

WHAT'S DRIVING THE QUALITY DIVIDEND GROWTH PERFORMANCE?

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In December 2013, WisdomTree added a novel approach to its stable of international [dividend](#)-focused Indexes with the launch of the [WisdomTree International Hedged Quality Dividend Growth Index](#). This Index utilizes an annual screen on fundamental metrics, including [dividend payout ratios](#), [return on equity \(ROE\)](#), [return on assets \(ROA\)](#) and long-term estimated earnings growth in selecting 300 dividend-paying companies. These metrics were chosen with the aim of constructing a unique rules-based process that targets quality dividend-paying companies with high ability to grow their dividends over time.

As a result of this screening process and weighting by annual cash dividends, some of the characteristics of this Index are materially different from its [cap-weighted](#) benchmark. Attribution analysis of some of these key differences is discussed below to provide deeper insight into the Index's drivers of outperformance since inception.

ROE Quintiles: Nearly Three Times the Weight in the Top ROE Quintile

Breaking down exposures into ROE [quintiles](#) helps show the impact of the Index's quality screen on tilts toward profitable companies and how that has affected performance. This attribution starts by creating ROE categories from the market cap index (five quintiles, separate from two buckets of negative return and a category for when there is no data). After assigning categories, we can then compare the relative weights of each index by category and its performance. The sum of the total attribution in this case shows 221 [basis points \(bps\)](#) annualized outperformance for the quality index versus its market cap benchmark, the [MSCI EAFE Local Currency Index](#).

- The WisdomTree Index has 64.49% allocated to the top ROE quintile versus just 22.51% for the market cap-weighted index, a differential of nearly three times. This higher allocation was the primary driver of outperformance (1.14% of the 2.21%).
- The bulk of the quality index's 42% over-weight in the top quintile was approximately offset by its 38% under-weight in the bottom three quintiles. In aggregate, this under-weight helped contribute another 108 bps to the Index's outperformance. This supports the notion of outperformance being critically tied not only to what is included but to avoiding lower quality companies as well.
- When reviewing the returns of the categories in the market cap benchmark in the far-right column, one segment that stands out relative to others is the outperformance of the negative return category. This category's return of 7.52% was the second best-performing category in the benchmark, even outperforming the highest ROE quintile by 30 bps. With the benchmark having less than 4% weight to this segment, idiosyncratic factors may play a part in defying the trend of underperformance seen from the bottom two quintiles.

WTIDGH - WisdomTree International Hedged Dividend Growth Index					VS.	MXEA - MSCI EAFE Local Currency Index					
Return on Equity Attribution	As of:	5/31/2018				MTD	QTD	YTD	1Y	3Y	Since Inception
Attribution Component					Average Category Weight			Category Performance			
Category	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return		
1st Quintile (Highest ROE)	0.00%	0.39%	0.75%	1.14%	64.69%	22.51%	42.18%	8.96%	7.22%		
2nd Quintile	0.00%	0.43%	-0.22%	0.21%	23.72%	23.24%	0.48%	10.12%	7.88%		
3rd Quintile	-0.03%	0.97%	-0.59%	0.35%	7.29%	19.04%	-11.75%	12.30%	7.18%		
4th Quintile	0.50%	0.12%	-0.09%	0.53%	2.41%	17.60%	-15.18%	4.41%	3.40%		
5th Quintile (Lowest ROE)	0.03%	2.06%	-1.89%	0.20%	1.42%	12.85%	-11.43%	21.82%	5.88%		
Negative Return	-0.14%	0.68%	-0.73%	-0.19%	0.13%	3.94%	-3.81%	19.34%	7.52%		
N/A	-0.04%	0.02%	-0.01%	-0.02%	0.33%	0.82%	-0.49%	18.00%	7.42%		
Total	0.32%	4.68%	-2.79%	2.21%	-	-	-	9.36%	7.15%		

Sources: WisdomTree, FactSet, for the period 12/2/13–5/31/18. Past performance is not indicative of future results. You cannot invest directly in an index.

Sector and Country Attribution

In addition to differentiated exposures to fundamentals such as ROE, sector and country attributions help drill into another way to analyze exposures and returns. The sector exposure has tended to be more heavily weighted in the Consumer sectors and Health Care, and significantly less in Financials. From a country perspective, the most notable weight differential in either direction has been an under-weight in Japan of 11.65%. Low dividend payment levels, while growing, have minimized the weights assigned to Japanese constituents relative to market cap weighting—10.92% compared with 22.58%. This under-weight in Japan contributed 50 bps to outperformance for the period.

Chronically low ROEs have left many large financial institutions out of the Index since inception. As of May 31, 2018, the screening date for the WisdomTree International Index [annual rebalance](#), [MSCI EAFE Financials](#) have an ROE of 8.25%, compared with 11.1% for the broader Index.¹ Persistently low [interest rates](#), sluggish growth and regulatory guidelines to bolster capital buffers all point toward continued headwinds for the sector on this key measure of profitability.

