



Japan: Global Value Rotation

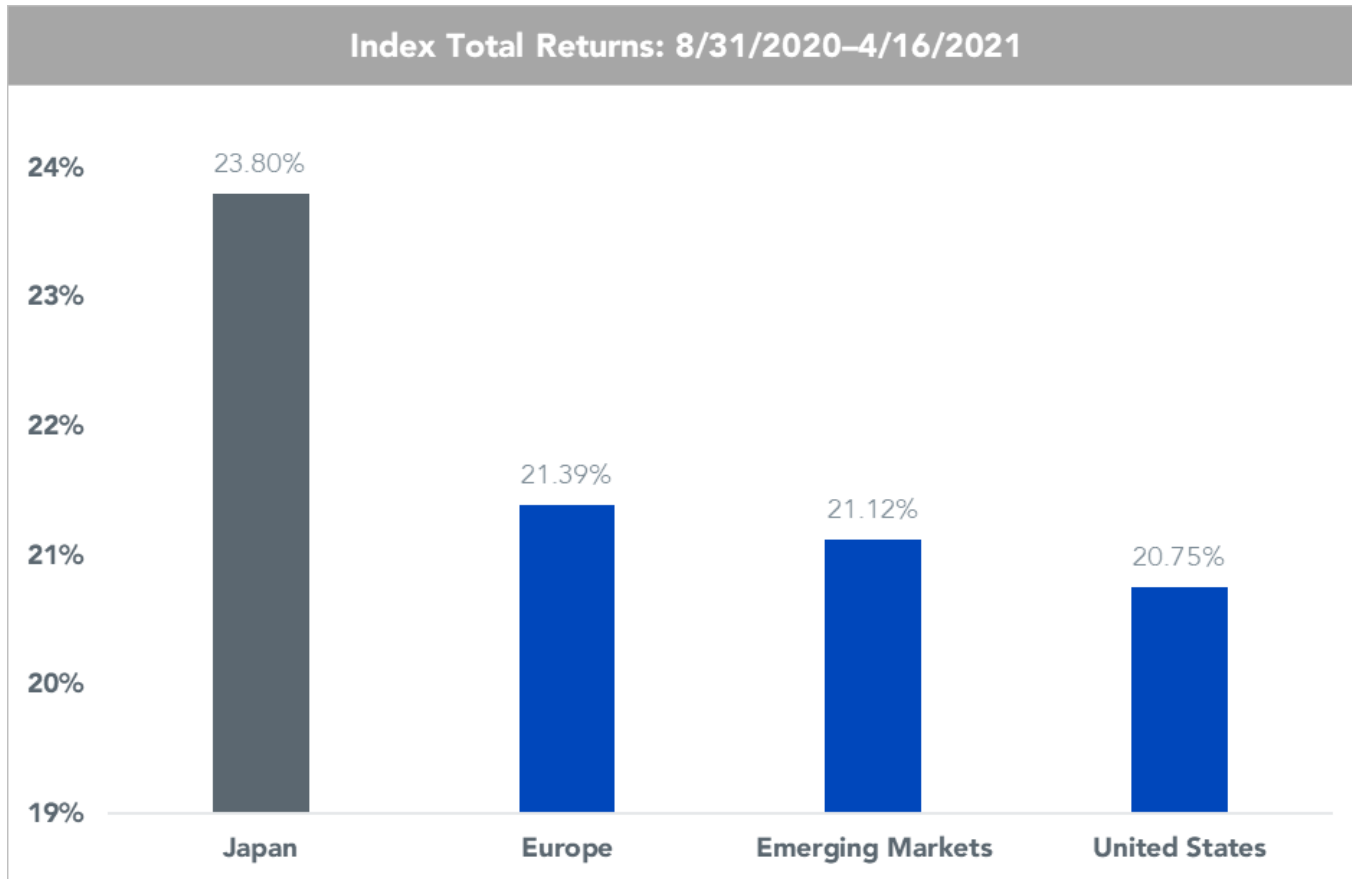
Spring 2021

Executive Summary – Thesis for Japanese Equities

- + **Cyclical Sensitivity** – Japanese equities have historically been particularly sensitive to global economic fluctuations, driven by its cyclical sectors tilts and export-oriented economy
- + **Green Shoots of Rotation** – With the prospect of a global synchronized economic recovery taking hold, Japanese equities have been outperformers over the past several months
- + **Attractive Relative Valuations** – After several years of tepid international investor flows into the market, valuations are discounted relative to other major equity markets, presenting what we believe to be one of the few value opportunities globally

Select Global Benchmark Performance

- + Since September, when value began to outperform growth globally, Japanese equities (measured in yen) have outperformed the U.S. by over 300 basis points

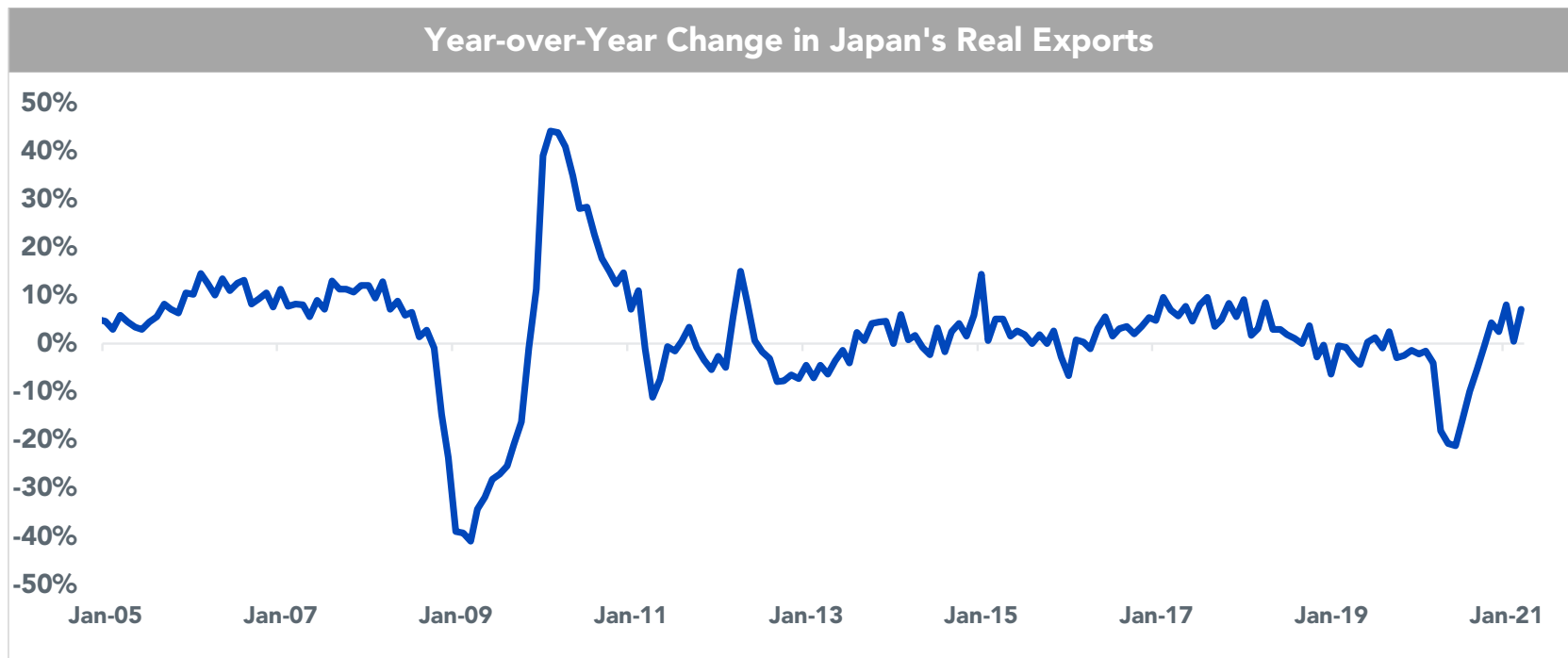


Source: WisdomTree, MSCI, S&P. Index performance measured in local currency. Japan, Europe, and Emerging Markets measured by respective MSCI Net Total Return Indexes. United States measured by S&P 500 Gross Total Returns. Past performance is not indicative of future returns. You cannot invest directly in an index.

