

# A UNIQUE, INTERNATIONAL MULTIFACTOR APPROACH

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As the yen and euro lose significant value this year against the dollar, investors are seeing that [currency hedging](#) is not an [emerging market \(EM\)](#) play, but they are increasingly revisiting whether currency hedging makes sense for developed markets (DM), like the European and Japanese equity markets.

We've believed that [currency risk](#) is not necessarily a risk that investors get paid for taking, and international currency tends to lose value at the same time its equity loses value. In the current geopolitical and Fed rising rate environment, currencies are coming under increased pressure.

## MSCI EAFE Developed Markets Are the New MSCI Emerging Markets: Currency Volatility



Sources: WisdomTree, Bloomberg. Past performance is not a guarantee of future results. An investment cannot be made directly into an Index.

The average [volatility](#) of the developed market currency [basket](#) has moved higher than the emerging market currency basket.

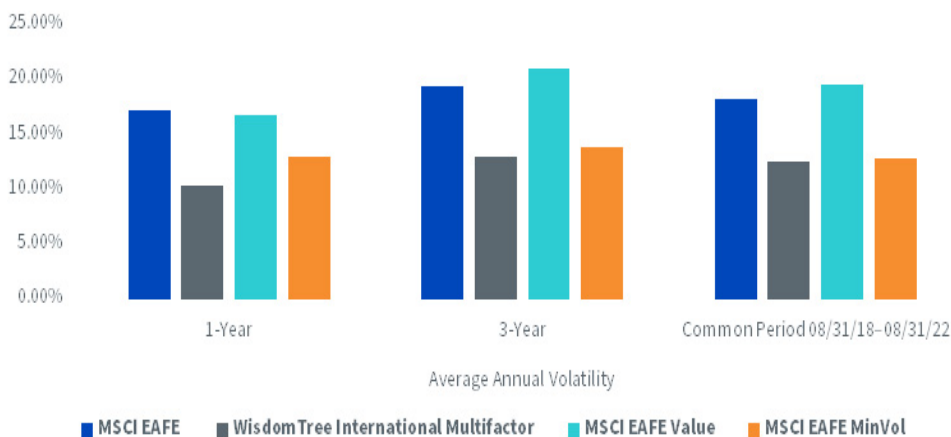
WisdomTree applies a systematic [multifactor](#) strategy to adjust the hedge ratios of currencies, and the average hedge ratio this year has been about 77%. This has helped cushion the declines in our International Multifactor strategy year-to-date.

## Combining a Currency Factor with Equity Factors: The Potential for Good Performance with Lower Volatility

In [WisdomTree's International Multifactor Fund \(DWMF\)](#), factors like [value](#), [quality](#), [momentum](#) and low volatility combine to reduce volatility.

Minimum-volatility (min-vol) strategies have high valuations due to their popularity for the last 10+ years, while the dynamically hedged multifactor strategy has delivered the same or lower volatility without sacrificing return and quality characteristics.

## DWMF Performance vs. Benchmark



Sources: WisdomTree, FactSet, as of 8/31/22. Past performance is not indicative of future results. You cannot invest directly in an Index.

**Performance as of 10/7/22**

Name	Average Annual Total Returns						Common Period 8/10/18-10/7/22
	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception	
WisdomTree International Multifactor (DWMF)	-14.30%	-10.60%	-0.30%			0.30%	0.30%
MSCI EAFE	-27%	-24.3%	-0.80%	-0.60%		3.90%	-1.10%
MSCI EAFE Value Index	-20%	-18.6%	-1.70%	-2.50%	2.10%	2.0%	-2.60%
MSCI EAFE Min-Vol Index	-24.50%	-21.9%	-5.30%	-1.60%	3.30%	4.0%	-2.70%

Sources: WisdomTree, FactSet, as of 10/7/22. DWMF Inception: 8/10/18. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

See the [DWMF Fund page](#) for full standardized performance data and other important information.

**DWMF Portfolio Characteristics vs. Benchmarks: Higher Quality and Dividend Yield**

Characteristic	WisdomTree Intl. Multifactor	MSCI EAFE	MSCI EAFE Value	MSCI EAFE Min-Vol
Dividend Yield	4.55%	3.47%	5.03%	3.27%
Estimated Price/Earnings (P/E)	9.5	11.45	8.01	15.42
Return on Assets (ROA%)	2.96%	1.61%	1.35%	1.93%
Return on Equity (ROE%)	16.15%	11.55%	11.47%	12.23%
Return on Sales %	11.42%	11.57%	12.27%	11.57%
Leverage	5.46	7.17	8.51	6.33
30-Day SEC Yield	3.66%	2.76%	4.05%	2.69%

Sources: FactSet, WisdomTree, as of 9/30/22. Past performance is not indicative of future results.

**WisdomTree International Multifactor Has Achieved High Morningstar Foreign Large Blend Peer Group Rankings**

Fund	YTD		1-Year		2-Year		3-Year		4-Year	
	Return	Peer group percentile	Return	Peer group percentile	Return	Peer group percentile	Return	Peer group percentile	Return	Peer group percentile
<b>Number of Funds</b>		281		279		265		252		235
<b>WisdomTree International Multifactor (DWMF)</b>	-15.84	3	-13.57	3	-1.13	10	-1.38	35	-0.59	16

Sources: Morningstar, WisdomTree. Past performance is not indicative of future results.

In summary, we strongly urge investors to rethink currency exposure in their non-U.S. portfolios, both for developed markets and emerging markets. Dynamic currency hedging and half or full currency hedging are ways investors could manage currency risk to reduce volatility in the current market environment.

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

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For the top 10 holdings of DWMF please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/efts/equity/dwmf>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

**Related Funds**

+ [WisdomTree International Multifactor Fund](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

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You cannot invest directly in an index.

## DEFINITIONS

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

**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.

**Currency risk** : the risk that an investment will decline in value due to a change in foreign exchange rates.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;nbsp;.

**Underlying basket** : Securities held by a fund to replicate an investment strategy or index.

**Multi-Factor Model** : A financial model that employs multiple factors in its calculations to explain market phenomena and/or equilibrium asset prices.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**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 time.

**Momentum** : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.