WTIDGH - WisdomTree International Hedged Dividend Growth Index					VS.	MXEA - MSCI EAFE Local Currency Index					
Sector Attribution		As of:	5/31/2018		MTD		QTD	YTD	1Y	3Y	Since Inception
Attribution Component					Average Category Weight			Category Performance			
Category	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return		
Consumer Staples	0.32%	0.51%	0.39%	1.21%	19.97%	11.39%	8.58%	13.52%	9.09%		
Financials	0.58%	2.57%	-2.43%	0.72%	2.88%	21.39%	-18.51%	15.85%	3.69%		
Telecommunication Services	0.30%	-0.22%	0.42%	0.49%	4.10%	4.69%	-0.59%	-4.01%	1.55%		
Information Technology	0.20%	0.13%	0.09%	0.41%	8.11%	5.28%	2.83%	14.72%	12.17%		
Consumer Discretionary	0.01%	0.14%	0.07%	0.22%	18.96%	12.35%	6.61%	8.09%	6.88%		
Industrials	0.08%	0.12%	-0.01%	0.19%	16.99%	13.46%	3.53%	9.45%	8.73%		
Real Estate	-0.03%	0.27%	-0.13%	0.11%	2.70%	3.55%	-0.85%	12.81%	6.61%		
Utilities	-0.02%	-0.30%	0.29%	-0.03%	1.19%	3.53%	-2.34%	-5.71%	6.07%		
Health Care	-0.15%	0.02%	-0.01%	-0.14%	16.85%	11.24%	5.60%	6.83%	6.63%		
Energy	-0.16%	-0.78%	0.67%	-0.27%	1.73%	5.59%	-3.86%	-9.70%	7.19%		
Materials	-0.20%	-0.43%	-0.10%	-0.72%	6.53%	7.53%	-1.00%	2.82%	9.06%		
Total	0.94%	2.01%	-0.74%	2.21%	-	-	-	9.36%	7.15%		

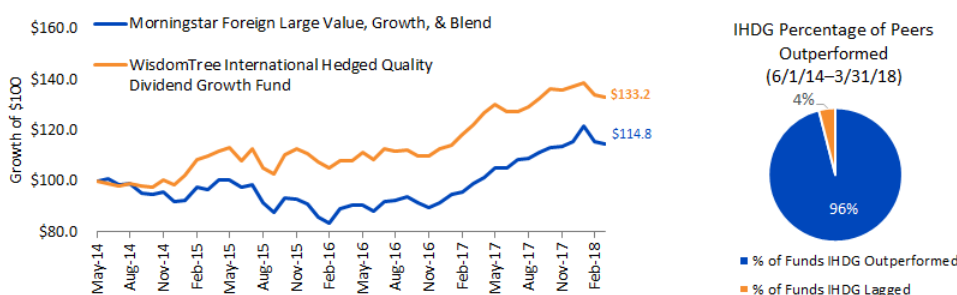
Sources: WisdomTree, FactSet, for the period 12/2/13–5/31/18. Past performance is not indicative of future results. You cannot invest directly in an index. Allocations subject to change.

In reviewing the largest sector contributors, the Consumer Staples sector was the largest contributor to outperformance, adding 121 bps. The under-weight in Financials was the second largest contributor, adding 72 bps; the Financials sector was the second worst-performing in the benchmark.

For those interested in more time periods and methods to attributing this Index's performance, please check out our [new Index Performance Attribution tool](#).

WisdomTree International Hedged Quality Dividend Growth Fund (IHDG): Beating 96% of Its Peers since Inception

The Fund tracking this Index, IHDG, has recently crossed its four-year live track record in May. As of the most recent quarter-end, IHDG is sitting close to the top of its peer group, beating 96% of its peers since inception. For investors looking for a differentiated approach that is grounded in exposures to the time-tested characteristics of quality and dividend growth, we think IHDG should be squarely on the radar.



				Average Annual Total Returns as of 3/31/18									
	Fund Information			NAV Returns (%)					Market Price Returns (%)				
Fund/Index/Category	Ticker	Exp. Ratio	Inception Date	1-Year	Common Period	3-Year	5-Year	10-Year	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree International Hedged Quality Dividend Growth Fund	IHDG	0.58%	5/7/2014	8.8%	7.8%	6.6%	N/A	N/A	9.2%	7.7%	6.7%	N/A	N/A
MSCI EAFE Local Currency Index				5.2%	6.2%	3.3%	8.4%	4.5%	5.2%	6.2%	3.3%	8.4%	4.5%
Morningstar Foreign Large Value, Growth, & Blend				16.1%	3.7%	5.8%	6.4%	2.9%	16.1%	3.7%	5.8%	6.4%	2.9%

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Sources: Morningstar, WisdomTree, 3/31/08-3/31/18. "Common period" refers to 5/31/14-3/31/18 due to inception of fund. 5/7/14 represents the IHDG inception date.

1,129 investments included in peer group for Morningstar Foreign Large Value, Growth, & Blend.

All data as of May 31, 2018, and sourced from WisdomTree and FactSet.

¹Sources: WisdomTree, FactSet.

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You cannot invest directly in an index.

DEFINITIONS

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

Dividend Payout Ratio : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

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.

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.

Quintile : One of the class of values of a variate which divides the members of and batch or sample into equal-sized subgroups of adjacent values or a probability distribution into distributions of equal probability.

Basis point : 1/100th of 1 percent.

MSCI EAFE Local Currency Index : A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan, with performance measured in local currency term.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

MSCI EAFE Financials Index : Captures large and mid cap representation across 21 of 23 Developed Markets (DM) countries around the world, excluding the US and Canada. All securities in the index are classified in the Financials sector as per the Global Industry Classification Standard.

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