

How to Invest in European Equities in 2015

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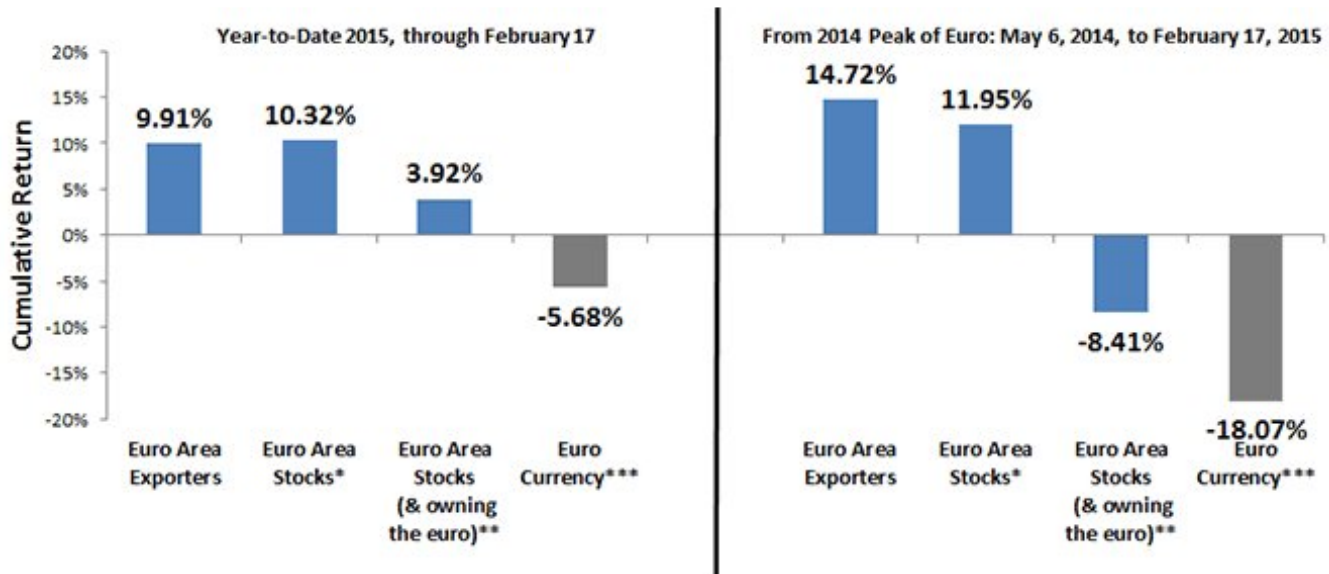
Global Chief Investment Officer

Europe has been one of the most exciting equity markets in 2015. With the [S&P 500 Index](#) up 2.30% through February 17, 2015, euro-area stocks in local currency¹ are up 10.32%². It's important to note that these same stocks in U.S. dollar terms are only up 3.92%³, due to the significant depreciation of the euro that we've witnessed. It's precisely this difference that has created a desire among investors to own euro-area equities⁴ without layering on the additional risk of the euro. The [WisdomTree Europe Hedged Equity Fund \(HEDJ\)](#) has been a prime vehicle through which to express this theme, taking in more than [\\$4.3 billion in 2015 through February 13](#).⁵

Euro Depreciation Can Give Euro-Area Exporters an Advantage HEDJ tracks the performance of the [WisdomTree Europe Hedged Equity Index \(euro-area exporters\)](#), an Index that is primarily executing two systematic investment actions in its rules-based methodology:

- **Removing the Risk of the Euro:** Currency movements are difficult to predict, especially in the short term, but we believe that European Central Bank president Mario Draghi's blockbuster announcement of an open-ended quantitative easing program on January 22, 2015, makes it difficult to build a case for euro strength. Why own this source of risk?
- **Focusing on Exporters:** Every constituent of the WisdomTree Europe Hedged Equity Index must generate more than 50% of its revenues from outside Europe. As the euro depreciates, we believe these companies have the greatest potential to see their goods and services become less expensive to their international customers. We also believe that global multinationals offer good potential case studies of instances where profit growth can look quite different from economic growth, which we know for the euro area has been lackluster.