Macro-economic Backdrop

Japan Exports Picking Up

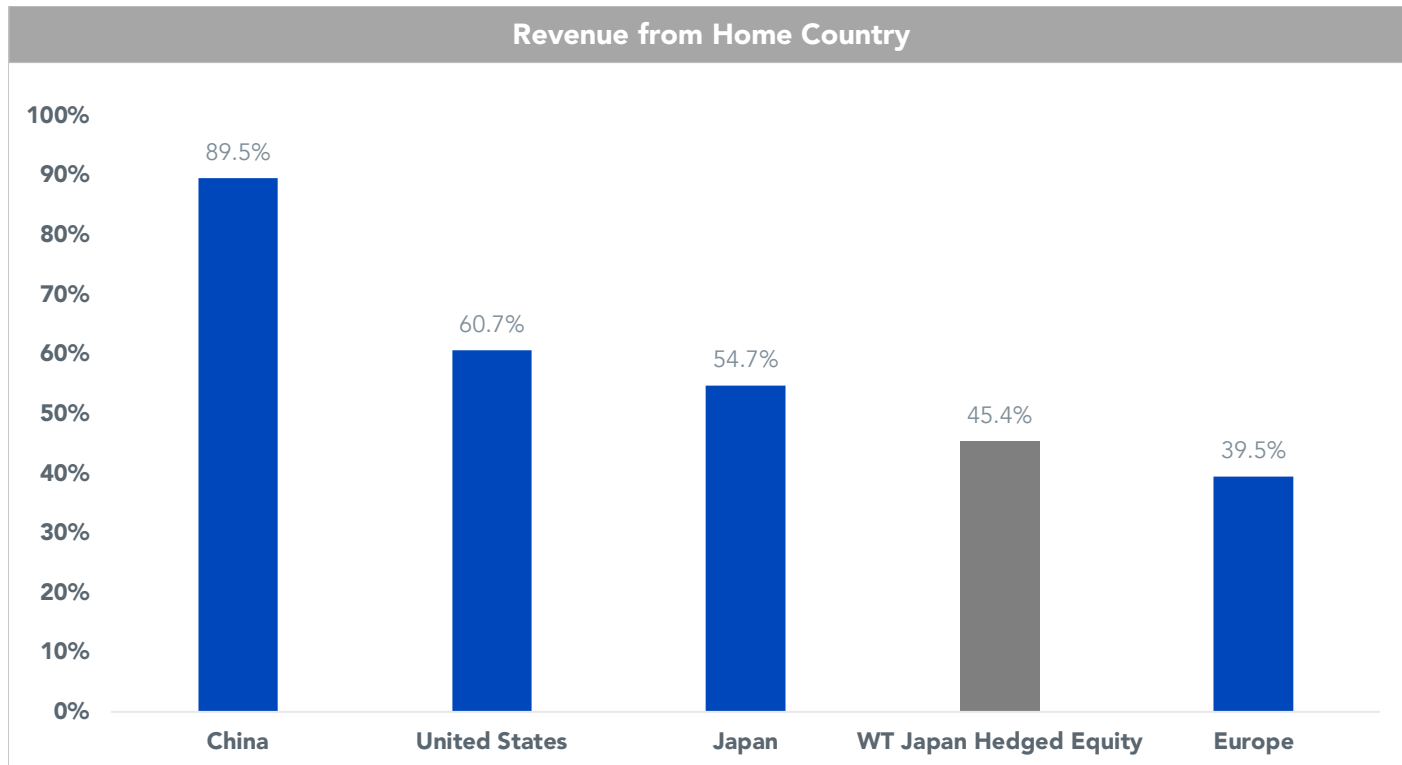
- + Exports are over 18% of the total Japan Gross Domestic Product (compared to less than 12% for the US)¹
- + Japan Real Exports up 7.1% Year-over-Year as of March 2021 and back above pre-pandemic levels



Source: Bank of Japan, 1/31/2005-3/31/2021. Prices based to 2015 levels. ¹ Source: World Bank. Japan data as of 2018. US data as of 2019.

Domestic Revenue Exposure

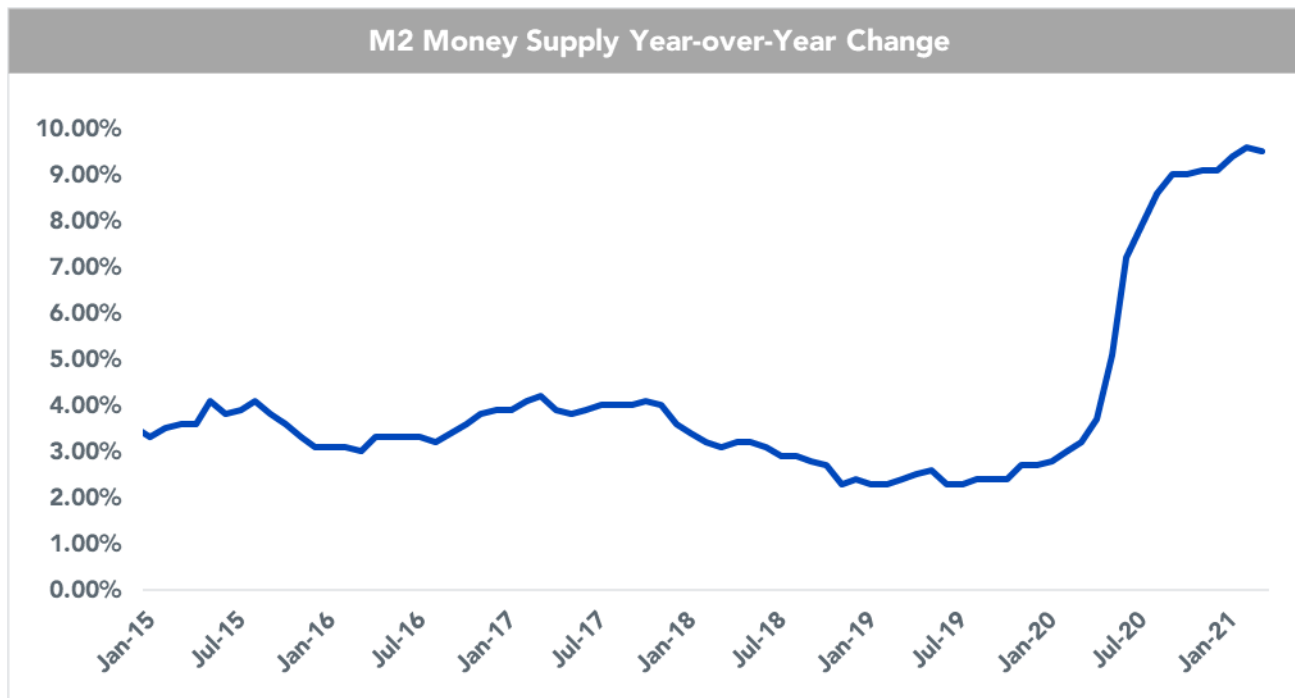
- + Japan and Europe have less revenue from their domestic markets than other major countries like China and the U.S., and thus are more reliant on global growth
- + The WisdomTree Japan Hedged Equity Index holds Japanese companies with no greater than 80% of their revenue from within Japan, magnifying the index's sensitivity to trends in Japanese exports



Source: WisdomTree, FactSet, MSCI, S&P. Japan, Europe, and Emerging Markets measured by respective MSCI Indexes. United States measured by S&P 500. You cannot invest directly in an index.

The Significant Increase in M2 Money Supply May Stoke Greater Consumer Confidence/Spending and Jolt Stubbornly Low Inflation

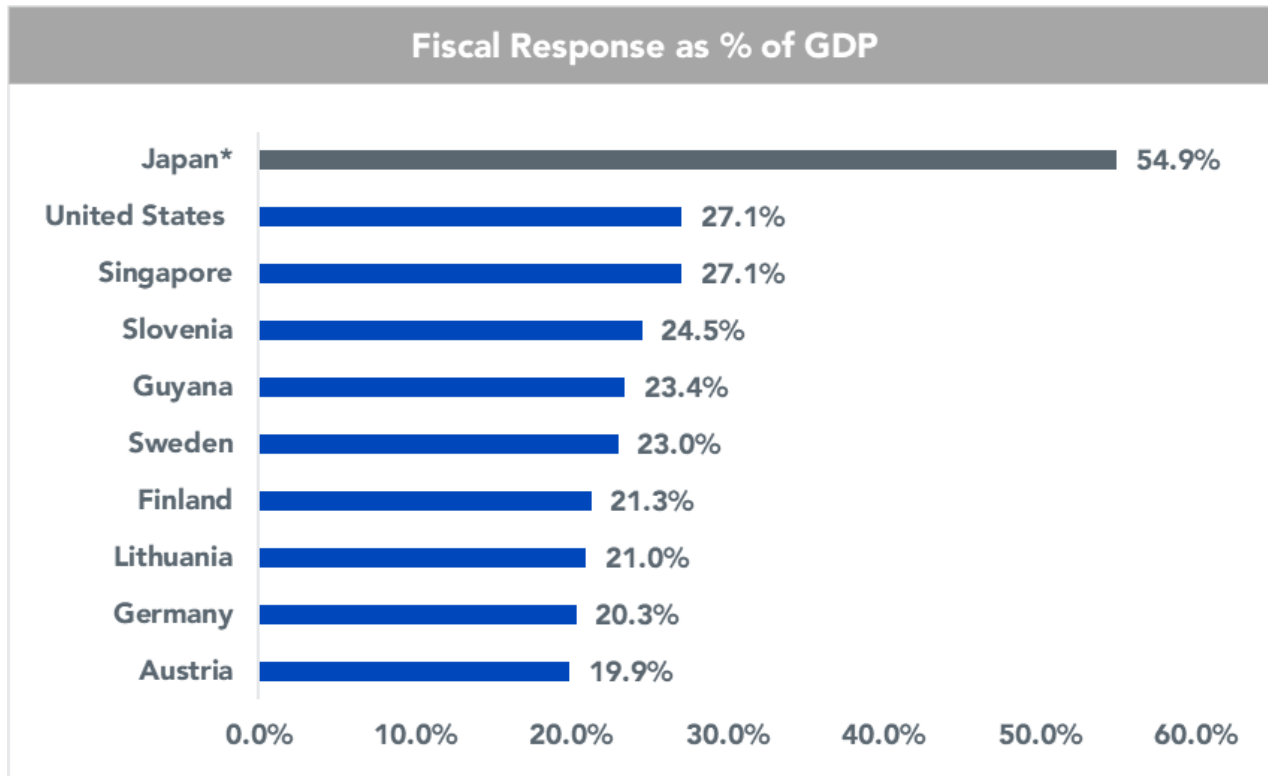
- + Despite Central Bank bond/ETF purchases and policies like yield-curve control aimed at increasing economic activity and inflation, Japan has continued to grapple with a high savings rates and low inflation
- + A dramatic increase in the M2 Money Supply may stoke a turnaround in inflation prospects with more cash on hand for consumption/investment



Source: Bank of Japan, 1/31/2015-3/31/2021.

