

DRW: THE DETLEF SCHREMPF OF ETFS

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10/25/2017

Remember Detlef Schrempf? He's the last basketball star awarded the NBA's Sixth Man of the Year Award twice consecutively (in the 1990–1991 season and again in 1991–1992). The sixth man is the player who enters the game from the bench, while five others start the game. To me, [REITs](#)¹ are like the Detlef Schrempf of the capital markets, because they play a critical role in asset allocation but often get overshadowed by the proverbial Michael Jordans of the world.

Until 2016, REITS were classified as a sub-industry inside the overarching financials sector, which was one of just 10 GICS "level one"² sectors until last year. But now the [GICS](#) system, which is used by the likes of MSCI and S&P, views REITs as being independent enough to change the sector count to 11.

This is a major development for listed real estate because it wasn't even until this century that REITs were added to the [S & P 500](#), yet today that Index counts 33 real estate companies among its components.

In countries such as the U.S. and Australia, REITs have been a part of the investment landscape for generations, although they were widely popularized only in the last decade or so. In some major countries, like the UK and Italy, the REIT structure didn't even come into being until 2007. It could still be early days for adoption of this sector.

The "Sixth Man" in Plain Sight

The [WisdomTree Global ex-U.S. Real Estate Fund \(DRW\)](#), the ETF that tracks the [WisdomTree Global ex-U.S. Real Estate Index](#), covers securities worth \$1.21 trillion, a considerable sum that is equal to 5.9% of the \$20.4 trillion [valuation](#) accorded non-U.S. equities.³

Importantly, because REITs are interest rate-sensitive, their [correlation](#) to broad equities is often lower than most other sectors. In figure 1, we see that the [Dow Jones Global ex-U.S. Select Real Estate Securities Index](#) has a correlation to the broad market Dow Jones Global ex-U.S. Index of 0.82, the third lowest correlation to the broad market of all 11 sectors. Not surprisingly, the WisdomTree Global ex-U.S. Real Estate Index had a similar correlation to the global equity index (0.86). The correlation between the two real estate proxies was 0.92.

Figure 1: Correlation Matrix: WisdomTree Global Ex-U.S. Real Estate Index vs. Dow Jones Global ex-U.S. Index

	Dow Jones Global ex-U.S.	Financials	Basic Materials	Consumer Goods	Consumer Services	Industrials	Telecom	Utilities	Technology	Healthcare	Oil & Gas	Real Estate	WisdomTree Glob. ex-U.S. Real Estate
Dow Jones Global ex-U.S.	1.00	0.94	0.83	0.93	0.92	0.96	0.84	0.86	0.86	0.71	0.77	0.82	0.86
Financials	0.94	1.00	0.76	0.83	0.86	0.90	0.74	0.74	0.77	0.59	0.68	0.76	0.81
Basic Materials	0.83	0.76	1.00	0.65	0.66	0.83	0.63	0.64	0.71	0.44	0.77	0.62	0.70
Consumer Staples	0.93	0.83	0.65	1.00	0.93	0.88	0.83	0.83	0.85	0.75	0.60	0.81	0.82
Consumer Discretionary	0.92	0.86	0.66	0.93	1.00	0.88	0.85	0.83	0.79	0.72	0.59	0.87	0.83
Industrials	0.96	0.90	0.83	0.88	0.88	1.00	0.75	0.75	0.88	0.64	0.70	0.73	0.77
Telecom	0.84	0.74	0.63	0.83	0.85	0.75	1.00	0.84	0.66	0.70	0.66	0.77	0.74
Utilities	0.86	0.74	0.64	0.83	0.83	0.75	0.84	1.00	0.69	0.69	0.69	0.82	0.82
Technology	0.86	0.77	0.71	0.85	0.79	0.88	0.66	0.69	1.00	0.54	0.53	0.66	0.76
Healthcare	0.71	0.59	0.44	0.75	0.72	0.64	0.70	0.69	0.54	1.00	0.43	0.66	0.61
Energy	0.77	0.68	0.77	0.60	0.59	0.70	0.66	0.69	0.53	0.43	1.00	0.56	0.58
Real Estate	0.82	0.76	0.62	0.81	0.87	0.73	0.77	0.82	0.66	0.66	0.56	1.00	0.92
WisdomTree Glob. ex-U.S. Real Estate	0.86	0.81	0.70	0.82	0.83	0.77	0.74	0.82	0.76	0.61	0.58	0.92	1.00

Sources: WisdomTree, Bloomberg. Monthly correlations from 9/30/12 to 9/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

A Truly Global Perspective

Some investors think of the Dow Jones Global ex-U.S. Select Real Estate Securities Index when they consider international REITs. In terms of performance, DRW has returned 0.62% annually since it was incepted on June 5, 2007, more than a percentage point above the 0.53% annual loss generated for the Dow Jones Index. See standardized performance of the DRW Fund [here](#).

