Introducing the WisdomTree US Quality Growth UCITS Exchange-Traded Fund (ETF)

Published 1 May 2024

Ayush Babel
Director, Quantitative Research

Key Takeaways

- WisdomTree US Quality Growth UCITS ETF provides US growth exposure without sacrificing quality. It is a superior fundamentals-based stock selection alternative to market capitalisation-based selection.
- The last 60 years of US 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 close to 9% annualised returns, making the blend essential for a robust portfolio.
- WisdomTree's strategy results in a high conviction portfolio with high active share versus the S&P 500 Index, and a dynamic portfolio that adjusts to quality and growth tilts.

- Related Products WisdomTree US Quality Growth UCITS ETF - USD Acc, WisdomTree Global Quality Growth UCITS ETF - USD Acc Find out more

WisdomTree has recently launched the **WisdomTree Quality Growth UCITS ETF**, which seeks to provide investors with a unique exposure to growth in the US market without sacrificing on quality. Contrary to some existing growth proxies of the growth in the US market, the **WisdomTree Quality Growth UCITS ETF** takes a holistic fundamentally driven approach to portfolio construction. In this blog, we take you through the thought process behind the newly launched 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 'eye-balls' 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 US 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 quintile (1st quintile) outperformed the broad market controlling for valuation (price-to-book). When looking at the 5th quintile on price-to-book (the least value/most growth quintile), there was a spread of 8.84% annually between the highest and lowest profitability quintile. 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.

US Market Quality-Growth Matrix

Higher Quality

More Growth / More Value

		Operating Profitability Quintiles					
		5th (Lowest)	4th	3rd	2nd	1st (Highest)	1st vs. 5th
Price-to-Book Quintiles	5th (Highest)	2.47%	8.82%	8.87%	9.85%	11.31%	*8.84%*
	4th	5.98%	8.67%	10.61%	11.08%	11.41%	*5.43%*
	3rd	6.44%	9.97%	11.11%	13.54%	13.86%	*7.41%*
	2nd	8.91%	10.58%	13.21%	12.58%	13.97%	*5.06%*
	1st (Lowest)	11.50%	13.10%	14.39%	14.32%	11.52%	*0.02%*
	Total Market Return: 10.34%						

Source: Kenneth French Data Library, 30 June 1963 – 31 December 2023. Period based on the availability of annual operating profitability returns sorted into quintiles, which begins on 30 June 1963. The market is US-listed equities grouped on the basis of operating profitability and price-to-book. Returns are annualised. **Past performance is not indicative of future results.**

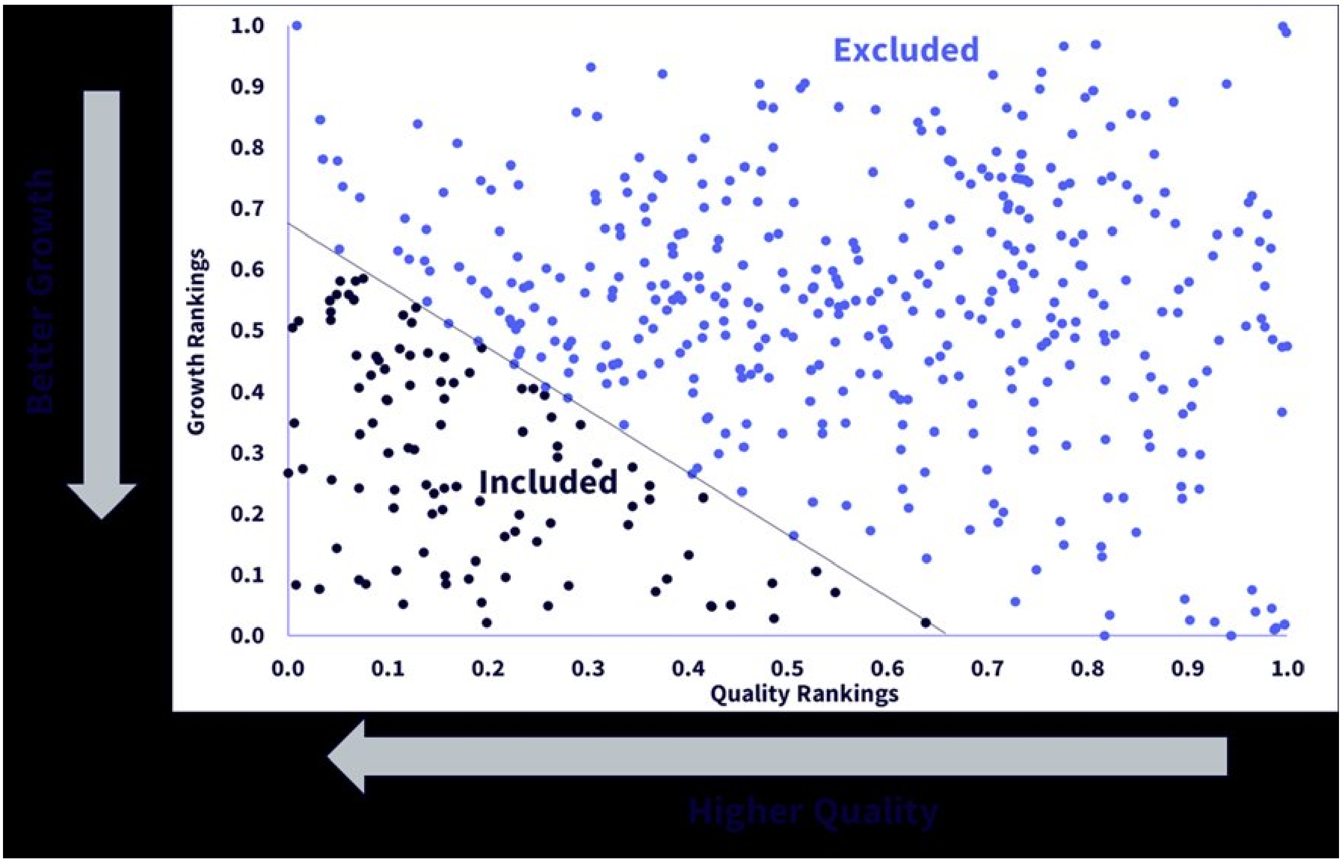
WisdomTree US Quality Growth UCITS Strategy

