How to Participate in Japan's Economic Growth Plan

BY **JEREMY SCHWARTZ, CFA®,** DIRECTOR OF RESEARCH, **RICK HARPER,** DIRECTOR OF CURRENCY AND FIXED INCOME, **BRADLEY KROM,** FIXED INCOME ASSOCIATE, **CHRISTOPHER GANNATTI, CFA®,** RESEARCH ANALYST & **ESWARIE SUBRAHMANYAM S. BALAN,** RESEARCH ANALYST

Since prime minister Shinzo Abe's election on December 16, 2012, investors have embraced the economic resurrection plan being referred to as "Abenomics," sending Japanese stocks higher and the yen lower. A critical aspect of Abe's plan is to extinguish the deflationary forces that have gripped Japan's economy for the last 15 years. In light of the committed pursuit of Abenomics, we believe there are three important trends investors should be positioning for:

+ **A Weakening Yen:** While the Bank of Japan (BOJ) is careful to avoid mention that it is directly targeting a weaker yen, it has also recognized that a likely by-product of its aggressive monetary policies, balance sheet expansion and inflation targeting is that Japanese investors will search for higher-yielding assets—many of which can be found abroad. This can result in a weaker yen, given the low interest rates in Japan.
+ **Multi-Year Bull Market in Equities:** We believe in the potential of Abenomics and think it is likely we are in the middle of a multi-year bull market for Japanese equities. Valuations today are far from stretched compared to their global peers, especially in Japan's small-cap stocks.
+ **Eventual Rising of Interest Rates:** If Abenomics is successful and the Bank of Japan stimulates inflation expectations of 2%, we believe interest rates will need to rise sharply from their current levels. As of October 31, 2013, the 10-year Japanese government bond (JGB) had a nominal yield below 0.60% and a real yield of -0.35%, the lowest of any major developed country in the world.

WisdomTree is expanding its Abenomics toolkit with the development of unique solutions to benchmark the major Japanese asset classes.

+ **First, we targeted the Japanese exporters by employing a currency-hedged strategy to hedge movements in the Japanese yen from the export-oriented stocks we believe are poised to benefit from yen weakness.**

- **We expanded the currency-hedged family with a focus on small-cap stocks, which we believe are sensitive to a pickup in the local economy and often have traded at depressed valuations compared to large caps.**
- **We recently expanded across asset classes with the introduction of the WisdomTree Japan Interest Rate Strategy Index that serves as a benchmark for an eventual rising interest rate environment. The Index is constructed to benefit from a fall in the yen and a rise in Japanese interest rates. If Japan progresses toward its desired 2% inflation target, it is hard to argue that the yen's current level looks sustainable or that the current 0.60% bond yield adequately compensates investors for the risk of inflation.**

In this piece, we assess current valuations of the yen as well as the stock and bond markets. We also discuss the implications that Abenomics—if successful—could have for each asset class.

THE FIRST ARROW OF ABENOMICS: A COMMITTED BANK OF JAPAN DETERMINED TO GENERATE 2% INFLATION

The BOJ is arguably the most aggressive central bank in the world in its battle against the deflationary forces that have hamstrung the Japanese economy over the past 15 years. On April 4, 2013, the BOJ embarked on its QQE[1] program for "as long as it is necessary" to attain the 2% inflation target.[2] There are two pillars of its commitment to the 2% inflation goal:

- **The BOJ announced plans to increase the monetary base from ¥138 trillion at end of 2012 to ¥270 trillion by year-end 2014—nearly doubling it and totaling 60% of nominal gross domestic product (GDP)[3].**
- **The BOJ is looking to change the composition of its balance sheet to favor both longer-maturity government bonds (including those with maturities of up to 40 years) and riskier assets, such as exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).**

Since the global financial crisis of 2008–2009, central bankers globally have initiated ever more aggressive tactics to stimulate economic growth. We have all heard the phrase "Don't fight the Fed"—and this idea applies to the BOJ as well. The central bank itself has clearly stated that one goal of its QQE program is to "suppress risk premiums" on asset classes from equities and bonds. In a recent speech, BOJ deputy governor Kikuo Iwata highlights that:

The Bank has increased the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) in order to suppress risk premiums[4] associated with those types of assets.[5]

The quest to "suppress risk premiums" implies a targeting of higher equity prices and real estate prices—and the BOJ has declared that it would not hesitate to engage in more aggressive programs if its activities fail. The BOJ's commitment to these actions should provide support to these asset classes.

