JAPAN IS RALLYING, AND FOREIGN INVESTORS ARE (FINALLY) NOTICING

Matt Wagner, CFA, Associate Director, Research

Executive Summary

VALUATION

- The Nikkei 225 Index broke three-decade highs, but Japanese valuations are still attractive versus the U.S.
- The S&P 500 forward price-to-earnings (P/E) ratio of 21.2x is 33% higher than the 15.9x P/E of the MSCI Japan Index.

DIVERSIFICATION

- The three decades of negative returns for Japanese equities are a cautionary tale for investors heavily over-weight in U.S. equities that are at elevated valuations—returns for a broad index can be negative for much longer than anyone expects.

FOREIGN INVESTOR INTEREST

- Value investors are following Buffett into Japan. Since late August 2020, when Buffett's investments in five Japanese trading houses became public, returns of 185% to 402% have far outpaced the S&P 500 return of 53%.
- Shifting investments from China—an almost symmetrical picture has emerged for these two markets over the last three years, with Japanese equities up 52% and Chinese equities down 53%.

TOKYO STOCK EXCHANGE REFORMS

- In 2022, the Tokyo Stock Exchange (TSE) instituted its biggest overhaul in 60 years to reinvigorate enthusiasm for Japanese equities.
- The TSE announced that about half of its listed companies had a price-to-book ratio below 1x. It said that these companies needed to disclose their policies and specific initiatives for improving valuations.

DIVIDEND/SHARE BUYBACK GROWTH AND EARNINGS GROWTH

- Tangible evidence of corporate governance improvements, with dividend and share buyback growth.
- Earnings have tripled over the last decade, well ahead of U.S. earnings growth.

WEAKER YEN AND CURRENCY HEDGING

- Currency hedging has outperformed unhedged Japanese equities due to a weakening yen and positive carry from higher USD rates versus JPY rates.

WISDOMTREE IS A LEADER IN OFFERING JAPAN ETFS FOR MORE THAN 15 YEARS

- WisdomTree Japan Hedged Equity Fund (DXJ)
- WisdomTree Japan SmallCap Dividend Fund (DFJ)
- WisdomTree Japan SmallCap Hedged Equity Fund (DXJS)

Please see the Glossary at the end of the document for definitions of terms and indices.

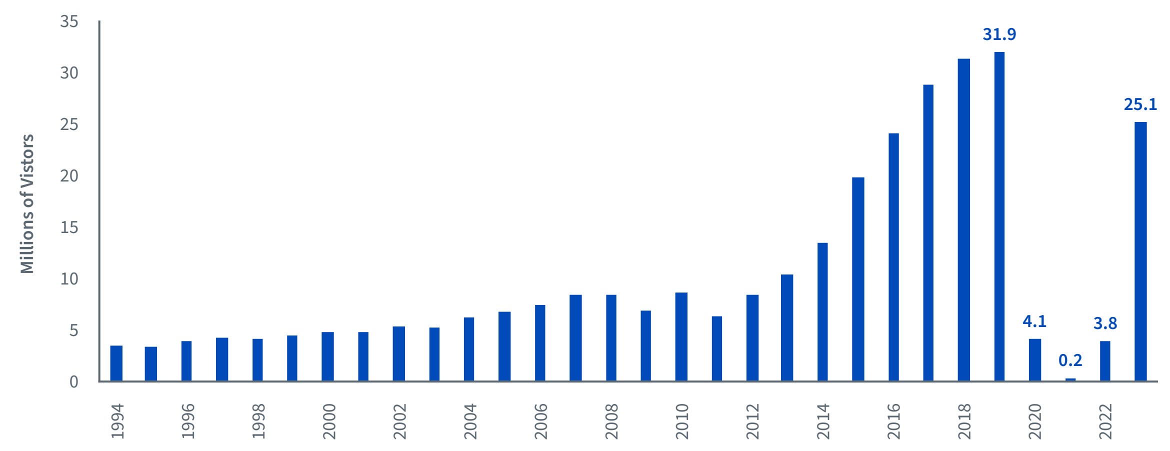
Your Instagram feed isn't deceiving you— it appears everyone *really* is going to Japan.

Well, not everyone.

After several COVID-19-disrupted years, tourism bounced back in 2023. The 25 million visitors were below 2019 levels but an encouraging rebound.

This isn't a travel piece. But foreign tourism statistics help contextualize the rebound in economic growth in Japan coinciding with foreign interest in the country.

Figure 1: Foreign Tourism to Japan



Source: Japan National Tourism Organization.

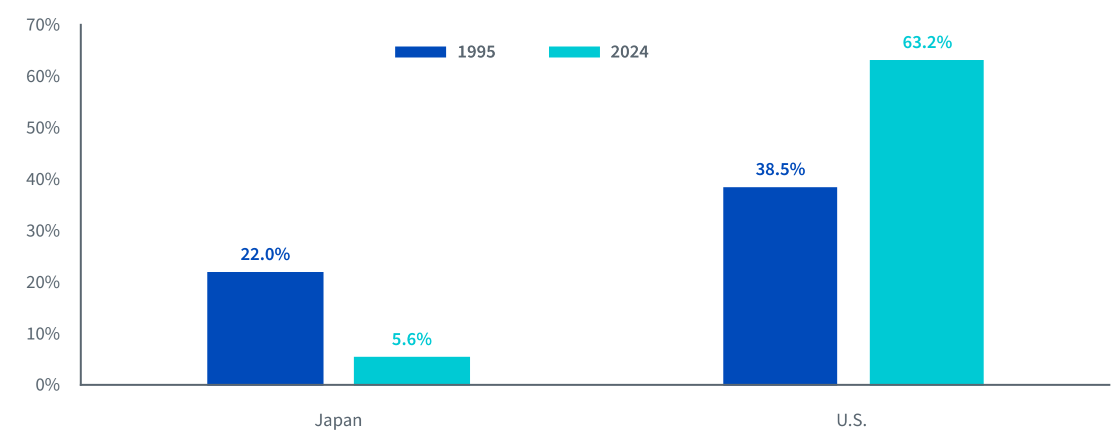
THE "RIGHT" WEIGHT TO JAPAN IN PORTFOLIOS

Investors are forgiven if they haven't focused on Japanese equity allocations in some time. In the mid-1990s, Japan made up more than one-fifth of the MSCI All Country World Index (ACWI). It now accounts for less than 6%. The U.S. influence on the benchmark grew from under 40% to 63%.

Many portfolio exposures to U.S. equities are even higher, considering common behavioral biases like home country bias and recency bias—and a belief in American exceptionalism.

Consistent U.S. outperformance over the last 15 years reinforced the notion global diversification is overrated. The experience of Japanese equities over the last three decades is often contrasted as the cautionary tale for this thinking.

Figure 2: Country Weights in the MSCI All Country World Index (ACWI)



Sources: WisdomTree, MSCI, as of 12/31/1995 and 1/31/2024. You cannot invest directly in an index.

Though a "buy-the-dip" mentality has worked well for U.S. growth allocations in the post-global financial crisis era, Japanese equities should remind investors of the "risk" aspect of the equity risk premium.

In the late 1980s, a decade of roaring economic growth in both the U.S. and Japan, investor enthusiasm for Japanese assets—both equities and real estate—was wildly overdone.

Growth rates couldn't keep pace with lofty expectations. Over the next three decades, up until November 2020, Japanese equities remained below their December 1989 peak. At its lowest point in 2003, the Index was down 68% from its high.[1]

Figure 3: Rolling Drawdown: Japan Three Decades Underwater

Sources: WisdomTree, MSCI, 3/31/1986–1/31/2024. Returns of the MSCI Japan Index in gross total returns measured in local currency. The inception date of the MSCI Japan Index was March 31, 1986. Past performance is not indicative of future results. You cannot invest directly in an index.

[1] The rolling drawdown chart shows the MSCI Japan Index gross total returns measured in yen. The press often quotes the rolling drawdown of the Nikkei 225 price returns, which only reached a new all-time high in February 2024.

