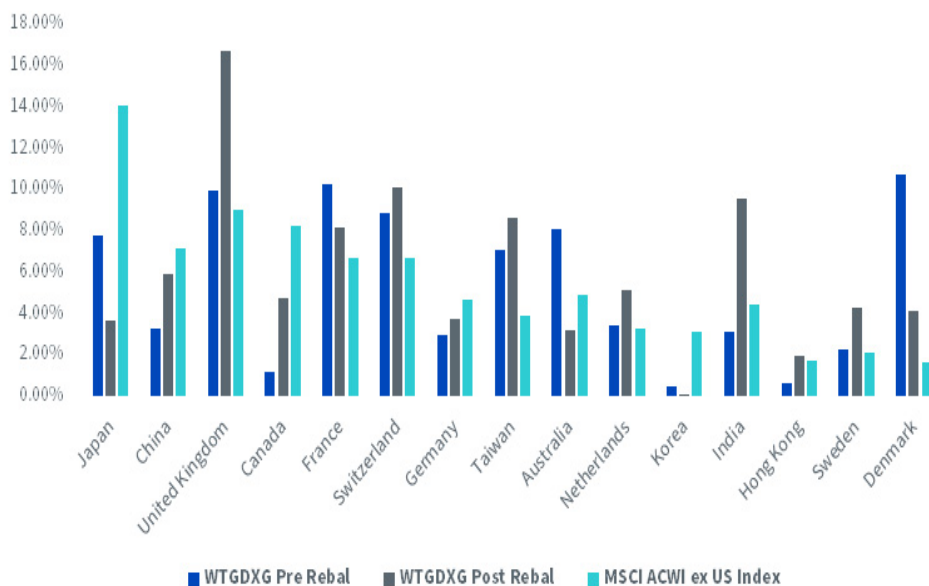
Japan, Denmark and Australia had notable reductions in their weights. Danish Novo Nordisk A/S was WTGDGX's largest holding prior to the rebalance. It had experienced an increase of 5.26% over the last 12 months.<sup>1</sup> Its weight was adjusted to reflect its current fundamentals as measured by its dividend payment. The decrease in the allocation to Materials companies contributed to the nearly 5% decline in the Index's exposure to Australia.

Exposures to the United Kingdom, India and Canada were notably increased. The largest addition from a country perspective was United Kingdom, whose weight increased by 6.7%. This increase was driven by the addition of Consumer Staples conglomerates like Unilever Plc and Diageo Plc. Both companies are expected to continue to grow despite an uncertain macroeconomic scenario.

The increase in weight to India came from companies across different sectors, as this economy has continued to rebound from the 2020 slowdown faster than others in emerging markets.

WTGDGX maintains over-weight allocations to the United Kingdom, France, Switzerland and Taiwan relative to its benchmark, while having under-weight allocations in Japan, China and Germany.

### Country Exposures



Source: WisdomTree, FactSet as of 09/30/2022. Country exposures are subject to change without notice. You cannot invest directly in an Index.

## Fundamentals

Post-rebalance fundamentals need to be analyzed in the context of the sector and country changes mentioned above. The dropping of Materials companies that have high payouts on inflated earnings and low valuations can give the impression that WTGDGX's methodology is not accomplishing its purpose. On the contrary, the portfolio is being repositioned into companies with strong balance sheets, whose growth expectations are solid in the medium term.

WTGDGX's post-rebalance quality metrics, ROE and ROA, continue to be significantly higher than those of the [MSCI AC World ex-US Index](#), while having a higher implied growth as measured by the earnings retention times ROE. WTGDGX's lower payout ratio post-rebalance also signals how its constituents are reinvesting a higher percentage of earnings in growth opportunities and could have a more sustainable dividend.