[1] QQE: Quantitative and qualitative monetary easing: The Bank of Japan will achieve the price stability target of 2 percent in terms of the year-to-year rate of change in the Consumer Price Index (CPI) at the earliest possible time, with a time horizon of about two years. In order to do so, it will enter a new phase of monetary easing both in terms of quantity and quality.
[2] Bank of Japan, Monetary Policy Minutes, April 2013.
[3] Gross domestic product: The sum total of all goods and services produced across an economy.
[4] Risk Premium: Equity investments are not risk free, but it is thought that investors buy stocks because the returns they expect are high enough to allow them to take the risk.
[5] Kikuo Iwata, "Purpose and Mechanism of Quantitative and Qualitative Monetary Easing," Bank of Japan, 10/18/13.

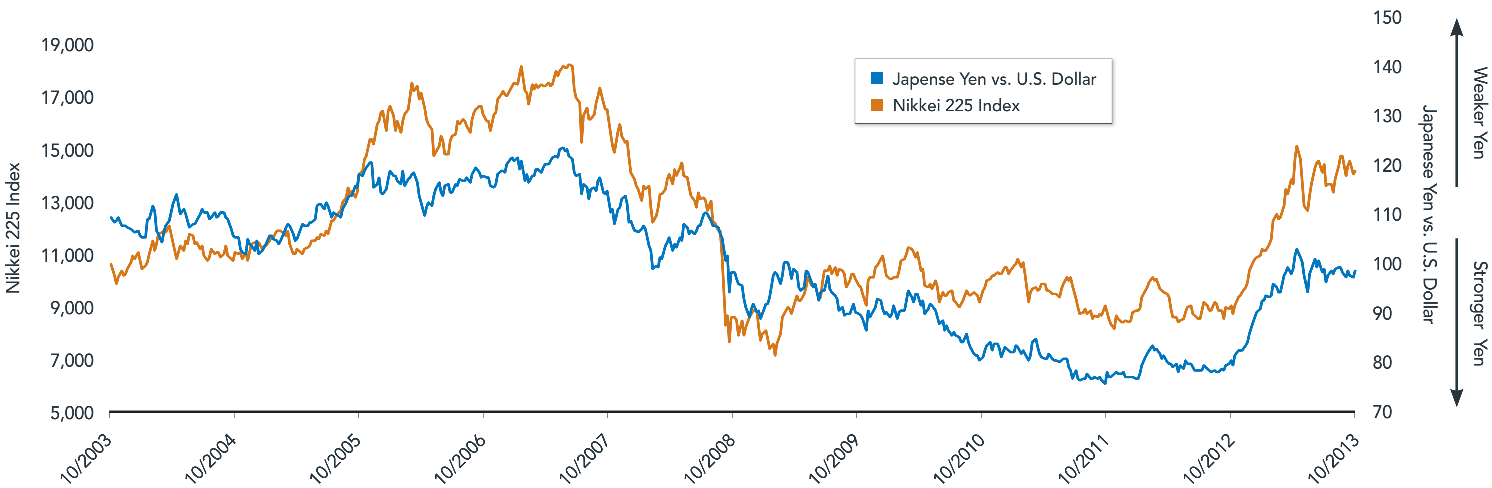
BANK OF JAPAN PROGRAM TO WEAKEN CURRENCY OVER TIME

Furthermore, the BOJ's plan to double the monetary base and generate 2% inflation has the potential to weaken the currency. Deputy Governor Iwata explained:

… if people expect prices to go up down the road, the real rates of return from cash as well as deposits and bonds—for which interest rates are fixed—will decline. Holding those assets will become less attractive than in the past. In light of such developments, market participants with rising inflation expectations will shift part of their portfolios from cash, deposits, and bonds including JGBs to equities (including equity trust funds), real estate and homes (including real estate investment trusts such as J-REITs) or, alternatively, foreign-denominated assets for which returns are higher than those derived from yen-denominated assets. As a result of this, expectations would be for stock prices to rise, the yen to depreciate, and foreign currencies to appreciate.[6]

The weakening currency, combined with a strong and consistent negative correlation between Japanese equities and the yen, argues that those foreign investors looking to invest in Japan ought to consider hedging out their exposure to the yen.

