Introducing the WisdomTree Global Quality Growth UCITS ETF

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Points clés

- WisdomTree Global Quality Growth UCITS ETF (WGRO) provides Growth exposure to global developed markets without sacrificing Quality.
- More than 3 decades of global market data indicate that within High-Growth stocks, the dispersion of returns between High-Quality and Low-Quality is the largest over the growth spectrum, with High-Quality stocks outperforming Low-Quality stocks by more than 6% annualised returns, making the blend essential for a robust portfolio.
- WisdomTree's Quality Growth Strategy results in a high conviction portfolio with high active share versus the MSCI World Index and is designed to avoid the pitfalls of a High-Growth portfolio by blending the Quality factor.

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WisdomTree has launched the WisdomTree Global Quality Growth UCITS ETF (WGRO) , which seeks to provide investors with a unique exposure to Growth in global developed markets without sacrificing on Quality. Contrary to some existing growth proxies of the growth in global developed markets, the WisdomTree Quality Growth UCITS ETF (WGRO) takes a holistic, fundamentally driven approach to portfolio construction. The WisdomTree Global Quality Growth UCITS ETF (WGRO) tracks the performance, before fees and trading costs, of the WisdomTree Global Quality Growth UCITS Index.

In this blog, we take you through the thought process behind the newly launched exchange-traded fund (ETF).

Identifying Growth stocks

A few common measures used to identify Growth stocks include trailing sales and earnings growth, future sales and earnings growth estimates, and relative valuations like price-to-earnings, price-to-sales, and price-to-book ratios. Because earnings-based measures of Growth may be undefined for loss-making Growth companies, Growth strategies may ignore profitability considerations in favour of metrics like price-to-sales and price-to-book as proxies for Growth. At times, Growth investors become enamoured with more narrow non-earnings Growth measures like 'eyeballs' during the internet craze of the early 2000s or 'subscriber-growth' in recent years as it relates to streaming platforms and social media companies.

This can lead to an approach to Growth that over-weights highly speculative or junky Growth names. Alternatively, some investors have been considering focusing on Quality stocks—companies with higher profitability—to implicitly tilt towards profitable Growth stocks. But ignoring explicit Growth signals can exclude some of the fastest growing companies, diluting the intended growth exposure. The WisdomTree Global Quality Growth Index identifies stocks with Quality and Growth characteristics to avoid sacrificing either factor.

Blending Quality with Growth

Investors are familiar with the standard Value, Blend, and Growth styles. So why blend Quality with Growth? Higher operating profitability (Higher Quality) has outpaced Lower Quality over time. And that outperformance has been most pronounced in the market's Higher Growth (less Value) segments. In the below table the highest profitability quartile (1st quartile) outperformed the broad market controlling for valuation (price-to-book). When looking at the 4th quartile on price-to-book (the least Value/most Growth quartile), there was a spread of 6.54% annually between the highest and lowest profitability quartile. These historical returns suggest that investing in Growth stocks can be a losing game over the long run. We believe investors should, instead, consider investing in High-Quality Growth stocks.

Figure 1: Global developed markets Quality-Growth matrix

Higher Quality

More Growth

More Value

		Operating Profitability Quartiles				
		4th (Lowest)	3rd	2nd	1st	1st vs. 4th
Price-to-Book Quintiles	4th	2.93%	8.05%	*7.62%*	9.47%	*6.54%*
	3rd	0.64%	7.15%	7.86%	10.00%	*9.35%*
	2nd	4.71%	7.81%	9.49%	8.08%	*3.37%*
	1st (Lowest)	*5.74%*	9.51%	9.27%	9.60%	*3.86%*
Total Market Return: 8.01%						

Source: Kenneth French Data Library, 01 Jul 1990– 31 December 2024. Period based on the availability of annual operating profitability returns sorted into quintiles, which begins on 01 Jul 1990. The market is developed markets listed equities grouped on the basis of operating profitability and price-to-book in the higher market cap (ME2 category). **Returns are annualised. Historical performance is not an indication of future performance and any investment may go down in value.**

