

# TRULY PROFITABLE COMPANIES: DIVIDEND GROWTH'S DRIVERS

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Consider three indexes with different dividend growth rates, but with each experiencing the same price appreciation over the course of several years.

Figure 1 shows returns if we assume an initial 3% dividend yield and 3% annual capital appreciation.

At the end of the horizon, “Index A,” the slowest dividend grower of the three, ends with a yield of 2.86%, considerably lower than the yield of more rapidly growing Indexes “B” and “C.” But logic says that the faster-growing baskets should trade at a valuation premium at the end of the exercise, not a discount (gauged by the dividend yield). It’s counterintuitive.

Figure 1: Investment Profile, 3% Equity Price Appreciation										
		Dividend Growth Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total Return on Investment	Year 5 Dividend Yield
Index A	Dividend	2%	\$3.00	\$3.06	\$3.12	\$3.18	\$3.25	\$3.31		2.86%
	Price		\$100.00	\$103.00	\$106.09	\$109.27	\$112.55	\$115.93		
	Total Capital		\$100.00	\$106.06	\$112.46	\$119.20	\$126.32	\$133.83	6.00%	
Index B	Dividend	5%	\$3.00	\$3.15	\$3.31	\$3.47	\$3.65	\$3.83		3.30%
	Price		\$100.00	\$103.00	\$106.09	\$109.27	\$112.55	\$115.93		
	Total Capital		\$100.00	\$106.15	\$112.74	\$119.82	\$127.41	\$135.57	6.27%	
Index C	Dividend	8%	\$3.00	\$3.24	\$3.50	\$3.78	\$4.08	\$4.41		3.80%
	Price		\$100.00	\$103.00	\$106.09	\$109.27	\$112.55	\$115.93		
	Total Capital		\$100.00	\$106.24	\$113.04	\$120.45	\$128.57	\$137.46	6.57%	

Source: WisdomTree. Hypothetical example assumes starting investment of \$100 and dividends reinvested. **You cannot invest directly in an index.**

Now, tease it so that all three indexes end each year with the same 3% dividend yield.

In figure 2, the slow-growing “Index A” posts a total return of 5.06% from price appreciation and reinvested dividends. Indexes “B” and “C” witness total returns of 8.15% and 11.24%, respectively.