FIGURE 1: NIKKEI 225 AND THE JAPANESE YEN HAVE DISPLAYED STRONG NEGATIVE CORRELATION[7] IN THE PAST 10 YEARS [10/31/2003–10/31/2013]



Sources: WisdomTree, Bloomberg. You cannot invest directly in an index. Past performance is not indicative of future results.

FUND FLOWS ILLUSTRATE ASSET ALLOCATION SHIFT

Moreover, the flow of funds data illustrates that a shift in assets from cash that earns 0% interest toward foreign assets and local equities has started to take place. According to the latest data:

+ **Financial assets of households at the end of June 2013 increased by 5% on a year-to-year basis.**

[6] Kikuo Iwata, "Purpose and Mechanism of Quantitative and Qualitative Monetary Easing," Bank of Japan, 10/18/13.

[7] 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.

- **Bonds allocations decreased by 9% in the quarter ending June 30, 2013.**
- **Shares and equities increased by 31%, and investment trusts rose by 29% in the quarter ending June 30, 2013.**

While these increases in risky asset allocations—equities and investment trusts—are impressive, they need to be put in the context of the low bases they started from. Only 8.1% of Japan's household assets were in shares and other equities, and only 4.5% of total assets were in investment trusts. A full 54.1% was still in "currency and deposits"—or being left in the bank and under the proverbial mattress. These assets are earning essentially a 0% rate of return and suffering losses in purchasing power[8].

FIGURE 2: CHANGE IN HOUSEHOLD ASSET ALLOCATION [as % of Total Assets]

Asset Class	6/30/2011	6/30/2013
Currency & Deposits	53.0%	54.1%
Bonds	4.9%	1.9%
Investment Trust Beneficiary Certificates	4.1%	4.5%
Shares and Other Equities	5.8%	8.1%
Insurance and Pension Reserves	27.8%	27.3%
Others	4.3%	4.1%
Sum	**100%**	**100%**

Sources: Bank of Japan, WisdomTree.

MOTIVATIONS FOR THE DEPLOYMENT OF CASH: DIVIDENDS FOR GROWTH AND INFLATION HEDGING[9]

Given the fatigue associated with long-term bear market equity declines and persistent deflation in consumer goods prices, it is no surprise that Japanese investors have invested less in domestic equities than their U.S. and European counterparts and that they maintain sizable cash balances. However, as Japanese investors awaken to the prospect of inflation, we anticipate that they will increasingly look to reallocate at least a portion of these cash balances into assets offering the prospects of returns that exceed inflation.

We think stocks can represent a good choice for those looking for a growing income stream. Japanese companies are largely dividend payers. When one looks across any of the major stock indexes (TOPIX, Nikkei, MSCI Japan), over 96% of Japanese indexes are allocated to dividend payers.[10] And when one compares the current dividend income from these equities to other major asset classes such as bonds—the trade-off is fairly supportive for equities, in our view.

Given that the 10-year JGB is trading below 0.60%[11], more than 88% of the MSCI Japan's market cap is in stocks with yields above that of the 10-year JGB. Just as it was a motivator for many in the U.S. to buy dividend-paying stocks in a low interest rate environment, this yield differential can become more important for the Japanese as well and begin to motivate more cash off the sidelines—especially as inflation increases.

[8] Purchasing power: The number of goods or services that can be purchased with a unit of currency.
[9] Hedging: Apply strategies meant to mitigate the impact of currency movements on equity returns.
[10] Defined as the weight in the indexes (as of October 31, 2013) in firms that had paid at least one dividend over the prior 12 months.
[11] Source: Bloomberg, as of 10/31/13.

FIGURE 3: DIVIDEND YIELD[12] VS. BOND YIELD[13] IN JAPAN AND THE UNITED STATES [as of 10/31/2013]

Index	Dividend Yield	Bond Yield	Spread	10 Year Average Inflation*	10 Year Dividend Growth	10 Year Real Dividend Growth	% of Market Cap with Dividend Yield > Bond Yield
S&P 500	2.02%	2.55%	-0.54%	2.42%	7.40%	4.98%	33.00%
MSCI Japan	1.76%	0.59%	1.17%	-0.11%	8.89%	9.00%	88.50%
MSCI Japan Small Cap	1.83%	0.59%	1.24%	-0.11%	9.06%	9.17%	78.90%

*10-year average inflation is computed as the average monthly inflation print for Japan and the U.S. over the period of 9/30/2003–9/30/2013.
Spread: The difference between Dividend Yield and Bond Yield, numbers do not match due to rounding
Sources: WisdomTree, MSCI (USD Net and Price Indices), Bloomberg. You cannot invest directly in an index. Subject to change. Past performance is not indicative of future results.