How Effective Has Focusing on Euro-Area Exporters Been? We know that the euro has been depreciating against the U.S. dollar, so for the moment let's put that part of the methodology aside and ask a simple question: Have we seen any benefit from focusing this Index on European exporters? Below we compare euro-area exporters to euro-area equities⁵ to find out.



*Euro Area Stocks: Refers to the returns of the MSCI EMU Local Currency Index universe.

**Euro Area Stocks (& owning the euro): Refers to the returns of the MSCI EMU Index in U.S. dollars, which takes any movements of the U.S. dollar versus the euro into account.

***Euro Currency: Refers to the performance of the euro currency versus the U.S. dollar.

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

For definitions of indexes in the chart, visit our [glossary](#). 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. 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. **Average Annual Returns, as of December 31, 2014**

Fund Ticker	Fund Exp. Ratio	WisdomTree Inception Date	Total Returns (NAV)					Market Price			
			1-Year	3-Year	5-Year	Since HEDJ Inception Date	1-Year	3-Year	5-Year	Since HEDJ Inception Date	
WisdomTree Europe Hedged Equity Fund	HEDJ	0.58%	12/31/2009	6.55%	14.90%	7.25%	7.24%	4.78%	14.37%	7.12%	7.12%
Spliced Market Cap-Weighted Benchmark ¹				4.32%	14.74%	6.82%	6.82%	4.32%	14.74%	6.82%	6.82%
WisdomTree Europe Hedged Equity Index		7/2/2012		7.11%	N/A	N/A	N/A	7.11%	N/A	N/A	N/A
MSCI EMU Local Currency Index				4.32%	15.36%	6.00%	5.99%	4.32%	15.36%	6.00%	5.99%

¹Spliced Market Cap-Weighted Benchmark: MSCI EAFE Local Currency Index through 8/29/12, MSCI EMU Local Currency Index thereafter.

Sources: WisdomTree, Bloomberg.

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.

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• **From 2014 Euro Peak:** We believe that this has been one of the most critical tests of the methodology of euro-area exporters since its July 2, 2012, inception⁶. The euro depreciated more than 18% from May 6, 2014, to February 17, 2015. Euro-area exporters were up 14.72%—with a 2.77% cumulative outperformance of euro-area stocks. It's worth noting that owning euro-area stocks (and owning the euro) would have seen the positive returns of the equities wiped out, stressing the difference between layering and not layering on the euro currency risk⁷. **Companies Begin to Report Their 2014 Full-Year Results** During the first few weeks of February 2015, we saw the first companies within the top 20 holdings of the WisdomTree Europe Hedged Equity Index report their results. • **Daimler⁸** : Announced record levels of unit sales, revenue and earnings on February 5. The company's highest-ever dividend was also proposed. • **Sanofi⁹** : Announced currency impact turning positive with respect to net sales and business earnings per share during fourth quarter 2014. Proposed 21st consecutive annual dividend increase. • **LVMH¹⁰** : Announced currency impact turning positive with respect to evolution of revenues during fourth quarter 2014. We plan to detail some of these results further in future blogs, but it's worth emphasizing that even with the euro area's lackluster economic growth, signs are pointing to the potential for global multinationals to deliver strong results. ¹Refers to the MSCI EMU Local Currency Index universe. ²Source: Bloomberg, with performance measured from 12/31/14 to 2/17/15. ³Refers to the MSCI EMU Index with returns measured in U.S. dollars, from 12/31/14 to 2/17/15. ⁴Euro-area equities or euro-area stocks refers to the performance of the MSCI EMU Local Currency Index. ⁵Sources: WisdomTree, Bloomberg, with period measured from 12/31/14 to 2/13/15. ⁶Refers to the WisdomTree Europe Hedged Equity Index. ⁷Layering refers to the additional risk currency can add to a portfolio ⁸As of 2/6/15, Daimler represented a 4.78%

weight within HEDJ. 9As of 2/6/15, Sanofi represented a 4.53% weight within HEDJ. 10As of 2/6/15, LVMH represented a 2.93% weight within HEDJ.

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. 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 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. 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. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.