DRW's underlying Index also gives more expansive coverage of the non-U.S. global real estate picture because it includes a healthy dose of emerging markets. For example, whereas the real estate subcomponent of the Dow Jones Index holds 7% in emerging markets, the WisdomTree Index has more than one-fourth of its exposure there (figure 2).

Figure 2: Country Allocations, WisdomTree vs. Dow Jones

Dow Jones Classification	Domicile	WisdomTree Global ex-U.S. Real Estate Index	Dow Jones Global ex-U.S. Real Estate Securities Index
Developed	Hong Kong	18.4%	8.0%
Developed	Australia	11.2%	14.5%
Emerging	China	17.8%	0.0%
Developed	Singapore	9.0%	7.7%
Developed	France	7.3%	10.6%
Developed	Japan	6.5%	26.2%
Developed	United Kingdom	5.6%	12.1%
Developed	Canada	4.9%	3.4%
Developed	Germany	3.3%	1.9%
Emerging	South Africa	2.9%	2.5%
Emerging	Latin America	1.7%	2.0%
Developed	Other Eurozone	2.6%	4.5%
Developed	Other Dev. Europe	2.9%	4.2%
Emerging	Emerging Europe	0.2%	0.0%
Emerging	Other Emerging Asia	4.2%	2.5%
Developed	Other	1.4%	0.0%
	Developed	73.1%	93.1%
	Emerging	26.9%	7.0%
	Total	100.0%	100.1%

Sources: WisdomTree, Dow Jones. Subject to change. Data as of 9/29/17.

We believe these differing international exposures have been a key driver of returns in 2017. In the year-to-date through

October 9, 2017, the WisdomTree Global ex-U.S. Real Estate Index returned 30.5% versus just an 8.6% gain for the Dow Jones Global ex-U.S. Select Real Estate Securities Index. The latter has suffered because it has heavy allotments to Japanese equities, which have generally underperformed other markets this year. Also, the [MSCI Emerging Markets Index](#) is up 30.3%, driven by the likes of China (+50.2%). In the [MSCI China Index](#), the real estate sector itself has returned 108.9% this year. For comparison, the [MSCI EAFE Index](#) of developed market equities is up 21.4%, while its real estate exposures have returned 15.1%.

With performance disparities like this, some may expect a huge valuation gap to have opened, hindering the case for the WisdomTree Index compared to other international REIT proxies. Not exactly. Our Index closed September with a [price-to-book ratio](#) of just 1.05, a slight discount to the 1.09 P/B accorded Dow Jones's real estate Index. Dow Jones's fact sheet for its Index also reports an "indicated [dividend yield](#)" of 4.02%, which is below the 4.04% [trailing 12-month dividend yield](#) on the WisdomTree Index.

DRW has a track record back to June 2007 that beats its benchmark in the 1-, 3-, 5- and 10-year periods, in addition to the "since inception" time frame. It's a way to grab global real estate exposure in an ETF wrapper. And as we saw in the comparison to the Dow Jones Global ex-U.S. Select Real Estate Securities Index, the WisdomTree Index that DRW tracks enables investors to take a truly global view because of its 26+% exposure to emerging markets. Also, for those who see global interest rates in the coming years being of the "lower for longer" variety, the WisdomTree Index's current 4+% trailing dividend yield may prove intriguing.

As we said, REITs are the Detlef Schrempf of asset allocations: absolutely critical, overshadowed by Michael Jordan and Magic Johnson but not to be overlooked in the grand scheme of things.

¹REIT: Real estate investment trust, an investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

²According to MSCI, there are four GICS levels. Level one encompasses the 11 sectors, with level two comprising 24 industry groups within those sectors. Level three consists of 68 industries that are inside the 24 industry groups, while level four counts 157 sub-industries.

³Source: WisdomTree, as of 9/22/17, MSCI AC World ex-US Index, as of 8/31/17.

⁴Source: Bloomberg. Data through 6/30/17. DRW tracked the WisdomTree International Real Estate Index through 6/17/11 and the WisdomTree Global ex-U.S. Real Estate Index thereafter.

⁵Source: Bloomberg.

⁶Source: Bloomberg, as of 9/27/17.

⁷Sources: Dow Jones, WisdomTree, as of 9/30/17.

⁸Benchmark is Dow Jones Global ex-U.S. Select Real Estate Securities Index. ETF inception

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You cannot invest directly in an index.

DEFINITIONS

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

GICS : Global Investment Classification System, which assigns companies to specific industries and sectors.

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.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Dow Jones U.S. Select Real Estate Securities Index : a market capitalization index measuring the performance of equity Real Estate Investment Trusts (REITs) and other companies that invest directly or indirectly in real estate.

MSCI Emerging Market Index : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

MSCI China Index : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

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.

Price-to-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.