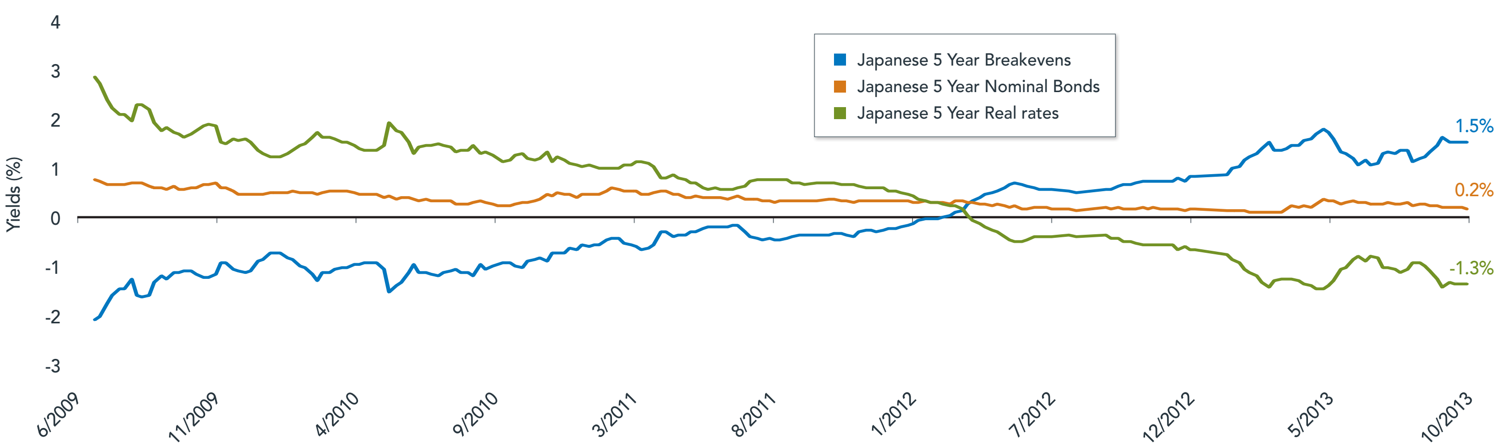
Over the last 10 years[14], dividend growth in Japan has averaged about 8.89% per year. Those observing the dividend growth of the MSCI Japan Index will note that over the past 10 years, the growth has been higher than that of the U.S. (7.40%).[15] Interestingly, inflation has been much higher in the United States than in Japan, so the after-inflation dividend growth of Japanese equities has been even higher than that of U.S. equities.[16]

WHY SETTLE FOR A DECLINE IN PURCHASING POWER?

Decades of deflation in Japan have incentivized savings over consumption. However, the recent rise in inflation expectations may not only be positive for Japanese economic growth but also result in a significant shift in investors' asset allocation decisions.

The chart below summarizes the key changes in investor sentiment toward Japanese inflation that may prompt a shift in asset allocation decisions.

FIGURE 4: DRASTIC CHANGE IN INFLATION EXPECTATIONS IN JAPAN [6/01/2009–10/31/2013]



Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results.
Period chosen to give the reader a historical perspective and subject to data limitations on Bloomberg.

[12] Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.
[13] Bond yield: Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value.
[14] Sources: WisdomTree, Bloomberg, as of 10/31/13.
[15] U.S. equities are represented by the S&P 500 Index.
[16] U.S. Inflation measured by the Consumer Price Index; Japan inflation measured by the Japan Nationwide Consumer Price Index.

The Japanese five-year breakevens (blue line) are a representation of investors' longer-term inflation outlook. While the blue line has spent much of the decade in negative (deflationary) territory, it broke into positive (inflationary) territory in February of 2012. This move in expectations coincides with the BOJ's first announcement of a 1% inflation target.

