

How do you identify growth stocks?

A few common measures 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 favor of metrics like price-to-sales and price-to-book as proxies for growth.

At times growth investors become enamored 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 lead to excluding some of the fastest growing companies, diluting the intended growth exposure.

The WisdomTree U.S. Quality Growth Index aims to identify stocks that have both quality and growth characteristics to avoid having to sacrifice on either factor.

Why Quality?

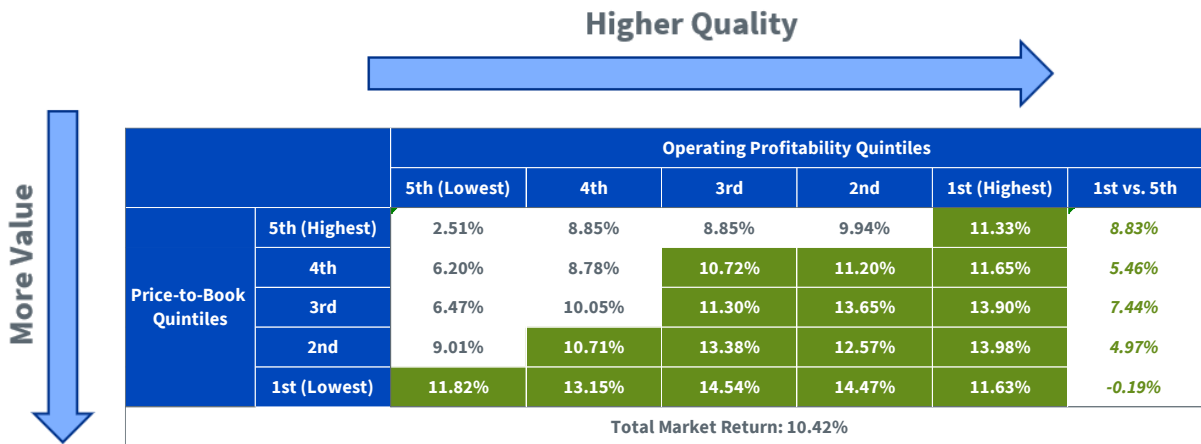
Investors are familiar with the standard value, blend, and growth styles. So why blend quality with growth?

Higher operating profitability (higher quality) has outpaced lower quality over time. And that outperformance has been most pronounced in the higher growth (less value) segments of the market.

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 8.83% annualized between the highest profitability quintile and the lowest profitability quintile.

These historical returns suggest 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**.

Price-to-Book and Profitability Quintiles



Source: Kenneth French Data Library, 6/30/63-9/30/23. Period based on availability of annual operating profitability returns sorted into quintiles, which begins 6/30/1963. Market is U.S.-listed equities grouped on the basis of operating profitability and price-to-book. Returns are annualized. Past performance is not indicative of future results.

