BUFFETT'S ACQUISITION RULES APPLIED INTERNATIONALLY

Christopher Gannatti — Head of Research, Europe
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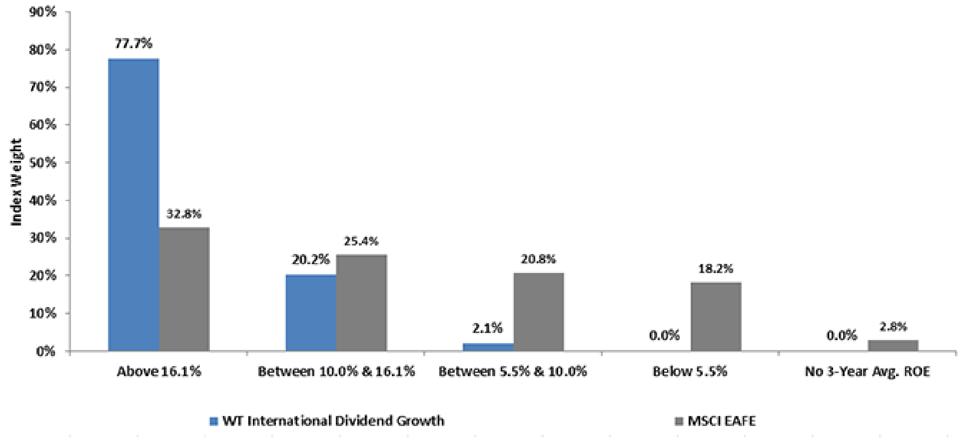
One of our most popular blog posts in 2015 focused on characterizing the types of companies that Warren Buffett and Berkshire Hathaway might see as interesting acquisitions targets. There was one criterion in particular that we found interesting: "Businesses earning good returns on equity (ROE) while employing little or no debt."[1] In essence, this single line encapsulates the core focus of WisdomTree's dividend growth strategies, which apply a focus on quality companies around the world. **Exemplifying a "Quality Tilt"** When we say "quality" at WisdomTree, what we mean is a focus on the combination of: • Three-year average return on equity (ROE) *and* • Three-year average return on assest (ROA) Focusing on both penalizes firms that may have high return on equity through the use of leverage or, in other words, debt. **Impact of Focusing on Quality: 3-Year Average Return on Equity (as of 5/31/2015 WisdomTree Index**



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

Screening) *For definitions of indexes in the chart, visit our glossary.*

- **77.7% Weight in Stocks with Three-Year Average ROE above 16.1%:** We arrived at this 16.1% three-year average return on equity figure as the boundary denoting the top 25% of three-year average return on equity values for the MSCI EAFE Index universe. WisdomTree's methodology finds and then weights its securities such that nearly 80% of the Index's weight is in these highly profitable firms.

- **80.5% Weight in stocks with Three-Year Average Return on Assets above 6.8%:** While we don't show it in the chart, this 6.8% figure is the three-year average return on assets figure that is the boundary for the top 25% in the MSCI EAFE Index universe. The idea of low leverage must connect these two figures.

- **Comparing to the MSCI EAFE:** The EAFE has approximately 30%–33% of its weight in the highest three-year average ROA and ROE quartiles, respectively, which sets the baseline for comparison. This means that WisdomTree's International Dividend Growth Index is pushing more than twice the weight of the market capitalization benchmark into these respective top quartiles, a significant focus on quality.

Sector Manifestation of This Tilt As a result of the global financial crisis of 2008–09, the word "leverage" found its way from the discussion of balance sheet statistics into more mainstream dialogue. As a result, the term became closely connected with Financials. Logically, an approach that focused on low leverage would necessarily have to under-weight

Financials. As of the May 31, 2015 Index Screening, the WisdomTree International Hedged Dividend Growth Index had an approximately 20% under-weight to Financials as measured against the MSCI EAFE Index. As bets against a benchmark go, we think the strength of this contrast duly emphasizes the commitment of WisdomTree's dividend growth Index methodology to focus on quality companies. **Quality Stocks with a Currency Hedge to Reduce Risk** The WisdomTree Index that includes this quality tilt also employs a currency hedge on top of the equities to just target the local market return of these foreign equities. WisdomTree believes that currency hedging is becoming increasingly important as a strategic baseline for global allocations due to its risk reduction properties, as we discussed in this blog post. At a time when many investors are looking overseas for their additional portfolio allocations, the WisdomTree International Hedged Dividend Growth Index represents a marriage of two core ideas: a focus on quality companies positioned for growth, and the risk reduction properties of currency-hedged foreign allocations. [1]Warren Buffett, "Letter to Shareholders 2015," Berkshire Hathaway.

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.

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Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

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 tim.

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.

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.

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.

Market Capitalization : 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.

Quartile : Statistical measure that groups a series of values into four groups after ranking them from lowest to highest. The first quartile will have the lowest values, whereas the fourth quartile will have the highest.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.