

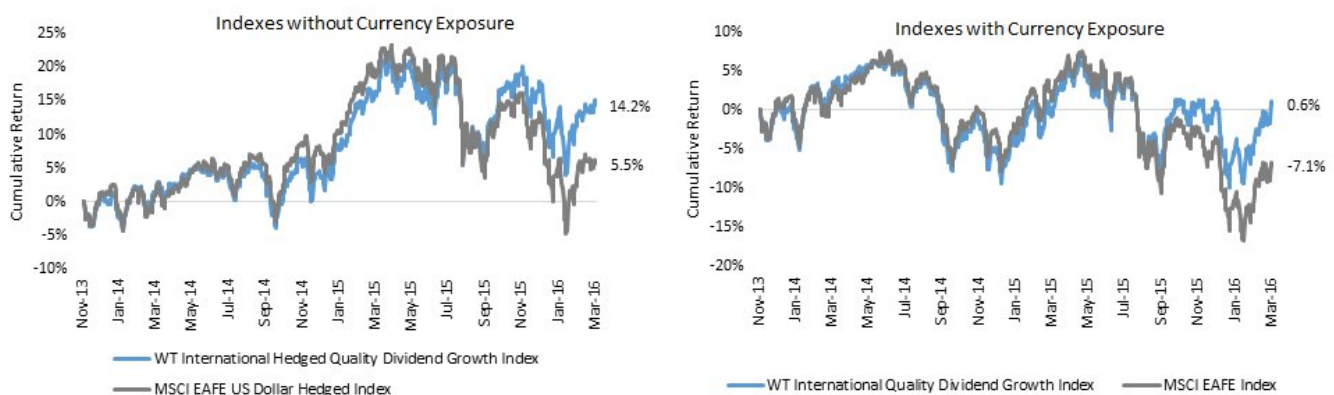
International Equities: Focus on Quality and Growth

Published April 15, 2016

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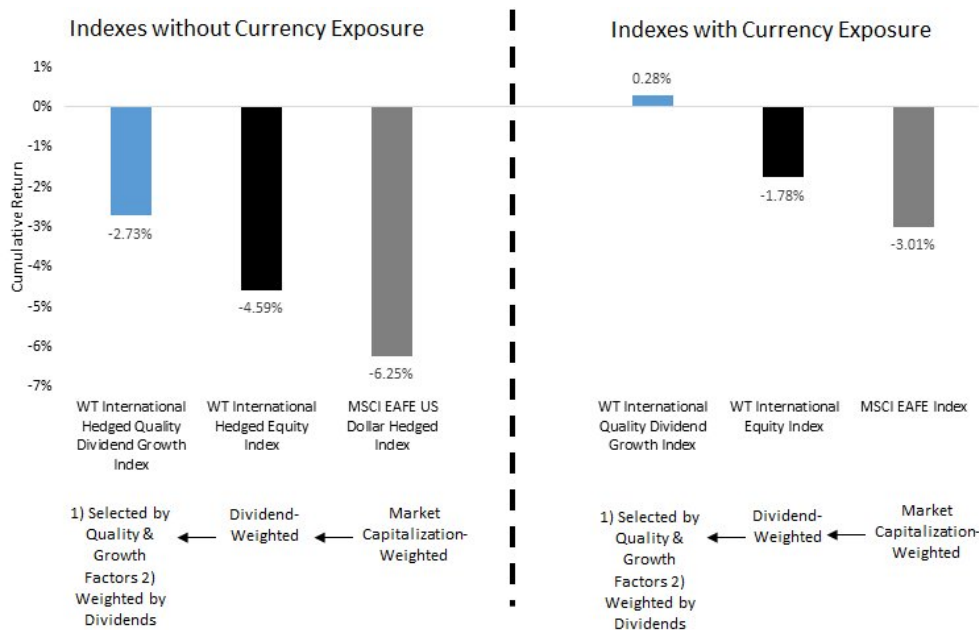
As the first quarter of 2016 has drawn to a close, investors in developed international equities have faced challenges, to put it mildly. It is difficult to look back on this period and find any positive returns, be it looking by sectors, countries or even broad-based indexes. **WisdomTree Has Seen Outperformance by Focusing on Quality & Growth** In late 2013, WisdomTree introduced two Indexes: • **WisdomTree International Hedged Quality Dividend Growth Index**: This Index first selects stocks based on growth (long-term earnings growth expectations) and quality (three-year average return on equity (ROE) and return on assets (ROA). Qualifying constituents are cash dividend weighted, and currency risk is hedged. • **WisdomTree International Quality Dividend Growth Index**: This Index contains the same underlying constituents as the WisdomTree International Hedged Quality Dividend Growth Index; the sole difference is that currency is not hedged. **During a Volatile Period, Focusing on Quality and Growth Stood Out**



