

The biggest challenge with Europe may not be the equity markets as much as the euro. In fact, many of the world's leading companies are in Europe. In our opinion, these companies remain attractive investment opportunities. And HEDJ, the WisdomTree Europe Hedged Equity Fund, offers investors a way to capitalize on the growth potential of these tremendous exporters while hedging<sup>1</sup> exposure to the euro.

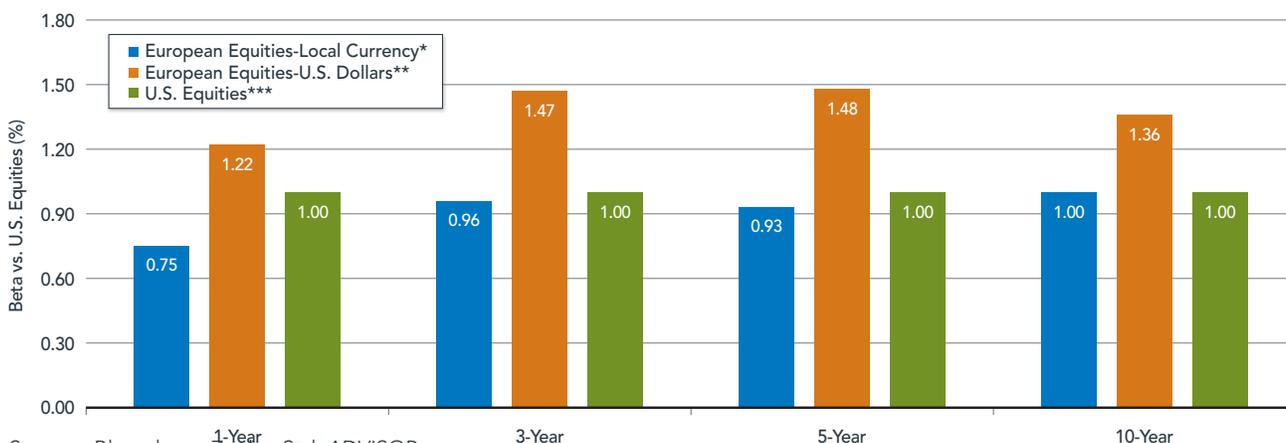
Consider that:

- + Many of the world's leading companies are headquartered in Europe
- + These global leaders are largely export driven
- + Currency translation can impact these companies, positively or negatively
- + Hedging the euro is one way to lower risk<sup>2</sup> to investing in European equities

### EUROPEAN EQUITIES AND EURO CURRENCY EXPOSURE

In most cases, when investors think about international equities, they consider the fact that they are gaining exposure to the performance of the underlying firms' shares. However, that's not the only investment they are making. Over the past 10 years, we think the difference in volatility has been remarkable, as seen in indexes that are exposed to the performance of the euro versus the U.S. dollar against those that solely generate exposure to the performance of the locally denominated equities.

#### The Last Decade: European Equity Beta Relative to U.S. Equities [ 12/31/2004–12/31/2014 ]



Sources: Bloomberg, Zephyr StyleADVISOR.

\*European Equities – Local Currency: MSCI EMU Local Currency Index, in which returns are measured in euros.

\*\*European Equities – U.S. Dollars: MSCI EMU Index, in which returns are measured in U.S. dollars.

\*\*\*U.S. Equities – S&P 500 Index.

Past performance is not indicative of future results. You cannot invest directly in an index.

<sup>1</sup> Hedging: Applying strategies meant to mitigate the impact of currency movements on equity returns.

<sup>2</sup> Risk: Also standard deviation or volatility, a measure of the dispersion of actual returns about an average over a specified period. Larger numbers indicate a greater chance of being farther from that average.

This illustration measures the beta<sup>3</sup> of both European equities in local currency and European equities in U.S. dollars against the S&P 500 Index. Essentially, beta is one measure of one index's volatility relative to another base index, with a higher number indicating a greater historical sensitivity to the movements of the base index. We chose the S&P 500 Index here because many U.S.-based investors are heavily exposed to U.S. equities, and this index could give some indication of the relative levels of risk that exist between European equities (in both local currency and U.S. dollars) relative to U.S. equities.

What we see within the chart is that, relative to U.S. equities, European equities in local currency had very similar (and sometimes lower) volatility as U.S. equities, at least when viewed through the beta statistic.

- + **Over the past 10 years, the beta of European equities in U.S. dollars has been approximately 36% higher than that of European equities in local currency. A similar story persists through the one, three- and five-year periods.**
- + **We believe this is an apt illustration of how the euro has added volatility over these periods. Since it's very difficult to predict which way the euro may move, we believe that local exposures are worth consideration solely for their potential to reduce volatility over time.**

### CURRENCY VOLATILITY CAN BE A SIGNIFICANT RISK

When investing internationally, investors face more than simply the volatility of the securities they choose; they also face the volatility of the local currency. Sometimes currency movements help investments, and sometimes they can hurt them.