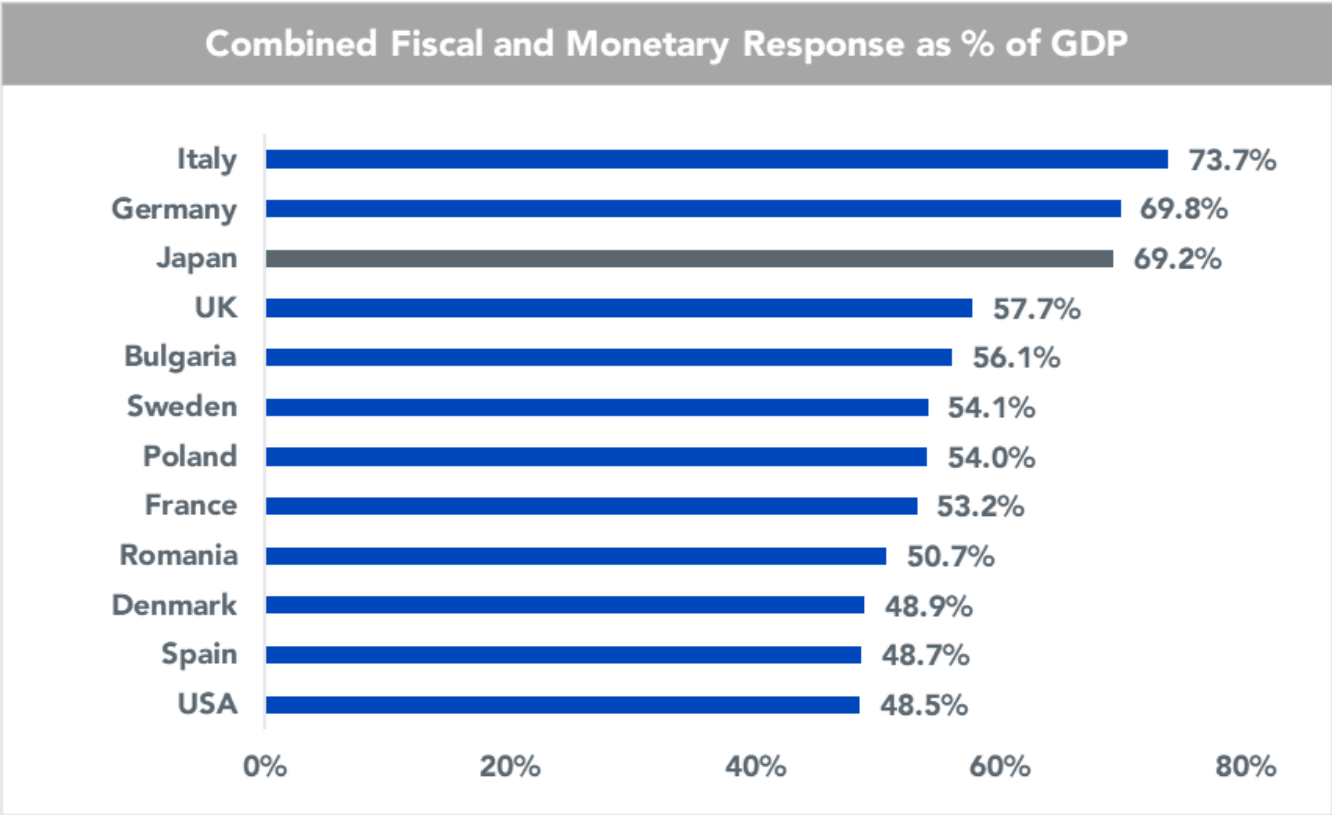
Size of Covid-19 Related Fiscal Stimulus Relative to GDP

- + Japan has had the largest fiscal response relative to the size of its GDP, depending on how it's measured
- + *Some have argued Japan's figures are inflated, including more than strictly government coronavirus spending



Combining Fiscal and Monetary Stimulus Shows Concerted Government Support

+ According to Bank of America Investment Strategy, Japan has enacted \$1.8tn in Fiscal Stimulus and \$1.7tn in Monetary Stimulus in response to the pandemic, significantly greater than the U.S. response as a percentage of GDP

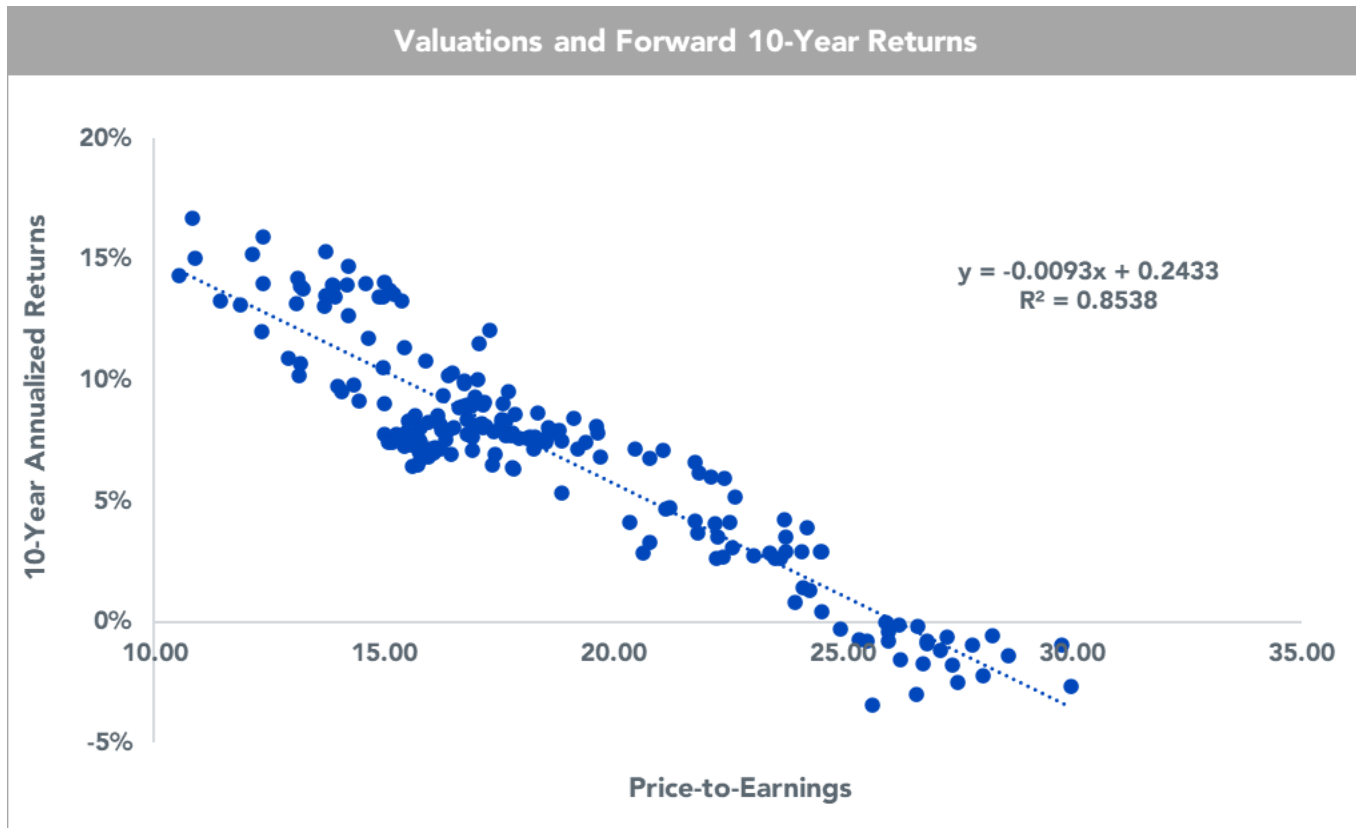


Source: Bank of America Investment Strategy, "The Flow Show," 4/15/2021.

Valuations

Current Valuations on the S&P 500 Present Challenged Forward Return Forecasts

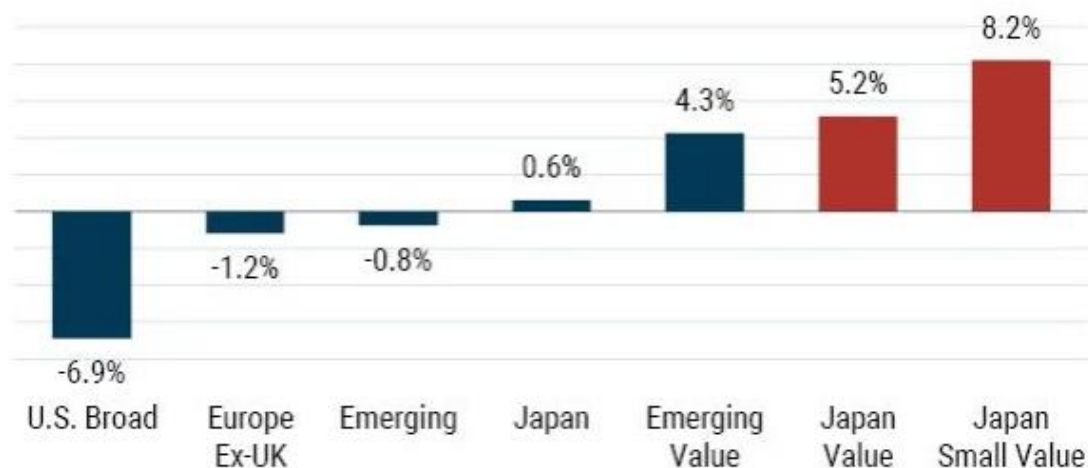
- + Using a simple regression of price-to-earnings to future 10-year returns produces a significant R-squared of 85%
- + The linear regression equation equates to a ~4% return forecast for the S&P 500



GMO: Japan Value: An Island of Potential in a Sea of Expensive Assets

- + GMO offered three key reasons to be excited about Japan Value equities:
 1. Attractive Valuations
 2. A supportive secular transition of rising profitability and more shareholder-friendly policies: and
 3. Fertile fishing grounds for alpha seekers

