

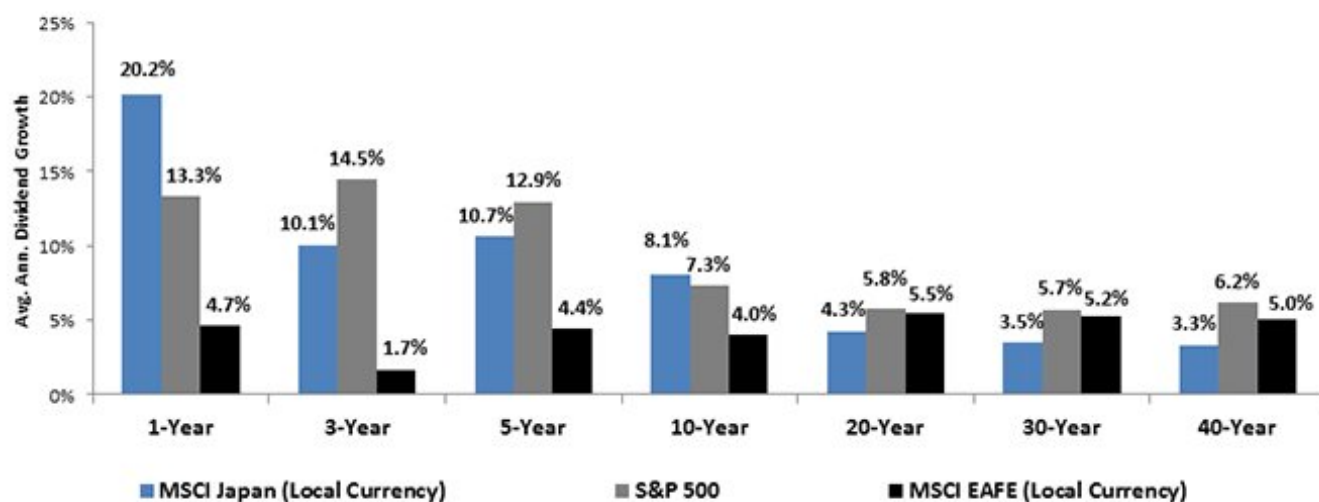
Capturing Quality and Dividend Growth In Japan

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Jeremy Schwartz, CFA

Global Chief Investment Officer

Japanese equities have been among the best performing global markets since late 2012.¹ The depreciation of the yen and the rise in equity prices have been widely noted. But looking under the hood, we've noticed another important change occurring in Japan. Japanese policy makers are attempting to break the stigma of Japan's perennially low return on equity (ROE) to help revitalize their equity market. **How Might They Do It?** Japanese companies are known for keeping large cash balances—a practice well suited for deflation. Lowering these cash balances is one way to quickly increase ROE, and a powerful avenue to accomplish this would be increasing dividends. And while U.S. dividend growth has been tough to beat over the last year, Japan's looked even better: **Index Dividend Growth (2/28/1975 to 2/28/2015)**



Sources: MSCI, Professor Robert Shiller, 2/28/1975–2/28/2015. MSCI Japan and MSCI EAFE index dividend growth calculated in local currency so as to avoid the impact of fluctuating exchange rates. Period of 40 years selected to put the more current one- and three-year time frames into full historical context. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of indexes in the chart, please visit our [glossary](#). **How Can You Access It?** The [WisdomTree Japan Hedged Dividend Growth Index](#) focuses on quality metrics, connecting them to the potential for future dividend growth in Japanese equities. The key tenets of this Index methodology are: • **Forward Looking:** Half of the selection criteria for the WisdomTree Japan Hedged Dividend Growth Index are based

on long-term earnings growth expectations. Simply put, firms that exhibit faster earnings growth have, in our opinion, a chance to ultimately grow their dividends faster over time. • **Quality Focused:** The other half of the selection criteria are based on the average return on equity and return on assets (ROA) over the past three years. By looking at both, we can mitigate the risk of becoming exposed to highly leveraged firms. • **Currency Hedged:** Central bank policies—in particular those of the Bank of Japan (BOJ)—may lead to increased risk of fluctuating currency values. This Index hedges the impact of changes in the value of the yen against the U.S. dollar to mitigate this potential issue. **How Does This Index Look against the JPX-Nikkei Index 400?** On January 6, 2014, the Tokyo Stock Exchange began calculating a new index, the JPX-Nikkei Index 400. Instead of simply including listed companies and weighting them by market capitalization, this index was among the first in Japan to select companies based on measures of profitability, corporate governance and other factors meant to incentivize “investor-friendly” practices.² A new index is one thing, but even more important is the fact that the Government Pension Investment Fund (GPIF) and the Bank of Japan (BOJ) are buying equities with the goal of tracking the performance of this index. These are some of the biggest players in Japan leading by example and putting in a wall of liquidity for firms that gain inclusion. One of the critical early questions we asked was how the WisdomTree Japan Hedged Dividend Growth Index compares to the JPX-Nikkei Index 400. We found that³: • More than 97% of the weight of the WisdomTree Japan Hedged Dividend Growth Index is in stocks that are also included in the JPX-Nikkei Index 400. Since both indexes focus on quality and profits—albeit in different ways—this did not surprise us. • Return on equity for the WisdomTree Japan Hedged Dividend Growth Index (10.2%) was slightly higher than it was for the JPX-Nikkei Index 400 (9.5%), but the return on assets (ROA) figure for the WisdomTree Index (3.0%) was about twice that of the JPX-Nikkei Index 400 (1.6%), leading to almost 45% lower leverage. An interesting point on the subject of leverage: the WisdomTree Japan Hedged Dividend Growth Index had less than 4% weight to Financials, whereas the JPX-Nikkei Index 400 had 18.0% weight to this same sector, certainly a notable difference. **Introducing the WisdomTree Japan Hedged Dividend Growth Fund (JHDG)** The [WisdomTree Japan Hedged Dividend Growth Fund \(JHDG\)](#) is designed to track the performance of the WisdomTree Japan Hedged Dividend Growth Index. We are excited to add this tool to our Japan toolkit in order to give investors more options to think about what is happening in Japan as well as how they might like to express their views in a portfolio context. ¹Source: Bloomberg, with data from 11/30/12 to 2/28/15. ²Source: Tokyo Stock Exchange JPX-Nikkei Index 400 information page, as of 3/6/15. ³Source for the below bullets is Bloomberg, with data as of 2/28/15.

Important Risks Related to this Article

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. Funds focusing their investments on certain sectors increase their vulnerability to any single economic, regulatory or sector-specific development. This may result in greater share price volatility. The Fund focuses its investments in Japan and can be impacted by events and developments in Japan that can adversely affect performance. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. The Fund uses various strategies to attempt to minimize the impact of changes in the Japanese yen against the U.S. dollar, which may not be successful. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects 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. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.