Portfolio	Dividend Yield (%)	Price/Earnings (P/E) Ratio	Return on Equity (ROE)	Return on Assets (ROA)	Implied Growth	P/E to LTG	Dividend Payout Ratio
WTGDGX Pre-Rebal	5.07	10.03	36.56	15.59	17.99	1.10	50.80%
WTGDGX Post-Rebal	2.78	15.79	28.03	9.13	15.73	1.24	43.89%
MSCI AC World ex-US Index	3.48	12.20	13.09	1.79	7.53	1.09	42.44%
S&P 500 Index	1.75	17.50	19.84	4.35	13.76	1.52	30.66%

Sources: WisdomTree, FactSet, as of 09/30/22. Source: WisdomTree, FactSet as of 09/30/2022. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns. \*The measures above refer to the underlying securities of the holdings in the portfolios and should not be considered reflective of the portfolios' or related fund's performance. This applies to all the metrics other than dividend yield. LTG = Long-term growth.

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

Within its objectives, WTGDGX's fundamentals show a portfolio with more attractive quality and growth metrics than the MSCI AC World ex-US Index. We believe these advantages make WTGDGX's P/E premium seem like a fair trade-off for investors.

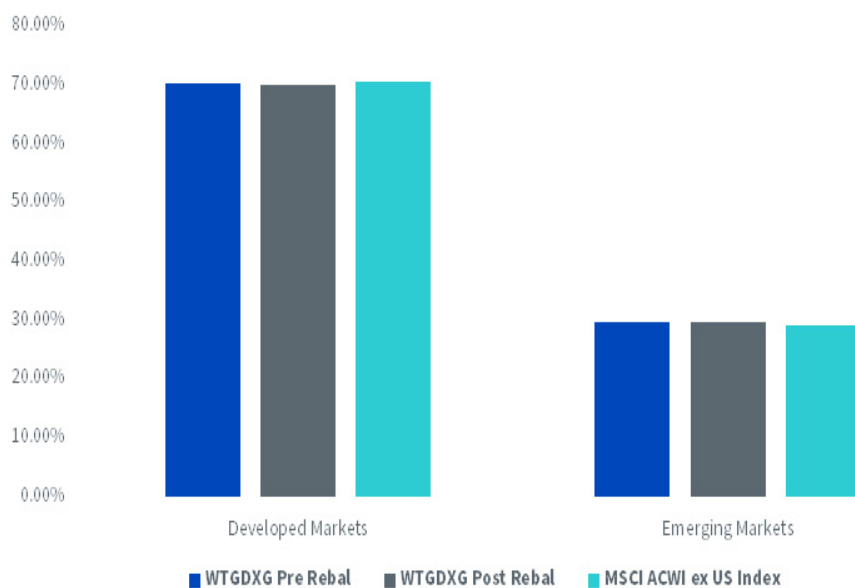
Compared to the U.S. market—represented by the S&P 500 Index—we can see how WTGDGX has provided higher growth at cheaper valuations. This basket of global ex-U.S. companies has exhibited a more attractive profitability and growth profile, higher dividend yield and lower P/E ratio than the broad S&P 500 Index.<sup>2</sup>

## Regional Exposure

WTGDGX's methodology includes a regional adjustment factor applied at rebalance such that the regional (developed markets and emerging markets) weights are equal to the float-adjusted market capitalization weight of the starting universe. This year, the WTGDGX methodology began ranking companies within their respective regions and selecting the highest ranked from each.

As we can see below, there will be no significant changes to regional exposures at rebalance and the portfolio will remain slightly over-weight in developed markets and under-weight in emerging markets relative to its benchmark.

## Regional Exposures



Source: WisdomTree, FactSet as of 09/30/2022. Country exposures are subject to change without notice. You cannot invest directly in an index.

<sup>1</sup> Source: Bloomberg. Data from 09/30/2021 – 09/30/2022.

<sup>2</sup> Past performance does not guarantee future results.

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Additional Index information is available [here](#).

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You cannot invest directly in an index.

## **DEFINITIONS**

**Emerging market** : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

**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.

**Commodity** : A raw material or primary agricultural product that can be bought and sold.

**MSCI AC World ex-US Index** : Measures the performance of companies incorporated in both emerging markets and developed markets, excluding the United States. Index weighting is by market cap.