

WisdomTree Japan Hedged SmallCap Equity Fund

DXJS

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 Japan Small Cap Index in U.S. dollar terms compared to the MSCI Japan Small Cap Local Currency Index in local currency terms. Historically, currency hedging 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.

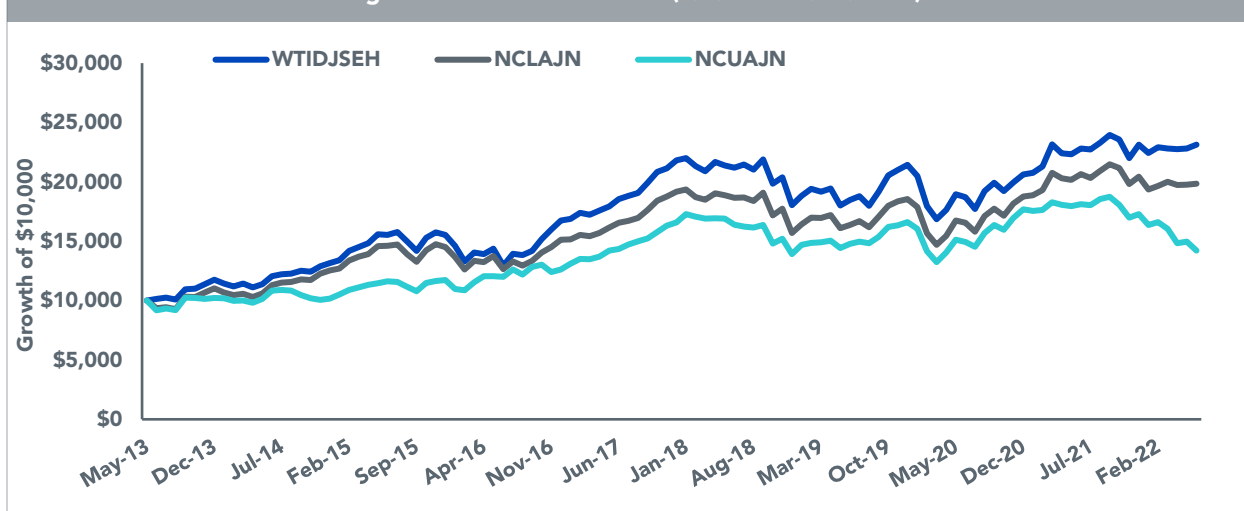
Figure 1: Currency Impact on Cumulative Returns of MSCI Japan Small Cap Index vs. MSCI Japan Small Cap Local Currency Index (01/01/2001–6/30/2022)



Source: WisdomTree, FactSet. Ratio is computed by dividing MSCI Japan Small Cap Index by MSCI Japan Small Cap 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 (5/1/2013–6/30/2022)



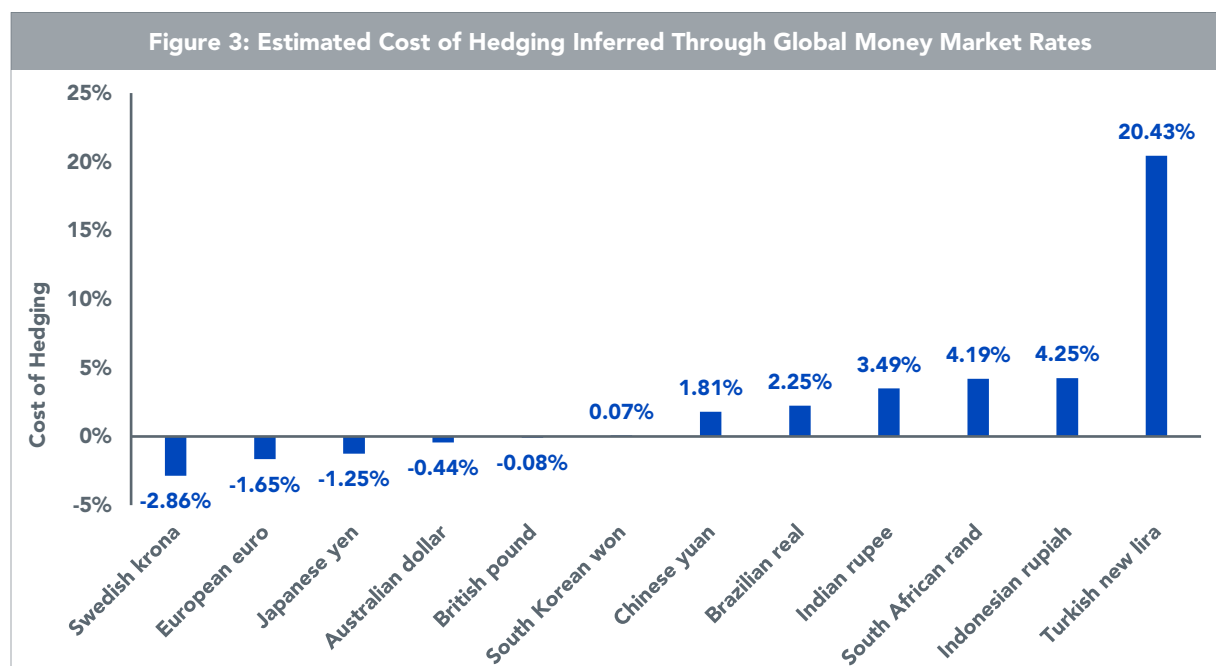
This chart illustrates how a hypothetical investment of \$10,000 might have grown. The calculations assume reinvestment of dividends and do not reflect transaction and other costs. Past performance is not indicative of future results. You cannot invest directly in an index.

Index	Avg. Ann. Return	Avg. Ann. Std. Dev.	Sharpe Ratio	Beta vs. S&P 500	Correlation vs. S&P 500
WisdomTree Japan Hedged SmallCap Equity Index (WTIDJSEH)	9.51%	14.78%	0.60	0.58	0.56
MSCI Japan Small Cap Local Currency Index (NCLAJN)	7.76%	14.45%	0.49	0.60	0.59
MSCI Japan Small Cap Index (NCUAJN)	3.92%	13.30%	0.24	0.57	0.60

Sources: WisdomTree, FactSet, 5/1/2013-6/30/2022. 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.

“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 6/30/2022.

Currency Hedging 101

The WisdomTree Japan Hedged SmallCap 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 Japan Hedged SmallCap Equity Fund offers a compelling alternative for core allocations across developed international markets.

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

Quick Facts	
Ticker	DXJS
Exchange	NASDAQ
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 Japan Hedged SmallCap Equity Index is designed to provide exposure to the small capitalization segment of the Japanese equity markets while at the same time neutralizing exposure to fluctuations of the Japanese Yen movements relative to the U.S. dollar.

The MSCI Japan Small Cap Local Currency Index is a free float-adjusted market capitalization index that is designed to measure the performance of small cap stocks within Japan and calculated in local currency. The MSCI Japan Small Cap Index is a free float-adjusted market capitalization index that is designed to measure the performance of small cap stocks within Japan.

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.

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 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. 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. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations, derivative investments which can be volatile and 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

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