

Introducing the WisdomTree Korea Hedged Equity Index

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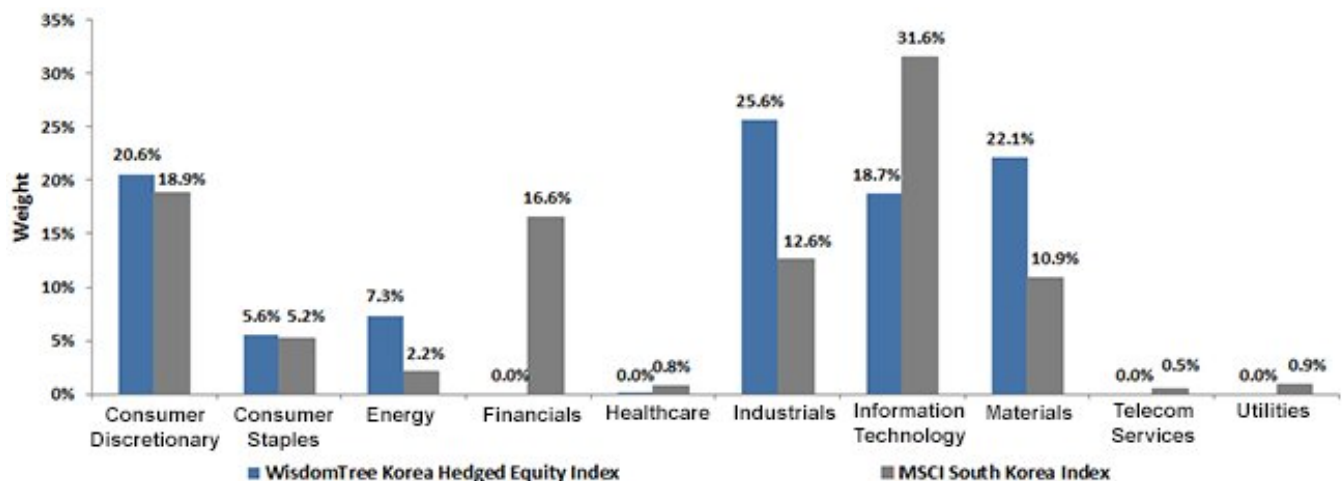
Growing Appeal of Currency Hedging Back in 2009, WisdomTree developed its first Index that was designed to hedge the performance of developed market currencies in a developed world, MSCI EAFE-like universe¹. While the concept of currency hedging was not novel or unique to WisdomTree, there was a dearth of investment strategies offering such exposure to U.S. investors, and WisdomTree was a pioneer in launching such strategies in the exchange-traded fund (ETF) structure. **WisdomTree's First Hedged Currency Index for an Emerging Market Country** Up to this point, WisdomTree's hedged currency strategies have focused on developed market currencies, given their liquidity and relatively inexpensive cost of hedging². But Korea is an interesting market for hedging currency for four primary reasons: 1) Exports are important to Korea, with almost 60% of its gross domestic product (GDP) coming from exports. A declining currency could potentially be particularly helpful for Korean profits. 2) Korea's exports share a high degree of overlap with Japan's. Korea is arguably the country that would be most impacted by Shinzo Abe's programs to stimulate Japan's economy, which have resulted in a weaker yen. If the yen continues to weaken considerably, Korea may have to counteract these measures, in which case a currency-hedged option could become more important for Korean equities. 3) Hedging currency risk has the potential to significantly reduce volatility. 4) South Korea is also a prominent exposure in the MSCI Emerging Markets Index—nearly 16%—second only to China, making it an important market in broad benchmarks.³

Introducing the WisdomTree Korea Hedged Equity Index The WisdomTree Korea Hedged Equity Index (WTKRH) uses a rules-based process for selecting and weighting securities while managing the Korean won risk.

- The universe comprises the profitable companies incorporated in South Korea that are traded in Korean won, with a minimum market capitalization of \$1 billion
- Less than 80% of revenues derived from within South Korea
- Weighting: Annually rebalanced to the *Earnings Stream* (net income) in latest fiscal year
- A 10% cap to any individual security, and a 4.5% cap to the second-largest individual security at the time of the annual Index rebalance
- A cap of 25% to any individual sector at the time of the annual Index rebalance⁴

South Korea, like India, is a country that pays out a relatively small percentage of its earnings as dividends. Thus, in the case of both India and South Korea, WisdomTree uses the total dollar value of earnings (the *Earnings Stream*) to anchor Index constituent weights and most broadly reflect the fundamentals of those markets.

Differences in Sector Weight Compared to MSCI South Korea Index WisdomTree's approach with WTKRH led to very different sector weights than the MSCI South Korea Index, as of September 30, 2013. **Sector Exposures of MSCI South Korea Index vs. WTKRH (as of 9/30/2013)**



Sources: Standard & Poor's, MSCI. You cannot invest directly in an index. Subject to change.

• **Financials:** The most notable under-weight for WTKRH (due to its local market bias) is in the Financials sector, where the Index actually has no exposure but the MSCI South Korea Index has almost 17%. • **Industrials and Materials:** The two most notable over-weights for WTKRH are in the Industrials and Materials sectors. WTKRH has about twice the weight of the MSCI South Korea Index in each respective sector. It's interesting to note what some of the largest holdings in these sectors in WTKRH actually do. • **Large Industrial Base:** Hyundai Heavy Industries is a large industrial and has been the world's number one shipbuilder since 1983.⁵ In fact, 40% of its revenues come from the export of ships—specifically transporters of liquefied natural gas, containerships and drillships.⁶ • **Firms such as Daelim and POSCO** are also interesting to us because of the variety of their subsidiaries. For example, Daelim has involvement in powerplant construction around the world, whereas POSCO was recently able to ensure that it could produce the 313 different types of sheet metal required by Japanese automakers.⁷ • **Information Technology:** The Information Technology sector represents another significant under-weight for WTKRH vs. the MSCI South Korea Index, due to both the sector and individual security caps. **Conclusion** At WisdomTree, we are excited to expand our family of currency-hedged indexes from Japan to Europe, to the United Kingdom, Germany and now Korea. As investors consider the type of equity exposure they add to their portfolio, we see a growing awareness about undesired bets on currency changes—when it is equity markets that are viewed as the real opportunities. We believe that currency-hedged strategies are an important new tool in the toolbox, providing unique equity market exposures. *For current holdings of the WisdomTree Korea Hedged Equity Index, please click [here](#).* ¹Refers to the WisdomTree DEFA Hedged Equity Index, which consisted of exposures to developed world equities and currencies such as the euro, Japanese yen, British pound, Danish krone, Norwegian krone, Swedish krona and others. ²Relatively inexpensive cost of hedging: Refers to how across many developed markets, such as Japan, the United Kingdom and the euro area, central banks are making efforts to keep short-term interest rates at low levels that are quite similar to those in the United States. ³Source: MSCI, as of 9/30/2013. ⁴Between annual rebalances, individual security and sector weights may fluctuate above 10%, 4.5% and 25%, respectively. ⁵Source: Hyundai Heavy Industries Annual Report 2012. ⁶Source: Bloomberg, as of 9/30/2013. ⁷Sources:

POSCO 3Q 2012 Operating Performance Investor Presentation (October 23, 2012) and Daelim Industries 2012 Annual Report.

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments focusing on specific regions or countries increase the impact of events and developments associated with the region or country, which can adversely affect performance. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. 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.