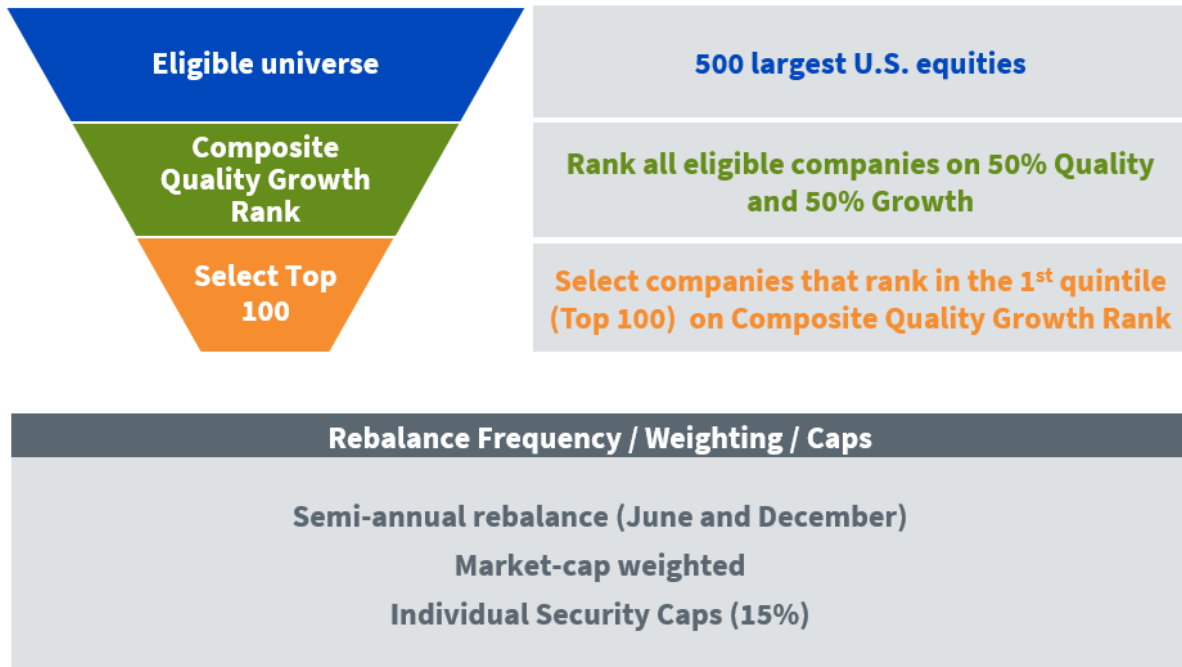
The WisdomTree U.S. Quality Growth Index

The WisdomTree U.S. Quality Growth Index is a market-cap weighted index that consists of companies with quality and growth characteristics. The top 500 U.S. companies by market capitalization are ranked on a composite score of two fundamental factors: growth and quality, which are equally weighted.

The Index is comprised of the 100 U.S. companies (the 1st 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 5-year EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) growth and a 25% weight in its trailing 5-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 3-year average return on equity and trailing 3-year average return on assets.

Investment Process

The Index is intended to be a high-conviction, relatively concentrated growth portfolio aimed at overweighting the largest quality growth companies. As a result, the Index has a high percentage of its weight (58%) in the top 10 holdings.

