

DGRW TURNS 10!

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The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) had its 10-year anniversary on May 22, following that of the Index it tracks, the [WisdomTree U.S. Quality Dividend Growth Index \(WTDGI\)](#), in April.

The investment objective behind the Fund has remained consistent, providing investors with exposure to companies that look attractive across measures of profitability—[return on equity \(ROE\)](#) and [return on assets \(ROA\)](#)—and earnings growth expectations, and weighting companies by cash dividends to keep valuations in check.

[DGRW](#)'s way of assessing a company's [quality](#) (profitability) and ability to grow dividends allowed it to outperform the broad [S&P 500 Index](#) by 0.22% annually over the past 10 years. Standardized performance for the fund can be found [here](#). [DGRW](#) outperformed the largest quality factor ETF, the [iShares MSCI USA Quality Factor ETF \(QUAL\)](#), by 0.27% since the latter's inception in July 2013. Standardized performance information for QUAL can be found on the [fund site](#). [DGRW](#) also outperformed the largest dividend growth ETF, the [Vanguard Dividend Appreciation ETF \(VIG\)](#) by 1.52%. Standardized performance information for VIG can be found on the [fund site](#). [DGRW](#) has shown lower volatility than the S&P 500 and QUAL over the period and has higher risk-adjusted returns than the previously mentioned comparables.¹

Growth of \$100



Sources: WisdomTree, FactSet. Data 5/22/13–5/31/23. The performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.

For the most recent month-end performance, click [here](#).

To learn more about the differences between the funds being compared, please see the [Additional Information section below](#).

Genesis of the Strategy (Ethos of the Strategy Remains Unchanged)

When WTDGI launched in 2013 after extensive research, our now Global CIO Jeremy Schwartz and Global Head of Research Christopher Gannatti published two white papers: "The Dividends of a Quality and Growth Factor Approach"

and “Waiting for Dividends vs. Weighting by Dividends.” Jeremy and Chris expanded on the rationale for using ROE and ROA as the measures of quality, along with using a forward-looking dividend growth screen instead of a backward-looking one. They also highlighted how a broad quality methodology would be better positioned to compete against the broader market over time. To learn more about this methodology, read this blog post celebrating [WTDGI’s 10-year anniversary](#).

Quality Factor Rankings: “...we have identified higher-quality companies as those that have displayed above-average historical returns on equity and on assets. We have used these criteria as part of our selection methodology, because we believe companies with better profitability metrics are better able to fund growing dividends... There are also the investment practitioners who focus on ROE. Warren Buffett often says, as he did in his most recent (2014) annual letter, that he looks for “businesses earning good returns on equity while employing little or no debt.” Since high leverage involves the use of debt, our use of a quality ranking that incorporates both return on equity and return on assets enables us to mitigate the use of leverage as a sole driver of what may superficially appear to be a high ROE figure.

In the finance literature, return on equity is critically linked to dividend growth and intrinsic value of companies through the [dividend discount model \(DDM\)](#). The DDM for (current) stock valuation states:

$$S_0 = \frac{D_1}{(R - g)}$$

where D_1 represents dividends per share expected to be received in one year, R represents the required rate of return for the investment and g stands for the growth rate in dividends which can be decomposed into ROE x earnings retention.”²

Forward-Looking Dividend Growth Screen: “One of the most critical differences between the WisdomTree U.S. Dividend Growth Index and the NASDAQ US Dividend Achievers Select Index is that the latter requires 10 consecutive years of dividend growth in order to qualify for inclusion, while the former does not. Why does this matter? Because we believe that dividend indexes with backward-looking growth screens may fail to capture growth opportunities—and we believe that performance will bear this out.

...a simple example of the difference is the case of Apple. As one of the largest dividend payers in the United States, Apple is included in the WisdomTree U.S. Dividend Growth Index—but it won’t be eligible for inclusion in the NASDAQ US Dividend Achievers Select Index until 2023. Additionally, it is worth noting that not only does WisdomTree require a dividend, it also uses numerous quality screens and weights by dividends.”³

Broad Exposure: “One of the keys, in our opinion, is to not dilute the potential power of what others have mentioned above (characteristics of different quality factor portfolios) by trying to apply too many stock selection rules or complex weighting schemes. The key is to be as simple and broad-based as possible, while still tilting toward companies with low debt and high return on equity, which we believe to be an important common thread across the many varied interpretations of what quality means to different practitioners.”⁴

Quality Dividend Growth Exposure = Better Risk-Adjusted Returns

The methodology of [DGRW](#)’s Index, WTDGI, has tended to result in a basket of securities that has a higher [dividend yield](#), lower trailing and forward price-to-earnings multiples, and higher quality metrics than the S&P 500. [DGRW](#) also has a higher dividend yield than the dividend appreciation strategy of VIG.