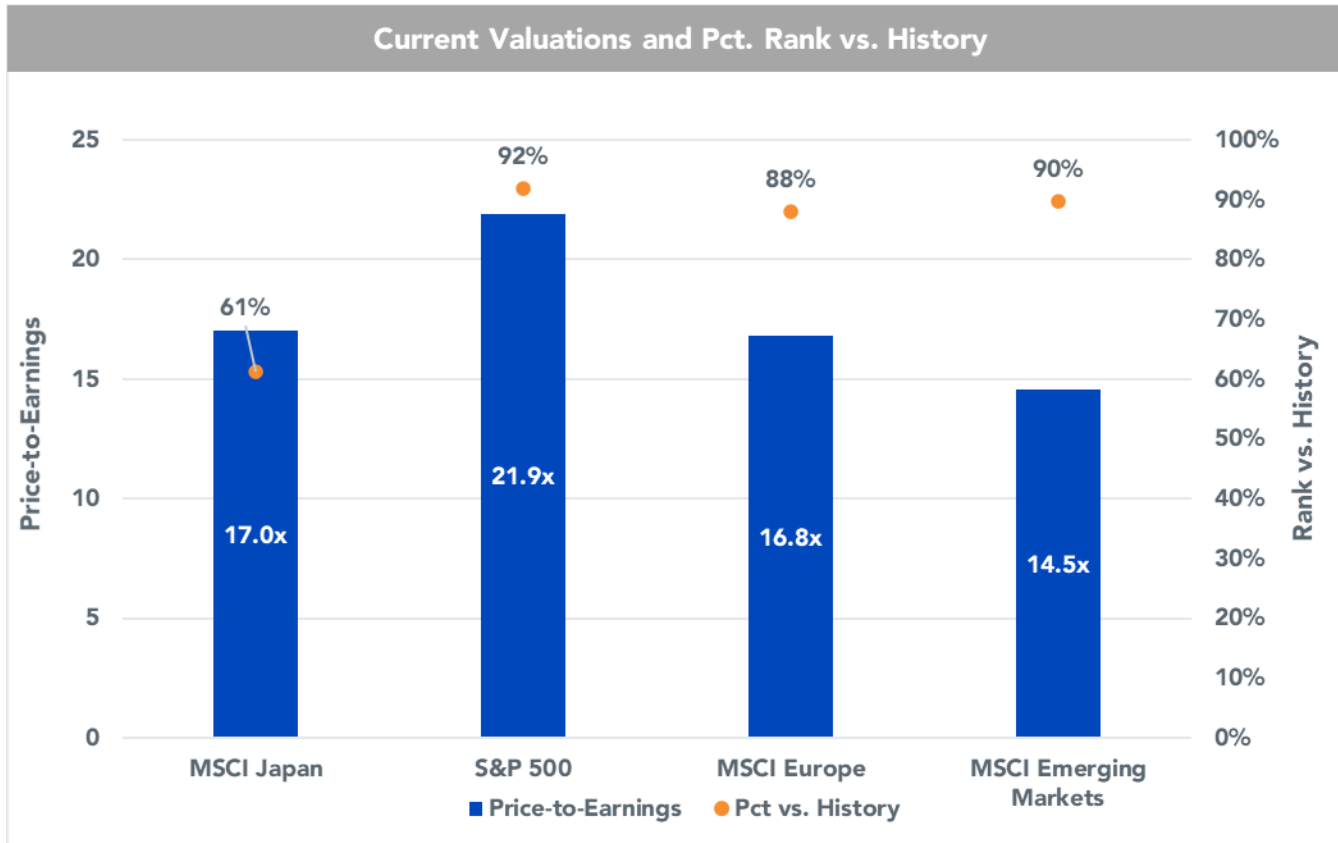
7-year asset class real return forecasts as of February 28, 2021



Source: GMO. 50/50 Blend of Mean Reversion and Partial Mean Reversion forecasts.

Current Valuations vs. History (12/31/2000-3/31/2021)

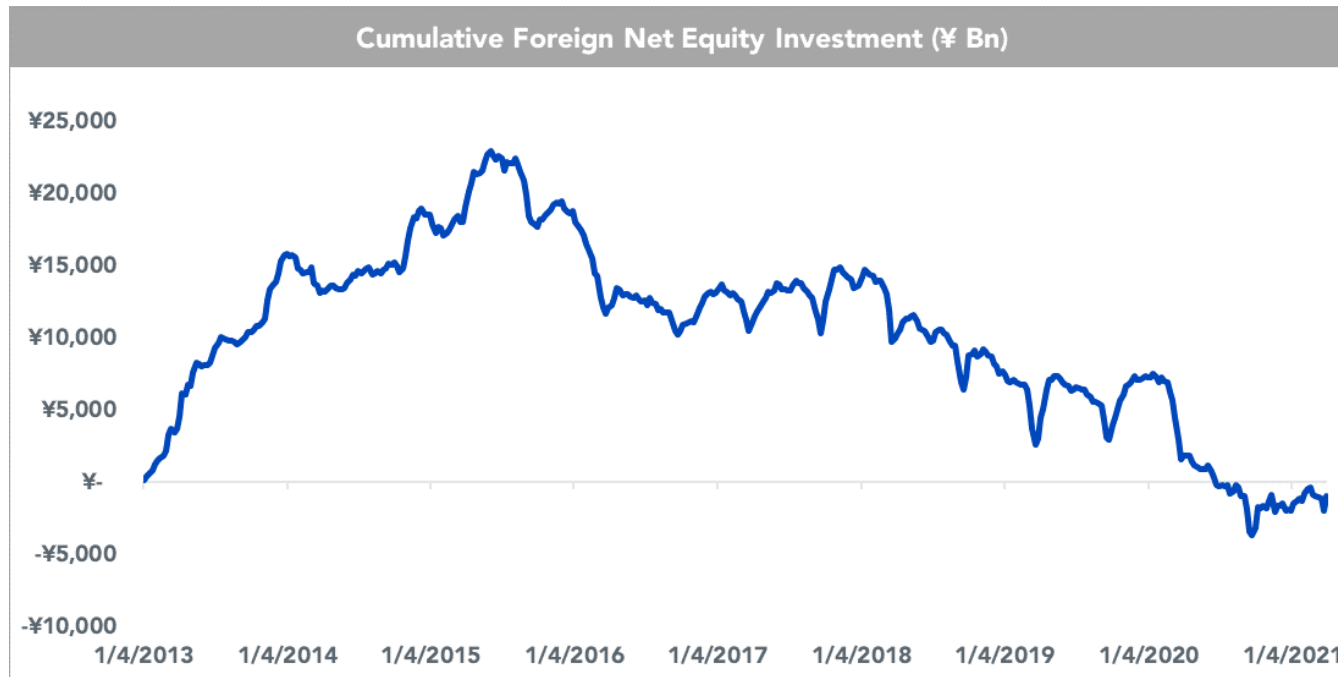
- + Japanese equities are significantly discounted relative to the U.S. and have a much lower valuation relative to its own history than most other major markets



Source: WisdomTree, MSCI, S&P, FactSet. Price-to-Earnings as of 3/31/2021. Rank vs. history using monthly observations between 12/31/2000 and 3/31/2021. You cannot invest directly in an index.

Foreign Investor Flows

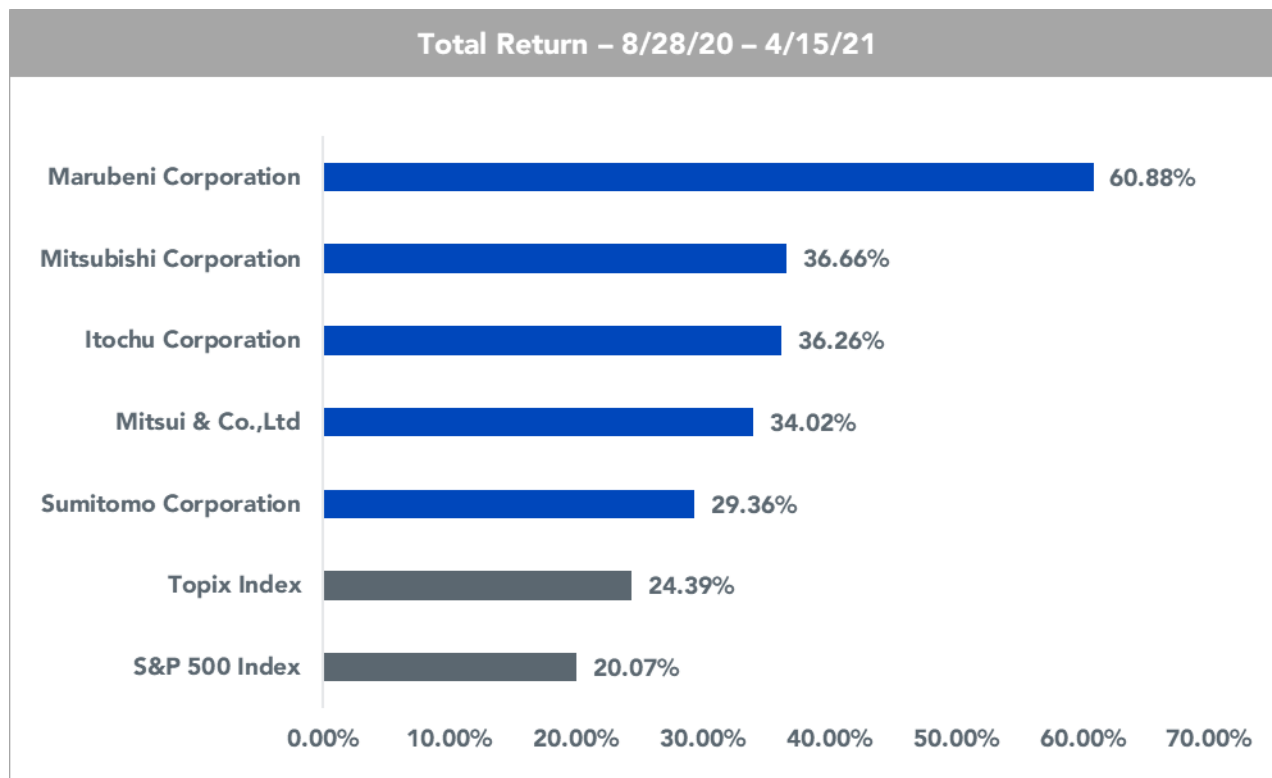
- + Foreign investors have been net sellers of Japanese equities for over five-years since 2015
- + An uptick in synchronized global economic growth may prove a boon for economically-sensitive Japanese equity indexes
- + In a signal of potential increased foreign interest, Warren Buffett initiated a 5% stake—\$6 billion total—in five Japanese trading houses* on August 30, 2020



Source: Japan Ministry of Finance. 1/4/2013-4/2/2021. *Itochu Corporation, Marubeni Corporation, Mitsubishi Corporation, Mitsui & Co., Sumitomo Corporation.

