

JAPAN MACRO AND FLOWS TRADE BACK ON

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For much of 2014, Japan disappointed investors who were expecting greater stimulus from the Bank of Japan (BOJ). Prior to its most recent action on October 31, the majority of economists expected no additional action from the BOJ¹. The surprise [easing](#) announcement—which consisted mostly of tripling its purchases of exchange-traded funds (ETFs) and [real estate investment trusts \(REITs\)](#)²—sent the yen down and stocks up. The timing of these additional measures followed less [monetary easing](#) by the U.S. central bank³ as well as a transition from the Japanese Government Pension Investment Fund (GPIF)⁴. Talk about a powerful one-two punch—in one move, the BOJ offset worries about declining global liquidity out of the U.S. central bank and provided support to the GPIF (as it sells [Japanese government bonds](#)) while helping to boost equity purchases. This puts the focus back on the [macro](#) trades that worked well in 2013: a weak yen championed by BOJ stimulus, supported by inflows of more than \$150 billion of foreign money into Japan's equity markets that sent Japan's markets soaring.⁵ **So where should macro trades be focused?** To start, we believe [currency-hedged](#) strategies are a great way to focus on the pure equity opportunity represented by Japan. As a reminder, traditional international exposures typically involve two sources of risk: equity risk and currency [risk](#). Further, in the case of Japan, there is an inverse [correlation](#) between the yen and the equity markets—i.e., when the yen is on the decline (as it currently is), equities tend to rise. WisdomTree launched [currency-hedged ETFs](#) to help neutralize the foreign exchange rate risk from impacting returns to U.S. investors. Now let's review the performance of different parts of the Japanese market, all on a currency-hedged basis. **Figure 1: Average Annual Returns of WisdomTree Japan Hedged Indexes**

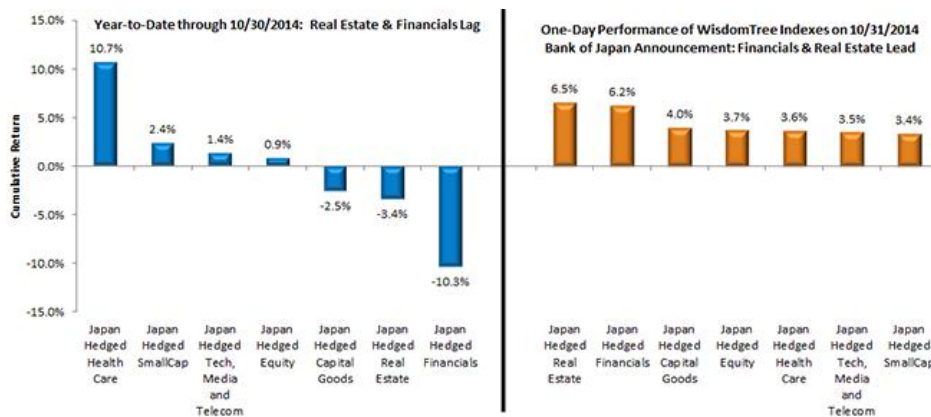
WisdomTree Index	Inception Date	Total Return				
		YTD	1-Year	3-Year	5-Year	Since Index Inception
WisdomTree Japan Hedged Equity Index	2/1/2010	5.45%	13.67%	19.14%	N/A	9.05%
WisdomTree Japan Hedged SmallCap Equity Index	5/1/2013	6.55%	14.36%	N/A	N/A	16.67%
WisdomTree Japan Hedged Capital Goods Index	12/2/2013	4.40%	N/A	N/A	N/A	8.47%
WisdomTree Japan Hedged Financials Index	12/2/2013	-6.29%	N/A	N/A	N/A	-2.43%
WisdomTree Japan Hedged Health Care Index	12/2/2013	12.41%	N/A	N/A	N/A	13.82%
WisdomTree Japan Hedged Real Estate Index	12/2/2013	-0.65%	N/A	N/A	N/A	4.36%
WisdomTree Japan Hedged Tech, Media and Telecom Index	12/2/2013	4.41%	N/A	N/A	N/A	8.92%

Source: WisdomTree. 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. Additional Index information is available at www.wisdomtree.com.

(as of 9/30/14)

WisdomTree's Japan Hedged Indexes Respond to the Bank of Japan's 10/31/14 Announcements

Figure 2:



Source: Bloomberg. Data for the 12/31/13–10/30/14 period to capture the year-to-date performance and the 10/30/14–10/31/14 period to capture performance on the day of the Bank of Japan announcement. Past performance is not indicative of future results. Indexes are used because the WisdomTree Japan Hedged Sector ETFs do not have full year-to-date performance history. 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. You cannot invest directly in an Index.