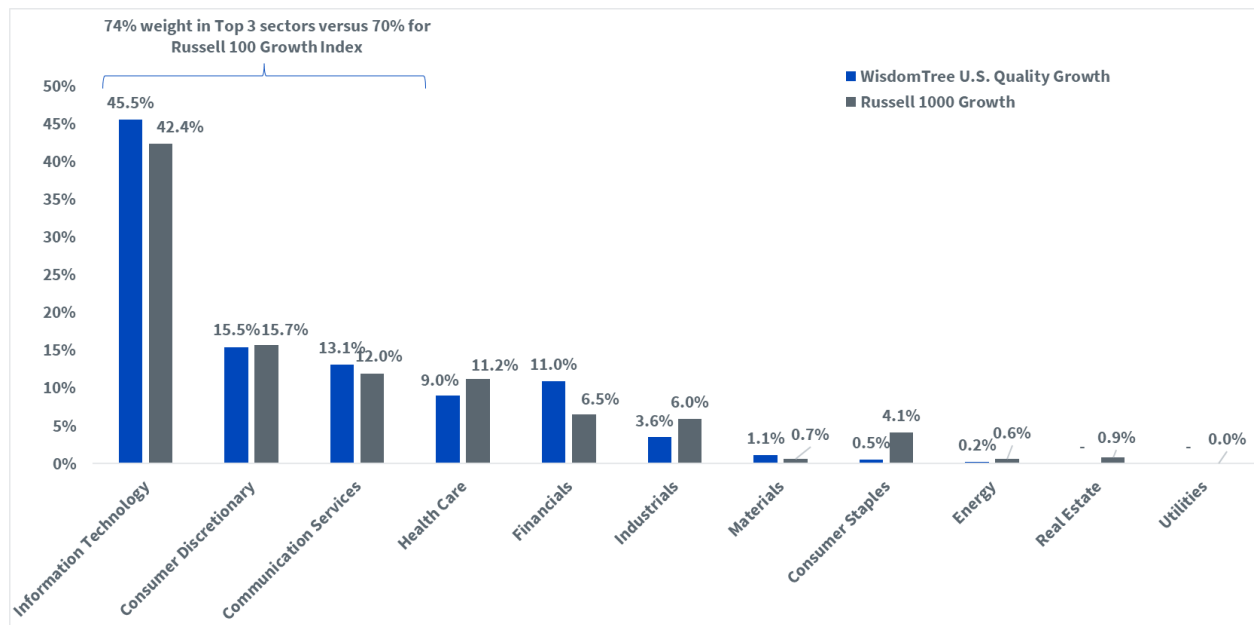
Index Top Holdings

Name	Sector	Weight
Apple, Inc.	Information Technology	12.0%
Microsoft Corp.	Information Technology	10.8%
Alphabet, Inc.	Communication Services	6.6%
NVIDIA Corp.	Information Technology	5.8%
Amazon.com, Inc.	Consumer Discretionary	5.1%
Tesla, Inc.	Consumer Discretionary	4.5%
Meta Platforms, Inc.	Communication Services	3.8%
Visa, Inc.	Financials	3.4%
UnitedHealth Group, Inc.	Health Care	3.4%
Mastercard, Inc.	Financials	2.8%
Total		58.2%

Source: WisdomTree, as of 9/30/23. Holdings and weights subject to change. You cannot invest directly in an index.

The top 3 Index sector weights (Information Technology, Consumer Discretionary, and Communication Services) combine to 74%, an increase of 4% from the Russell 1000 Growth Index.

Index Sector Weights



Source: WisdomTree, as of 9/30/23. Holdings and weights subject to change. You cannot invest directly in an index.

As expected, relative to the S&P 500, both the WisdomTree U.S. Quality Growth and the Russell 1000 Growth have premium profitability and growth characteristics.

Index Characteristics

Characteristics	WisdomTree U.S. Quality Growth	Russell 1000 Growth	S&P 500
Number of Holdings	100	446	503
Price-to-Book	10.4x	11.8x	4.2x
Price-to-Sales	4.8x	4.0x	2.4x
Return on Equity	26.8%	30.3%	17.3%
Return on Assets	12.6%	9.7%	4.0%
Trailing 5-Year Sales Growth	16.6%	14.8%	11.0%
Trailing 5-Year Earnings Growth	19.2%	21.0%	14.5%
Long-Term Growth Estimate	17.7%	17.7%	13.0%

Source: WisdomTree, FactSet, 9/30/23. Past performance is not indicative of future results. You cannot invest directly in an index. The measures above refer to the underlying securities in the index and should not be considered reflective of the index or related funds' performance.

WisdomTree U.S. Quality Growth Fund (QGRW)

The WisdomTree U.S. Quality Growth Fund (Ticker: QGRW) seeks to track the price and yield performance, before fees and expenses, of the WisdomTree U.S. Quality Growth Index.

Why QGRW?

- Gain core exposure to U.S. large- to -mid- market capitalization companies that display strong quality and growth characteristics
- Use as a U.S. growth investing solution that combines quality and growth factors
- Use to satisfy demand for clients seeking high-conviction growth allocations that emphasize profitability

Quick Facts ¹	
Index	WisdomTree U.S. Quality Growth Index
Index Base Date	11/30/2022
Fund Launch Date	12/15/2022
Fund Benchmark	Russell 1000 Growth Index
Fund Expense Ratio	0.28%
Number of Stocks	100

For more information on QGRW, contact your WisdomTree representative or visit [WisdomTree.com/investments](https://www.wisdomtree.com/investments).

¹ As of 9/30/2023.

References specific to securities and their issues are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell securities.

Unless otherwise stated, data source is WisdomTree.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.9473 or visit [WisdomTree.com/investments](https://www.wisdomtree.com/investments). Read the prospectus carefully before you invest.

Important Fund Information

There are risks associated with investing, including possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Glossary

Earnings growth (Earnings growth estimates): Long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years. Growth stocks: Stocks whose share prices are higher relative to their earnings per share or dividends per share. Investors are willing to pay more because of their earnings or dividend growth expectations going forward. Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap. Price to Earnings ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Price to Sales ratio: A valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues. Price-to-book ratio: Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar 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. Russell 1000 Growth Index: A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 Index. 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. Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

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