

Since 2012, WisdomTree has been a leader in helping investors understand the impact that currency risk can have on their portfolios. When investors allocate funds internationally, there are two sources of return: the local asset return and the return from changes in foreign exchange (FX) rates. Unfortunately, when many investors think about international equities, they frequently consider only the valuations and performance of the underlying firms' shares (the local return). This can be problematic during periods in which foreign currencies are depreciating against the U.S. dollar. Historically, the default allocation of a majority of U.S. investors has been to combine these two bets when investing abroad. However, this doesn't have to be the case.

To help investors capitalize on this trend of separating currency risk from international investment risks, WisdomTree developed a suite of currency-hedged equity strategies that seek to neutralize the impact that FX can have on international positions. Below, we'll illustrate the impact that currency risk can have on international investments over time and show how currency-hedged equities can be used to manage risk in globally diversified portfolios.

## **Currency Fluctuations Can Be a Significant Source of Risk**

When investing internationally, investors face more than simply the volatility of the securities they choose; they also face the volatility of foreign currency. Sometimes currency movements help investments, and sometimes they hurt them. The biggest questions for investors are – does currency exposure compensate for the potential risk that it adds? And, do my assumptions about local asset returns correspond with my views about the path of the currency?

In figure 1, we show the impact of a strengthening or weakening U.S. dollar on total returns for the MSCI EMU Index in U.S. dollar terms compared to the MSCI EMU Local Currency Index in local currency terms. Historically, currency exposure has generated excess returns on average when the U.S. dollar is weak. In times of U.S. dollar strength, currency exposure has eroded returns on average. In many instances, investors may have made the correct call in terms of geography, but not necessarily in terms of currency. In our view, currency-hedged equity strategies can help isolate investment views on local asset returns from those on currency.

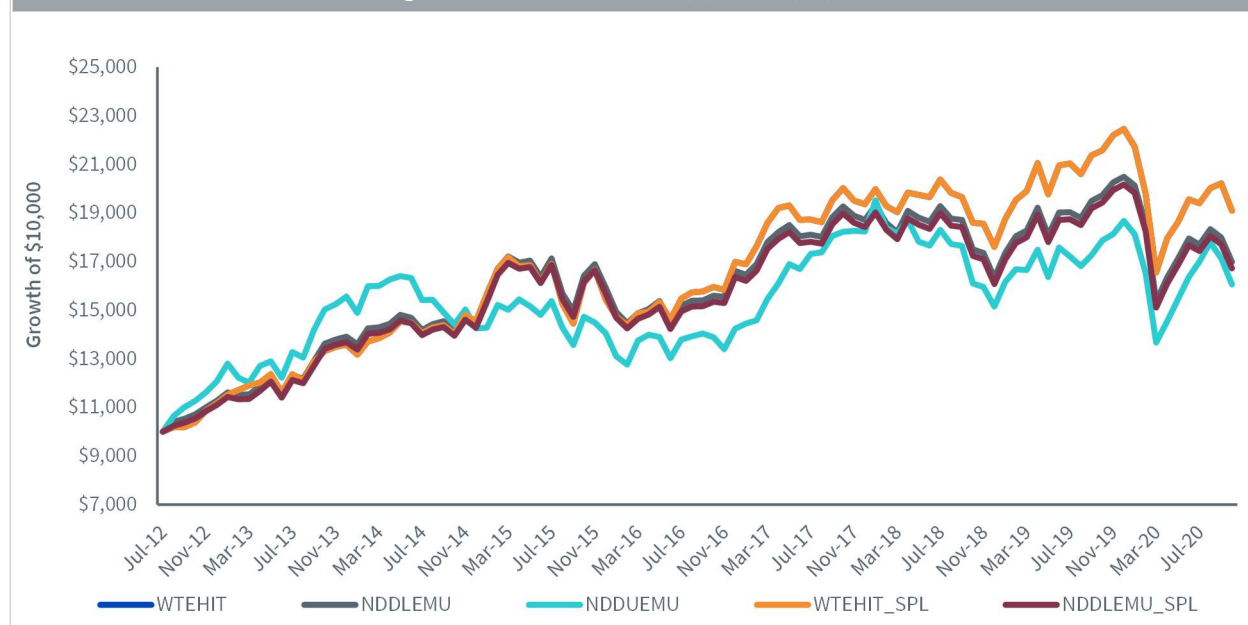
Figure 1: Currency Impact on Cumulative Returns of MSCI EMU Index vs MSCI EMU Local Currency Index (04/30/1998-12/31/2022)



Source: WisdomTree, FactSet. Ratio is computed by dividing MSCI EMU Index by MSCI EMU Local Currency Index. Past performance is not indicative of future results. You cannot invest directly in an index.