+ **The five-year breakevens imply that markets are expecting inflation to average 1.5% per year over the next five years.**
+ **Five-year nominal yields (orange line) in Japan have remained relatively range bound since June of 2009. The nominal yield is simply the annual income one would receive from holding a five-year JGB. In fact, nominal yields have tended to decline during this period.**
+ **The five-year real yields (green line) are estimated by deducting inflation expectations from the nominal yields. In February of 2012, these real yields started trending into negative territory and have firmly remained there since. Currently, the real yield on five-year inflation-linked bonds rests at -1.34%.**

As a result of the BOJ's efforts to achieve a 2% inflation target by the end of 2014, at some point in the future Japanese bond investors will demand greater compensation (via higher yields) in order to preserve future purchasing power and offset inflation.

In a recent appearance at the Council on Foreign Relations, the BOJ's new governor, Haruhiko Kuroda, said that Japanese bond yields may "eventually" climb if policy makers are able to boost expectations for price increases. He added that "If we successfully raise inflation expectations to 2%,' it is 'irrational' for bondholders to 'accept' such low interest rates."[17]

WHY ARE RATES STILL NEAR ALL-TIME LOWS?

Although inflation has increased over the last several months, Japanese investors appear to be only slowly adjusting their asset mixes out of Japanese fixed income. Japanese investors, which have long-held an institutional preference toward fixed income, may be looking for a longer-term inflation trend to develop before shifting their allocations into riskier assets.

Additionally, even as the BOJ pledges to double the monetary base to give a lift to prices, the principal mechanism for increasing the money supply has been through bond purchases. With the BOJ purchasing up to 70% of new bond issuance, rates have not increased materially even as other investors, such as pension funds and banks, have considered stepping away.

Unlike the bond markets in most other countries around the world, local investors account for over 90% of JGB holders.[18] In our view, if domestic holders stop purchasing new issuances in the JGB markets, investments by the BOJ aimed at affecting monetary policy may be able to support Japanese interest rates' current levels. However, if these large domestic holders begin to reduce their holdings of JGBs in favor of riskier assets, yields may begin to rise, even in the face of the BOJ's purchases, as part of a broader shift in allocations.

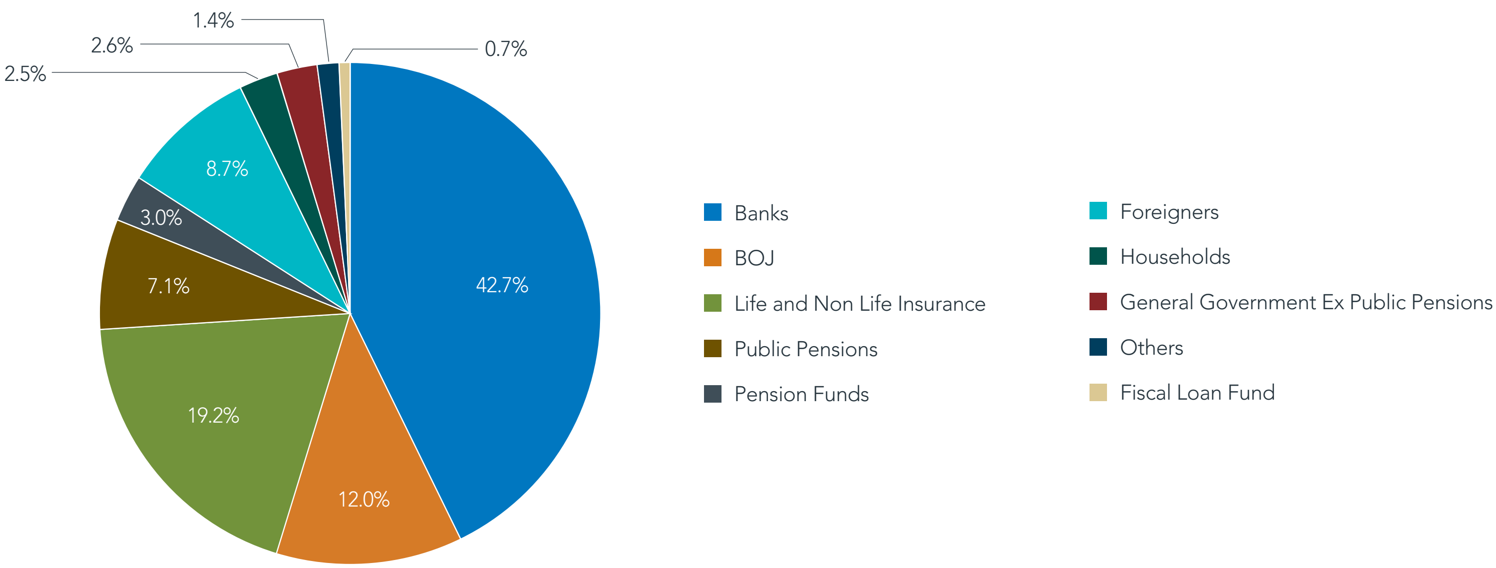
For example, Japanese pension funds, which own over 10% of the JGB market, have reportedly been considering "riskier investments," including domestic and foreign stocks as well as foreign bonds. They estimate that domestic bonds, composed primarily of Japanese sovereign debt, will be reduced from 67% to 60%, with greater allocations going to local equities, foreign equities and foreign debt.[19]