Name	Div. Yield	P/E	Est. P/E	ROA	ROE
DGRW	2.16%	20.7x	18.1x	24.9%	4.3%
VIG	1.93%	20.4x	18.0x	22.6%	4.3%
QUAL	1.67%	18.6x	18.7x	33.1%	8.6%
S&P 500 Index	1.63%	21.5x	18.9x	18.0%	4.0%

Sources: WisdomTree, FactSet. Data as of 4/28/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end and standardized performance, current yield, and to download the fund prospectus, click the respective ticker: [DGRW](#), [VIG](#), [QUAL](#).

Historically, these characteristics of [DGRW](#) relative to the broad market have been consistent. As shown in the chart below, the factor of [DGRW](#)'s ROE has consistently been north of 1.5x that of the S&P 500. [DGRW](#)'s dividend yield has also consistently been higher than the S&P 500, remaining above 1x since the Fund's inception 10 years ago. What is fascinating is that [DGRW](#) has accomplished this while trading at a discount to the S&P 500, as can be seen in the relative [forward price-to-earnings](#) being less than 1x.

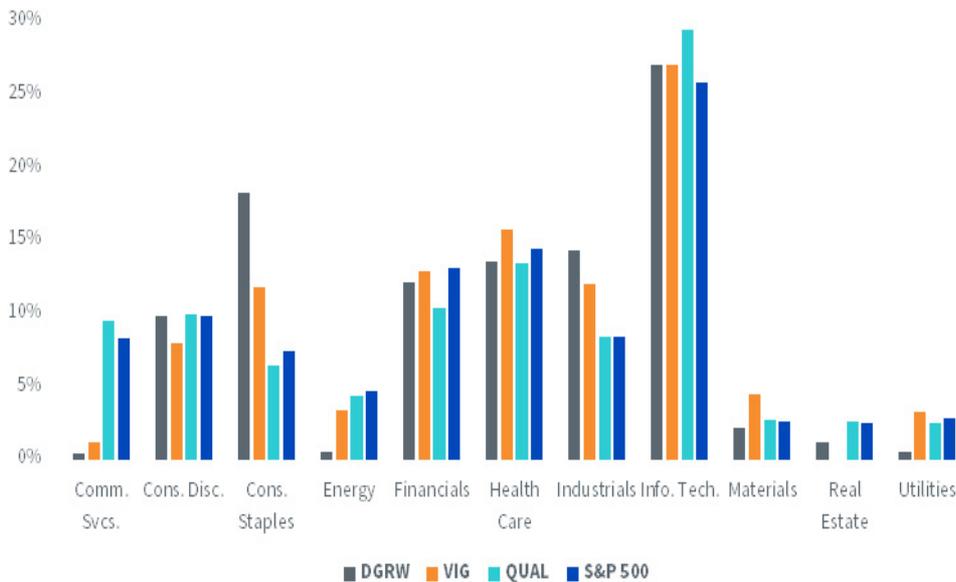
Historical Relative Fundamentals (DGRW vs. S&P 500)



Sources: WisdomTree, FactSet. Data as of 4/28/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted.**

For the most recent month-end performance, click [here](#).

[DGRW](#)'s sector exposures depend on the stage of the economic cycle, as its selection relies on profitability and growth characteristics. As we can see on the chart below, [DGRW](#) currently has an over-weight allocation to Consumer Staples and Industrials and under-weight allocation to Communication Services and Energy relative to the broad market. One of the main points of criticism for a single factor strategy like QUAL has to do with its sector neutrality relative to the broad market. We find it difficult to justify a fixed exposure to a certain sector regardless of its aggregate profitability metrics.



Sources: WisdomTree, FactSet. Data as of 4/28/23. Weightings are subject to change.

