

A UNIQUE, INTERNATIONAL MULTIFACTOR APPROACH

Liqian Ren — Director of Modern Alpha

11/04/2022

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.

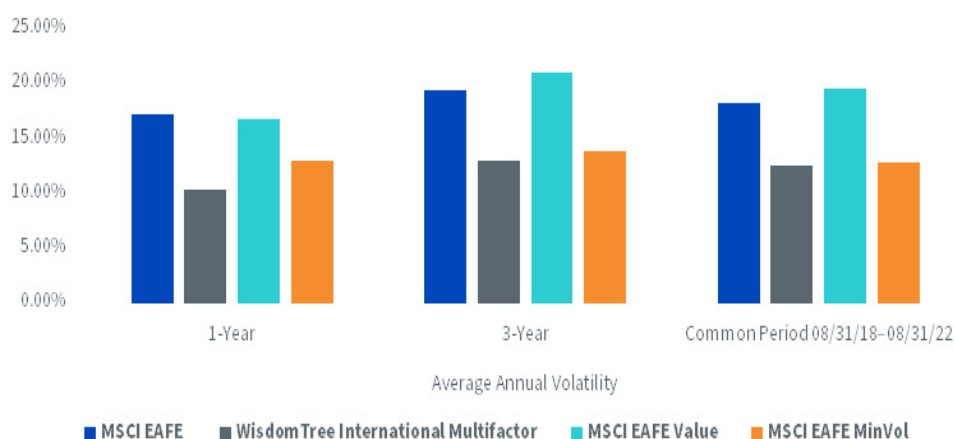
WisdomTree applies a systematic [multifactor](#) strategy to adjust the hedge ratios of currencies, and the average hedge ratio this year has been about 77%. This has helped cushion the declines in our International Multifactor strategy year-to-date.

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](https://www.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

| | YTD | | 1-Year | | 2-Year | | 3-Year | | 4-Year | |
|---|----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|
| | 1/1/22-9/30/22 | | 10/1/21-9/30/22 | | 10/1/20-9/30/22 | | 10/1/19-9/30/22 | | 10/1/18-9/30/22 | |
| Fund | Return | Peer group percentile | Return | Peer group percentile | Return | Peer group percentile | Return | Peer group percentile | Return | Peer group percentile |
| Number of Funds | | 281 | | 279 | | 265 | | 252 | | 235 |
| WisdomTree International Multifactor (DWMF) | -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](#).

Morningstar, Inc. All Rights Reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Important Risks Related to this Article

Please read the [prospectus](#) carefully before investing.

Investing involves risk, including the possible loss of principal. Investments in non-U.S. securities involve political, regulatory and economic risks that may not be present in U.S. securities. For example, foreign securities may be subject to the risk of loss due to foreign currency fluctuations, political or economic instability or geographic events that adversely impact issuers of foreign securities. Derivatives used by the Fund to offset exposure to foreign currencies may not perform as intended. There can be no assurance that the Fund's hedging transactions will be effective. The value of an investment in the Fund could be significantly and negatively impacted if foreign currencies appreciate at the same time that the value of the Fund's equity holdings falls. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profiles.

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

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

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;.

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.