Warren Buffett's "Buy Japan" Playbook

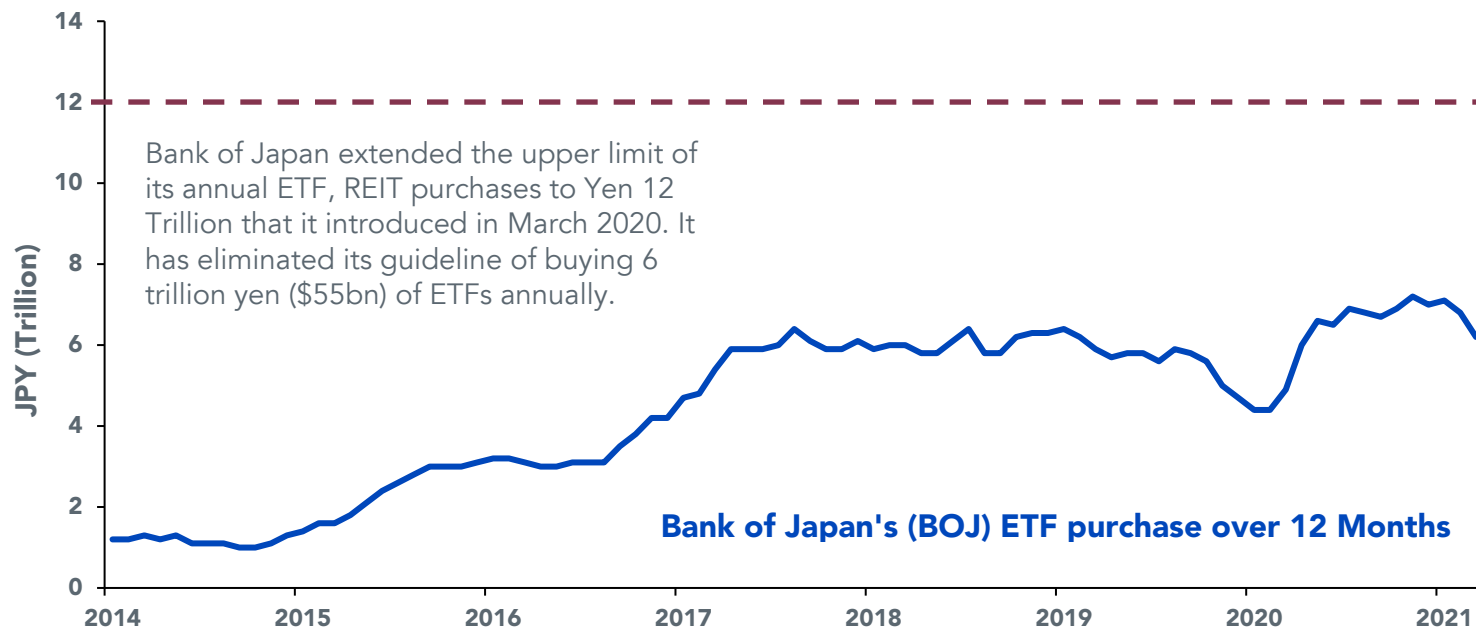
- + Discounted relative valuations compelled Warren Buffett to initiate a 5% stake in five Japanese trading houses in August of last year
- + Since his investment, the Topix Index (in yen) outperformed the S&P 500 by over 400 basis points, and the average return on his investments has been 39.43%



Source: WisdomTree, FactSet, S&P. Total returns based on gross total returns in local currency. You cannot invest directly in an index. Past performance is not indicative of future returns.

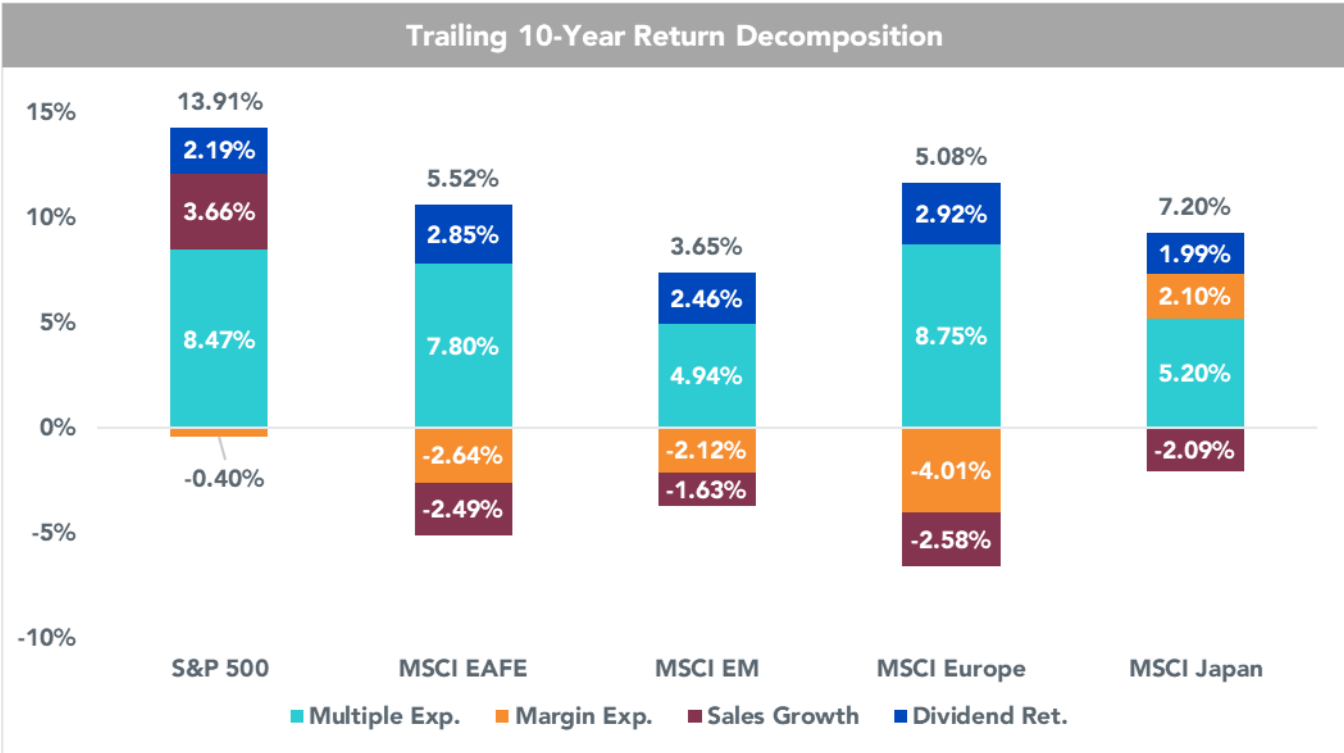
The Bank of Japan (BOJ) Remains Committed to ETF purchases

- + The BOJ has been purchasing Japanese ETFs for a decade
- + BOJ Governor Haruhiko Kuroda has signaled commitment to continuing purchases of ETFs and not selling
- + It holds over \$400bn in Japanese ETFs (~5% of the equity market), making it the largest equity holder as of December 2020 when it overtook the government's pension fund



Decomposition of Returns Across Japan, US, Europe, and Emerging Markets

- + Multiples have expanded globally over the past decade with the greatest returns from multiple expansion in the U.S.
- + With an explicit focus on improving corporate governance under "Abe-nomics", Japan was the only market with positive returns from Margin Expansion



Source: WisdomTree, MSCI, S&P, FactSet, 3/31/2011-3/31/2021. MSCI returns based on index net total returns in USD. S&P 500 returns based on index gross total returns. Past performance is not indicative of future returns. You cannot invest directly in an index.

