

Introducing the International Hedged Dividend Growth Index

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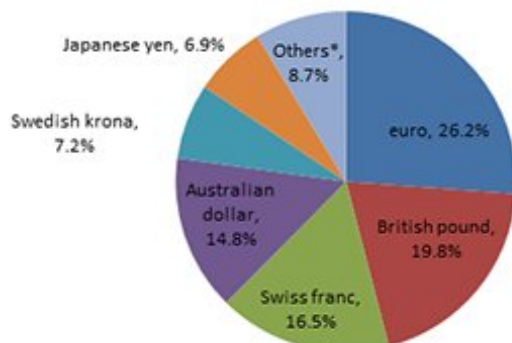
We have been focusing on the motivations to hedge currencies from a high-level perspective and outlined the [three myths to currency hedging](#). To help provide a broad-based benchmark to this concept of currency-hedged allocations, WisdomTree created an Index of developed world dividend growth stocks that we believe are attractive candidates for a currency-hedged strategy. The WisdomTree International Hedged Dividend Growth Index covers the same 21 equity markets as the MSCI EAFE Index. However, it includes only dividend-paying securities that WisdomTree believes have above-average prospects for dividend growth. The universe of eligible companies begins with the WisdomTree DEFA Index, a very broad measure of the performance of 2,193 investable dividend payers as of March 31, 2014. Then we add the following screening criteria:

- Minimum market capitalization of \$1.0 billion
- Dividend coverage ratio greater than 1.0x
- The 300 companies with the best combined rank of growth and quality factors from this universe

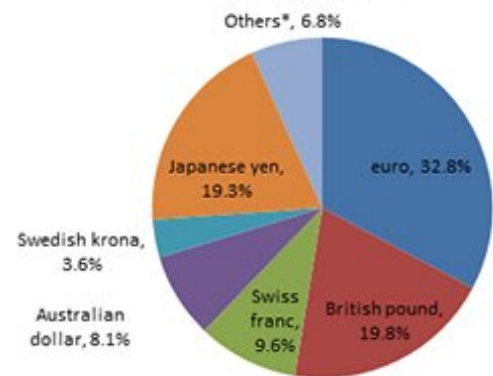
o Growth Ranking 50%: Derived from long-term earnings growth expectations, which ultimately encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years

o Quality Ranking 50%: Split evenly between three-year average return on assets (ROA) and three-year average return on equity (ROE). In our [blog post](#) introducing the [WisdomTree Europe Dividend Growth Index](#), we discussed the specific motivations for the growth and quality factors that are the same factors driving selection across all our dividend growth strategies (U.S., emerging markets, Europe, global ex-US). In short, we believe ROE is a key driver of sustainable long-term dividend growth over time, and companies that have better earnings growth have the most potential to raise dividends over time. Below we discuss some of the key exposures and differentiated positions—from a currency and sector perspective—of this new [International Hedged Dividend Growth Index](#). **Which Currencies Are Being Hedged?**

WisdomTree International Hedged Dividend Growth Index



MSCI EAFE Index



*Others: Norwegian krone, Israeli shekel, Hong Kong dollar, Singapore dollar, Danish krone and New Zealand dollar. Sources: WisdomTree, Standard & Poor's, Bloomberg, with data as of 3/31/14. You cannot invest directly in an index. Subject to change.

• **Most Notable Difference—Yen Under-weight:** When measured against the MSCI EAFE Index, the largest under-weight is the Japanese yen. Japanese firms, compared to the rest of the developed international equity landscape, tend to have lower ROE and ROA figures. A number of currency-hedged Japan strategies can blend in with this International Hedged Dividend Growth exposure to increase exposure to Japan if one has a more favorable outlook on Japan. As the ROE and ROA metrics improve, or earnings growth expectations rise, Japan's weight can also increase in this index during subsequent annual index screenings over time.

• **Cost of Hedging:** An important element to consider is the ultimate cost of hedging, which can be estimated as the weighted average difference in short-term interest rates relative to the United States. For the WisdomTree International Hedged Dividend Growth Index, this figure is 0.51%, whereas for the MSCI EAFE Index it would be 0.25%. Both are relatively small numbers to remove a large source of additional volatility. Importantly, as central bank policies change, we believe this cost is likely to keep decreasing and may actually turn into a small positive in the near future if the U.S. raises short-term interest rates ahead of foreign central banks.

• The differentials in the cost to hedge the WisdomTree Index and the MSCI Index can be explained by the MSCI EAFE Index weight containing three times the exposure to the yen, a currency with a minimal cost to hedge. The other notable difference is the higher weight within the WisdomTree International Hedged Dividend Growth Index to Australia, which has a higher cost to hedge than some of the other developed markets.

Sector Allocation Differentials The growth and quality selection factors emphasize companies that are employing less leverage to achieve their return on equity. This often results in an under-weight in financials and utilities, and this is true of this new WisdomTree dividend growth Index. Health Care, Consumer Discretionary and Consumer Staples stocks receive greater weights in this Index, as these sectors typically have higher return-on-equity and return-on-assets metrics.

Conclusion: Growth and Quality at a Reasonable Price WisdomTree believes currency-hedged investment strategies are growing in prominence due to shifting policy winds among global central banks. We believe the new International Hedged Dividend Growth Index represents a potential marriage of growth and quality characteristics with this added currency-hedged feature. This type of exposure represents to us an attractive holding for core allocations to developed international stocks.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Investments focused in Europe or Japan may increase the impact of events and developments associated with those regions, which can adversely affect performance. Diversification does not eliminate the risk of experiencing investment losses.