

A look at what's driving outperformance of our Quality Growth ETF

Published July 2, 2024

Ayush Babel

Director, Quantitative Research

Key Takeaways

- The “Magnificent Seven” group of stocks, led by its poster child Nvidia (NVDA) – which recently surpassed the combined market cap of the entire German stock market – are still mostly going strong after a breakout performance in 2023. Putting aside a floundering Tesla (TSLA) for now (which is down close to 25% year-to-date), one might ask, how long will this last?
- The WisdomTree US Quality Growth Index has a rules-based methodology that reconstitutes semi-annually each June and December. The index's design is not to bet on individual names or a basket of constant several names over the long run but to represent a relatively dynamically moving high-conviction allocation to 100 companies with high profitability and growth characteristics.
- Related Products WisdomTree US Quality Growth UCITS ETF - USD Acc, WisdomTree Global Quality Growth UCITS ETF - USD Acc [Find out more](#)

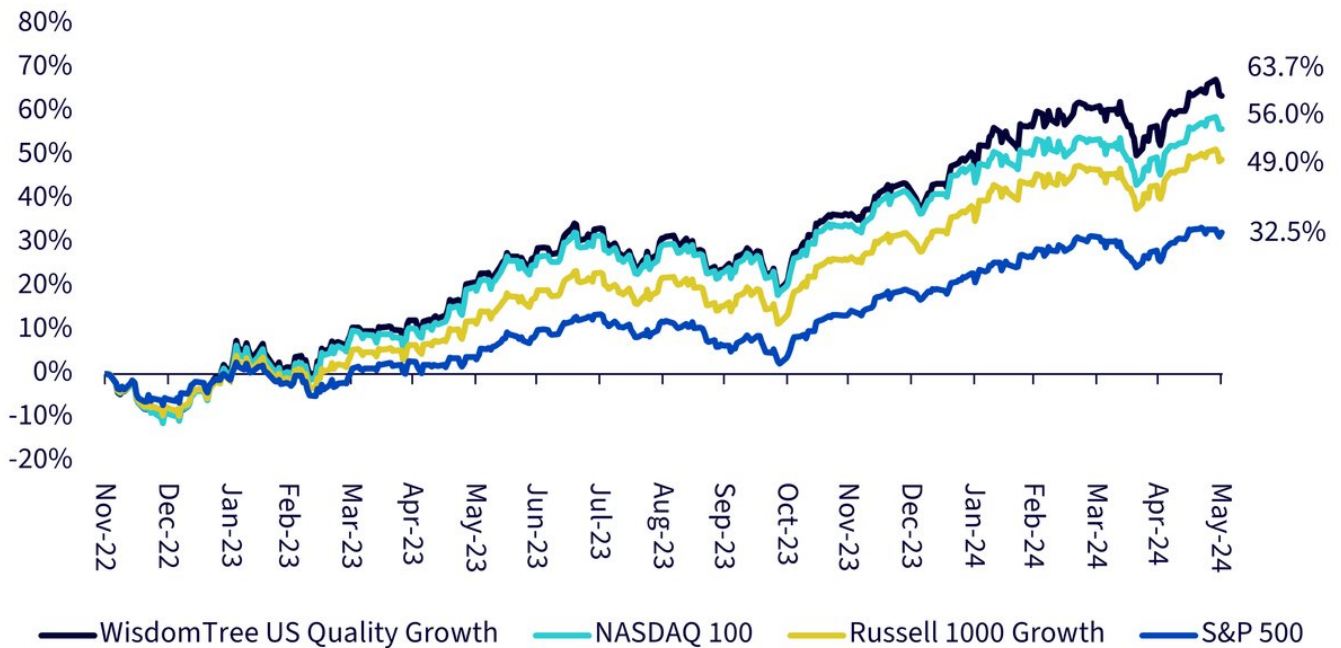
Many consider the NASDAQ 100 Index to be the default benchmark for growth.

The methodology is straightforward: the 100 largest non-financial companies by market cap are listed on the Nasdaq Exchange. Securities are weighted by modified market capitalisation.

One drawback of this simplicity for a growth benchmark is that mature, slow-growing companies can populate the index because fundamental selection criteria are absent.

In our view, WisdomTree has created a better way to capture growth – the WisdomTree US Quality Growth Index. Since its launch in the US near the end of 2022, it has outperformed the NASDAQ 100 while being more directly targeted to high-growth, high-profitability companies. Driven by its success, WisdomTree created UCITS versions of the index: the WisdomTree US Quality Growth UCITS Index and launched the [WisdomTree US Quality Growth UCITS ETF](#) in April 2024.

Figure 1: WisdomTree US Quality Growth Index vs. benchmarks since inception



Source: WisdomTree, FactSet. From 30 Nov 2022 to 31 May 2024. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

Since its launch, the WisdomTree US Quality Growth Index has outperformed the NASDAQ 100 Index and Russell 1000 Growth, as well as large cap benchmarks such as the S&P 500.