JAPAN RELATIVE VALUE DISCOUNT

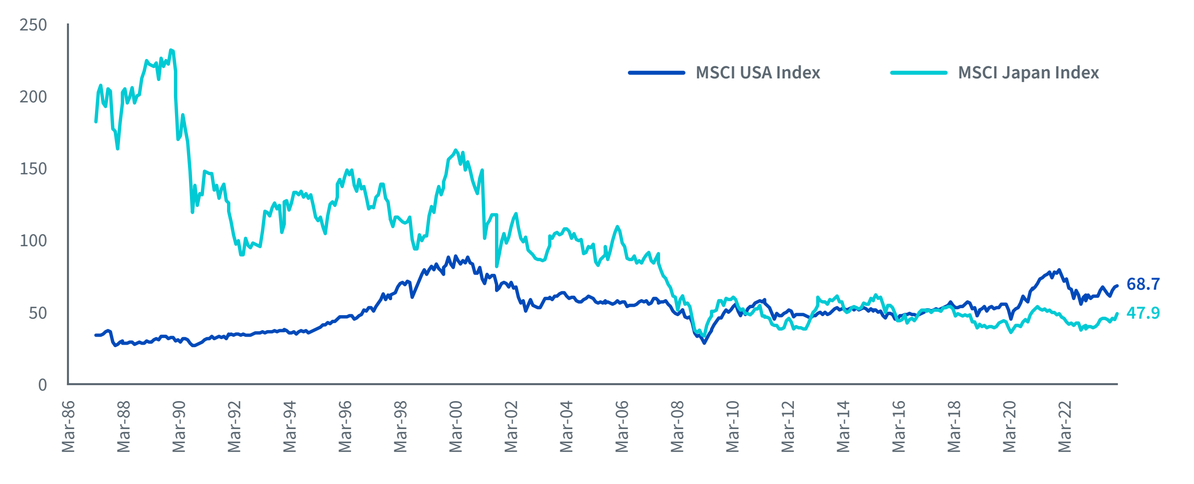
You will hear some market participants compare the Japanese asset price bubble to the current U.S. equity market. To be clear, we do not see U.S. equities at a level anywhere close to where Japan was in the late 1980s and early 1990s.

Comparing the price-to-dividend (the reciprocal of the dividend yield) of U.S. equities to that period, current U.S. valuations look far more reasonable.

We do, however, believe there is value to be had outside the U.S. and many investors would be well-served to consider mitigating U.S. over-weights that likely exist in portfolios.

Interestingly, despite sustained underperformance from Japanese equities, it has only been in the last six years that its valuations on the price-to-dividend ratio have been consistently below the U.S. (the dividend yield of Japan > U.S.).

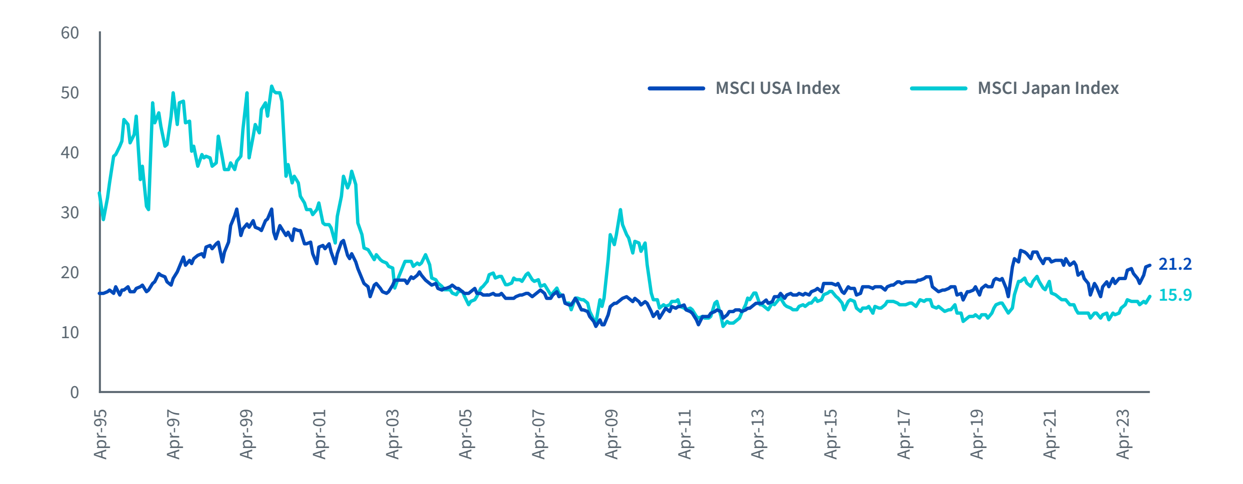
Figure 4: Japan Price-to-Dividend vs. U.S. Price-to-Dividend



Sources: WisdomTree, MSCI, 3/31/1986–1/31/2024. U.S. and Japan measured by respective MSCI indexes. You cannot invest directly in an index.

Price-to-earnings ratios also confirm the relative valuation discount of Japan versus the U.S. As the U.S. equity market continues to become increasingly more concentrated in a handful of high-growth tech-enabled companies, its multiples have become more stretched compared to Japan.

Figure 5: Forward Price-to-Earnings

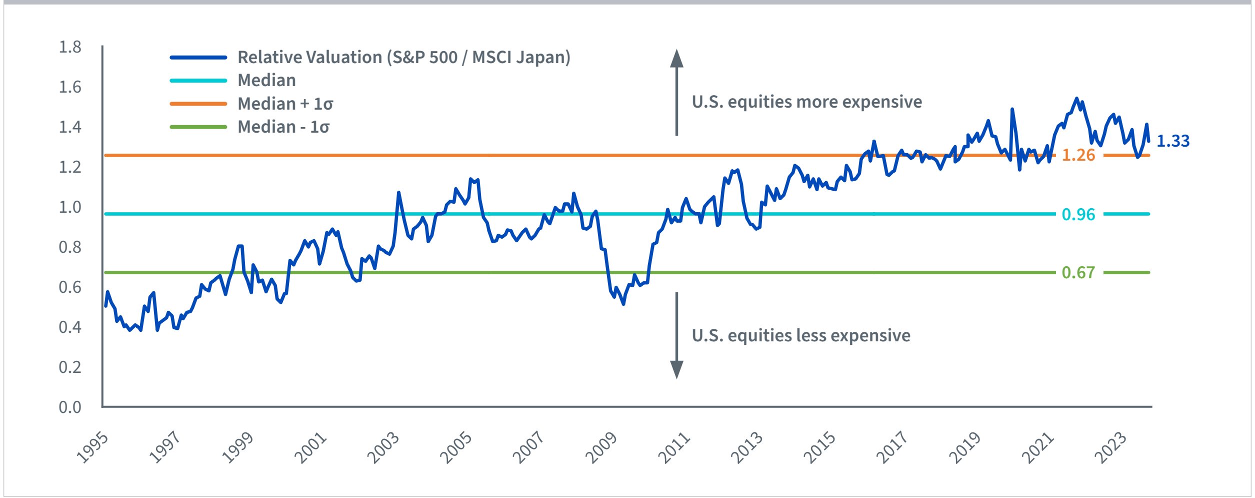


Sources: WisdomTree, MSCI, 4/28/1995–1/31/2024. U.S. and Japan measured by respective MSCI indexes. You cannot invest directly in an index.

Going back to 1995, the valuations on Japanese equities have tended to be slightly higher than the U.S. as the Japanese market readjusted from its frothy valuations in the late ’80s.

At present, the S&P 500 P/E is 33% above MSCI Japan, which is more than one standard deviation above the historical median relative valuation.

Figure 6: Historical P/E Ratio Relative Valuation



Sources: WisdomTree, MSCI, 4/28/1995–1/31/2024. U.S. and Japan measured by respective MSCI indexes. You cannot invest directly in an index. Sigma (σ) represents the standard deviation. Example: Median + 1σ means Median + 1 standard deviation.