[17] Caroline Salas Gage, "Kuroda Says BOJ Prepared to Do what's Necessary on Deflation," Bloomberg, 10/10/13.
[18] Source: Japanese Ministry of Finance, Quarterly Newsletter, June 2013.
[19] Source: Kosaku Narioka and Takashi Nakamichi, "Japan's Pension Fund to Boost 'Risk Assets'," The Wall Street Journal, 6/9/13.

Consequently, as the investor base starts diversifying, it is likely that Japanese yields will rise due to selling pressure and the need for investors to be compensated more appropriately for inflation.

According to the Japanese Ministry of Finance, the Japanese government has approximately ¥1 quadrillion[20] of debt outstanding. For every 1% decrease in domestic holdings, this results in approximately ¥10 trillion of debt to be absorbed by the market. Even though the BOJ has targeted purchases of approximately ¥60–¥70 trillion per year, this buying target could be outweighed by a mere 6% reduction in bond allocations by current JGB holders.

FIGURE 5: MAJOR BONDHOLDERS IN THE JAPANESE GOVERNMENT BOND (JGB) MARKET [as of 6/30/2013]



Note 1: "JGB" includes Fiscal Investment and Loan Program (FILP) Bonds and T-bills.
Note 2: "Banks" includes Japan Post Bank, "Securities investment trust" and "Securities Companies."
Note 3: "Life and Non-Life Insurance" includes Japan Post Insurance.
Source: Japanese Ministry of Finance, Quarterly Newsletter, June 2013.
Subject to change.

HISTORY OF WAGERING ON HIGHER JAPANESE INTEREST RATES

For much of the decade, waiting for Japanese interest rates to rise has been a popular yet frustrating trade. Concerns about perpetually slow growth combined with a ballooning debt load made some investors feel that a marked rise in interest rates was just around the corner. Eventually, they thought, buyers would no longer be willing to lend the Japanese government money at such low interest rates, given the potential risk. In the popular press, this trade has become known as the "widowmaker," as many hedge funds sought to profit from rises in Japanese interest rates but ultimately lost money. Given the current low yields on JGBs, the present-day risk/return trade-off is starting to look increasingly attractive to us.

[20] 1 quadrillion = 1,000,000,000,000,000, Ministry of Finance estimates as of 9/30/2013.

