

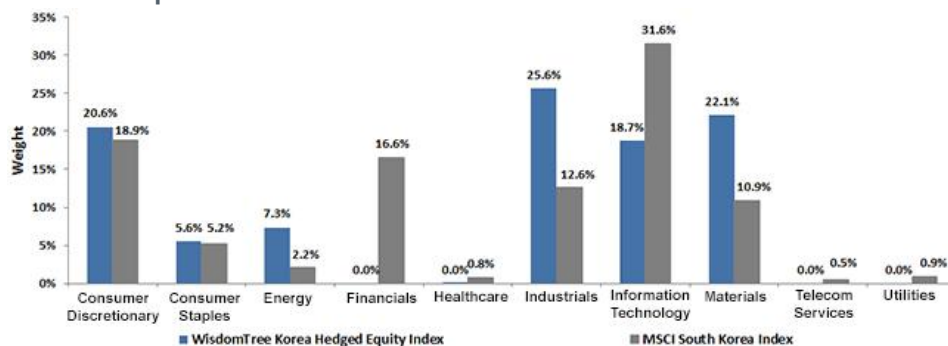
# INTRODUCING THE WISDOMTREE KOREA HEDGED EQUITY INDEX

Jeremy Schwartz — Global Chief Investment Officer

11/07/2013

**Growing Appeal of [Currency Hedging](#)** Back in 2009, WisdomTree developed its first Index that was designed to [hedge](#) the performance of developed market currencies in a developed world, [MSCI EAFE](#)-like universe<sup>1</sup>. While the concept of currency hedging was not novel or unique to WisdomTree, there was a dearth of investment strategies offering such exposure to U.S. investors, and WisdomTree was a pioneer in launching such strategies in the exchange-traded fund (ETF) structure. **WisdomTree's First Hedged Currency Index for an Emerging Market Country** Up to this point, WisdomTree's hedged currency strategies have focused on developed market currencies, given their [liquidity](#) and relatively inexpensive cost of hedging<sup>2</sup>. But Korea is an interesting market for hedging currency for four primary reasons: 1) Exports are important to Korea, with almost 60% of its [gross domestic product](#) (GDP) coming from exports. A declining currency could potentially be particularly helpful for Korean profits. 2) Korea's exports share a high degree of overlap with Japan's. Korea is arguably the country that would be most impacted by Shinzo Abe's programs to stimulate Japan's economy, which have resulted in a weaker yen. If the yen continues to weaken considerably, Korea may have to counteract these measures, in which case a currency-hedged option could become more important for Korean equities. 3) Hedging currency risk has the potential to significantly reduce [volatility](#). 4) South Korea is also a prominent exposure in the [MSCI Emerging Markets Index](#)—nearly 16%—second only to China, making it an important market in broad benchmarks.<sup>3</sup> **Introducing the WisdomTree Korea Hedged Equity Index** The [WisdomTree Korea Hedged Equity Index](#) (WTKRH) uses a rules-based process for selecting and weighting securities while managing the Korean won risk. • The universe comprises the profitable companies incorporated in South Korea that are traded in Korean won, with a minimum [market capitalization](#) of \$1 billion • Less than 80% of revenues derived from within South Korea • Weighting: Annually rebalanced to the [Earnings Stream](#) (net income) in latest fiscal year o A 10% cap to any individual security, and a 4.5% cap to the second-largest individual security at the time of the annual Index rebalance o A cap of 25% to any individual sector at the time of the annual Index rebalance<sup>4</sup> South Korea, like India, is a country that pays out a relatively small percentage of its earnings as dividends. Thus, in the case of both India and South Korea, WisdomTree uses the total dollar value of earnings (the *Earnings Stream*) to anchor Index constituent weights and most broadly reflect the [fundamentals](#) of those markets. **Differences in Sector Weight Compared to [MSCI South Korea Index](#)** WisdomTree's approach with WTKRH led to very different sector weights than the MSCI South Korea Index, as of September 30, 2013.

**Sector Exposures of MSCI South Korea Index vs. WTKRH (as of 9/30/2013)**



Sources: Standard & Poor's, MSCI. You cannot invest directly in an index. Subject to change.

• **Financials:** The most notable under-weight for WTKRH (due to its local market bias) is in the Financials sector, where the Index actually has no exposure but the MSCI South Korea Index has almost 17%. • **Industrials and Materials:** The two most notable over-weights for WTKRH are in the Industrials and Materials sectors. WTKRH has about twice the weight of the MSCI South

Korea Index in each respective sector. It's interesting to note what some of the largest holdings in these sectors in WTKRH actually do. o **Large Industrial Base:** Hyundai Heavy Industries is a large industrial and has been the world's number one shipbuilder since 1983.<sup>5</sup> In fact, 40% of its revenues come from the export of ships—specifically transporters of liquefied natural gas, containerships and drillships.<sup>6</sup> o Firms such as Daelim and POSCO are also interesting to us because of the variety of their subsidiaries. For example, Daelim has involvement in powerplant construction around the world, whereas POSCO was recently able to ensure that it could produce the 313 different types of sheet metal required by Japanese automakers.<sup>7</sup> • **Information Technology:** The Information Technology sector represents another significant under-weight for WTKRH vs. the MSCI South Korea Index, due to both the sector and individual security caps.

**Conclusion** At WisdomTree, we are excited to expand our family of currency-hedged indexes from Japan to Europe, to the United Kingdom, Germany and now Korea. As investors consider the type of equity exposure they add to their portfolio, we see a growing awareness about undesired bets on currency changes—when it is equity markets that are viewed as the real opportunities. We believe that currency-hedged strategies are an important new tool in the toolbox, providing unique equity market exposures. *For current holdings of the WisdomTree Korea Hedged Equity Index, please click [here](#).* <sup>1</sup>Refers to the WisdomTree DEFA Hedged Equity Index, which consisted of exposures to developed world equities and currencies such as the euro, Japanese yen, British pound, Danish krone, Norwegian krone, Swedish krona and others. <sup>2</sup>Relatively inexpensive cost of hedging: Refers to how across many developed markets, such as Japan, the United Kingdom and the euro area, central banks are making efforts to keep short-term interest rates at low levels that are quite similar to those in the United States. <sup>3</sup>Source: MSCI, as of 9/30/2013. <sup>4</sup>Between annual rebalances, individual security and sector weights may fluctuate above 10%, 4.5% and 25%, respectively. <sup>5</sup>Source: Hyundai Heavy Industries Annual Report 2012. <sup>6</sup>Source: Bloomberg, as of 9/30/2013. <sup>7</sup>Sources: POSCO 3Q 2012 Operating Performance Investor Presentation (October 23, 2012) and Daelim Industries 2012 Annual Report.

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You cannot invest directly in an index.

## **DEFINITIONS**

**Currency hedging** : Strategies designed to mitigate the impact of currency performance on investment returns.

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

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

**Liquidity** : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

**Gross domestic product (GDP)** : The sum total of all goods and services produced across an economy.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**MSCI Emerging Markets Index** : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

**WisdomTree Korea Hedged Equity Index** : Designed to measure the performance of Korean equities that derive less than 80% of their revenues from within South Korea, while at the same time hedging the impact resulting from the performance of the Korean won. The Index is weighted by earnings.

**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.

**Earnings Stream®** : Earnings per share x the number of shares outstanding. For an index, these totals are added for all constituents.

**Fundamentals** : Attributes related to a company's actual operations and production as opposed to changes in share price.

**MSCI South Korea Index** : A free float-adjusted market capitalization-weighted equity index designed to measure the performance of the South Korean equity market.