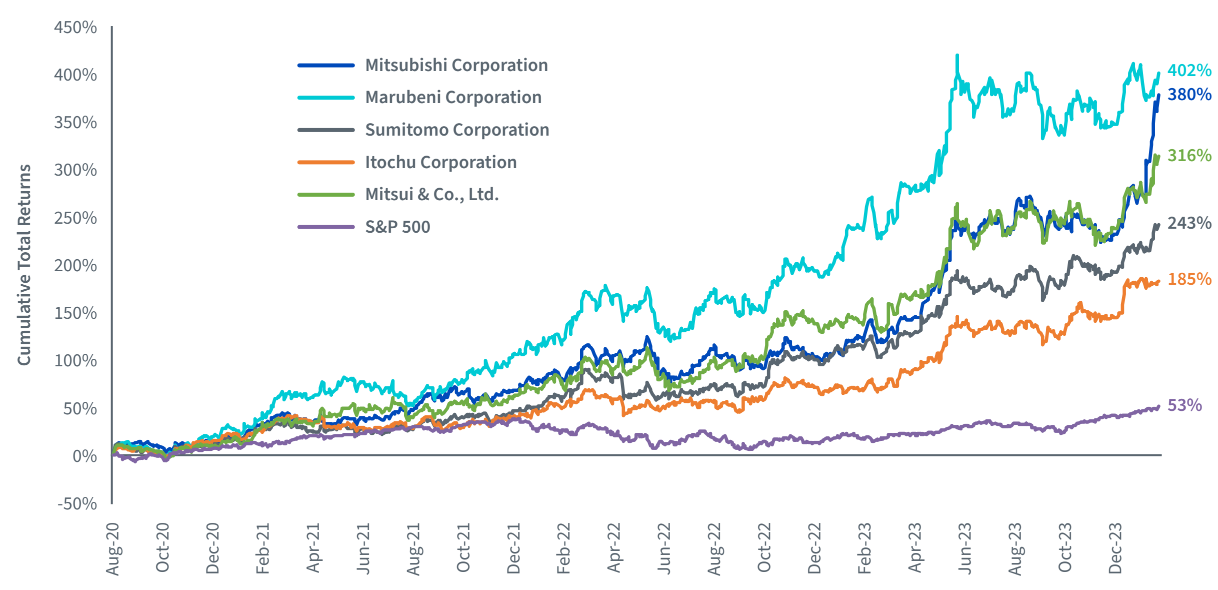
FOLLOWING BUFFETT INTO JAPAN

Though there are a variety of positive catalysts for investor interest in Japanese equities, it is this valuation discount to the U.S. that enticed the world's most famous value investor—Warren Buffett—to make a splash with his investments in Japan in recent years.

Throughout 2019 and 2020, Buffett's Berkshire Hathaway amassed 5% stakes—that he increased to just under 10%—in five Japanese general trading firms, known as "sogo shosha."

Since late August 2020, when Buffett's investments in the five trading houses became public, his investments have far and away beaten the returns of the S&P 500. The S&P 500 returns of 53% pale in comparison to the returns for these companies, ranging from 185% to 402%

Figure 7: Buffett's Japanese Trading Houses Investments

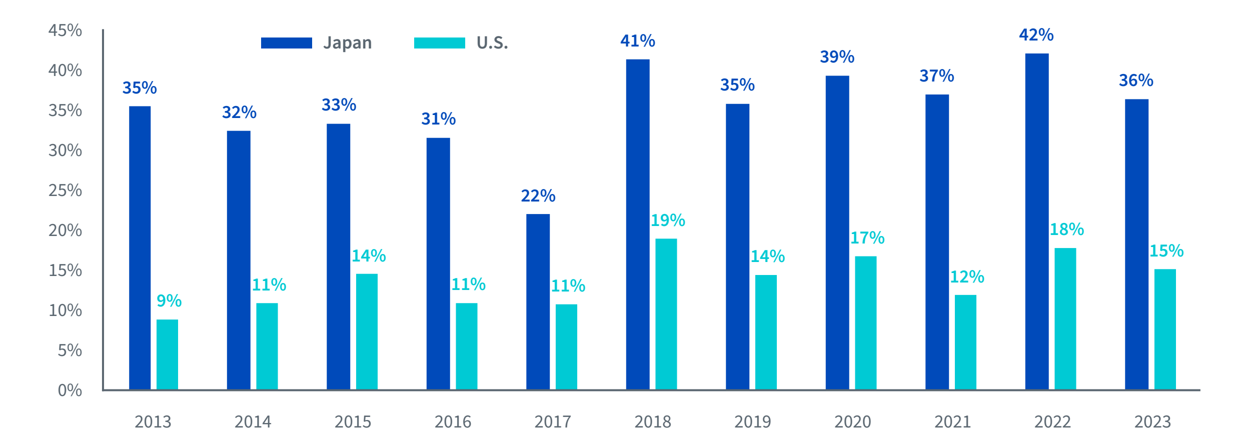


Sources: WisdomTree, FactSet, S&P, 8/28/20–2/23/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

At the time that Buffett's investments became public, four of the five trading companies traded at price-to-book ratios well below 1—meaning the accounting value of their assets was more than the market value of the companies.

In 2022, the Tokyo Stock Exchange (TSE) instituted its biggest overhaul in 60 years to reinvigorate enthusiasm for Japanese equities. The TSE announced that about half of its listed companies had a price-to-book ratio below 1x. It said that these companies needed to disclose their policies and specific initiatives for improving valuations.

Figure 8: Percentage of Companies with Price-to-Book Less than 1

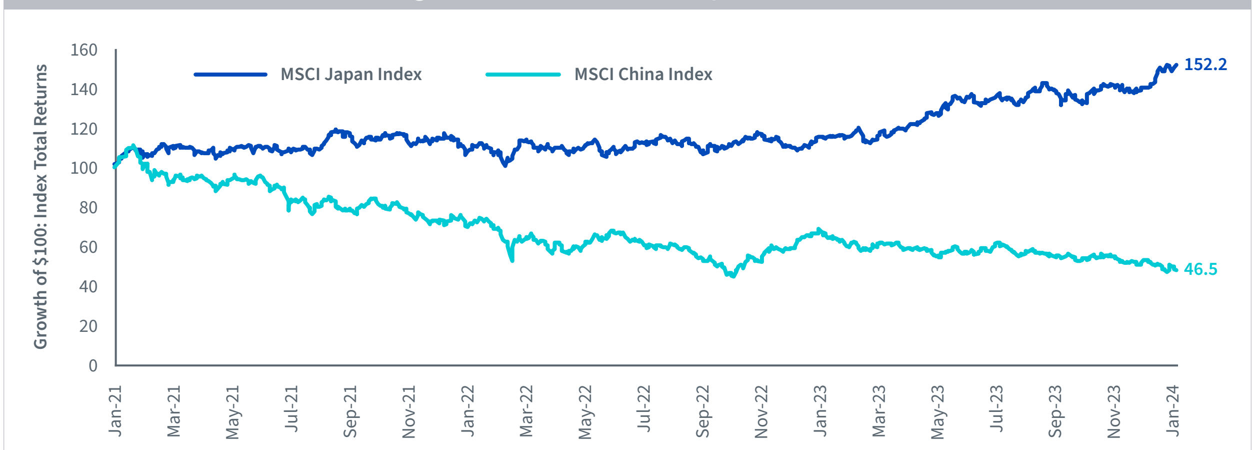


Sources: WisdomTree, MSCI, 12/31/13–12/31/23. U.S. and Japan measured by respective MSCI IMI (Investable Market Index) indexes. You cannot invest directly in an index.

Buffett's investments highlight the new sources of capital flowing into Japan, looking to take advantage of the low valuations. There are also capital inflows with shifting allocations from China. An almost symmetrical picture emerges for these two markets over the last three years—Japanese equities are up 52%, while Chinese equities are down 53%.

Japan is a logical alternative to China, as many Japanese companies sell to China but don't have the political risks associated with directly investing in China.