WisdomTree US Quality Growth UCITS Index: June 2024 Rebalance

The WisdomTree US Quality Growth UCITS Index underwent a semi-annual rebalance on 13 June 2024. During each rebalance, the Index selects 100 US companies with the highest scores in quality and profitability metrics and weights its constituents by market capitalisation.

This rebalance saw the addition of pharmaceutical giant Eli Lilly and Company, whose common stock is up close to 52.45% year-to-date as of 18 Jun 2024, with a weight of 3.63%.

Eli Lilly has an approximately 2.6% weight in the Russell 1000 Growth Index as of 18 Jun 2024, but the security is excluded from the NASDAQ 100 Index as its primary listing is on the NYSE, not the Nasdaq despite being a growth company.

Notably, UnitedHealth Group, a top-10 holding, dropped out of the index as it did not meet our high-quality and high-growth criteria.

Figure 2: Top 10 holdings in the WisdomTree US Quality Growth UCITS Index

Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

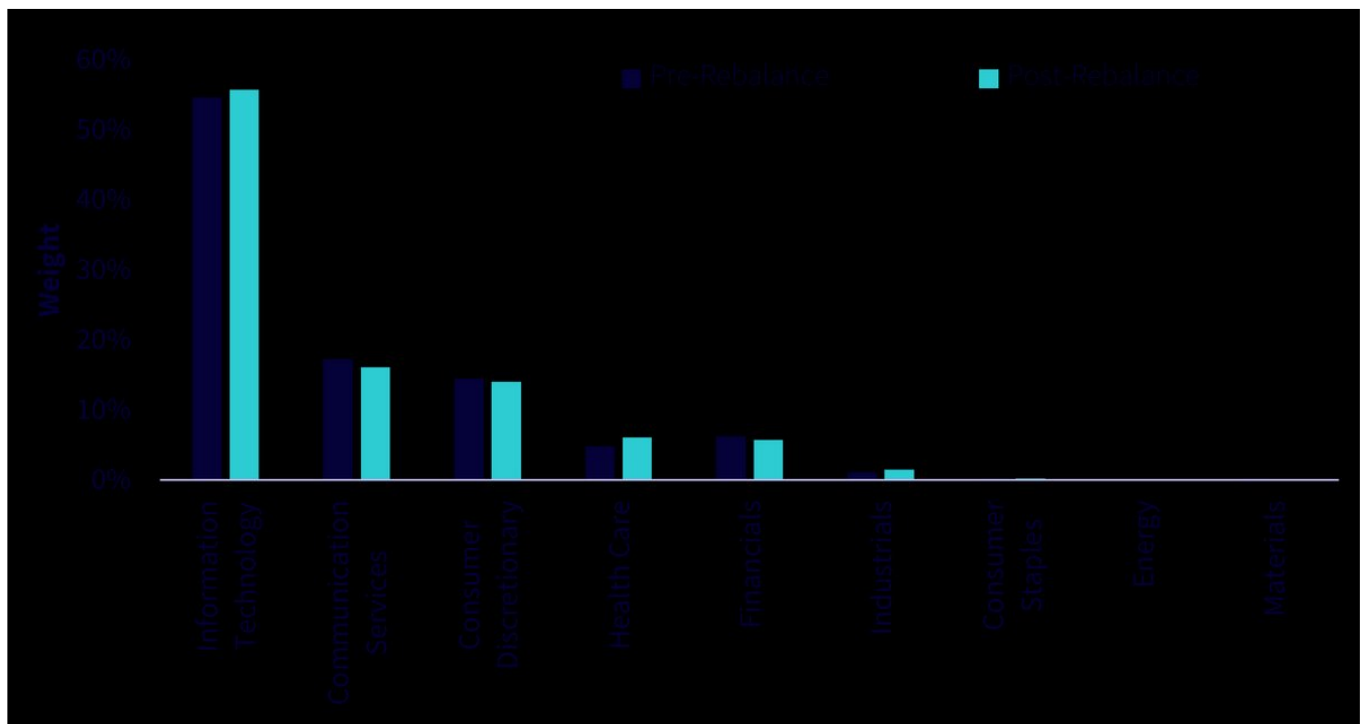
Figure 3: Index turnover

Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

Figure 4: Fundamentals

Source: WisdomTree, FactSet. Pre-Rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

Figure 5: Sector weights



Source: WisdomTree, FactSet. Pre-rebalance data as of 12 June 2024 and post-rebalance data as of 13 June 2024. You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.