LOW OPPORTUNITY COST WITH SUBSTANTIAL UPSIDE

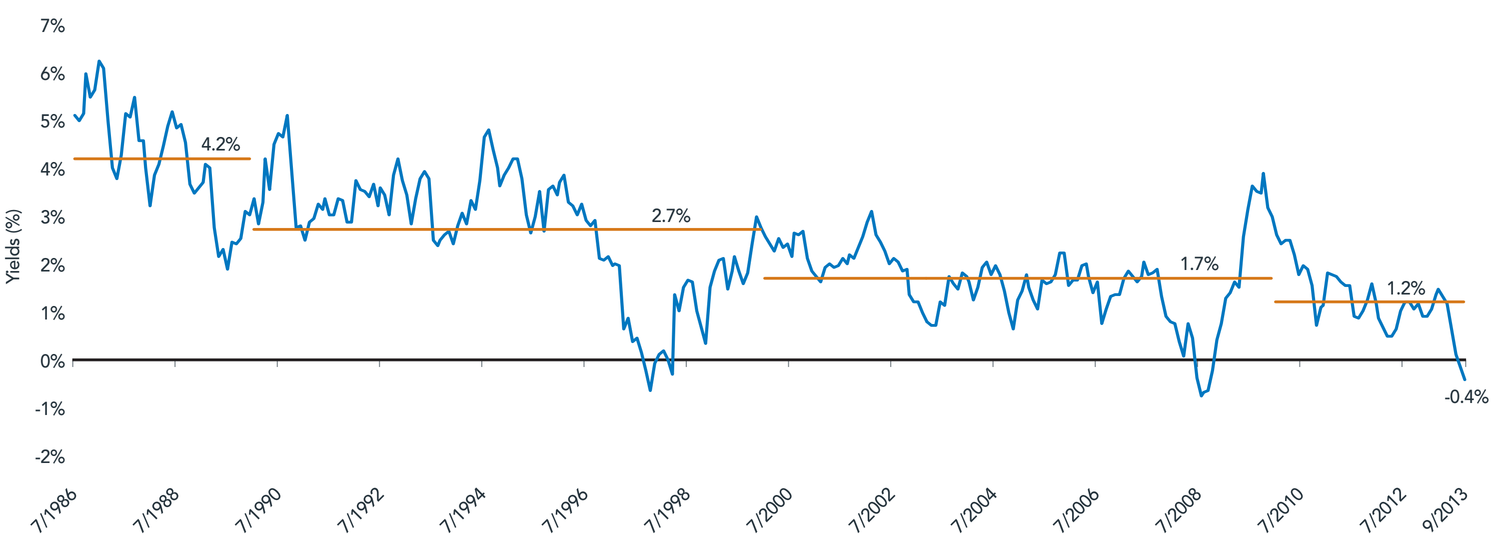
As of October 31, 2013, Japanese 10-year bond yields traded slightly below 0.6%. Even if interest rates declined to 0%, effectively meaning that the government could borrow money for 10 years for free, the resulting price decline of such a move would result in a loss of less than 5.6%. On the other hand, if 10-year nominal yields were to rise to their 10-year average of 1.3%, an investor who takes a short[21] position in the bond stands to gain 6.5%[22]. Furthermore, given the macroeconomic backdrop of BOJ's 2% inflation target and its aggressive monetary policy easing, Japanese yields are more likely to rise than to fall to 0%.

From a historical perspective, the all-time low for Japanese 10-year bond yields (0.45%)—which occurred on March 4, 2013— was not significantly different from the current levels of approximately 0.6%.[23] At that time, inflation expectations were 1.3%; now they are 1.5%,[24] translating to lower real yields now than back at the nominal low in March.

+ **If nominal yields on the JGB, rose form currently 0.6% to 1.5% – a level that compensates investors for present-day inflation expectations, (i.e. 0% real yields) – the investor who is wagering on higher interest rates (i.e. short the bond) could see price gains in the order of magnitude of 8.4%.[25]**
+ **These gains would be even more magnified if real yields returned to their 10 year average of 1.4% combined with inflation expectations of around 2%.**

With these risk/return trade-offs in mind, we introduce the WisdomTree Japan Interest Rate Strategy Index (WTJIRS), which was designed to serve as a benchmark for a position that benefits from a rise in Japanese interest rates.

FIGURE 6: JAPANESE 10-YEAR REAL YIELDS AND DECADE AVERAGES [7/30/1986–9/30/2013][26]



Sources: Japanese Ministry of Finance, Bloomberg, WisdomTree.
Start date chosen to provide historical perspective and as a result of data limitations from the Japanese Ministry of Finance.
End date chosen because the most recent Japan Nationwide CPI print is as of 9/30/2013.
Past performance is not indicative of future results.

[21] Short position: The sale of a borrowed bond with the expectation that the asset will fall in value.
[22] Source: WisdomTree, Bloomberg.
[23] Source: Bloomberg.
[24] Inflation expectations estimated via five-year Japanese breakevens. The 10-year inflation-linked bond was reintroduced in October 2013 after being discontinued in 2008.
[25] Sources: Bloomberg, WisdomTree. Duration of the generic 10-year Japanese bond is estimated at 9.3 years. Gains are computed based on pure duration computations. Other considerations that could contribute to gains or losses have not been considered.
[26] 10- year real yields computed via 10-year nominal yields published by the Japanese Ministry of Finance minus yea-over-year nationwide Japanese Inflation.