For definitions of Indexes in

the chart, please visit our [glossary](#). We see three main categories of interest for macro investors: 1) **Exporters**: that benefit from a weak yen. Japanese companies are expected to increase their focus on profitability metrics like [return on equity \(ROE\)](#), and more [dividends](#) and buybacks are expected as companies better manage the cash on their balance sheets to be more globally competitive. The [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#), the ETF built to track the performance of the [WisdomTree Japan Hedged Equity Index](#), is symbolic of this current market theme and offers investors access to its multinational exporters. 2) **Small caps**: are a more local Japanese economy play, and if Shinzo Abe, the prime minister of Japan, is successful at generating wage growth, these stocks could have some longer-term support despite unfavorable demographic trends. And despite fears of a consumption tax hike, small caps were outperforming their large-cap global peers prior to the stimulus provided by the BOJ.⁶ The [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#), the ETF designed track the [WisdomTree Japan Hedged SmallCap Equity Index](#), provides investors with access to this important segment. Further, the total [price-to-book-ratio](#) of this Fund is just 0.91—which means in aggregate terms the companies within the Index are selling at a price below liquidation value, or net assets⁷. Two hundred eighty-five of the 599 companies and more than 45% of the weight of the Fund have a price-to-book ratio less than 1.0.⁸ 3) **Financials and Real Estate**: Some of the most direct beneficiaries of the BOJ stimulus were financial and real estate companies, which were up more than 6% on the day of the announcement (see Figure 2). Real estate companies received direct support, as the BOJ was directly buying REITs. Real estate⁹ was the second worst performing sector prior to the BOJ announcement¹⁰, so it is not a surprise that it popped on the news. Financials¹¹ were the worst performer, down more than 10%¹², and that sector too popped more than 6% on the news. If the macro trades are back on, these two sectors may continue to be beneficiaries. The [WisdomTree Japan Hedged Financials Fund \(DXJF\)](#), the ETF designed to capture currency-hedged Japanese financials by tracking the performance of the [WisdomTree Japan Hedged Financials Index](#), and the [WisdomTree Japan Hedged Real Estate Fund \(DXJR\)](#), the ETF designed to capture currency-hedged Japanese real estate by tracking the performance of the [WisdomTree Japan Hedged Real Estate Index](#), provide investors with access to these opportunities. For more information on the rest of the Japanese sector offering, click [here](#).

¹Source: Andrea Wong, "Yen Declines to 7-Year Low on BOJ Monetary Easing," Bloomberg, 10/31/14.

²Source: "Expansion of the Quantitative and Qualitative Monetary Easing," Bank of Japan, 10/31/14. ³Source: Chris Matthews, "Are we Really Saying Goodbye to QE Forever?" Fortune, 10/29/14. ⁴Source: Adam Haigh, Yoshiaki Nohara and Shigeki Nozawa, "Japan Pension Fund Said to Unveil Asset Allocations Today," Bloomberg, 10/31/14. ⁵Source: Bloomberg, for period 12/31/12–12/31/13. ⁶Sources: WisdomTree, Bloomberg, 12/31/13–10/30/14. ⁷Sources: WisdomTree, Standard & Poor's, with data as of 10/31/14. ⁸Sources: Bloomberg, Standard & Poor's, with data as of 10/31/14. ⁹Refers to the WisdomTree Japan Hedged Real Estate Index. ¹⁰Measured against the other WisdomTree Japan Hedged Indexes for the period 12/31/13–10/30/14. ¹¹Refers to the WisdomTree Japan Hedged Financials Index. ¹²Measured against the other WisdomTree Japan Hedged Indexes for the period 12/31/13–10/30/14.

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You cannot invest directly in an index.

DEFINITIONS

Monetary easing policies : Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

Japanese Government Bond (JGB) : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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.

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

Qualified dividends : Dividend paid by corporations meeting certain criteria defined by the Internal Revenue Service and therefore eligible in certain instances to be taxed at rates below a tax filer's tax bracket on ordinary income.

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 cash dividends paid.

WisdomTree Japan Hedged SmallCap Equity Index : Designed to provide exposure to Japanese equity markets while at the same time neutralizing fluctuations of the Japanese yen movements against the U.S. dollar.

Price-to-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

WisdomTree Japan Hedged Financials Index : An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese financial companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

WisdomTree Japan Hedged Real Estate Index : An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese real estate companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.