**Figure 2: Investment Profile, End Yield of 3%**

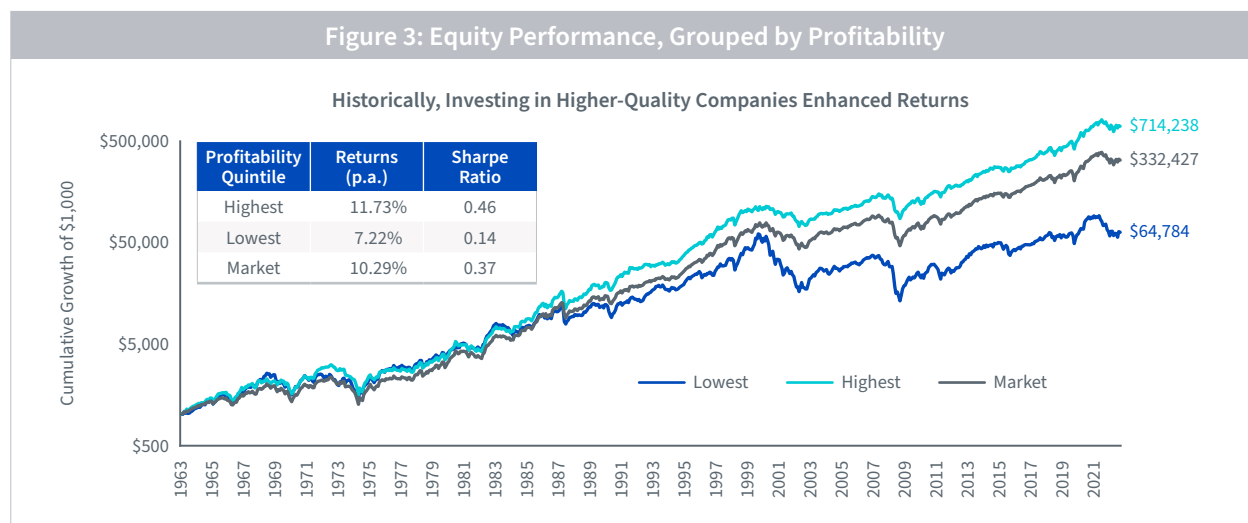
		Dividend Growth Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total Return on Investment	Year 5 Dividend Yield
Index A	Dividend	2%	\$3.00	\$3.06	\$3.12	\$3.18	\$3.25	\$3.31		3.00%
	Price		\$100.00	\$102.00	\$104.04	\$106.12	\$108.24	\$110.41		
	Total Capital		\$100.00	\$105.06	\$110.38	\$115.96	\$121.83	\$127.99	5.06%	
Index B	Dividend	5%	\$3.00	\$3.15	\$3.31	\$3.47	\$3.65	\$3.83		3.00%
	Price		\$100.00	\$105.00	\$110.25	\$115.76	\$121.55	\$127.63		
	Total Capital		\$100.00	\$108.15	\$116.96	\$126.50	\$136.81	\$147.96	8.15%	
Index C	Dividend	8%	\$3.00	\$3.24	\$3.50	\$3.78	\$4.08	\$4.41		3.00%
	Price		\$100.00	\$108.00	\$116.64	\$125.97	\$136.05	\$146.93		
	Total Capital		\$100.00	\$111.24	\$123.74	\$137.65	\$153.12	\$170.34	11.24%	

Source: WisdomTree. Hypothetical example assumes starting “price” of an investment tracking the index of \$100, an initial dividend of \$3 and dividends reinvested. **You cannot invest directly in an index.**

The driver of long-term compound returns is dividend growth. But what drives the driver? Corporate profitability.

Using more than a half-century of data pulled from Ken French’s computations at Dartmouth, a strategy that identified the top 20% of stocks by profitability outperformed the bottom quintile by 451 basis points (bps) per year (11.73% vs. 7.22%). The top quintile also beat the market by 144 bps per year (11.73% vs. 10.29%).

Part of the explanation: profitable companies grew dividends faster.



Source: Kenneth French Data Library. Period based on availability of operating profitability returns sorted into quintiles, 6/30/1963–11/30/2022. Universe is U.S. listed equities grouped by operating profitability. Past performance is not indicative of future results. p.a. = per annum. **You cannot invest directly in an index.**

## TRIGGERING ROBUST FUTURE DIVIDENDS: THE PROFILE OF A PROFITABLE GROWER

The DuPont Corporation's Donaldson Brown developed a concept a century ago that breaks Return on Equity into component drivers, a formula so compelling that it prompted the company to take an equity stake in a young General Motors.<sup>1</sup> The DuPont method is now a staple of finance textbooks and the CFA Program.

Return on equity (ROE) comes from the interaction between profit margins, asset turnover<sup>2</sup> and the equity multiplier.

$$\text{Return on Equity} = \text{Profit Margin} \times \text{Asset Turnover} \times \text{Equity Multiplier}$$

Those can be expressed as follows:

$$\frac{\text{Net Income}}{\text{Total Equity}} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Total Equity}}$$

Notice that some denominators are also numerators. As they cancel each other, we are left with income over equity, or ROE. If a firm wants to be profitable, it must have excellent margins and be efficient with its assets.

Suppose a company earns \$1 per share and pays a 25-cent dividend, leaving 75 cents in retained earnings. The retention ratio is 75%.

Multiply the retention ratio by the ROE to get implied dividend growth.

Visually:

$$\text{Retention Ratio} \times \text{ROE} = \text{Implied Dividend Growth}$$

If the company's ROE is 10%, the implied annual dividend growth rate is  $0.75 \times 10\%$ , or 7.5%.