Figure 9: Growth of $100: Japan vs. China



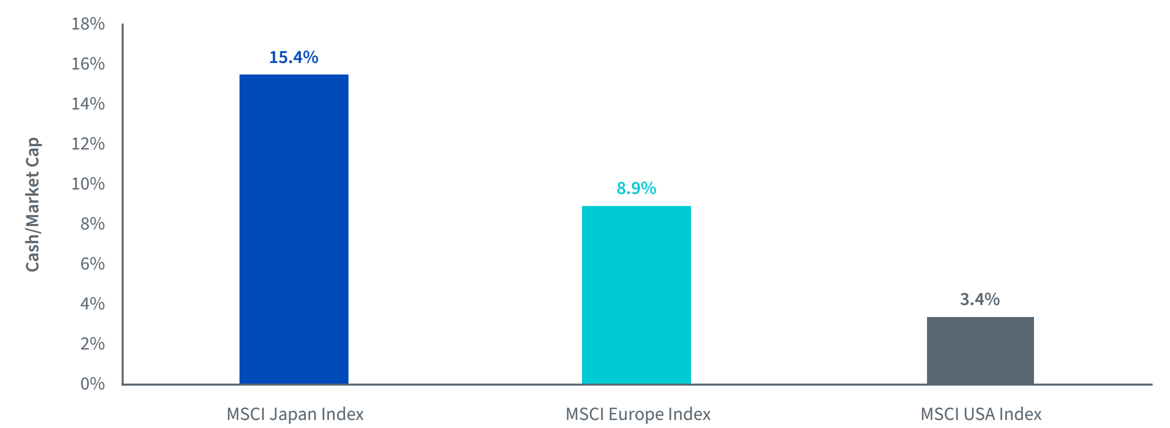
Sources: WisdomTree, MSCI, 1/31/21–1/31/24. China and Japan measured by respective MSCI indexes in gross total returns in local currency. Past performance is not indicative of future results. You cannot invest directly in an index.

RETURNING CASH TO SHAREHOLDERS

One way Japanese companies focused on increasing price-to-book ratios was by reducing the high degree of cash on balance sheets with increases in dividends and share buybacks.

Though companies cannot control the numerator (price) of the price-to-book ratio, returning cash to shareholders does lower the book value of assets, shrinking the denominator.

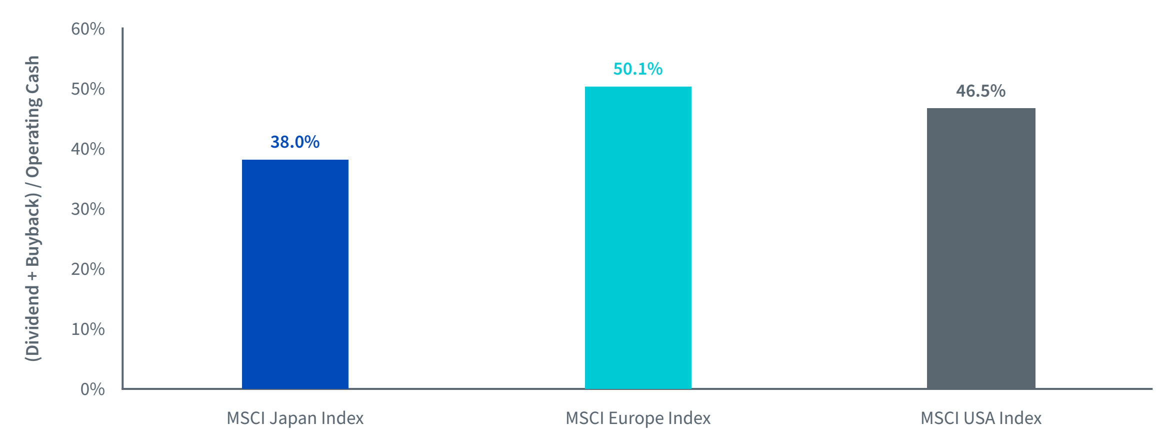
Figure 10: High Cash-to-Market Cap Ratio



Sources: WisdomTree, MSCI, 1/31/24. Japan, Europe and U.S. measured by respective MSCI indexes. You cannot invest directly in an index.

The reason for high cash hoards is that Japan, Inc., is notoriously conservative with payouts. Dividends and buybacks make up just 38% of operating cash flow for Japan as opposed to 50% for Europe.

Figure 11: Low Payout Ratios

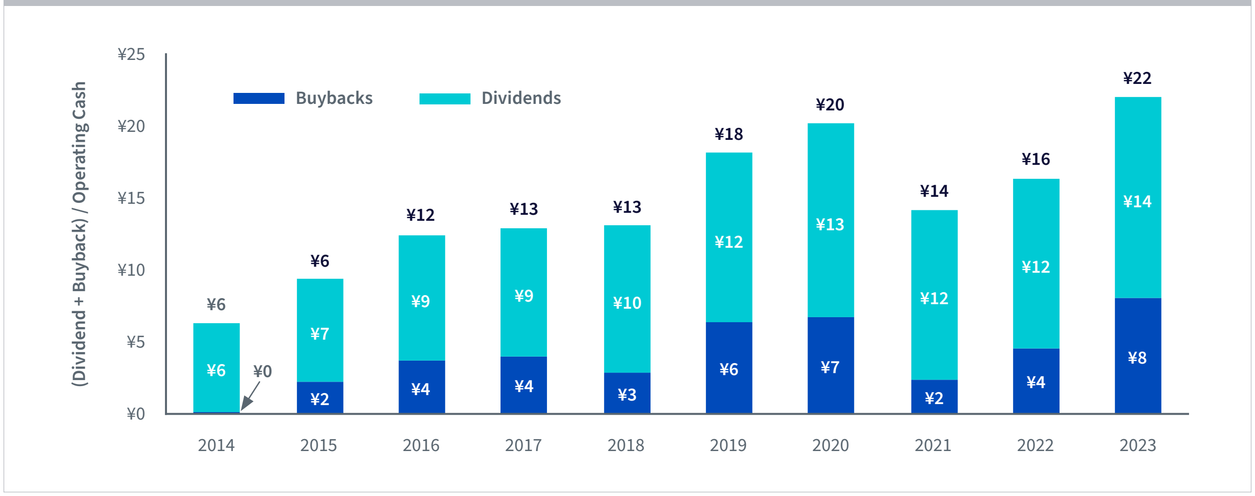


Sources: WisdomTree, MSCI, 1/31/24. Europe, U.S. and Japan measured by respective MSCI indexes. You cannot invest directly in an index.

Buybacks went from virtually non-existent a decade ago to 8 trillion yen ($53 billion) over the last 12 months. Dividends, which were only marginally cut from the COVID-19 pandemic—in part due to high cash balances and conservative payout ratios—grew from 6 trillion yen ($40 billion) in 2014 to 14 trillion yen ($93 billion) today.

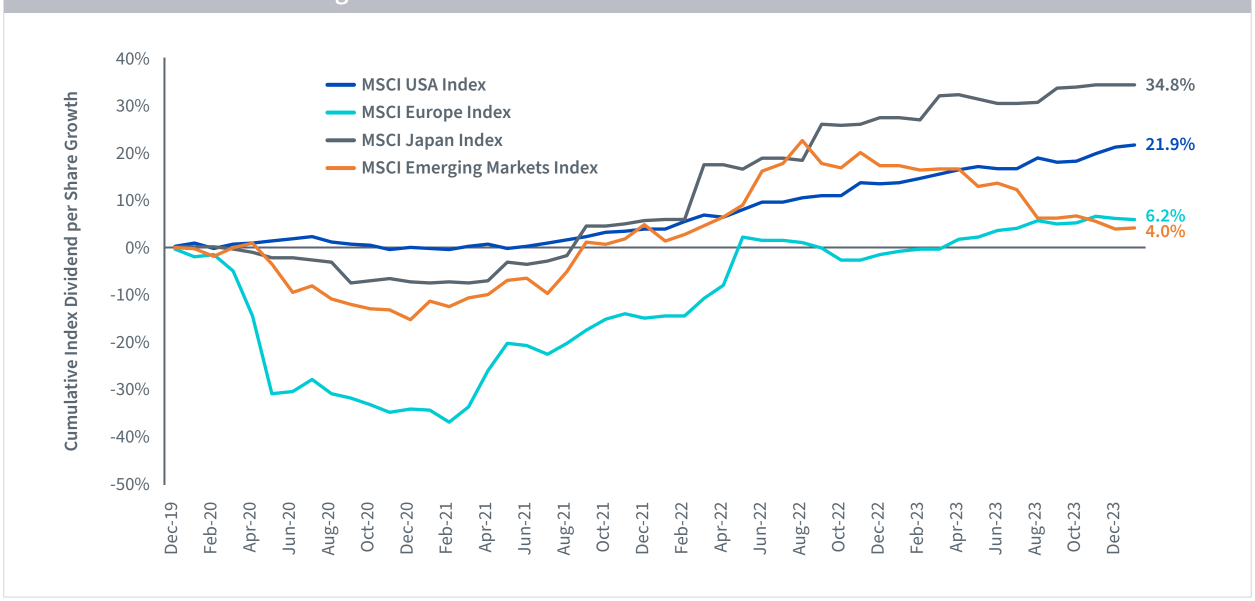
Comparing across global equity markets, this dividend growth has been remarkable. Japan has grown its dividend by almost 35% since 2019, well ahead of the 22% growth from the U.S.