Conclusion

As mentioned earlier, [DGRW](#)'s investment process has allowed it to outperform the S&P 500 and its competitors both on an absolute and risk-adjusted basis. As we can see below, risk characteristics for [DGRW](#) are very attractive for a core exposure in an investor's portfolio.

Characteristics	DGRW	VIG	QUAL	S&P 500
Annual Return	12.01%	10.49%	11.74%	11.79%
Standard Deviation	14.15%	13.70%	15.50%	14.96%
Sharpe Ratio	0.79	0.70	0.70	0.73
Information Ratio	0.06	-0.09	-0.02	-
Up-Capture	95.41%	87.24%	100.19%	-
Down-Capture	92.72%	89.38%	100.59%	-
Beta	0.91	0.88	1.02	1.00

Sources: WisdomTree, FactSet. Data 7/31/13–5/31/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted. Holdings are subject to change.**

¹ Sources: WisdomTree, FactSet. Data 5/22/13–5/31/23.

² Source: WisdomTree, "The Dividends of a Quality and Growth Factor Approach"

³ Source: WisdomTree, "Waiting for Dividends vs. Weighting by Dividends"

⁴ Source: WisdomTree, "The Dividends of a Quality and Growth Factor Approach"

Additional Information and Important Risks Related to this Article

The WisdomTree Quality Dividend Growth Fund (DGRW) seeks to track the investment results of dividend-paying large-cap companies with growth characteristics in the U.S. equity market. It has a gross expense ratio of 0.28% and tracks the price and yield performance, before fees and expenses, of the WisdomTree U.S. Quality Dividend Growth Index. The Vanguard Dividend Appreciation ETF (VIG) invests in large-cap equities,

emphasizing stocks with a record of growing their dividends year over year. It has an expense ratio of 0.06% and seeks to track the performance of the S&P U.S. Dividend Growers Index. The iShares MSCI USA Quality Factor ETF provides exposure to large- and mid-cap U.S. stocks exhibiting positive fundamentals and quality characteristics (high return on equity, stable year-over-year earnings growth and low financial leverage). It seeks to track the price and performance of the MSCI USA Sector Neutral Quality Index and has an expense ratio of 0.15%. QUAL and VIG were chosen for comparison as they are the largest quality factor and dividend appreciation ETFs, respectively, aligning with DGRW's primary investment objective of quality focus and dividend growth.

All funds are managed differently and do not react the same to economic or market events. The investment objectives, strategies, policies or restrictions of other funds may differ and more information can be found in their respective prospectuses. Therefore, we generally do not believe it is possible to make direct fund to fund comparisons in an effort to highlight the benefits of a fund versus another similarly managed fund.

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

The purpose of this material is to provide financial professionals with a means to evaluate the investment methodology of the Funds and Indexes, as compared to various other funds/indexes. It is the opinion of WisdomTree that all funds and indexes are managed differently and do not react the same to economic or market events. The investment objectives, strategies, policies or restrictions of other funds may differ, and more information can be found in their respective prospectuses. Therefore, we generally do not believe it is possible to make direct fund-to-fund comparisons in an effort to highlight the benefits of a fund versus another similarly managed fund. The information included in this material is based upon data obtained from FactSet and WisdomTree's database, which is are believed to be accurate. This material is not considered an offer to sell or a solicitation to buy shares of any other funds mentioned herein.

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

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 Blogs

- + [The Dividend Driver: Return on Equity](#)
- + [Quality and Pricing Power: An Unsuspecting Inflation Hedge?](#)
- + [WisdomTree's Quality Dividend Growth Strategy Turns 10](#)
- + [Beating the S&P 500 Is Hard! Here Is How Our ETF Did It.](#)

Related Funds

- + [WisdomTree U.S. Quality Dividend Growth Fund](#)
- + [WisdomTree Global ex-U.S. Quality Dividend Growth Fund](#)
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IMPORTANT INFORMATION

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You cannot invest directly in an index.

DEFINITIONS

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.

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.

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.

iShares MSCI USA Quality Factor ETF (QUAL) : Seeks to track the investment results of an index composed of U.S. large- and mid-capitalization stocks with quality characteristics as identified through certain fundamental metrics.

Vanguard Dividend Appreciation ETF (VIG) : Seeks to track the performance of the S&P U.S. Dividend Growers Index.

Dividend discount model (DDM) : Method of determining whether a company's share price is currently above or below where it could be if future dividend payments were the key determinant, as opposed to other factors.

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