<sup>1</sup> [http://www2.dupont.com/Phoenix\\_Heritage/en\\_US/1918\\_detail.html](http://www2.dupont.com/Phoenix_Heritage/en_US/1918_detail.html)

<sup>2</sup> Sales divided by total assets. A higher ratio indicates that a company can generate greater sales per dollar of assets than a company with a lower ratio.

Figure 4 shows these concepts using current metrics for the **WisdomTree U.S. Quality Dividend Growth Fund (DGRW)** and the **WisdomTree U.S. SmallCap Quality Dividend Growth Fund (DGRS)**.

Figure 4: DuPont Inside DGRW & DGRS					
Arithmetic	DuPont Model Component	DGRW	S&P 500	DGRS	Russell 2000
A	Net Income/Sales	13.1%	12.5%	6.3%	4.8%
B	Sales/Total Assets	33.5%	32.9%	68.6%	31.4%
C	Total Assets/Total Equity	5.84	4.49	4.25	4.85
<b>Multiply: A x B x C</b>	<b>Return on Equity (ROE)</b>	<b>25.7%</b>	<b>18.4%</b>	<b>18.4%</b>	<b>7.3%</b>
	Retention Ratio	60.7%	68.9%	63.9%	66.6%
<b>ROE x Retention Ratio</b>	<b>Implied Dividend Growth Rate</b>	<b>15.6%</b>	<b>12.7%</b>	<b>11.7%</b>	<b>4.9%</b>

Source: WisdomTree PATH, as of 4/30/23. **You cannot invest directly in an index.**

Both DGRW and DGRS score well on profit margins (A) and asset turnover (B). The equity multiplier (C) for DGRW indicates that component companies have a little more leverage than S&P 500 members, while DGRS has less leverage than the Russell 2000.

Because we run dividend screens on these strategies, sometimes ETFs like DGRW will have lower valuations than their benchmarks despite having more favorable prospects for payment growth. For example, DGRW's current dividend yield is 2.2%, which at face value is something of a yawn when compared to the 1.6% yield accorded the S&P 500. However, the former's more robust ROE opens the door for distributions to rise at a faster clip (figure 5). The same goes for DGRS in small caps.

Figure 5: Quality Dividend Growth Fundamentals				
Fundamentals	DGRW	S&P 500	DGRS	Russell 2000
Price/Earnings (Fwd)	18.0	18.9	11.6	23.0
Dividend Yield	2.2%	1.6%	3.1%	1.5%
Implied Dividend Growth Rate	15.6%	12.7%	11.7%	4.9%
SEC 30-Day Yield	1.88%	NA	2.86%	NA

Source: WisdomTree PATH, as of 4/30/23. SEC 30-Day Yield data as of 5/31/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance and SEC standardized yield, please visit [www.wisdomtree.com/investments/etfs/equity/dgrw](http://www.wisdomtree.com/investments/etfs/equity/dgrw) and [www.wisdomtree.com/investments/etfs/equity/dgrs](http://www.wisdomtree.com/investments/etfs/equity/dgrs). You cannot invest directly in an index.**

Next, developed and emerging markets. Figure 6 runs the numbers for:

- + The **WisdomTree International Quality Dividend Growth Fund (IQDG)**, which has the same stocks as its currency-hedged “cousin,” the **WisdomTree International Hedged Quality Dividend Growth Fund (IHDG)**
- + The **WisdomTree Europe Quality Dividend Growth Fund (EUDG)**
- + The **WisdomTree Global ex-U.S. Quality Dividend Growth Fund (DNL)**
- + The **WisdomTree Emerging Markets Quality Dividend Growth Fund (DGRE)**

In figure 6, the international strategies all score highly on profit margins (A), have more efficient asset usage (B) and engage lower levels of leverage (C). This combination indicates implied dividend growth that exceeds that of their respective benchmarks.

