

Screening for quality: Deconstructing our Quality Dividend Growth strategies

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Income investors need not fear the Fed's rate hikes. Opportunities persist despite recent pressure on high-dividend yield strategies, and income investors looking to position around tightening credit conditions efficiently may consider a contrasting style exposure within dividend payers: Companies' ability to grow dividends sustainably, as opposed to large dividend pay-outs.

Underpinning WisdomTree's Quality Dividend Growth strategies is a combination of quality and growth factors designed to include stocks that will create long-term capital and dividend growth. It is a total return performance proposition—not a high yield strategy. In this blog, we outline important elements that the methodology of our Quality Dividend Growth strategies employ:

1) It screens for dividend growth potential: Quality Dividend Growth captures future dividend growers by targeting dividend-payers offering the best growth and quality factors. This involves selecting top-ranking stocks based on a combination of long-term earnings growth expectations (50% weight), three-year average return-on-equity (25% weight) and three-year average return-on-assets (25% weight).

2) It weights by cash dividends for greater stability: Whilst the strategy screens for growth and quality, the weighting process rewards the largest cash dividend payers by assigning the largest weight. This offers potential for additional stability by tilting to sustainable dividend payers with stronger cash generating ability and less leveraged balance sheets.

3) It captures emerging dividend opportunities: The IT sector has been a key driver of dividend growth in recent years with companies like Apple beginning dividend payments again in 2012. Forward-looking strategies like WisdomTree's Quality Dividend Growth capture these dividend opportunities early on, only requiring 12 months' cash dividend history for companies to be eligible in the basket. This contrasts with many popular dividend strategies, such as the Dividend Aristocrats, which require 5, 10 or even 20 years of consecutive dividend increases before eligibility criteria are met. This backwards-looking approach restricts investors' exposure to dividend leaders like Apple and fails to capture growth opportunities as they arise.

4) Overweight cyclicals: Quality dividend-paying baskets offer a concentrated, cyclical basket of IT, Industrials and Consumer stocks that are typically lower yielding than Telecoms, Utilities and Energy sectors, but have better outperformance potential in a rising rates environment and amidst a bullish global outlook.

5) An investment solution for income and total return investors: Stock selection based on fundamental strength have powered WisdomTree's Quality Dividend Growth strategies and beaten their respective MSCI market-cap benchmarks across all time periods since inception (as shown in Figure 1). Coupled with dividend yields north of 2% and on par with market-cap peers, the strategy may offer an investment solution for both income-seeking and total return investors.

Figure 1: WisdomTree's Quality Dividend Growth Strategies by geographic exposure

Excess annualised returns vs MSCI market-cap benchmarks, as at 28 April 2017

Table 1: WisdomTree Quality Dividend Growth strategies returns versus their relevant indices

WisdomTree US Quality Dividend Growth

WisdomTree Global Quality Dividend Growth

MSCI World

WisdomTree Eurozone Quality Dividend Growth

Source: WisdomTree, Bloomberg. Data from 30/04/2007 to 28/04/2017. Returns based on net total returns. MSCI benchmarks represented by MSCI USA, MSCI World and MSCI EMU. Past performance is not indicative of future performance.

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Our offering

WisdomTree's Quality Dividend Growth strategies offer exposures to various geographies including Eurozone, Global developed and US equities as shown in the table below:

- + [WisdomTree Eurozone Quality Dividend Growth UCITS ETF - EUR Acc \(EGRA/EGRG\)](#)
- + [WisdomTree Eurozone Quality Dividend Growth UCITS ETF - EUR \(EGRW/EGRP\)](#)
- + [WisdomTree Global Quality Dividend Growth UCITS ETF - USD Acc \(GGRA/GGRG\)](#)
- + [WisdomTree Global Quality Dividend Growth UCITS ETF - USD \(GGRW/GGRP\)](#)
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