Improving Corporate Governance

Global Dividend Growth

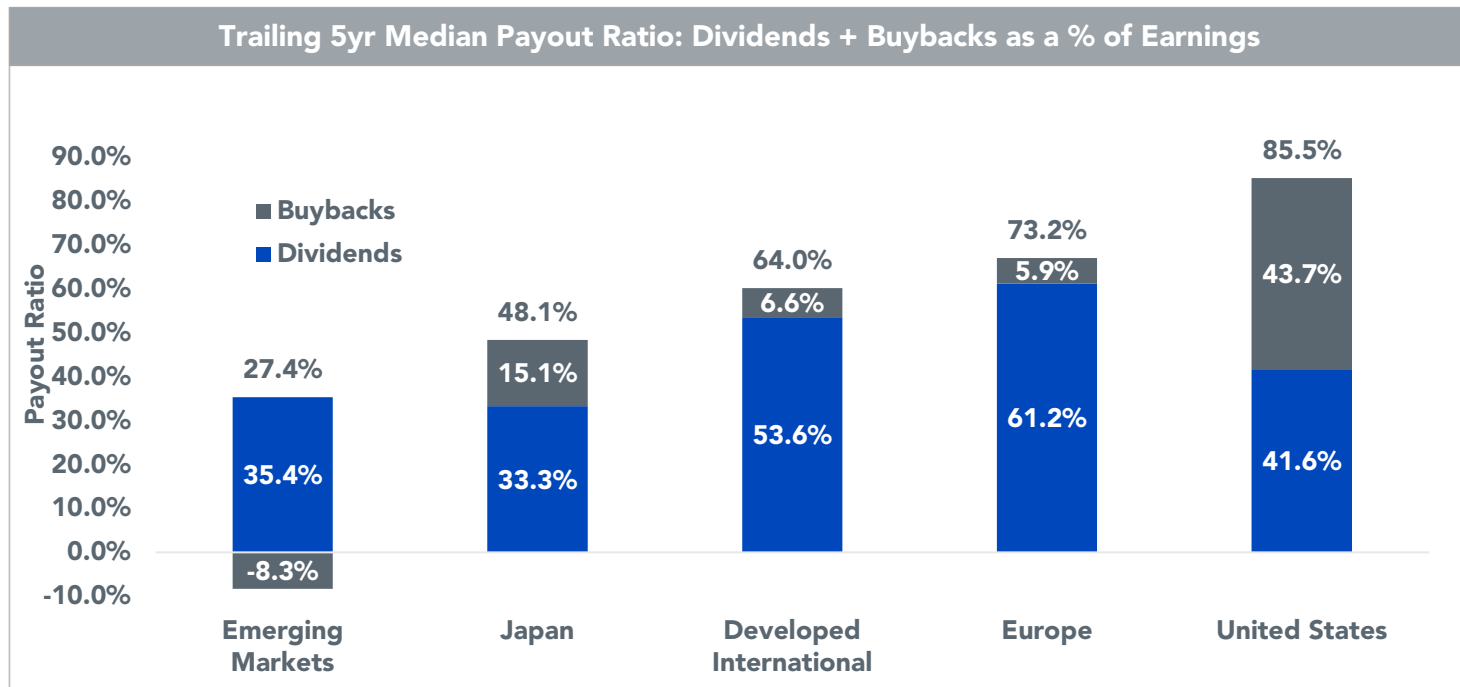
- + Relative to its major developed international peers (the UK, Germany, Switzerland, France) Japan boasts robust dividend growth of nearly 6% since 2012
- + Japan's history of conservative capital stewardship helped it avoid the significant dividend cuts in 2020 that afflicted European markets

	United States	China	Japan	United Kingdom	Saudi Arabia	Canada	Hong Kong	Germany	Switzerland	France
CAGR - 2012-2020	6.41%	27.27%	5.94%	-3.96%	N/A	2.70%	6.53%	1.18%	3.36%	-3.87%
YoY - 2019 vs. 2020	2.67%	19.05%	-2.90%	-38.55%	N/A	0.85%	-1.32%	-17.06%	-2.80%	-44.32%
2020	\$525	\$176	\$109	\$75	\$72	\$52	\$52	\$40	\$38	\$38
2019	\$512	\$148	\$112	\$121	-	\$52	\$52	\$48	\$39	\$68
2018	\$489	\$43	\$107	\$113	-	\$48	\$50	\$51	\$39	\$67
2017	\$453	\$36	\$92	\$107	-	\$44	\$56	\$40	\$35	\$57
2016	\$432	\$32	\$86	\$104	-	\$38	\$40	\$38	\$37	\$58
2015	\$412	\$35	\$72	\$105	-	\$41	\$41	\$37	\$39	\$54
2014	\$376	\$35	\$70	\$132	-	\$45	\$41	\$39	\$39	\$61
2013	\$326	\$30	\$66	\$100	-	\$44	\$34	\$39	\$33	\$59
2012	\$320	\$26	\$69	\$103	-	\$42	\$31	\$36	\$29	\$52

Source: WisdomTree, MSCI. Dividend payments aggregated from MSCI ACWI constituents. MSCI began including China A-shares in 2018 which resulted in a significant boost in dividends for China in 2019. Saudi Arabia added to MSCI ACWI in 2019 which resulted in boost in 2020. You cannot invest directly in an index.YoY= year over year.

Global Payout Ratios

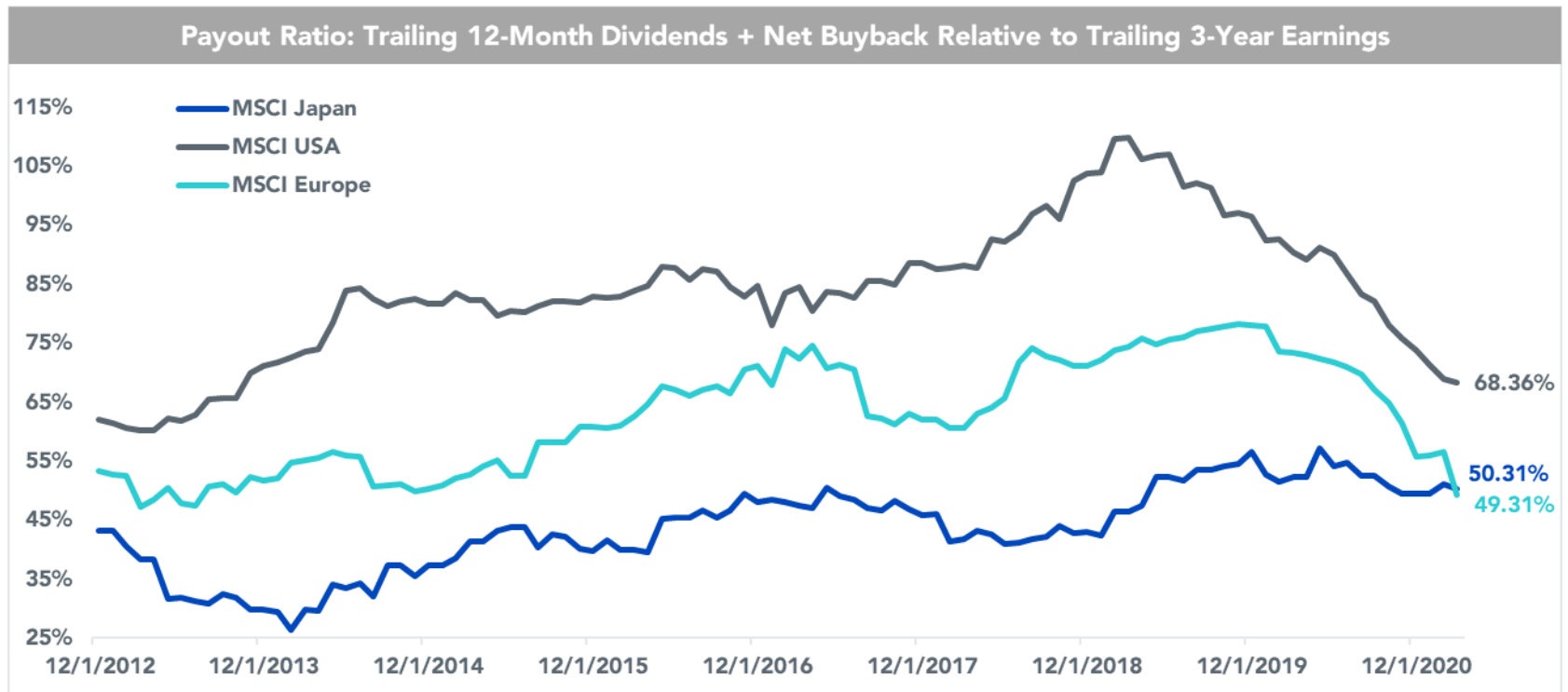
- + Japan's payout ratio (Dividends and Buybacks combined) of 48% is low relative to global standards, but has increased in recent years
- + Japan's conservative payout ratio contributed to more modest dividend cuts than European peers in 2020



Source: WisdomTree, FactSet, 3/31/2021. Japan, Europe, and Emerging Markets measured by respective MSCI Indexes. Developed International measured by MSCI EAFE Index. United States measured by S&P 500. You cannot invest directly in an index.

Payout Ratios Over time (Dividends + Net Buybacks)

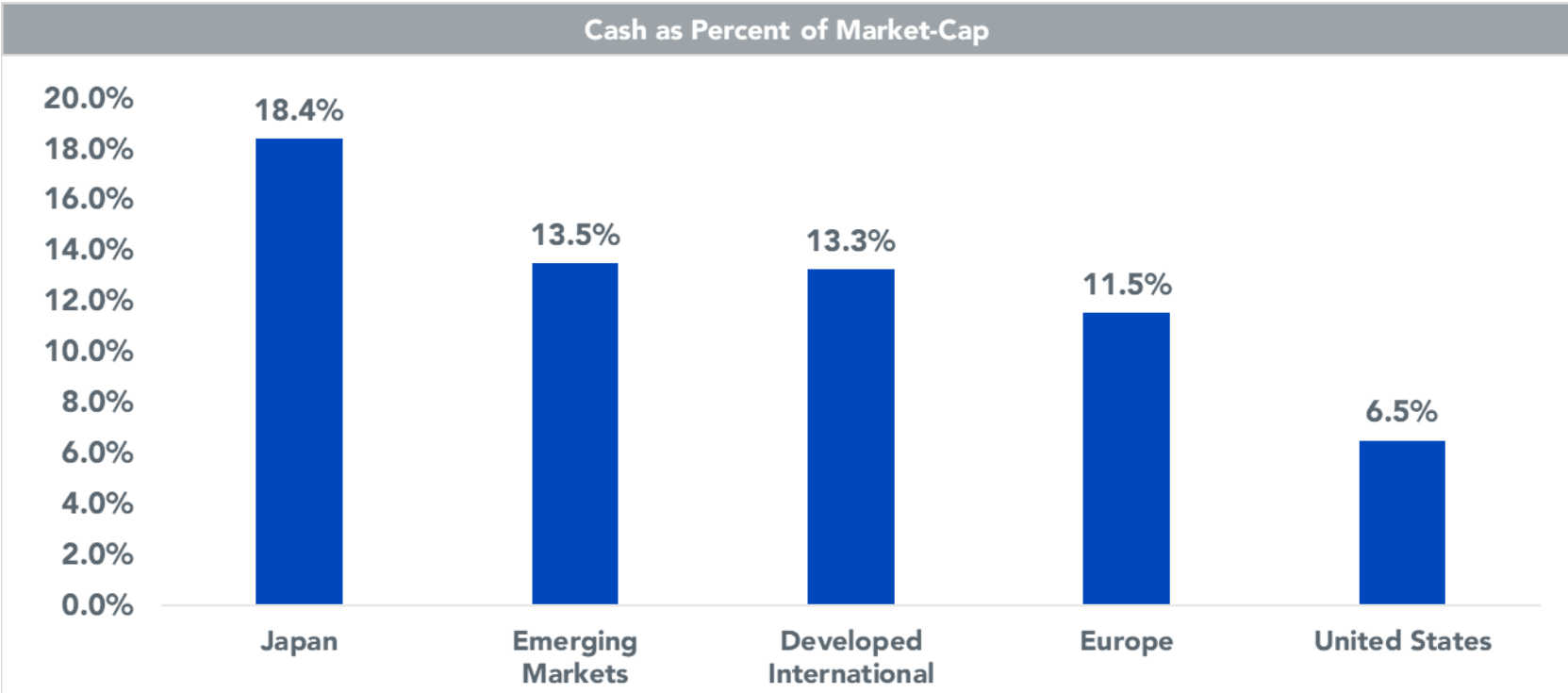
- + Japan's conservative cash management practices combined with effective containment of the virus led to modest changes in its payout ratio in 2020
- + In contrast, European banks contributed heavily to widespread dividend suspensions and US banks suspended share buybacks