Figure 6: Implied Dividend Growth Rate, International Strategies									
Arithmetic	DuPont Model Component	IQDG	MSCI EAFE	EUDG	MSCI Europe	DNL	MSCI ACWI ex-US	DGRE	MSCI Emerging Markets
A	Net Income/Sales	11.9%	9.7%	10.6%	10.3%	13.2%	9.6%	9.0%	9.1%
B	Sales/Total Assets	66.4%	17.6%	41.7%	18.2%	65.4%	18.4%	52.3%	20.4%
C	Total Assets/Total Equity	3.05	6.96	4.57	7.35	2.97	7.20	3.75	7.22
<b>Multiply: A x B x C</b>	<b>Return on Equity (ROE)</b>	<b>24.2%</b>	<b>11.8%</b>	<b>20.2%</b>	<b>13.8%</b>	<b>25.7%</b>	<b>12.8%</b>	<b>17.6%</b>	<b>13.5%</b>
	Retention Ratio	0.50	0.59	0.52	0.61	0.56	0.59	0.55	0.58
<b>ROE x Retention Ratio</b>	<b>Implied Dividend Growth Rate</b>	<b>12.0%</b>	<b>7.0%</b>	<b>10.6%</b>	<b>8.4%</b>	<b>14.4%</b>	<b>7.5%</b>	<b>9.7%</b>	<b>7.8%</b>

Source: WisdomTree PATH, as of 4/30/23. **You cannot invest directly in an index.**

Some of our international strategies have starting dividend yields that are below their benchmarks and some do not. Maybe that’s not as important as the fact that they all exceed their respective benchmarks on implied dividend growth. In some cases, like with IQDG and DNL, the gap is extremely wide (figure 7).

Figure 7: International Quality Dividend Growth Fundamentals								
Fundamentals	IQDG	MSCI EAFE	EUDG	MSCI Europe	DNL	MSCI ACWI ex-US	DGRE	MSCI Emerging Markets
Price/Earnings (Fwd)	19.4	13.2	16.5	12.9	19.0	13.1	12.5	12.9
Dividend Yield	2.6%	3.1%	2.9%	3.1%	2.3%	3.1%	3.6%	3.3%
Implied Dividend Growth Rate	12.0%	7.0%	10.6%	8.4%	14.4%	7.5%	9.7%	7.8%
SEC 30-Day Yield	1.95%	NA	2.09%	NA	1.96%	NA	2.78%	NA

Source: WisdomTree PATH, as of 4/30/23. Sec 30-Day Yield data as of 5/31/23. **The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance and SEC standardized yield, please visit [www.wisdomtree.com/investments/etfs/equity/iqdg](http://www.wisdomtree.com/investments/etfs/equity/iqdg), [www.wisdomtree.com/investments/etfs/equity/eudg](http://www.wisdomtree.com/investments/etfs/equity/eudg), [www.wisdomtree.com/investments/etfs/equity/dnl](http://www.wisdomtree.com/investments/etfs/equity/dnl) and [www.wisdomtree.com/investments/etfs/equity/dgre](http://www.wisdomtree.com/investments/etfs/equity/dgre). You cannot invest directly in an index.**

## A FINAL NOTE

We want to thank those of you who came along with us on the quality dividend growth concept these past 10 years. When we launched DGRW on May 22, 2013, WisdomTree was still a very young business.

It has been DGRW's success, which has witnessed it beating the S&P 500 on the 1-year, 3-year, 5-year, 10-year and since inception numbers that catalyzed many WisdomTree followers to consider DGRW's "cousins"—DGRS, EUDG, IHDG, IQDG and DNL—along with others that have similar conceptual index construction.

For more information or to review fund performance yourself, visit our [Portfolio Analysis Tools Hub \(PATH\)](#) and use the Fund Comparison tool.