The WisdomTree US Quality Growth UCITS Index is a market-cap-weighted index consisting of companies with quality and growth characteristics. The top 500 US companies that satisfy the WisdomTree ESG criteria and are listed on any of the major US exchanges by market capitalisation are ranked on a composite score of two fundamental factors: growth and quality, which are equally weighted. The Index comprises the 100 US companies (the first quintile) with the highest composite scores.

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 EBITDA1 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.

Visual representation of the selection process



Source: WisdomTree, FactSet, as of 30 Nov 2023. Universe in purple dots includes companies in the Top 500 of US equities, by market-cap filtered for WisdomTree ESG criteria. Blue dots include companies included in the WisdomTree US Quality Growth UCITS Index at the rebalance screened on 30 Nov 2023. **You cannot invest directly in an index.**

Conclusion: A growth-oriented portfolio of high-quality stocks with high active share

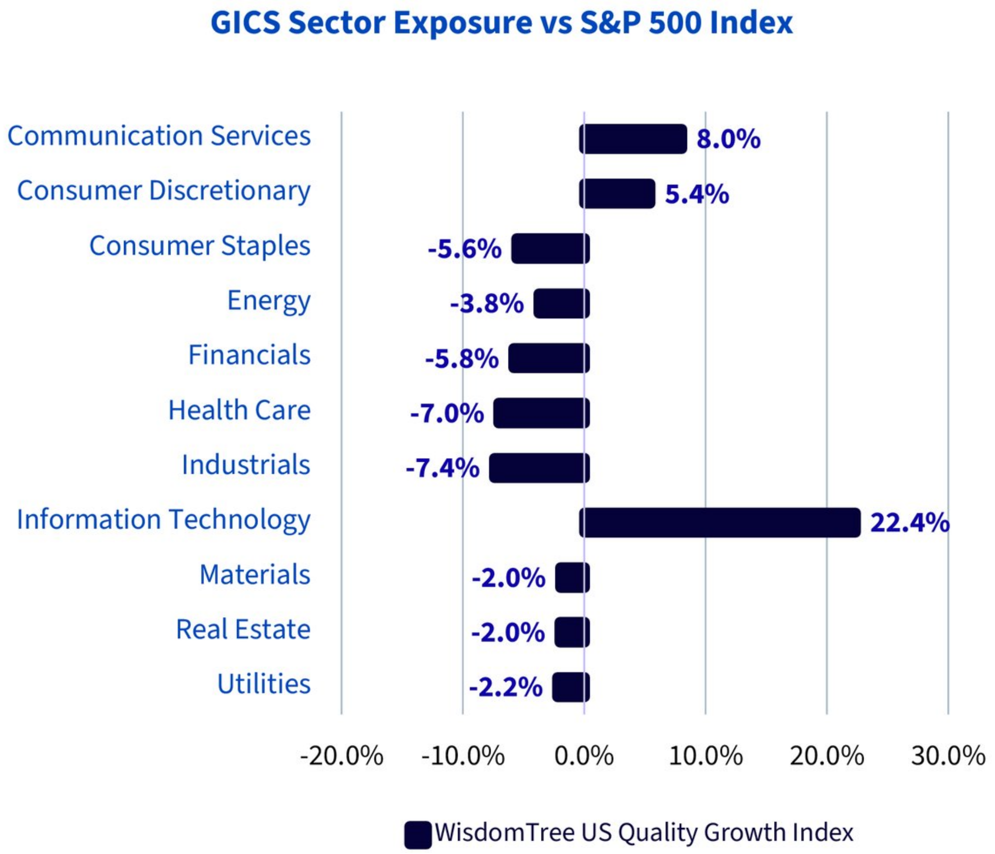
The index is intended to be a high-conviction, relatively concentrated growth portfolio aimed at selecting high-quality, high-growth companies. As a result, the resulting portfolio has a high active share and a high percentage weight allocated to the top 10 holdings.

Source: WisdomTree, Factset, Bloomberg. Data as of 29 Mar 2024.

Source: WisdomTree, Factset, Bloomberg. Data as of 29 Mar 2024.

Sector weightings adapt to quality and growth tilts

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'.



Source: WisdomTree, Factset, Bloomberg. Data as of 29 Mar 2024.

Sources

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

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an oer for sale nor a solicitation of an oer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can oen lead to a number of dierent interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any ailiate, nor any of their respective oicers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.