Figure 12: Total Payouts Increasing (¥ Trillions)



Sources: WisdomTree, MSCI. Payouts measured on a trailing 12-month basis each May month-end. Japan payouts based on MSCI Japan Index. Dividends are not guaranteed and may fluctuate. Past performance is not indicative of future results. You cannot invest directly in an index.

Figure 13: Global Leader in Dividend Growth since 2019

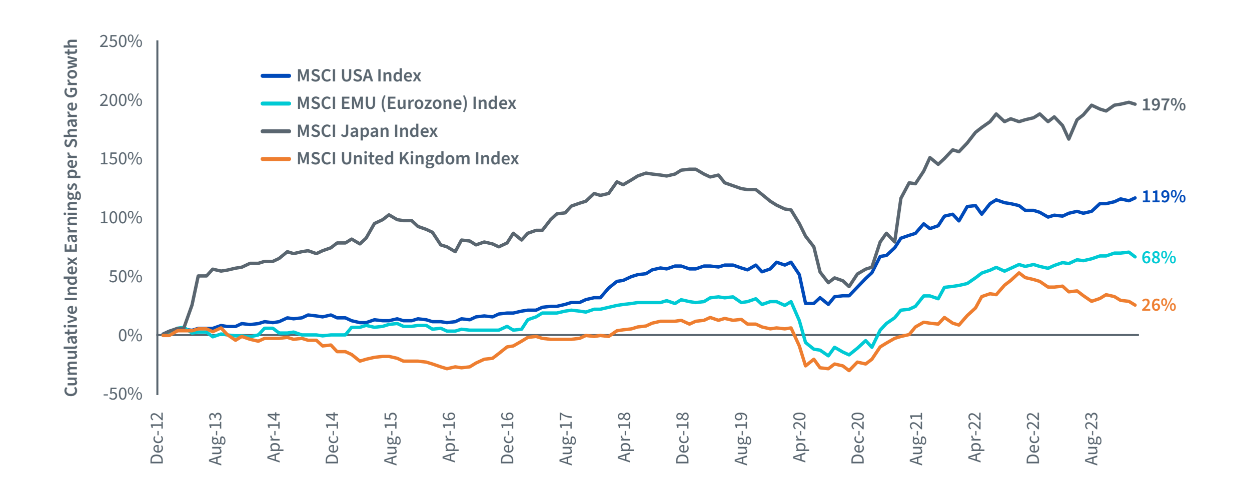


Sources: WisdomTree, MSCI, 12/31/19–1/31/24. USA, Europe, Japan and Emerging Markets measured by respective MSCI indexes in local currencies. Dividends are not guaranteed and may fluctuate. Past performance is not indicative of future results. You cannot invest directly in an index.

EARNINGS GROWTH AND YEN SENSITIVITY

Payouts are just part of the story of improving fundamentals. Dividend growth is being funded by significant rebounds in earnings. Japanese earnings have nearly tripled since 2012.

Figure 14: Japan's Earnings Nearly Triple since 2012



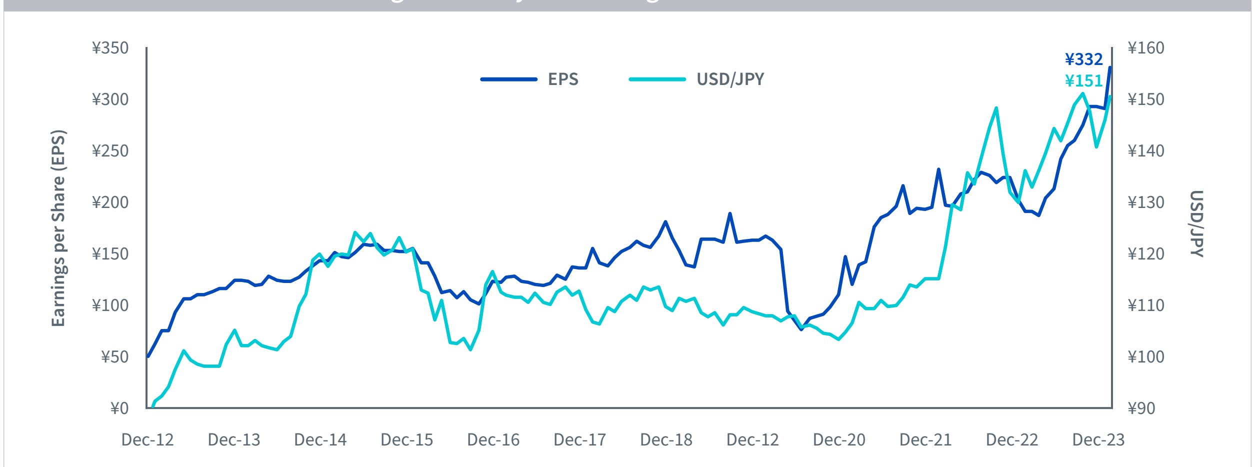
Sources: WisdomTree, MSCI, 12/31/19–1/31/24. U.S., Eurozone, Japan and UK measured by respective MSCI indexes. Earnings measured in local currency. Dividends are not guaranteed and may fluctuate. You cannot invest directly in an index.

In part, this earnings growth was fueled by a more competitive currency. Japan is an export-heavy economy, relying on the physical export of goods as well as the "export" that comes from its rebounding tourism economy (see our first chart!).

Toyota Motors, for example, has stated every ¥1 depreciation against the dollar boosts earnings by ¥180 billion ($1.2 billion).[2]

Over the last 12 months, the yen has weakened by ¥15. This has the potential to boost earnings by approximately ¥2.6 trillion ($17.3 billion), or roughly Toyota's entire fiscal year 2023 earnings of ¥2.5 trillion.