Source: WisdomTree, FactSet, 12/31/2012-3/31/2021. You cannot invest directly in an index.

Japanese Conservative Cash Management Practice has been a Source of Increased Capital Returns

+ Significantly higher cash as percent of market-cap relative to global peers



Source: WisdomTree, FactSet, 3/31/2021. Japan, Europe, and Emerging Markets measured by respective MSCI Indexes. Developed International measured by MSCI EAFE Index. United States measured by S&P 500. You cannot invest directly in an index.

Rise of Environmental, Social, and Governance (ESG) Standards Adoption in Japan Should Unlock Greater Returns to Shareholders

Japan has embraced the adoption and integration of ESG factors into corporate business at a fast pace:

- + Developments include the initiation of a new Japan Stewardship Code and Corporate Governance Code. These initiatives helped alter how institutional investors engaged with Japanese businesses
- + Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2015 and backed the launch of multiple Japanese ESG indexes
- + Nippon Steel regularly wins awards for embracing green technology
- + In an aim to create cleaner versions of their products – Toyota has been the front runner for hydrogen engines and Mitsubishi Heavy Industries has joined local and global green-oriented groups
- + Transition away from fossil fuels into new technologies should benefit companies such as Nippon, Toyota and Mitsubishi which could emerge as leading edge solution providers in hydrogen power, wind turbine power, ammonia fuel and mini nuclear facilities

Cyclical Sensitivity

Japanese Equities More Tilted Towards Cyclical than U.S.

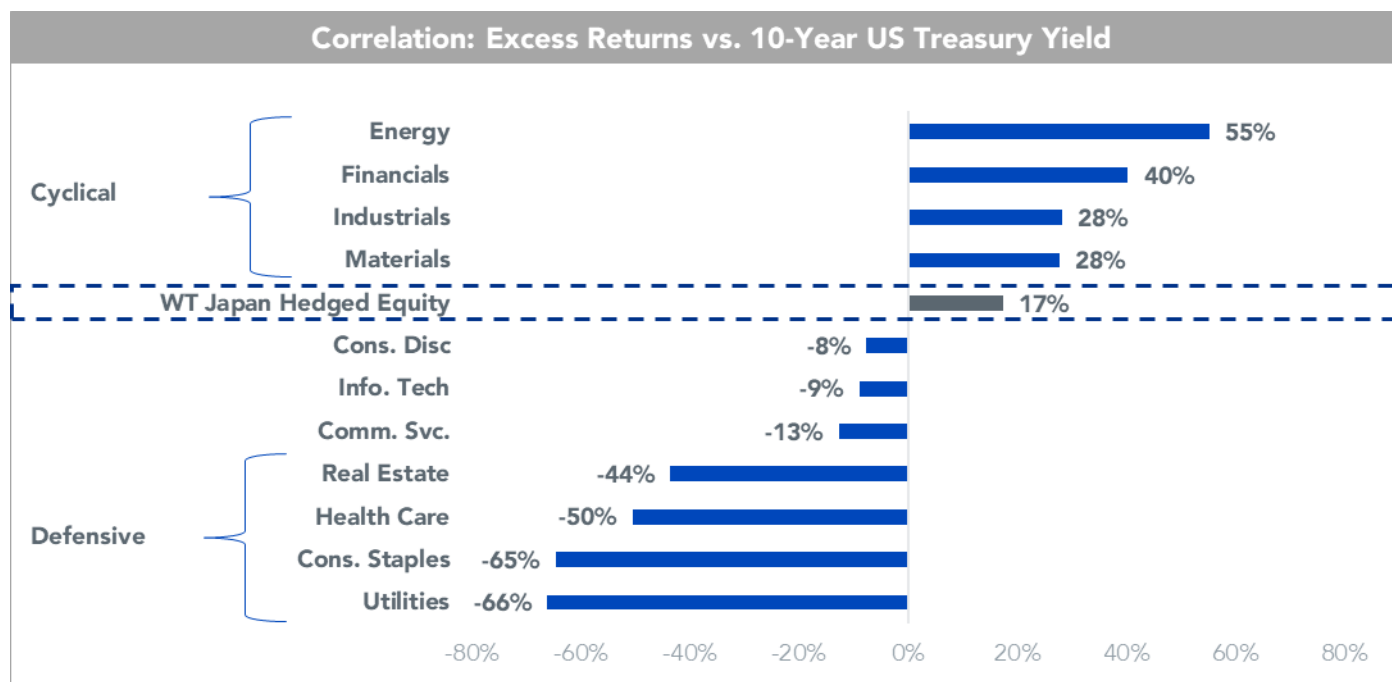
- + Japan's equity market doesn't have the same mega-cap tech companies that dominate its indices
- + Japanese equities are much more tilted to cyclical sectors

Sector	WT Japan Hedged Equity	MSCI Japan	S&P 500
Cyclical	63.3%	54.3%	33.7%
Energy	2.1%	0.6%	2.8%
Materials	8.4%	5.2%	2.7%
Industrials	19.5%	21.1%	8.9%
Financials	15.8%	9.1%	11.3%
Consumer Cyclical	17.5%	18.3%	8.0%
Growth/Defensive	36.7%	45.7%	66.3%
Consumer Growth/Defensive*	8.3%	7.5%	10.6%
Health Care	10.4%	10.0%	13.0%
Information Technology	13.3%	13.7%	26.6%
Utilities	0.2%	1.3%	2.7%
Real Estate	0.0%	3.6%	2.5%
Communication Services	4.5%	9.6%	10.9%

Source: WisdomTree, FactSet, MSCI, S&P, 3/31/2021. *Consumer Growth/Defensive includes Consumer Staples sector and Internet & Direct Marketing Retail industry. Consumer Cyclical includes the Consumer Discretionary sector ex- Internet & Direct Marketing Retail industry. You cannot invest directly in an index.

WisdomTree Japan Hedged Equity Index: Positive Correlation between Excess Returns and Rising US Treasury Yields

- + Trailing 3-year correlation using excess returns (vs. S&P 500) vs. change in 10-year US Treasury Yield
- + Similar to more economically sensitive sectors, the WisdomTree Japan Hedged Equity Index has a positive correlation of outperformance to rising US rates



Source: WisdomTree, S&P, FRED. Correlation measures monthly excess returns versus S&P 500 between 3/31/2018-3/31/2021. Sector returns from S&P 500 sectors. Japan measured by WisdomTree Japan Hedged Equity index. You cannot invest directly in an index.

Japanese Equities' Outperformance Coincides with U.S. Cyclical/Value Rotation

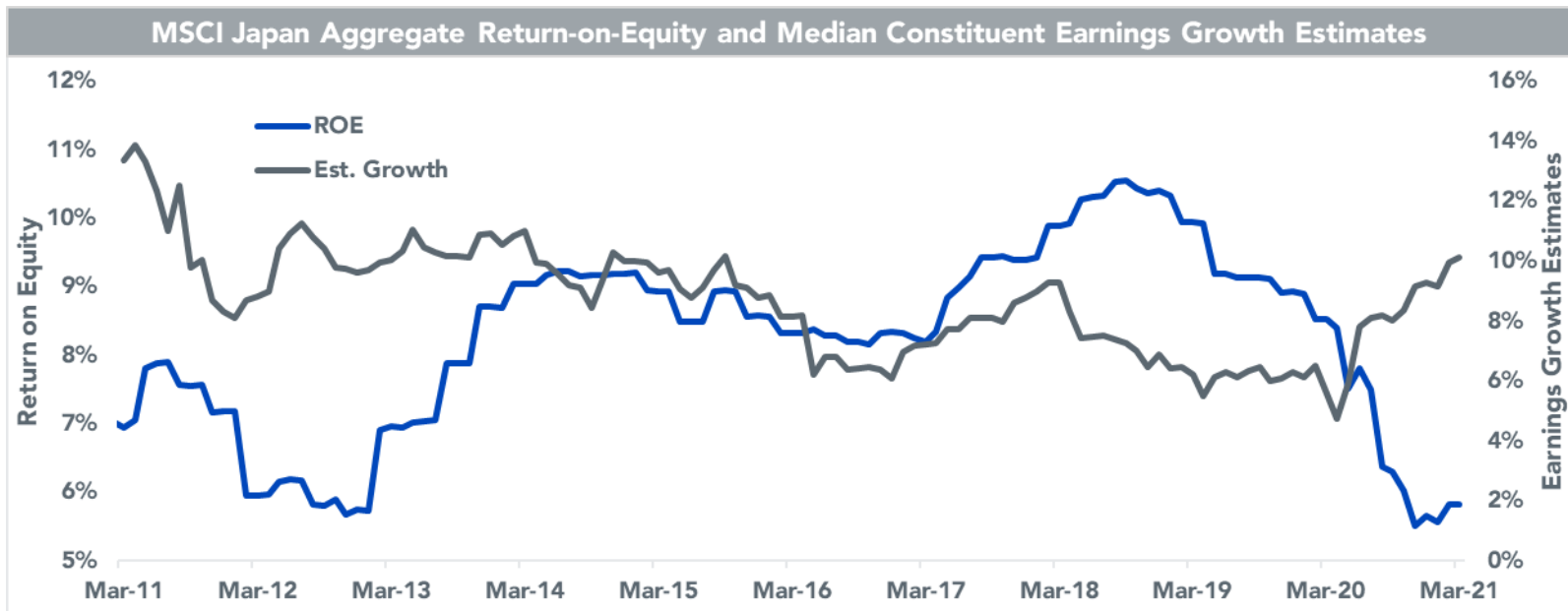
- + Japan looks to be a prime beneficiary of a global economic upswing
- + Performance of the WisdomTree Japan Hedged Equity Index has been in-line with that of U.S. cyclical sectors