Source: Bloomberg, for period 12/2/13 to 3/31/16. 12/2/13 is the inception date of the two WisdomTree Indexes shown. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

Over this period, whether looking at the comparison to the MSCI EAFE Index with currency exposure or to the MSCI EAFE US Dollar Hedged Index, the respective WisdomTree Index outperformed. **Why the WisdomTree Indexes Outperformed** What's clear from the aforementioned line charts is that the bulk of the outperformance was generated during the September/October 2015 time frame through March 31, 2016. During a difficult period, both WisdomTree Indexes went down less than both the MSCI EAFE Index

and the MSCI EAFE 100% Hedged to USD Index. As can be seen in the chart below, we believe that this was due to the combination of dividend weighting and selecting stocks based on quality and growth characteristics. We use the first quarter of 2016 for the illustration, as it was a volatile period in equity markets around the world. **The WisdomTree Index Outperformance during a Tough Quarter**



Source: Bloomberg, with data from 12/31/15 to 3/31/16. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

- Both the MSCI EAFE US Dollar Hedged Index and the MSCI EAFE Index represent exposure to developed international equities, weighted by market capitalization.
- Stepping beyond this universe, both the [WisdomTree International Hedged Equity](#) and the [WisdomTree International Equity Indexes](#) represent an incremental step—maintaining broad exposure to developed international equities, but weighting them by dividends instead of by market capitalization. In each case, whether with currency exposure or not, an observer would expect less downside performance in a tough market compared to a market capitalization-weighted strategy—exactly what we saw during the first quarter of 2016.
- The next step regards selecting stocks with higher growth and quality characteristics and then weighting them by the cash dividends they pay. Both the WisdomTree International Hedged Quality Dividend Growth Index and its unhedged counterpart represent the combination of this selection methodology as well as the cash dividend weighting.

Do You Want the Risk of Currency Movements? What we have seen in the currency markets in 2016 has, in short, defied our expectations, as we would not have predicted that the Japanese yen would be one of the strongest currencies at any time in the immediate future. The Bank of Japan (BOJ) has continued its balance sheet expansion at 80 trillion yen per year, and it has even added a negative deposit rate to the mix. The euro has also been stubbornly strong, even though the European Central Bank (ECB) has lowered its deposit rate to -0.40%. Given the unpredictable nature of currency, aligned

with the longer-term expectation of zero returns, our baseline view remains to hedge currency exposure. The negative deposit rates mentioned above make the case to hedge even more interesting, in that they mean an investor essentially gets paid to hedge the euro or the yen versus the U.S. dollar. With the dollar weakness in the first quarter of 2016, unhedged variants have naturally outperformed. It's possible that, by some measures, the euro and the yen were becoming more undervalued, but if these currencies return to being more driven by interest rate differentials and less by relative valuation, depreciation could be in their future.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

Hedging can help returns when a foreign currency depreciates against the U.S. dollar, but it can hurt when the foreign currency appreciates against the U.S. dollar.