Figure 15: Toyota Earnings and Yen Weakness



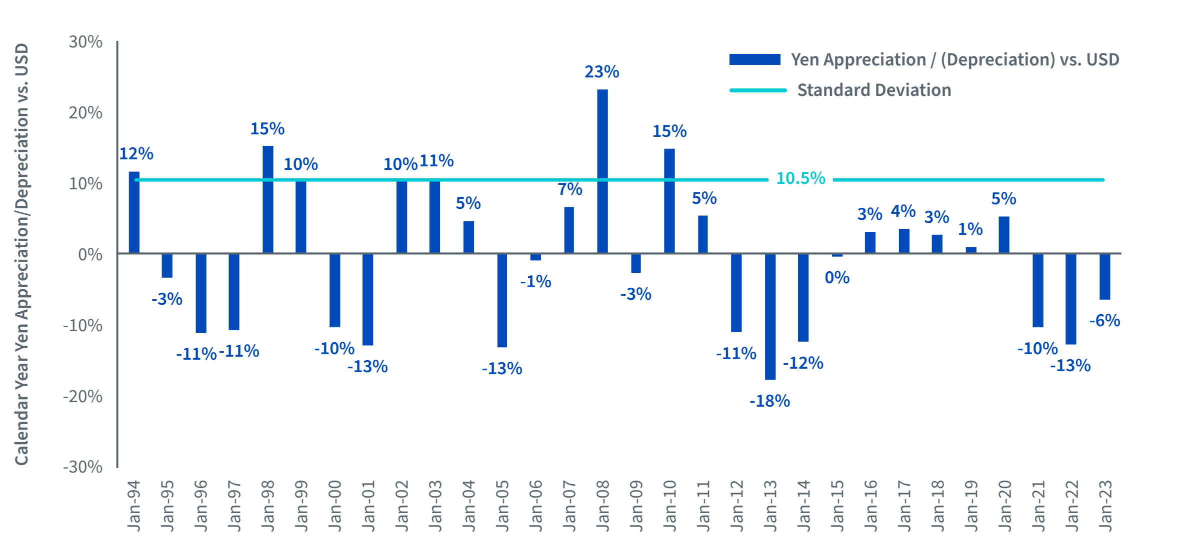
Sources: WisdomTree, FactSet, 12/31/12–2/26/24. EPS is forward 12-month estimated earnings per share (EPS). Past performance is not indicative of future returns.

[2] David Keohane, "Toyota profits double on strong sales and weakening yen," Financial Times, 11/1/2.

CURRENCY HEDGING

Over the last several calendar years, the yen weakened heavily versus the dollar. For a foreign investor, investing in Japanese equities without a currency hedge would mean being fully exposed to the weakening yen, wiping out strong gains in the returns of the companies themselves.

Figure 16: Getting Currency Wrong Can Wipe out Gains



Sources: WisdomTree, FactSet, 12/31/1994–12/31/2023.

For U.S. investors who want to gain access to Japanese equities without the headache of potential currency headwinds or tailwinds, currency hedging can help mitigate currency risk.

In fact, when Buffett made his investments in the Japanese trading companies, he effectively neutralized his currency exposure.

A quote from Berkshire's 2023 annual shareholder letter summarizes his view and how it syncs with our own:

> *"Neither Greg nor I believe we can forecast the market prices of major currencies. We also don't believe we can hire anyone with that ability."*

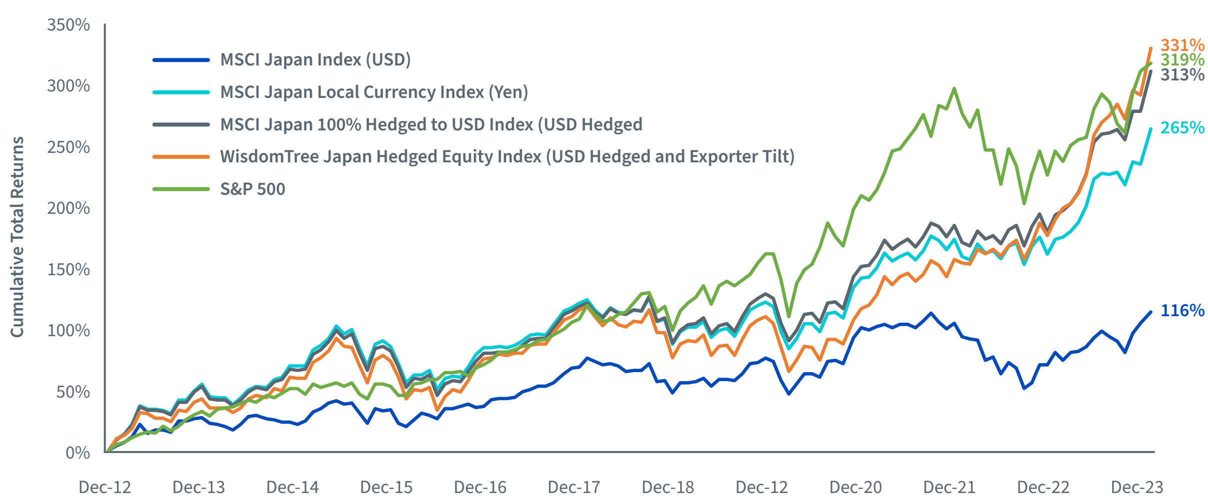
Many want to say the yen looks cheap and it's worth adding exposure to it from an overvalued dollar.

But we think more should follow Buffett's lead and implement a view that it is hard to time these things, and one most likely is better off focusing on the stocks and mitigating the risk of being exposed to the yen's move.

The below line chart helps illustrate the impact of currency weakness for foreign investors.

- The MSCI Japan Index (USD) is the return of an unhedged foreign investor. Its return of 116% since 2012 was significantly reduced by a weakening yen over the period.
- The MSCI Japan Local Currency Index (Yen) is the returns of the Japanese stocks in local currency, without any impact from the currency.
- The MSCI Japan 100% Hedged to USD Index (USD Hedged) is the return from hedging out the foreign currency exposure using forward currency contracts.
- The WisdomTree Japan Hedged Equity Index (USD Hedged and Exporter Tilt) is the return of the WisdomTree Japan Hedged Equity Index that emphasizes its exposure to multinational Japanese companies—like Toyota Motors—that benefit from a weaker yen while also hedging fluctuation in the USD/JPY rate.

Figure 17: The Impact of Currency Hedging



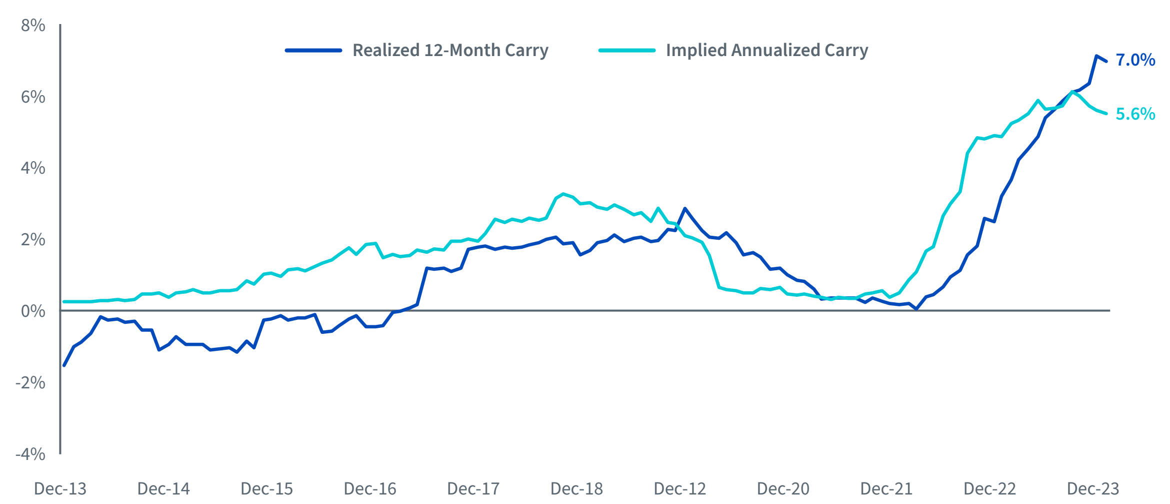
Sources: WisdomTree, MSCI, 12/31/12–1/31/24. Japan (USD) = MSCI Japan in USD. Japan (Yen) = MSCI Japan in yen. Japan (USD Hedged) = MSCI Japan 100% Hedged to USD. Japan (USD Hedged and Exporter Tilt) = WisdomTree Japan Hedged Equity Index. You cannot invest directly in an index. Past performance is not indicative of future returns. 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, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

One underappreciated aspect of currency hedging, particularly with the current market backdrop, is the carry of hedging yen exposure for USD-based investors.

Because of higher interest rates in the U.S. than in Japan, investors who are hedging yen exposure are “paid” to hedge based on the interest rate differential—currently a 5.6% implied annualized carry.

Over the last 12 months, the realized carry—the difference in the returns of the hedged index and local currency index—was 7%.

