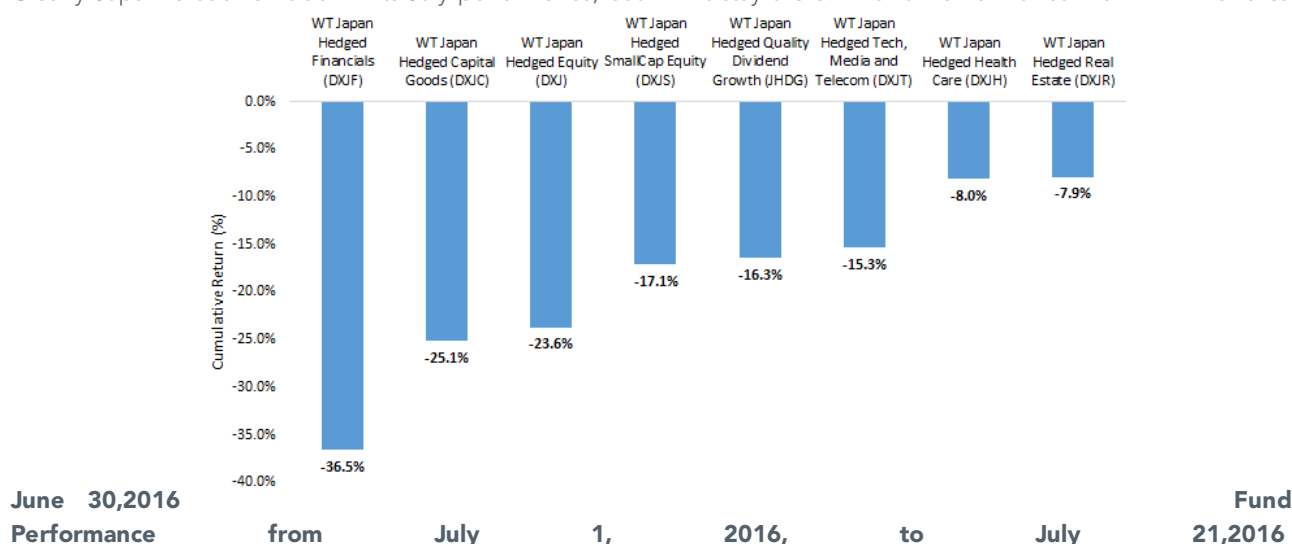


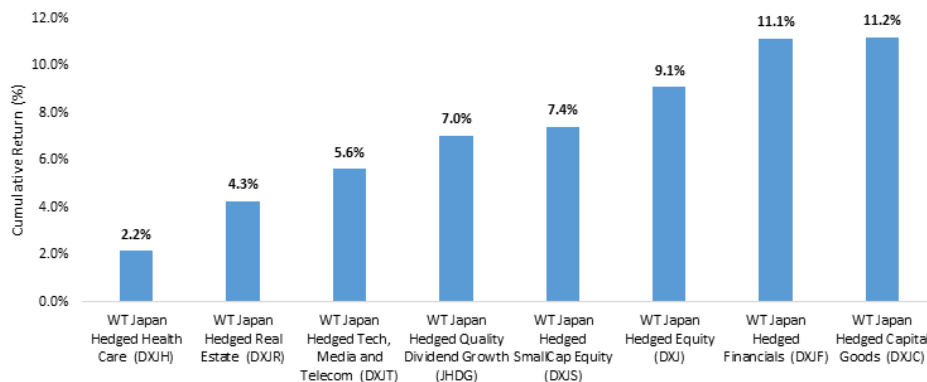
POSITIONING FOR JAPAN'S UPCOMING STIMULUS PACKAGE

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Japan is back. After being practically the worst-performing equity market in the developed world in the first half of 2016 on the back of a strengthening yen, Japan has rallied strongly from its post-Brexit bottom in anticipation of a large, creative fiscal package. Anticipation of this Japanese macro event has grown, and many also believe the central Bank of Japan (BOJ) may finance the bonds the government issues with expanded [monetary stimulus](#). See the charts below for the performance of our [currency-hedged](#) Japan strategies through the first half of 2016 and in the first three weeks of July. Clearly Japan is back on track in its July performance, but will it stay there? **Fund Performance from YTD 2016 to**





Sources: WisdomTree, FactSet. Past performance is not indicative of future results. A fund's performance, especially for very short periods, should not be the sole factor in making your investment decision.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

[For current performance of](#)

