THE CASE FOR TAKING THE EURO OUT OF GERMANY

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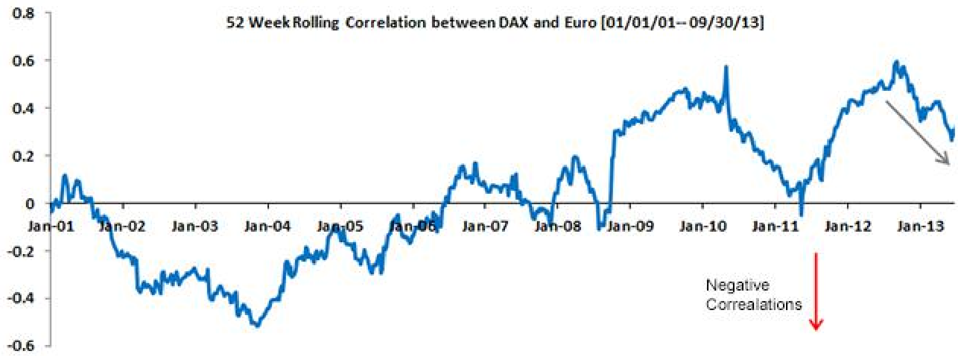
German equities, measured by the German Equity Index (DAX), have broken out into new all-time highs while the euro has trended lower or sideways since it hit a high in 2008. The reason for this divergence is in part because Germany has remained the engine of growth in Europe and a relative bastion of safety throughout the European crisis. Despite the eurozone's economic turbulence in 2012, the DAX recorded a 29.1% gain in 2012. And as of October 4, 2013, the DAX experienced a 13.3% gain year-to-date. On the other hand, the euro's performance is partly a reflection of broader economic concerns across the eurozone economies. Given the persistent weakness in some pockets of the eurozone, the outlook for the euro currency is less clear. Yet there is a strong case to be made that a weaker euro would be very supportive for German equities, just as a weak yen has been very supportive for Japanese equities over the last year. In fact, there have been extended periods in the last decade when the relationship between the euro and German equities was very much like the relationship (i.e., the negative correlation) between the yen and Japanese equities. **The Emergence of a Negative Correlation between German Equities and the Euro** Before 2011, the euro[1] appeared to be positively correlated to German equity[2] movements. Since then, however, the positive correlations have started to decrease and trend lower . While the eurozone has recently exited recessionary territory, driven by improvements in Germany and a few peripheral countries, ongoing austerity measures and countries seeking access to programs could continue to present small challenges to the overall outlook for growth in the eurozone. This could add to uncertainty, first and foremost, in the euro's trajectory. A look at the overall picture of the euro's exchange rate plotted against movements to German equities shows a divergence in many areas. This divergence can be referred to as a negative correlation of equities and currency, and such periods of negative correlation are some of the most important times to consider currency hedging.

Euro Currency vs. German Equity Indices (DAX) [09/30/03--09/30/2013]

Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results.

A more concrete depiction of the correlation is a simple chart that looks at the 52-week rolling relationship between the DAX and the euro. The 52-week correlation is generally considered a structural picture of the relationship between German equities and its currency, given the one-year horizon.



Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results.

• In the five years following 2001, the correlation between the two asset classes was firmly in negative territory. • It appears that the correlation tended to spike in times of economic duress and uncertainty, as with the global financial crisis in 2008/2009 and the European crisis in 2010/2012. • The current trajectory of the correlation seems to indicate a decreasing correlation between the euro and German equities, which could motivate an increased focus on currency-hedged strategies. **Conclusion** The equities represented in the WisdomTree Germany Hedged Equity Index have the potential to play many important roles in a portfolio. First and foremost, the Index measures the equities of the largest exporter nation and the largest economy in the European Monetary Union.[4] These German exporters stand to benefit from a pick-up in the global growth cycle, particularly in the developed markets. If one wants to invest in German equities, we believe there is a great benefit that comes from hedging currency—as it removes a source of risk, currency risk, which is not related to the investment thesis that European or German equities are cheap. We are not convinced the euro is cheap and we may see a secular increase in the U.S. dollar versus developed world currencies over the coming years. Thus, we believe that hedging the euro is becoming increasingly more important, and we wouldn't be surprised to see a stronger negative correlation return to the market, with German equities appreciating as the euro depreciates over time. [1]Refers to the euro spot rate against the U.S. dollar, measured from about 8/31/2003 to 8/31/2009. [2]Refers to the price movements of the FTSE 100 Index. [3]Source: WisdomTree, Bloomberg [4]Source: Eurostat, September 2013.

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DEFINITIONS

DAX Index : A stock index that represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange. The prices used to calculate the DAX Index come through Xetra, an electronic trading system. A free-float methodology is used to calculate the index weightings along with a measure of average trading volume.

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

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.

Austerity : Policies used by governments to reduce budget deficits during adverse economic conditions.

WisdomTree Germany Hedged Equity : broadly focused measure of the equity performance of dividend-paying equities within Germany, with specific methodology focusing on hedging the performance of the euro against the U.S. dollar. Weighting is by cash dividends paid.