

HOW TO ACCESS QUALITY ACROSS THE GLOBE

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Across the globe, the [quality factor](#) has been among the top performers in 2020¹.

This strong performance has been driven by companies with high profitability that have maintained their earnings growth trajectory.

The [WisdomTree Global ex-U.S. Quality Dividend Growth Index \(WTGDYG\)](#) selects companies from developed international and emerging markets that score well across measures of profitability like [return on equity \(ROE\)](#) and return on assets (ROA), and that have good earnings growth prospects.

Year to date, WTGDYG has outperformed its benchmark—the [MSCI ACWI ex-US Index](#)—by more than 800 [basis points \(bps\)](#), thanks to its quality dividend growth tilt.

Recently, WisdomTree conducted the annual reconstitution for its global dividend indexes—of broad dividends, high dividends and quality dividend growth.

In this post, we provide a review of the reconstitution of the WisdomTree Global ex-U.S. Quality Dividend Growth Index.

Fundamentals

Fundamentals after our rebalance show a significant increase in quality metrics. ROA improves from 8.77% to 10.31%, and ROE improves over 500 bps from 21.51% to 26.74%.

Along with improved quality metrics, the post-rebalance basket shows higher implied growth as measured by the earnings retention rate times the ROE.

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Within its objectives, WTGDYG's fundamentals show a portfolio with more attractive quality and growth metrics than the MSCI ACWI ex-US Index.

WTGDYG's lower payout ratio signals its constituents are reinvesting a higher percentage of earnings in growth opportunities and could have more sustainable dividends. These advantages make WTGDYG's [price-to-earnings \(P/E\)](#) premium seem like a fair trade-off for investors.

Compared to the U.S. market—represented by the [S&P 500 Index](#) in the table above—we can see how WTGDYG provides investors with higher growth at cheaper [valuations](#). This basket of global ex-U.S. companies has a more attractive profitability and growth profile, higher dividend yield and lower P/E ratio than the broad S&P 500 Index.

Country and Sector Changes

During this latest reconstitution, Denmark, Australia and the U.K. had notable reductions in their weights relative to the MSCI ACWI ex-US Index. Exposures to Switzerland, Canada and Taiwan were significantly increased.

The largest change from a country perspective was Switzerland, whose weight increased 5.68%. This increase was driven by the addition of pharmaceutical giant Roche Holding AG (3.99% weight) and fragrance company Givaudan SA (1.67%). Both companies grew dividend payments in 2020 in the midst of the global Covid-19-related recession.

Taiwan had the second-largest increase, largely attributed to the addition of Taiwan Semiconductor Manufacturing Company—a 4.23% weight.

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When looking at sector changes, Information Technology had the biggest percentage weight increase, driven by the Taiwanese company along with increased weight to Dutch semiconductor company ASML Holding.

Noteworthy weight reduction came from the Materials sector. Companies with large weight reductions were Australian and Japanese companies Fortescue Metals Group (4.25%) and Shin-Etsu Chemical Co. (2.43%) respectively, along with

British company Evraz PLC (2.03%).

Overall sector tilts versus the MSCI ACWI ex-US Index remain consistent as WTGDYG continues with significant underweights in the Financials and Consumer Discretionary sectors while being overweight Health Care and Information Technology.

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Single-Company Changes

Of the top 10 drops, Evraz Plc (2.03% weight) and Tatneft PJSC (1.49%) were removed based on a [new enhanced risk screening](#), introduced at this rebalance.

WisdomTree's family of quality dividend growth indexes was designed for dividend sustainability and a growth emphasis. Because constituents are selected based on quality and estimated earnings growth, there is only a modest impact to our quality indexes from these new risk screens.

Top 10 Adds

insert table

Top 10 Drops

insert table

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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

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You cannot invest directly in an index.

DEFINITIONS

Quality Factor : Excess returns achieved by companies exhibiting higher quality or profitability vs the market. Typically measured using operating profitability, return on equity and/or return on assets.

MSCI ACWI ex-U.S. Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets excluding companies based in the United States.

Basis point : 1/100th of 1 percent.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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.