

THE PROCESS DRIVING NEW JAPANESE SECTOR ETFS

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As [Abenomics](#) continues to gain traction and Prime Minister Abe makes more progress on his growth strategy for Japan (the “third arrow” of Abenomics), I believe there will be a continual evaluation of the stocks and sectors most primed to benefit from the new government initiatives. WisdomTree has developed [five new Japan Sector Indexes](#) designed to be primary [beta benchmarks](#) for some of the major investment themes stemming from Abenomics: **1. Reflation:** The stocks included as part of the reflation theme most often include financials and real estate. **2. Abe’s Growth Strategy:** There are many areas of Abenomics, but two sectors in particular—health care and technology—have the potential to be beneficiaries of government initiatives to increase economic growth. **3. Yen Sensitivity:** The stocks of exporters, such as capital goods companies, have been some of the most sensitive to changes in the yen’s exchange rate. Below I focus on the methodology and construction for these new indexes. **Investment Process for WisdomTree Japan Sector Indexes** The WisdomTree Japan Sector Indexes use a rules-based process for selecting and weighting securities while hedging exposure to the yen. • **Selection Rules** o **Eligible Universe:** Tokyo & JASDAQ stock exchanges o **Market Cap Requirements:** Minimum float-adjusted [market capitalization](#)¹ of US\$500 million o **Liquidity Requirements** (all criteria measured as of Index screening date): • 3-month average daily volume of at least \$100,000 • Calculated volume factor (3-month average daily volume/weight in Index) greater than \$200 million • At least 250,000 shares traded or a notional value of shares traded of \$25 million for each of the last six months • **Weighting Rules** o **Weighting:** Float-adjusted market capitalization o **Holding Caps:** At Index [rebalance](#) dates, individual security weights are capped at 10%². Between annual Index rebalances, individual security weights may fluctuate above 10% due to market movement. o **Liquidity Adjustment:** If a security has a calculated volume factor of less than \$400 million, its weight will be reduced proportionally by a liquidity factor that equals the original calculated volume factor/\$400 million. • **Mechanics of the Currency Hedge** o Hedged Equity Return = Local Market Equity Return + Yen Return – Hedged Yen Return **Sector Characteristics** Below I highlight key facets of the exposures for each Japan Sector Index to provide insight into some of the primary factors that might influence how these Indexes perform. **Top 5 Industry Exposures for the Japan Sector**

Japan Financials		Japan Health Care		Japan Real Estate		Japan TMT		Japan Capital Goods	
Industry	Weight	Industry	Weight	Industry	Weight	Industry	Weight	Industry	Weight
Banks	58.5%	Pharmaceuticals	68.7%	Real Estate Management & Development	42.3%	Electronic Equip., Instruments	31.6%	Automobiles	31.5%
Insurance	19.1%	Health Care Equipment & Supplies	15.2%	Real Estate Investment Trusts	25.9%	Wireless Telecommunication Services	19.0%	Machinery	27.9%
Capital Markets	10.4%	Health Care Providers & Services	8.4%	Construction & Engineering	12.9%	Technology Hardware, Storage & Peripherals	12.0%	Auto Components	15.1%
Diversified Financial Services	8.7%	Food & Staples Retailing	5.3%	Household Durables	6.8%	Household Durables	11.2%	Electrical Equipment	9.0%
Consumer Finance	3.2%	Health Care Technology	1.4%	Building Products	5.8%	IT Services	5.7%	Metals & Mining	8.0%
Others	0.0%	Others	1.1%	Others	6.2%	Other	20.6%	Others	8.4%

Source: WisdomTree. Industry weights are as of 03/31/14. Holdings subject to change.

Indexes

In the chart, please see the [Glossary](#).

Executing the Desired Exposures through WisdomTree’s Exchange-Traded Funds (ETFs) WisdomTree has created five Japan Sector ETFs, each designed to track its respective Japan Sector Index after costs, fees and expenses.

For definitions of

Fund Name	Ticker Symbol	Expense Ratio
WisdomTree Japan Hedged Financials Fund	DXJF	0.43%
WisdomTree Japan Hedged Real Estate Fund	DXJR	0.43%
WisdomTree Japan Hedged Capital Goods Fund	DXJC	0.43%
WisdomTree Japan Hedged Health Care Fund	DXJH	0.43%
WisdomTree Japan Hedged Tech, Media and Telecom Fund	DXJT	0.43%

Source: WisdomTree. Funds' gross expense ratio is 0.48% and the net expense ratio of 0.43% reflects a contractual waiver of 0.05% through July 31, 2015.

Conclusion

I believe 2013 marked the start of a multi-year bull market in equities, and I think there is investor demand for more specific executions for Japanese equities. With these new sector ETFs, WisdomTree has expanded the Abenomics tool kit for Japanese investment themes such as reflation, Abe's growth strategy and yen sensitivity. ¹Float-adjusted market cap excludes shares held by control groups, public companies and government agencies. ²Securities of brokerage or financial firms that derive 15% or more of their revenue from securities-related activities (referred to as "12(d)(3) securities") are capped at 4% at the annual rebalance in the WisdomTree Japan Hedged Financials Index.

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You cannot invest directly in an index.

DEFINITIONS

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.

Beta benchmark : Characterized by measuring the performance of a particular universe of equities without attempting to utilize selection and weighting to generate differences in performance relative to this universe.

Reflation : The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

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.

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.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.