#### Currency Impact on Cumulative Returns to MSCI EMU Index [ 12/31/1987–12/31/2014 ]



Sources: MSCI for MSCI EMU and EMU Local Currency Index

Past performance is not indicative of future results. You cannot invest directly in an index. 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 or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

<sup>3</sup> Beta: Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark.

## THE 50/50 PARADIGM

When it comes to a currency such as the euro, there will be cycles of both appreciation and depreciation against the U.S. dollar. Given the difficulty in predicting exactly when these cycles will turn, WisdomTree would ask why typical allocations should always fully assume this currency risk. Depending on one's investment goals and risk tolerance, an allocation that is 50% hedged and 50% unhedged—especially for someone without a strong view as to a currency's future performance—may be a better baseline from which to dial up or down, depending on one's conviction regarding the direction of any future currency trend.

## HEDJ—The WisdomTree Europe Hedged Equity Fund

The first ETF to take the euro out of Europe.

### HEDJ INVESTMENT PROCESS

The WisdomTree Europe Hedged Equity Index, which HEDJ is designed to track, uses a rules-based process for selecting and weighting securities, while managing the euro risk.

#### + Index Selection:

The Universe is comprised of the largest dividend-paying companies from the WisdomTree DEFA Index (broad developed world ex-U.S.) that are traded in euros, with a minimum market capitalization of \$1 billion and at least 50% of revenues derived from outside Europe. Ultimately, this focuses the Index on some very widely recognized firms, seen in the top 10 exposures below.

### Top 10 WisdomTree Europe Hedged Equity Index Holdings, as of December 31, 2014

Company Name	Country	Weight	% of Revenue Derived Outside Europe <sup>4</sup>
Anheuser Busch Inbev NV	Belgium	6.7%	88%
Telefonica SA	Spain	5.6%	55%
Banco Santander SA	Spain	5.4%	55%
Unilever NV	Netherlands	4.6%	73%
Sanofi-Aventis	France	4.4%	76%
Daimler AG	Germany	4.4%	65%
Siemens AG	Germany	4.2%	60%
Banco Bilbao Vizcaya Argentaria SA	Spain	4.1%	64%
Bayer AG	Germany	3.4%	62%
L'Oreal	France	3.2%	60%

Sources: WisdomTree, Bloomberg.  
Holdings subject to change.

<sup>4</sup> Revenue computation are done as of index screening date as of 5/31/2014.

## WisdomTree ETFs EUROPE HEDGED EQUITY FUND

### + Index Weighting: Modified Dividend Stream<sup>®</sup>

- Companies weighted by *Dividend Stream* are subject to the following caps:<sup>5</sup>
  - 5% cap to weight in any single company
  - 25% cap to weight in any country
  - 25% cap to weight in any sector

### + Mechanics of the Currency Hedge:

$$\begin{array}{l} \text{Local Market Europe Equity Return} \\ + \text{Euro Return} \\ - \text{Hedged Euro Return} \\ \hline \text{Hedged Equity Return} \end{array}$$

The Fund will implement the currency hedging strategy by entering into one-month forward contracts<sup>6</sup> each month and rebalancing at month-end.

WisdomTree builds our ETFs with proprietary methodologies, smart structures and/or uncommon access to provide investors with the potential for performance, diversification, income and more.

WisdomTree sponsors distinct ETFs that span asset classes and countries around the world. Categories include U.S. and International Equity, Currency, Currency Hedged Equities, Fixed Income and Alternatives. WisdomTree pioneered the concept of fundamentally weighted ETFs, currency hedged equities, and active ETFs.

**For more information or to invest in HEDJ, contact your WisdomTree representative or call 866.909.WISE (9473).**

<sup>5</sup> Each of these caps applies to the annual rebalance. Between annual rebalances, weight of any company, country or sector may move above these levels due to market movement.

<sup>6</sup> One-month forward currency contract: An agreement between two parties to exchange two currencies at a given exchange rate 30 days in the future. This guarantees an exchange rate on a given date.

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, please call 866.909.WISE (9473), or visit [wisdomtree.com](http://wisdomtree.com) to view or download a prospectus. Read the prospectus carefully before you invest.**

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 in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

MSCI EMU (European Economic and Monetary Union) Index: A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of countries within the EMU. MSCI EMU Local Currency Index: Captures large- and mid-cap representation across the 11 developed-market countries in the EMU and provides local currency returns, which are not translated back to U.S. dollars. WisdomTree Europe Hedged Equity Index: An index designed to provide exposure to European equities while at the same time neutralizing exposure to fluctuations between the euro and the U.S. dollar. The Index is based on dividend-paying companies in the WisdomTree DEFA Index that are domiciled in Europe and are traded in euros, have at least \$1 billion market capitalization and derive at least 50% of their revenue in the latest fiscal year from countries outside Europe. The component securities are weighted in the Index, based on annual cash dividends paid with the following caps: maximum individual position capped at 5%, maximum sector weight capped at 25% and maximum country weight capped at 25%. S&P 500 Index: Capitalization-weighted index of 500 stocks selected by the Standard & Poor's Index Committee, designed to represent the performance of the leading industries in the U.S. economy.

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