WisdomTree Global Quality Growth UCITS Strategy

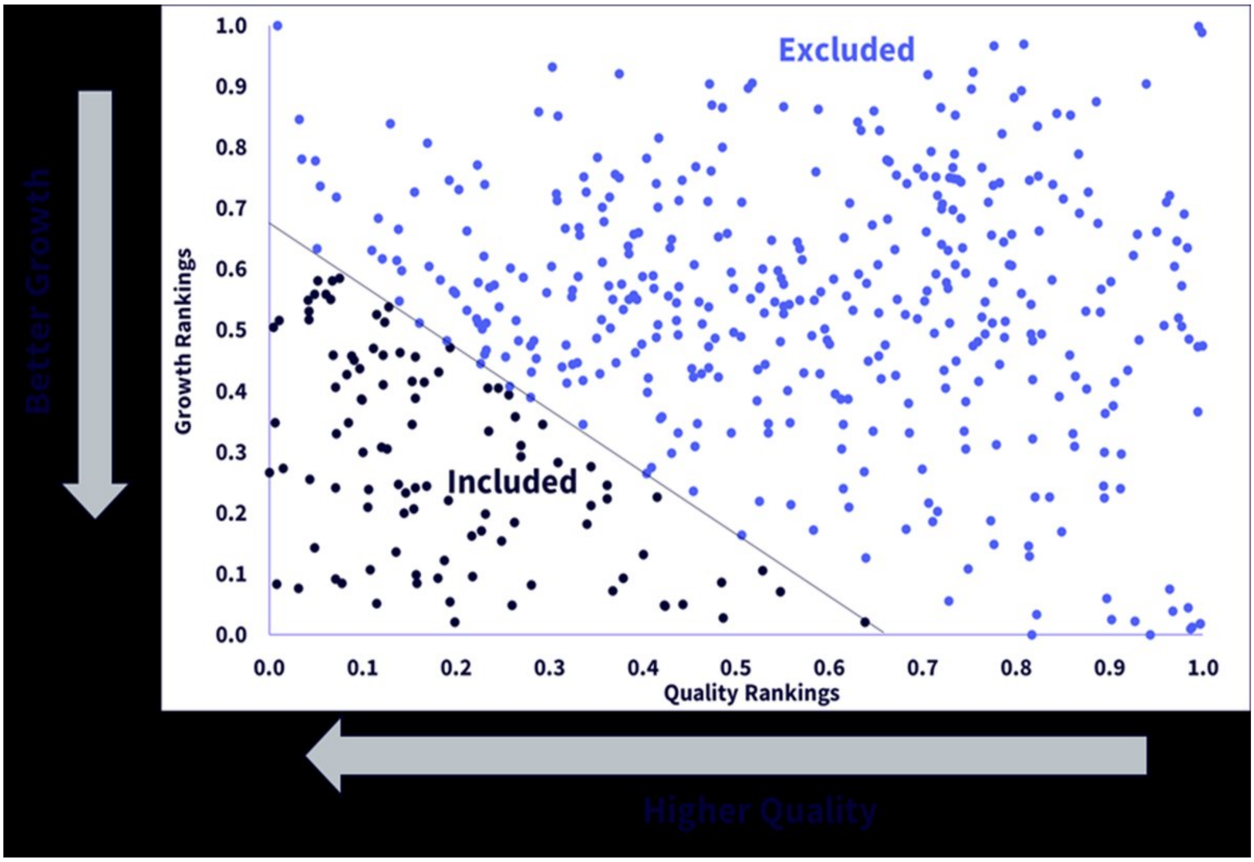
The WisdomTree Global Quality Growth UCITS Index is a market-cap-weighted index consisting of companies with Quality and Growth characteristics. The top 5001 listed US companies, 300 listed European companies, and 200 listed other international developed market companies, that satisfy the WisdomTree

ESG criteria, are ranked on a composite score of two fundamental factors: Growth and Quality, which are equally weighted. The Index comprises the top quintile selected independently from the 3 regions defined above, that leads to 100 US companies, 60 European companies, and 40 other international developed market companies with the highest composite scores in the portfolio.