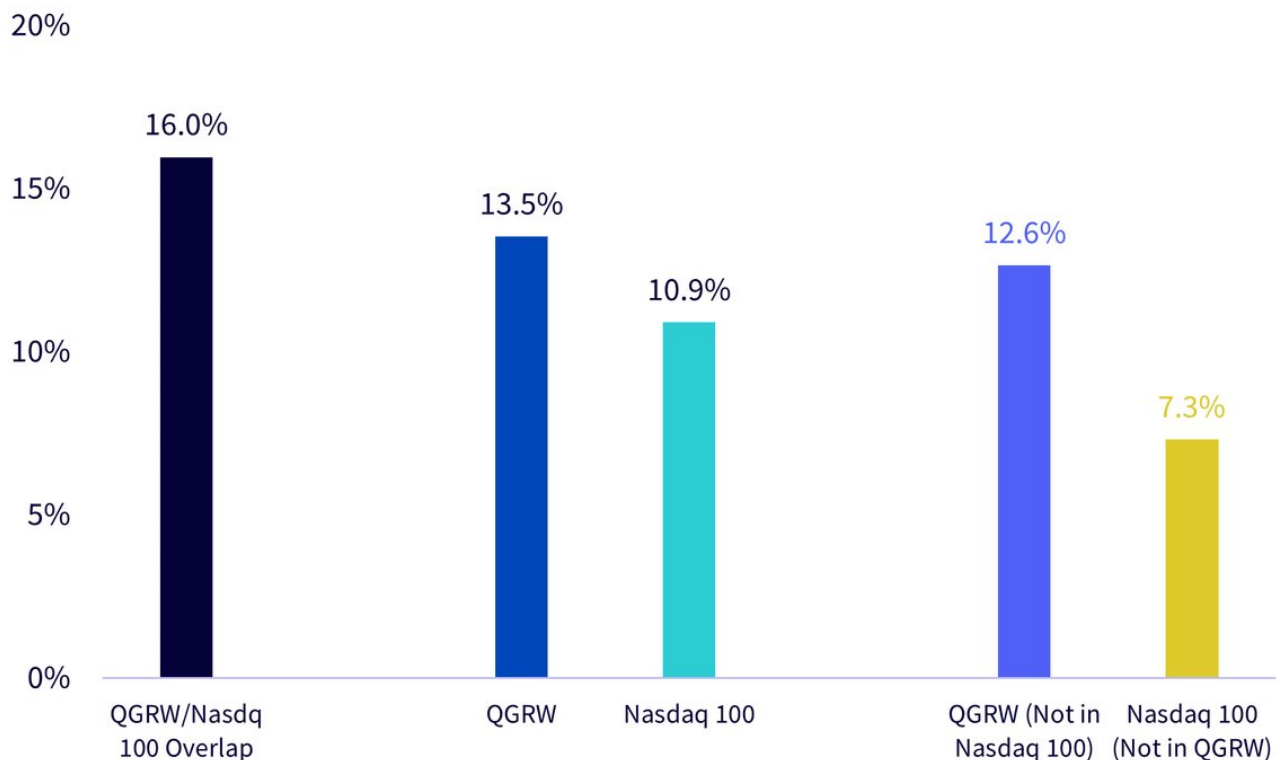
Growth exposure versus NASDAQ 100

Like the NASDAQ 100, the WisdomTree Index selects 100 securities. The Indexes hold close to 40 securities in common, with a common holdings score (or overlap) of approximately 59% as of 18 June 2024.

If we look at the chart below, we can see the difference in trailing sales growth of constituents held in QGRW that are not held in the NASDAQ 100, and vice versa; we observe a massive difference in annualised sales growth of 11.4% vs 7.1%.

This shows that because the NASDAQ 100 has no fundamental selection criteria and is limited to just one exchange, it not only misses out on some top growth stocks but also has exposure to some slow-growing stocks in the US market.

Figure 6: Five-year annualised sales growth versus NASDAQ 100



Source: WisdomTree, FactSet. Bloomberg Ticker - QGRW LN Equity post-rebalance data as of 13 June 2024. NASDAQ 100 is proxies by Bloomberg ticker QQQ US Equity as of 31 May 2024. **You cannot invest directly in an index. Historical performance is not an indication of future results and any investments may go down in value.**

Conclusion: How long will the seven stay magnificent?

The “Magnificent Seven” group of stocks, led by its poster child Nvidia (NVDA) – which recently surpassed the combined market cap of the entire German stock market – are still mostly going strong after a breakout

performance in 2023. Putting aside a floundering Tesla (TSLA) for now (which is down close to 25% year-to-date), one might ask, how long will this last?

The WisdomTree US Quality Growth Index has a rules-based methodology that reconstitutes semi-annually each June and December. The index's design is not to bet on individual names or a basket of constant several names over the long run but to represent a relatively dynamically moving high-conviction allocation to 100 companies with high profitability and growth characteristics.

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. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.

An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

The information contained on this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information on this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this

document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

Product Comparison

This document contains a comparison of financial products contained within the relevant prospectus and/or based on publicly available information, some of which has been prepared by third parties. While such sources are believed to be accurate as at their date of publication, WisdomTree does not warrant, guarantee or otherwise confirm the accuracy or

correctness of any information contained herein and any information or opinions related to the products detailed herein may change over time. Any third parties used to source the information in this document make no warranties or claims of any kind relating to such data. Investors should read the prospectus and other applicable offering documents for each product and consider the investment objectives, risks, charges and expenses carefully before investing.

WisdomTree Issuer ICAV

The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. Investors should read the prospectus of WT Issuer ("WT Prospectus") before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares.

Notice to Investors in Switzerland – Qualified Investors

This document constitutes an advertisement of the financial product(s) mentioned herein.

The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports>

Some of the sub-funds referred to in this document may not have not been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

For Investors in France:

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

For Investors in Malta: This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.