Expanding on this analysis, we also show just how much of an impact currency can have on total returns for specific markets. Since 2011, the U.S. dollar has tended to strengthen against a majority of foreign currencies. This can have a massive impact on a cumulative basis. Additionally, the volatility and betas of a portfolio with currency risk can be meaningfully different than one without. In some cases, investors may actually be compounding risks in their portfolio, as opposed to increasing diversification, by investing internationally. While currency risk may sometimes pay, it's extremely important for investors to ensure that their decision to invest internationally is not dependent on a negative outlook for the U.S. dollar.

Figure 2: Cumulative Return (7/2/2012-12/31/2022)



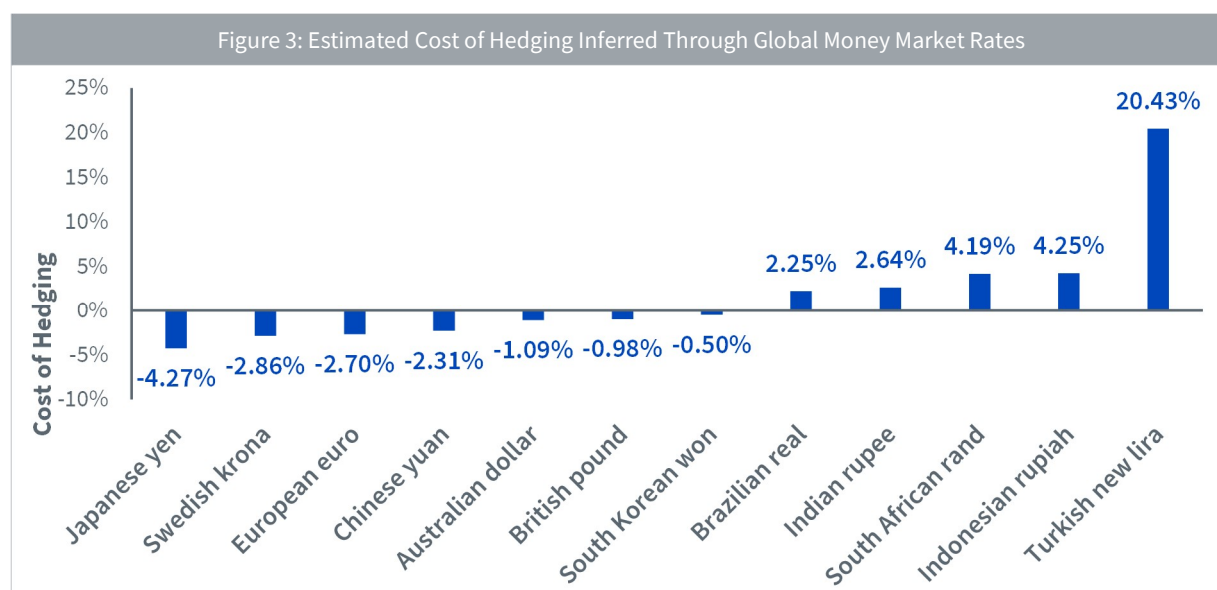
This chart illustrates how a hypothetical investment of \$10,000 might have grown. The calculations assume reinvestment of dividends and do not reflect transaction and other costs. Past performance is not indicative of future results. You cannot invest directly in an index.

Index	Ticker	Avg. Ann. Return	Ann. Std. Dev.	Sharpe Ratio	vs. S&P 500 Index	
					Beta	Correlation
WisdomTree Europe Hedged Equity Index	WTEHIT	9.57%	15.64%	0.56	0.84	0.78
MSCI EMU Local Currency Index	NDDLEMU	7.94%	15.56%	0.46	0.86	0.80
MSCI EMU Index	NDDUEMU	6.18%	18.06%	0.30	1.01	0.81
WisdomTree DEFA Intl Hedged Equity/Europe Hedged Equity Spliced Index	WTEHIT_SPL	9.10%	15.55%	0.54	0.84	0.78
MSCI EAFE Local Currency/MSCI EMU Local Currency Spliced Index	NDDLEMU_SPL	7.64%	15.52%	0.44	0.86	0.80

Sources: WisdomTree, FactSet, 7/2/2012 - 12/31/2022. Start date reflects WisdomTree Index inception. 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. WisdomTree DEFA International Hedged Equity/Europe Hedged Equity Spliced Index - WisdomTree DEFA International Hedged Equity Index through August 29, 2012; WisdomTree Europe Hedged Equity Index thereafter. MSCI EAFE Local Currency Index/MSCI EMU Local Currency Spliced Index - MSCI EAFE Local Currency Index through August 29, 2012; MSCI EMU Local Currency Index thereafter.