Growth factor: the Growth factor is determined by a company's ranking based on a 50% weight in its median analyst earnings growth forecast, a 25% weight in its trailing five-year EBITDA2 growth, and a 25% weight in its trailing five-year sales growth.

Quality factor: the Quality factor is determined by a company's ranking based on a 50% weight to each of its trailing three-year average return on equity and trailing three-year average return on assets.

Figure 2: Visual representation of the selection process for each region



Source: WisdomTree, FactSet, as of 31 Dec 2024. Universe in purple dots (right of line) includes companies in the Top 500 of US equities, by market-cap filtered for WisdomTree ESG criteria. Navy dots (left of line) include companies included in the WisdomTree Global Quality Growth UCITS Index at the rebalance screening. **You cannot invest directly in an index.**

Conclusion: a Growth-oriented portfolio of High-Quality stocks with high active share

The index is intended to be a high-conviction, relatively concentrated Growth portfolio aimed at selecting High-Quality, High-Growth companies. As a result, the resulting portfolio has a high active share, and a high percentage weight allocated to the top 10 holdings

Source: WisdomTree, Factset. Data based on the underlying index WisdomTree Global Quality Growth UCITS Index as of 31 Dec 2024. Historical performance is not an indication of future performance and any investment may go down in value. You cannot invest directly in an index.

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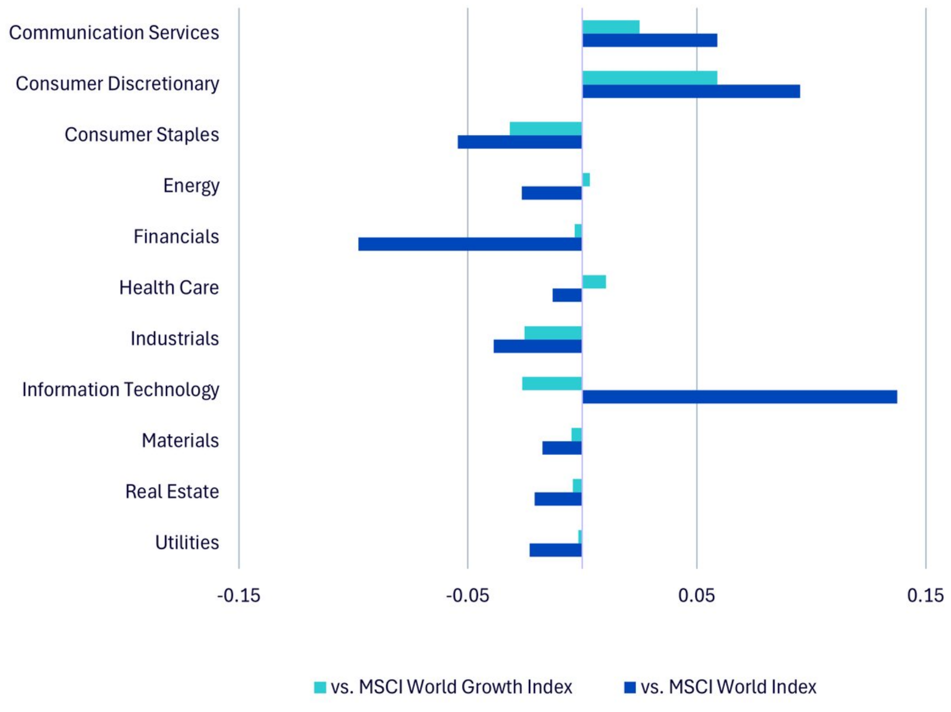
The resulting sector weights adapt dynamically to Quality and Growth tilts and, at present, indicate high exposure to 'Information Technology' and overweight to 'Communication Services' and 'Consumer Discretionary'.

Figure 3: GICS3 sector exposures vs broader market



Source: WisdomTree, Factset. Data based on the underlying index WisdomTree Global Quality Growth UCITS Index as of 31 Dec 2024. **Historical performance is not an indication of future performance and any investment may go down in value. You cannot invest directly in an index.**

1 ‘Top’ = by market capitalisation.

2 Earnings before interest, taxes, depreciation, and amortisation.

3 GICS = Global Industry Classification Standard.

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