[WisdomTree exchange-traded funds \(ETFs\), click here.](#) **What Is the Expected Timing of Japan's Stimulus?** Going into this week, we believed the coordinated activities of the fiscal stimulus, followed by the central bank expanding its bond-buying program to effectively buy the additional bonds created by the supplementary [fiscal package](#), will occur [in the August-to-September period](#). However, in a surprise announcement on Wednesday in Tokyo, Prime Minister Shinzo Abe unveiled a 28 trillion yen fiscal package (\$265 billion), the final details of which will be approved at a cabinet meeting next week. Our Japan team felt strongly that Team Abe would be both creative and coordinated – and that the Bank of Japan would not announce additional stimulus until the fiscal package was released. Now that Abe has accelerated the announcement of the size of his fiscal package, we also believe the BOJ raising its monetary stimulus package – to effectively finance the additional deficit created by the stimulus-- is now likely to occur this week as well. *[Updated on 7-29: Our original expectation on timing proved correct. While the BOJ doubled their equity purchases through ETFs from 3 trillion per year to 6 trillion per year at the July meeting, Governor Kuroda hinted it was too early to coordinate with the government on the fiscal side, despite Abe's announcement. This additional BOJ support from expanded bond purchases is now expect to occur at the September meeting].* Jesper Koll, WisdomTree's Japan CEO, has outlined [a case for a structurally weak yen going forward](#). Given the yen's appreciation in 2016 and the decline in equities—on factors that we would say were more Federal Reserve (Fed) policy-related and less related to the fundamentals of Japan's economic situation or [interest rate](#) policies—there are now opportunities to re-engage with Japanese equities, particularly on a currency-hedged basis, in our view. WisdomTree is a [leading provider of Japanese ETFs](#) in the U.S. marketplace, with 10 Japanese equity strategies. Below we highlight a few investment themes that we think are worth considering as Japan plans its fiscal package: 1) **Renewed Yen Weakness Favors Export Tilt in [DXJ](#):** Japan's globally oriented companies like those in DXJ have suffered this year on the yen's surprising strength, as capital goods and car companies see their profits eroded from a strengthening currency. With not only Japan discussing major stimulus, but also China adding to infrastructure spending projects that look to increase Chinese high-speed rail by more than 50% by 2020, capital goods companies from Japan should be beneficiaries. Estimates for spending from this Chinese stimulus package could be as much as \$180 billion a year or \$900 billion over five years. China and the U.S. are Japan's largest export markets, and stimulus in China should help sentiment for Japan's global exporters. 2) **Local Economy with Small Caps, [DXJS](#):** Small-cap companies are more tied to the local economic dynamics in Japan than the large-cap multinationals are. If the fiscal stimulus helps support local economic initiatives, an improving and tight labor market could continue to support wages for the young generation. While Japan certainly has a declining work force, the young employees in Japan are seeing wage growth that supports consumption. For a domestic focus on Japan, we'd note that the revenue from Japan for Japanese small caps in DXJS is currently more than 75%, while large caps in the [MSCI Japan Index blog](#) have approximately 59% of their revenue from Japan.¹ 3) **Real Estate to Benefit from Negative Interest Rates, [DXJR](#):** We recently conducted [a roundtable on Japanese investment themes](#) that suggested that real estate, a pure local-economy story, is the prime beneficiary of negative interest rates given how much borrowing costs are a factor

in the real estate business. But the case for real estate goes beyond low borrowing costs. A real estate CEO we spoke to suggested the gap between fundamentals, which are extraordinarily positive, and sentiment, which is extremely cautious, is the biggest he's seen in his career. And that gap is creating opportunities. DXJR has been our best performing currency-hedged Japanese ETF in 2016 through July 21.² 4) **Quality and Corporate Governance Theme, JHDG:** Much has been made about the Bank of Japan's initiative recently to ask ETF providers to create new ETFs geared to capital expenditures and hiring. As a long-term investment proposition, we believe companies that are managing their [balance sheets](#) and businesses in a way to deliver high [return on equity](#) and better growth prospects tend to be rewarded more than companies that are just increasing spending and capital expenditures. Our quality [dividend](#) growth family selects dividend-paying stocks that are among the higher-profitability and higher-growth companies in Japan. [Japanese companies have been among the best dividend growers in the developed world](#) over the last three- and five-year periods, a trend we see continuing. We believe the companies in JHDG have prospects to continue providing capital stewardship through dividend growth. We have written about how [quality, as a factor, has been a strong performing factor internationally](#), and it has been true equally for Japan in 2016. ***Unless otherwise noted, data source is***

Bloomberg. ¹Sources: WisdomTree, FactSet, Bloomberg, with data as of 12/31/15–7/21/16. ²Sources: WisdomTree, FactSet, Bloomberg, with data as of 12/31/15–7/21/16.

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DEFINITIONS

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

Monetary stimulus : refers to attempts to use monetary policy like lowering interest rates or quantitative easing to stimulate the economy.

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

Fiscal Package : a package of economic measures from the government (such as increasing government spending/ lower taxes) used to stimulate growth in the economy.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firm's balance sheet and cash available for purchasing new positions.

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

Dividend : A portion of corporate profits paid out to shareholders.