### "Currency Hedging Must be Expensive"

Next, we seek to settle one of the most common myths in investing today: the idea that currency hedging is always expensive. We believe the largest driver of the cost of hedging currency risk is the interest rate differentials between two countries. In Figure 3, we see that the cost of hedging developed world currencies, such as the euro and the yen, has been brought down below zero as a result of differences in monetary policy. In our view, this environment makes currency hedging particularly relevant in the developed world because investors have actually been getting paid (via positive carry) to hedge. In markets where the cost of hedging is low (or even negative), currency-hedged equity strategies represent a powerful tool for refining exposures in international markets. On the other hand, countries with higher short-term interest rates than the U.S. (i.e., emerging markets) will generally bear a higher cost of hedging. In these markets, we believe investors need to have a high degree of conviction on the direction of currencies in order to consider hedging on a strategic basis.



Source: WisdomTree, as of 12/31/2022.

## Currency Hedging 101

The WisdomTree Europe Hedged Equity Fund provides exposure to equities and offsets currency risk by selling one-month forward currency contracts. At the end of the month, the currency hedges are rolled to the next month before they expire to ensure that the portfolio remains insulated from swings in FX rates.

At the end of the day, investors are increasingly focused on finding ways to add value to their investment process. By managing currency risk and valuations, we believe the WisdomTree Europe Hedged Equity Fund offers a compelling alternative for core allocations across developed international markets.

The WisdomTree Europe Hedged Equity Fund seeks to track the price and yield performance of the WisdomTree Europe Hedged Equity Index, before fees and expenses.

Standardized Annual Returns (as of 12/31/2022)					
Fund/Index	1 Year	3 Year	5 Year	10 Year	Since 12/31/2009
WisdomTree Europe Hedged Equity Fund (NAV)	-10.18%	2.53%	4.43%	7.77%	6.67%
WisdomTree Europe Hedged Equity Fund (Price)	-10.06%	2.44%	4.43%	7.49%	6.65%
WisdomTree DEFA Intl Hedged Equity/Europe Hedged Equity Spliced Index	-9.97%	2.98%	4.84%	8.19%	7.14%
MSCI EAFE Local Currency/MSCI EMU Local Currency Spliced Index	-12.49%	1.90%	2.98%	6.76%	5.79%

Sources: FactSet, MSCI, WisdomTree, since fund inception 12/31/2009 – 12/31/2022.

**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](http://wisdomtree.com).**

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.

Quick Facts	
Ticker	HEDJ
Exchange	NYSE Arca
Expense Ratio (Gross)	58bps
Expense Ratio (Net)	58bps
Structure	Open-end ETF
Exposure	International equities, currency-hedged
Rebalancing	The portfolio is rebalanced on an annual basis; hedges are reset monthly.

## Definitions and Disclosures

Risk-adjusted: Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns. Average annual returns: Mean of annual returns for the historical period. Standard deviation: A measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk," in that there is more of a chance the actual return observed is farther away from the average return. 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. Beta: Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark. Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly opposite directions. Currency risk: the risk that an investment will decline in value due to a change in foreign exchange rates. Foreign exchange (FX): The exchange of one currency for another, or the conversion of one currency into another currency. Carry: The amount of return that accrues from investing in fixed income or currency forward contracts. Forward currency contracts: A forward contract in the FX market that locks in the price at which an entity can buy or sell a currency on a future date.

The WisdomTree Europe Hedged Equity Index is designed to provide exposure to European equities while at the same time neutralizing exposure to fluctuations between the Euro and the U.S. dollar.

The WisdomTree DEFA International Hedged Equity Index is a dividend weighted index designed to provide exposure to developed world, non-U.S. equity securities while at the same time neutralizing exposure to fluctuations between the value of the U.S. dollar and non-U.S. currencies reflected in the index.

The MSCI EAFE Local Currency Index is a free float-adjust market capitalization weighted index that is designed to measure developed market equity performance, excluding the U.S. and Canada, calculated in local currency.

The MSCI EMU Local Currency Index captures large and mid cap representation across the Developed Markets countries in the EMU and provides local currency returns, which are not converted to U.S. dollars.

The S&P 500 Index is a capitalization-weighted index of 500 stocks selected by the Standard & Poor's Index Committee designed to represent the performance of the leading industries in the U.S. economy.

The MSCI EMU Index measures the performance of stocks based in the European Economic and Monetary Union (EMU).

**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, please call 866.909.9473, or visit [WisdomTree.com](http://WisdomTree.com) to view or download a prospectus. Investors should read the prospectus carefully before investing.**

There are risks associated with investing, including possible loss of principal. 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. 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. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Unless otherwise stated, data source is WisdomTree.

You cannot invest directly in an index. Additional index information is available at [www.wisdomtree.com](http://www.wisdomtree.com)

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