S&P 500 Sector Returns and Japan	
Year-to-date (12/31/20–4/8/21)	Cyclical Rotation Trade (8/31/20–4/8/21)
29.54% - Energy	41.49% - Energy
18.79% - Financials	41.28% - Financials
13.83% - Comm. Svc.	29.39% - Industrials
12.72% - Industrials	27.51% - Materials
11.98% - WT Japan Hedged Equity	26.70% - WT Japan Hedged Equity
11.22% - Real Estate	21.18% - Comm. Svc.
9.92% - Materials	18.18% - S&P 500
9.54% - S&P 500	14.33% - Real Estate
7.93% - Info. Tech	14.20% - Info. Tech
7.29% - Cons. Disc	12.28% - Utilities
4.21% - Utilities	11.73% - Cons. Disc
3.14% - Health Care	9.02% - Health Care
2.44% - Cons. Staples	7.34% - Cons. Staples

Source: WisdomTree, S&P. You cannot invest directly in an index. Past performance is not indicative of future returns.

Japanese Earnings and Earnings Estimates are Inflecting Higher

- + Earnings have recently bottomed out and growth estimates have been steadily improving since April of last year
- + The median earnings growth estimate for MSCI Japan constituents for the next 3-5 years is just over 10%

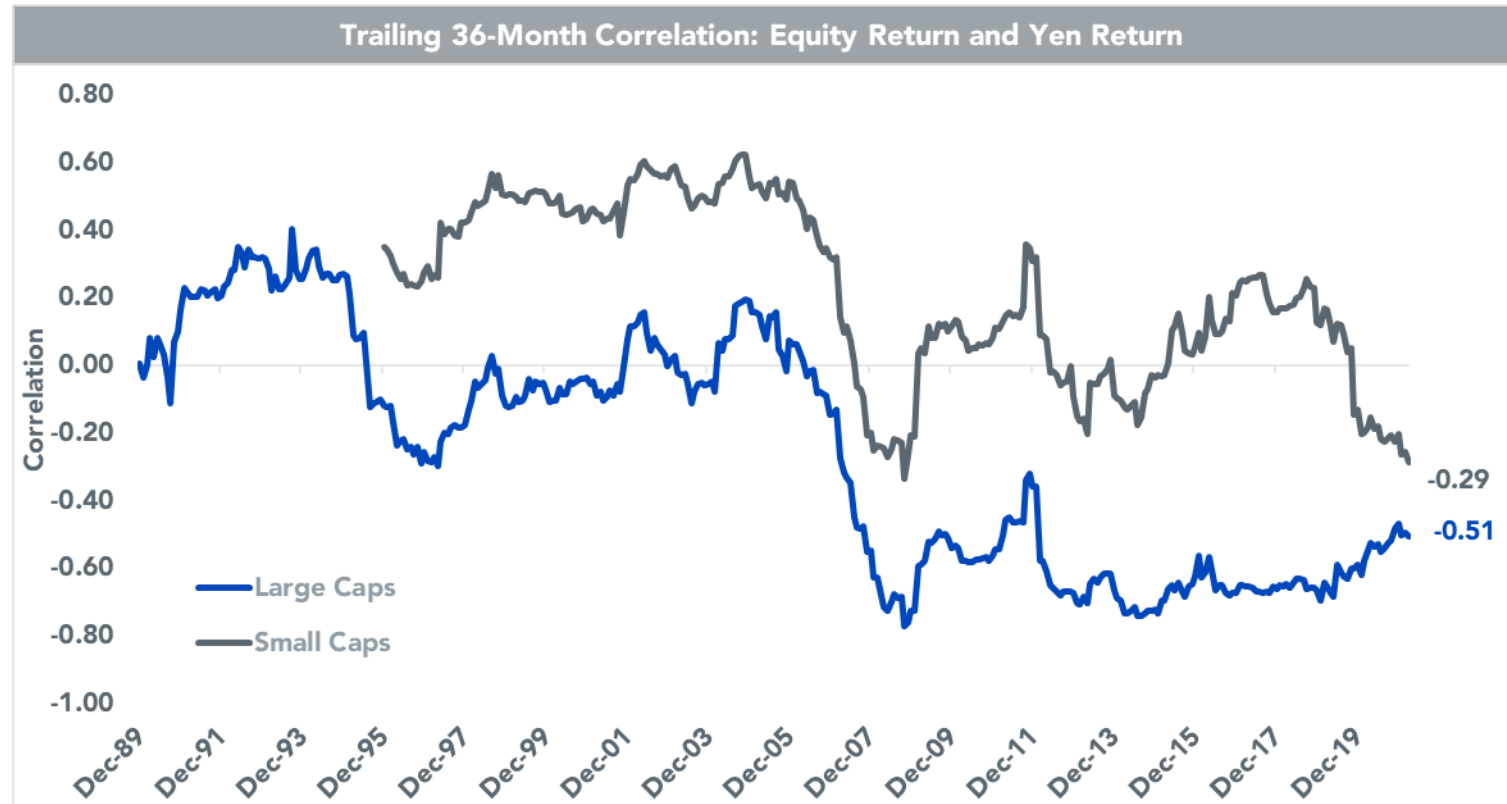


Source: WisdomTree, MSCI, FactSet, 3/31/2011-3/31/2021. You cannot invest directly in an index.

Appendix

Japanese Equity Returns and Yen Correlations

- + Since the Financial Crisis, the Japanese equity market has had a strong negative correlation with the yen
- + This can partly be explained by the cyclical sensitivity of the Japanese economy and the yen's status as a "safe-haven" currency



Source: WisdomTree, MSCI, 3/31/2021. Large Caps (MSCI Japan) begins on 12/31/1989. Small Caps (MSCI Japan Small Cap) begins on 12/31/1995. Index returns measured by gross returns in local currency. Past performance is not indicative of future returns. You cannot invest directly in an index.

Glossary

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Alpha: Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Basis Points: 1/100th of 1 percent.

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 the opposite direction.

Cyclical: Refers to stocks in more economically sensitive industries like Energy, Financials, Materials, Industrials, and Consumer Discretionary.

Dividend Yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. (Dividends Per Share/Share Price)

ESG: An acronym for environmental, social and governance, ESG standards quantify the degree to which a company is socially responsible.

Gross Domestic Product: The sum total of all goods and services produced across an economy.

Growth: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Linear Regression: Linear regression attempts to model the relationship between two variables by fitting a linear equation to observed data. One variable is considered to be an explanatory variable, and the other is considered to be a dependent variable.

M2 Money Supply: Contains all funds deposited in checking accounts as well as funds deposited in savings accounts and certificates of deposit. There are various ways to measure the money supply of an economy. This one is meant to broadly account for the majority of savings and checking accounts held by individuals and businesses across the economic landscape.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Glossary

Net Buyback Yield: A company's net share buyback is the difference between the capital raised by issuing new shares and the money the company spent on buying back any outstanding shares. A positive net share buyback means that more was spent on buying back existing shares than received from issuing new shares. Net buyback yield is the amount of a company's net buybacks divided by its market capitalization. Please note that net buyback yield does not represent a dividend paid by the company.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Return on Equity: Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

R-Squared: Represents the percentage of a fund or security's movements that can be explained by the independent variable.

Total Payout Ratio: The percentage of earnings paid to shareholders in dividends and buybacks. Calculated as yearly dividends per share and buybacks per share over earnings per share.

Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Yield curve control: Targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target.

Glossary

MSCI ACWI Index: A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

MSCI EAFE Index: A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

MSCI Emerging Markets Index: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

MSCI Europe Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of developed equity markets in Europe.

MSCI Japan Index: A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.

MSCI Japan Small Cap Index: A free float-adjusted market capitalization-weighted index that measures the performance of the small cap segment of the Japanese market.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Topix Index: A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

MSCI USA Index: Designed to measure the performance of large and mid cap segments of the US market.

WisdomTree Japan Hedged Equity Index: Index designed to provide exposure to Japanese equity markets while at the same time neutralizing exposure to fluctuations of the Japanese yen movements against the U.S. dollar. Constituents are dividend-paying companies incorporated in Japan that derive less than 80% of their revenue from sources in Japan. Weighting is by modified cash dividends paid.

Compound Annual Growth Rate (CAGR): The mean annual growth rate of an investment over a specified period of time longer than one year.

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