**Figure 8: Average Annual Total Returns**

Fund	Fund Information			Month End Performance as of 5/31/2023					Standardized Performance as of 6/30/2023				
	Ticker	Expense Ratio	Inception Date	1-Yr.	3-Yr.	5-Yr.	10-Yr.	Since Fund Inception	1-Yr.	3-Yr.	5-Yr.	10-Yr.	Since Fund Inception
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	0.28%	5/22/2013	4.17%	14.10%	11.16%	12.16%	11.96%	18.85%	15.90%	12.67%	13.04%	12.59%
WisdomTree U.S. Quality Dividend Growth Fund (Price)				4.15%	14.07%	11.16%	12.09%	11.96%	18.99%	15.87%	12.64%	13.00%	12.58%
WisdomTree U.S. Quality Dividend Growth Index				4.47%	14.45%	11.49%	12.48%	12.28%	19.21%	16.26%	13.00%	13.36%	12.92%
Russell 3000 Index				2.03%	12.25%	10.07%	11.45%	11.28%	18.95%	13.89%	11.39%	12.34%	11.91%
S&P 500 Index				2.92%	12.92%	11.01%	11.99%	11.79%	19.59%	14.60%	12.31%	12.86%	12.40%
WisdomTree U.S. SmallCap Quality Dividend Growth Fund (NAV)	DGRS	0.38%	7/25/2013	-7.29%	13.15%	4.20%	N/A	7.05%	10.26%	15.24%	5.73%	N/A	7.97%
WisdomTree U.S. SmallCap Quality Dividend Growth Fund (Price)				-7.28%	13.10%	4.18%	N/A	7.02%	10.43%	15.20%	5.70%	N/A	7.95%
WisdomTree U.S. SmallCap Quality Dividend Growth Index				-7.08%	13.59%	4.54%	N/A	7.35%	10.56%	15.68%	6.08%	N/A	8.28%
Russell 2000 Index				-4.68%	9.23%	2.74%	N/A	6.70%	12.31%	10.82%	4.21%	N/A	7.49%
WisdomTree Europe Quality Dividend Growth Fund (NAV)	EUDG	0.58%	5/7/2014	2.60%	8.58%	5.19%	N/A	4.17%	19.59%	9.24%	6.35%	N/A	4.65%
WisdomTree Europe Quality Dividend Growth Fund (Price)				3.24%	8.82%	5.31%	N/A	4.22%	19.44%	9.17%	6.46%	N/A	4.65%
WisdomTree Europe Quality Dividend Growth Index				2.99%	9.03%	5.69%	N/A	4.66%	20.07%	9.69%	6.82%	N/A	5.14%
MSCI Europe Index				4.68%	10.42%	4.07%	N/A	2.88%	21.81%	10.68%	5.19%	N/A	3.38%
WisdomTree International Hedged Quality Dividend Growth Fund (NAV)	IHDG	0.58%	5/7/2014	6.82%	10.74%	8.39%	N/A	8.73%	20.37%	11.13%	9.14%	N/A	9.01%
WisdomTree International Hedged Quality Dividend Growth Fund (Price)				7.11%	10.65%	8.47%	N/A	8.69%	20.56%	11.12%	9.33%	N/A	8.97%
WisdomTree International Hedged Quality Dividend Growth Index				7.29%	11.34%	8.98%	N/A	9.38%	20.96%	11.73%	9.72%	N/A	9.66%
MSCI EAFE Local Currency Index				6.22%	11.38%	5.60%	N/A	6.45%	17.50%	11.73%	6.42%	N/A	6.83%
WisdomTree International Quality Dividend Growth Fund (NAV)	IQDG	0.42%	4/7/2016	1.02%	7.01%	4.28%	N/A	6.44%	19.66%	7.69%	5.54%	N/A	7.03%
WisdomTree International Quality Dividend Growth Fund (Price)				1.81%	7.10%	4.35%	N/A	6.60%	19.49%	7.68%	5.64%	N/A	7.16%
WisdomTree International Quality Dividend Growth Index				1.20%	7.34%	4.61%	N/A	6.79%	19.92%	8.02%	5.85%	N/A	7.38%
MSCI EAFE Index				3.06%	8.53%	3.21%	N/A	6.23%	18.77%	8.93%	4.39%	N/A	6.81%
WisdomTree Global ex-U.S. Quality Dividend Growth Fund (NAV)	DNL	0.42%	6/16/2006	-2.61%	7.04%	6.11%	5.57%	4.38%	16.92%	7.43%	7.18%	6.56%	4.62%
WisdomTree Global ex-U.S. Quality Dividend Growth Fund (Price)				-1.72%	7.06%	6.24%	5.70%	4.45%	16.72%	7.41%	7.34%	6.71%	4.68%
WisdomTree Japan Equity Income/Global ex-US Quality Dividend Growth Spliced Index				-2.53%	7.63%	6.68%	6.20%	5.00%	17.24%	8.04%	7.76%	7.18%	5.24%
MSCI AC World ex-USA Index				-1.41%	7.23%	2.22%	3.83%	3.73%	12.72%	7.22%	3.52%	4.75%	3.98%
MSCI Japan Value/MSCI AC World ex USA Growth Spliced Index				0.23%	4.38%	2.95%	4.78%	4.55%	13.26%	3.96%	4.06%	5.61%	4.75%

**Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [wisdomtree.com/investments](http://wisdomtree.com/investments). You cannot invest directly in an index.**

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total Returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times. Sources: WisdomTree, FactSet.

**[WisdomTree.com/investments](http://WisdomTree.com/investments)**

## Glossary

Asset turnover: Measures the value of a company's sales or revenues relative to the value of its assets. Capital appreciation: The rise in an investment's market price. Basis point: 1/100th of 1 percent. Developed market: A country that is most developed in terms of its economy and capital markets. Dividend growth: The growth in trailing 12-month dividends for the specified universe. Dividend growth rate: The percentage growth rate of a company's dividend achieved during a certain period of time. Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. DuPont Equation: At the DuPont Corporation, Donaldson Brown created the concept that return on equity (ROE) is broken down into the interaction between profit margin, asset turnover and the equity multiplier. These three pieces multiplied together are equal to ROE. Emerging market (EM): Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors. Equity multiplier: A measure of the portion of the company's assets that is financed by stock rather than debt. Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price. Implied dividend growth rate: Market expectations for the long-term percentage growth rate of a company's dividend achieved during a certain period of time. MSCI ACWI ex-US 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. MSCI EAFE Index: A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan. MSCI Emerging Markets Index: A free float-weighted equity index that captures large and mid-cap representation across emerging markets (EM). MSCI Europe Index: Represents the performance of large- and mid-cap equities across 15 developed countries in Europe. Price to earnings ratio (P/E): Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Profit margins: Net income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for. Retention ratio: The portion of earnings kept back in a firm to grow the business as opposed to being paid out as dividends to shareholders. Return on equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Return on investment (ROI): A profitability metric used to evaluate how well an investment has performed. Russell 2000 Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. S&P 500 Index: A 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. SEC 30-Day Yield: The yield figure reflects the dividends and interest earned during the period, after deduction of the Fund's expenses. This is also referred to as the "standardized yield." Sharpe ratio: Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable. Total capital: All interest-bearing debt plus shareholders' equity, which may include items such as common stock, preferred stock and minority interest. Valuations: 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. 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.

## IMPORTANT INFORMATION

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit [WisdomTree.com/investments](http://WisdomTree.com/investments) to view or download a prospectus. Investors should read the prospectus carefully before investing.**

There are risks associated with investing, including the possible loss of principal.

DGRW: Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. DGRS: Funds focusing their investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. IQDG: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Heightened sector exposure increases the Fund's vulnerability to any single economic, regulatory or other development impacting that sector. This may result in greater share price volatility. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. IHDG: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. To the extent the Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. EUDG: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in Europe, thereby increasing the impact of events and developments associated with the region that can adversely affect performance. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. DNL: Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

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