WISDOMTREE JAPAN INTEREST RATE STRATEGY (WTJIRS)

Similar to our other yen-hedged strategy Indexes, the WisdomTree Japan Interest Rate Strategy Index seeks to serve as a market barometer to gauge the success of Abenomics in reflating the Japanese economy.

While our equity Indexes target the equity performance of exporters in local terms as a reflection of the impact of Abenomics on the stock market, WTJIRS takes a balanced approach in isolating the behavior of the currency against the U.S. dollar and the movements in the most liquid debt securities of the Japanese government markets.

As discussed, success will likely translate to a weaker yen and subsequently to higher interest rates. The Index is constructed to monitor these developments.

WTJIRS seeks to provide exposure to the relative performance of Treasury bills in relation to Japanese government bonds as well as the change in the value of the yen against the U.S. dollar. The Index will consist of three components:

+ **The Long portfolio will consist of Treasury bills maturing in three months or less. Allocations within the Long portfolio will be weighted by market capitalization and rebalanced on a monthly basis.**
+ **The Short portfolio will comprise short positions in eligible JGBs maturing in 5 to 10 years. The positions will be market capitalization weighted and rebalanced monthly to incorporate newly issued securities.**
+ **A currency adjustment, which is approximately 30% of the short position in Japanese bonds and long positions of Treasury bills, is reset on a monthly basis. The size of the currency adjustment will be reassessed annually to balance its volatility contribution to the overall index.**

Given the low historical volatility of long positions in Treasury bills, changes in the monthly returns are expected to be driven by the movement in the Japanese government bond positions and the currency leg. The index is constructed to benefit from a decline in the performance of 5- to 10-year Japanese bonds and a fall in the value of the yen against the U.S. dollar.

WILL THE SUN RISE AGAIN?

After decades of stagnant growth and a fading influence in the global economy, Japan sits at an economic crossroad. The efforts and commitment of the Abe administration and the Bank of Japan represent a radical departure from previous attempts to revitalize the economy. Their efforts to spur the Land of the Rising Sun have injected energy into the Japanese investing universe that had been missing for decades. Their success is by no means a foregone conclusion, but we believe their commitment to do "every measure possible"[27] has significantly raised the odds in their favor. In light of this commitment, we believe there are three important consequences investors should consider positioning for:

+ **A weakening in the value of the yen against other currencies**
+ **A multi-year bull market in equities**
+ **The eventual rising of Japanese interest rates**

With the introduction of the WisdomTree Japan Interest Rate Strategy Index, WisdomTree now offers a full suite of Indexes to assist investors in gauging the market implications of Abenomics across asset classes.

[27] Wall Street Journal, March 2013, "BOJ Gov Nominee Kuroda: Will Do Whatever It Takes to Defeat Deflation".

Unless otherwise stated, data source is WisdomTree.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.WISE (9473) or visit wisdomtree.com. Read the prospectus carefully before you invest.

Diversification does not eliminate the risk of experiencing investment losses.

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Investments focused in Japan are increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in currency involve additional special risks, such as credit risk, interest rate fluctuations and derivative investment risk. These additional risks can add to volatility, may be less liquid than other securities and more sensitive to the effect of varied economic conditions.

Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

Nikkei: Short for Japan's Nikkei 225 Stock Average, the leading and most respected index of Japanese stocks. It is a price-weighted index comprising Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the U.S. S&P 500 Index: A 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. MSCI Japan Index: A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market. MSCI Japan Small Cap Index: A free float-adjusted market capitalization-weighted index designed to measure the equity market performance of Japanese small-cap securities. WisdomTree Japan Interest Rate Strategy (WTJIRS): Designed to provide exposure to the relative performance of Treasury bills (long position) in relation to Japanese government bonds (short position in JGB futures) as well as the change in the value of the yen against the U.S. dollar (short: JPY vs. USD). TOPIX: A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

WisdomTree Funds are distributed by ALPS Distributors, Inc.

Jeremy Schwartz, Rick Harper, Bradley Krom, Christopher Gannatti and Eswarie Subrahmanyam S. Balan are registered representatives of ALPS Distributors, Inc.

 WIS006052 11/2014