Figure 18: Getting “Paid” to Hedge Japanese Yen: Positive Carry



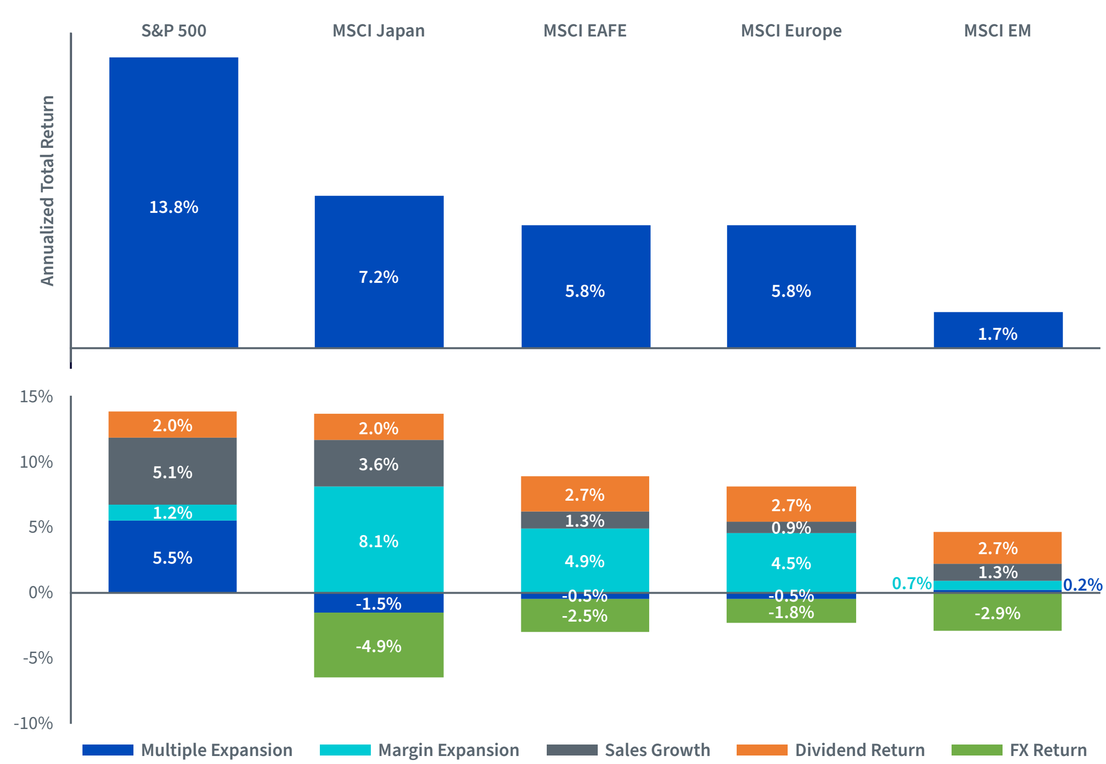
Sources: WisdomTree, MSCI, 12/31/13–1/31/24. Realized 12-month carry is the return difference between MSCI Japan 100% Hedged to USD and MSCI Japan in yen. The implied annualized carry is the annualized rate difference between USD and JPY interest rates implied by forward currency contracts. Gains/losses on forward currency contracts cannot be guaranteed.

PULLING IT ALL TOGETHER: RETURN DECOMPOSITIONS

The below return decomposition chart helps pull together the various return drivers over the last decade or so since former Prime Minister Shinzo Abe began his "Three Arrows" campaign to reinvigorate economic growth in 2012:

- **Multiple Expansion:** Non-U.S. equities have generally gotten cheaper on a price-to-earnings basis. U.S. equities, which have become more dominated by growth companies, have benefited from multiple expansions contributing 5.5% to total returns. Japan has been on the other end of the spectrum, facing a headwind of 1.5%
- **Margin Expansion:** Margin expansion is where Japan has been the global leader, contributing 8% to returns. Improving profitability has been a key plank of improving corporate governance, which can be seen from its improving margins.
- **Sales Growth:** During a backdrop of low interest rates for much of this period, a focus on sales growth, more than bottom-line earnings, has been characteristic of the U.S. market. Sales growth contributed 5% annualized to returns for U.S. equities.
- **Dividend Return:** Japan's dividends have grown rapidly, as shown in previous charts. However, they have grown from a lower base, as shown by it having the lowest contribution from dividend return of less than 2%. That return was similar to the U.S. but lower than both Europe and EM.
- **FX Return:** Japan's returns in USD were just 7.2%, more than 600 basis points less than U.S. equities. But measured in local currency, returns in Japan were 12.4%, much closer to U.S. equity returns.

Figure 19: Return Decomposition: 12/31/12–1/31/24



Sources: WisdomTree, S&P, MSCI, 12/31/12–1/31/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

JAPAN FOR THE NEXT DECADE

In his book *Stocks for the Long Run,* Emeritus Wharton Professor and WisdomTree Senior Economist Jeremy Siegel highlighted that long-run average real (inflation-adjusted) returns for the S&P 500 were closely correlated to the average earnings yield (inverse of the price-to-earnings ratio) of the Index.

Equity investments are considered “real” assets because profits, unlike interest payments on bonds, grow with inflation.

From this perspective, Professor Siegel has said he estimates nominal returns on the S&P 500 (Earnings Yield + Estimated Inflation) over the next 10 years of 7-8%.

If we breakdown the math, we have an Earnings Yield on the S&P 500 of 4.8% (Forward P/E of 21.1x) and market-based inflation estimates for the next 10-years are for inflation to average 2.2%. Adding those components together we can derive Professor Siegel’s “estimate” of 7.0% annualized returns for the S&P 500.

We can extend this concept for Japanese equities as well.

The MSCI Japan has an earnings yield of 6.1% (Forward P/E of 16.5x) and market-based inflation estimates for the next 10-years in Japan are for inflation to average 1.3%, about 0.9% lower than the U.S. In total, those figures sum to 7.3% for the MSCI Japan Index.

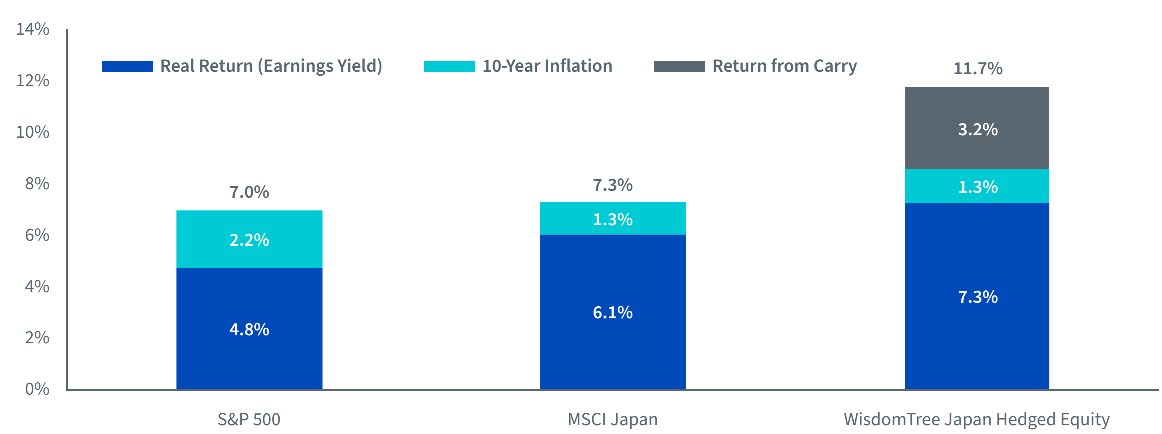
Given the unpredictability of currency movements, we make no assumption about the impact of FX for the MSCI Japan estimate.

The return from carry on forward currency contracts is also an important component of total return for a currency-hedged Index like the MSCI Japan 100% Hedged to USD. Using the difference in nominal 10-Year U.S. Treasury rates and 10-Year JGB rates, we get the difference in the average expected short-term rates in each market that drives the return from carry.

Based on current rates, the estimated return from carry would be about 3.2%—an estimate that might turn out to be conservative if U.S. rates stay higher for longer.

Given these estimated returns from discounted valuations and the positive return from carry, we suggest investors re-evaluate heavy U.S. equity over-weights relative to Japan.

Figure 20: Index Nominal Return Estimate Decomposition



Sources: WisdomTree, MSCI, S&P, as of 1/31/24. Real Return = inverse of forward P/E ratio. 10-Year Inflation measured by the breakeven inflation rate—the difference in the nominal 10-year government bond and the inflation-adjusted government bond. Return from Carry = the difference in 10-Year U.S. Treasury and 10-Year JGB. You cannot invest directly in an index. Gains/losses on forward currency contracts cannot be guaranteed.

THE ALLOCATION DECISION: WISDOMTREE JAPAN ETFS

WisdomTree has been a leader in offering Japanese equity exposures in the ETF structure for more than 15 years. There are three distinct options for accessing Japanese equities, with each Fund outperforming its respective benchmark over the standard 1-year, 3-year, 5-year and 10-year periods.

Each Fund weights constituents by a measure of fundamental value—dividends—to create a repeatable and consistent value discipline that can keep investors exposed to Japanese equities while mitigating valuation risks like those experienced in the 1980s and 1990s.

WisdomTree Japan Hedged Equity Fund (DXJ)

- Gain broad equity exposure to Japanese dividend-paying companies with an exporter tilt
- Currency hedge mitigates exposure to fluctuations of the Japanese yen

WisdomTree Japan SmallCap Dividend Fund (DFJ)

- Gain exposure to Japanese small-cap equity from dividend-paying companies
- Use to complement Japanese exposure, accessing local economic growth

WisdomTree Japan Hedged SmallCap Equity Fund (DXJS)

- Gain small-cap equity exposure to Japanese dividend-paying companies
- Currency hedge mitigates exposures to fluctuations in the Japanese yen

Figure 21: Returns as of December 31, 2023

				Average Annual Total Returns			
Name	**Ticker**	**Inception Date**	**Expense Ratio**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
WisdomTree Japan Hedged Equity Fund NAV Returns	DXJ	6/16/06	0.48%	40.8%	21.4%	16.9%	10.0%
WisdomTree Japan Hedged Equity Fund Market Price Returns				41.9%	21.1%	17.0%	9.8%
MSCI Japan Local Currency Index				28.6%	11.7%	12.4%	8.1%
Excess Return (based on NAV Returns)				12.2%	9.7%	4.5%	1.9%
Name	**Ticker**	**Inception Date**	**Expense Ratio**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
WisdomTree Japan SmallCap Dividend Fund NAV Returns	DFJ	6/16/06	0.58%	21.6%	3.7%	5.5%	6.2%
WisdomTree Japan SmallCap Dividend Fund Market Price Returns				21.8%	3.6%	5.7%	6.1%
MSCI Japan Small Cap Index				13.3%	-0.9%	4.4%	5.4%
Excess Return (based on NAV Returns)				8.3%	4.6%	1.1%	0.8%
Name	**Ticker**	**Inception Date**	**Expense Ratio**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
WisdomTree Japan SmallCap Hedged Equity Fund NAV Returns	DXJS	6/28/13	0.58%	36.7%	17.8%	13.0%	10.6%
WisdomTree Japan SmallCap Hedged Equity Fund Market Price Returns				38.1%	17.6%	13.2%	10.4%
MSCI Japan Small Cap Local Currency Index				21.1%	10.0%	9.7%	8.5%
Excess Return (based on NAV Returns)				15.6%	7.8%	3.3%	2.1%

Sources: WisdomTree, MSCI. You cannot invest directly in an index. Past performance is not indicative of future returns. Fund returns measured at NAV total returns. Index returns measured at net total returns. **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 wisdomtree.com/investments.** 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.

GLOSSARY

Basis point: 1/100th of 1 percent. Buyback: Also known as a share repurchase, when a company buys its own outstanding shares to reduce the number of shares available on the open market. Currency hedging: Strategies designed to mitigate the impact of currency performance on investment returns. Decomposition: A method of analysis that breaks down a complex process to understand and manage the individual elements. Dividend yield (also dividend return): The amount of money a company pays shareholders for owning a share of its stock divided by its current stock price. Drawdown: Periods of sustained negative trends of return. Earnings growth: The annual compound annual growth rate of earnings from investments. Earnings per share (EPS): Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation. Earnings yield: A financial metric that measures the percentage of a company's earnings per share. It's calculated by dividing the earnings per share for the most recent 12-month period by the current market price per share. Equity risk premium: The difference between the return on equity and the risk-free rate of return. It's a measure of how much more the stock market will outperform risk-free debt instruments over time. Excess return: Refers to investment returns on a security above that of a benchmark or index exhibiting similar risk characteristics. Forward price-to-earnings ratio: Share price divided by compilation of analyst estimates for earnings per share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time. Forward currency contracts: A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date. Foreign exchange (FX) return: The ratio of money gained or lost against the initial investment. 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. Historical price-to-earnings ratio: Share price divided by the historical earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. 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. Margin expansion: An increase in the rate of profit a company makes on a product. Market capitalization: Market cap equals the share price times the number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap. Multiple expansion: Term for a rising P/E ratio, meaning that share prices are rising faster than earnings are growing. Nominal returns: The amount of money generated by an investment before factoring in expenses such as taxes, investment fees and inflation. Payout ratio: The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share. Positive carry: An investment strategy that involves borrowing money to invest in an asset and earning a profit. Price-to-book (P/B) ratio: Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Price-to-dividend ratio: Refers to the index price divided by the trailing 12-month dividends. Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested. Relative value: A method of determining an asset's worth that takes into account the value of similar assets. Sales growth: The increase in sales of a product or service over time. Sigma: A statistical measurement of variability showing how much variation exists from a statistical average. Standard deviation: A measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk" in that there is more of a chance the actual return observed is farther away from the average return. Tilt: An approach that emphasizes exposure to a particular investment. Unhedged: Strategy that includes the performance of both the underlying asset and the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced. U.S. Treasury (UST): Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government. Valuations: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive. Value: Style of investing characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the value factor, which associates these stock characteristics with excess returns versus the market over time. Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

INDEX DEFINITIONS

MSCI All Country World Index (ACWI): A broad global equity benchmark that represents large- and mid-cap equity performance across 23 developed and emerging market countries. MSCI EAFE Index: A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan. MSCI Emerging Markets Index: A free-float weighted equity index that captures large- and mid-cap representation across emerging markets (EM). MSCI Europe Index: Represents the performance of large- and mid-cap equities across 15 developed countries in Europe. MSCI EMU (Eurozone) Index: A eurozone equity index that tracks mid- and large-cap companies in 10 developed markets in the European Economic and Monetary Union. MSCI Japan Index: A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market. MSCI Japan Investable Market Index: Designed to measure the performance of the large, mid and small cap segments of the Japan market. MSCI

Japan Local Currency Index: A market cap-weighted index that measures the performance of the Japanese equity market in the local currency (yen). MSCI Japan Small Cap Index: A free float-adjusted market capitalization-weighted index that measures the performance of the small-cap segment of the Japanese market. MSCI Japan Small Cap Local Currency Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of the small-cap segment of the Japanese market in the local currency (yen). MSCI Japan 100% Hedged to USD Index: A close estimation of the performance that can be achieved by hedging the currency exposure of its parent index, the MSCI Japan Index, to the USD, the "home" currency for the hedged index. MSCI USA Index: Designed to measure the performance of large- and mid-cap segments of the U.S. market. MSCI United Kingdom Index: Designed to measure the performance of the large and mid cap segments of the UK market. MSCI USA Investable Market Index: Designed to measure the performance of the large, mid and small cap segments of the U.S. market. Nikkei 225 Stock Average Index: A price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. Russell 1000 Growth Index: A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 Index. Russell 1000 Value Index: A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index. S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee, designed to represent the performance of the leading industries in the United States economy. WisdomTree Japan Hedged Equity Index: Index designed to provide exposure to Japanese equity markets while at the same time neutralizing exposure to fluctuations of 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.

IMPORTANT INFORMATION