

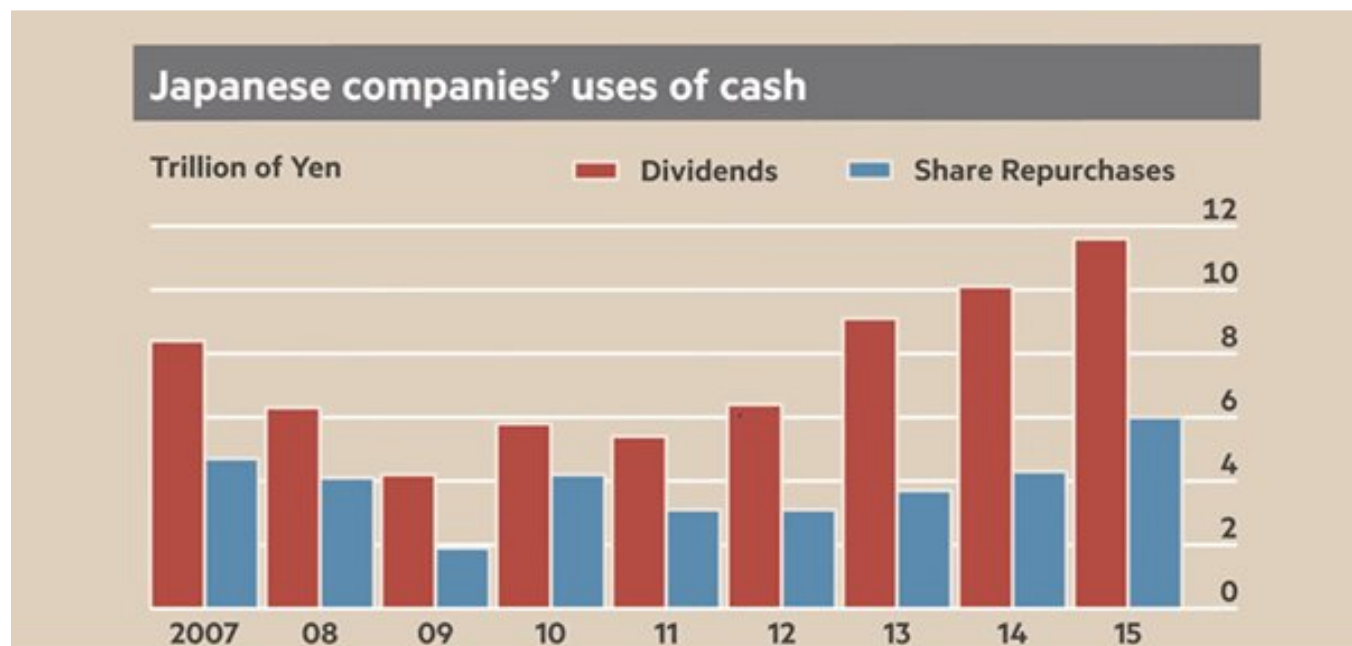
What Equity Market Is 30% Cash?

Published February 29, 2016

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In January, the Bank of Japan (BOJ) announced it would charge banks interest for depositing any new excess reserves that they store with the Japanese central bank. By putting a policy of negative interest rates into effect, the Bank of Japan continues its aggressive monetary policy in an attempt to stimulate economic activity inside Japan and generate 2% inflation. As global markets sold off in the past few weeks, the yen has rallied, as it traditionally does when risk comes out of the market. But the BOJ's controversial move to take rates into negative territory—which has extended 10 years out on the Japanese government yield curve—could put renewed pressure on the yen should Japanese investors search for higher yields on sovereign debt outside Japan. Foreign currencies with more attractive interest rates, including U.S. Treasuries, could see increased demand, weakening the yen and further aiding Japanese companies by increasing the attractiveness of their exports. While the debate over the future direction of the yen rages on, there is no debate about what Abenomics has meant for Japanese corporations. Corporate profits of listed companies have doubled over the past four years, and cash and equivalents on Japanese balance sheets have risen to approximately 110 trillion yen (\$1 trillion) over that period. That represents an estimated 30% of the total market capitalization of the Tokyo Stock Exchange.¹ With all this cash waiting to be deployed, and the TOPIX currently trading at close to 14 times trailing earnings, Japan remains, in our view, an equity market exhibiting excellent value. The most recent economic data suggests that Japanese wage growth—one of the key goals of the Prime Minister Shinzo Abe—is occurring. However, the Japanese consumer has been saving that money instead of spending it, perhaps in preparation for another pending sales tax hike in Japan. But one aspect of Abenomics that is impacting markets right now is the changes in corporate stewardship codes that are encouraging executives to increase return on equity (ROE) and returns for shareholders. In the fourth quarter of 2015, share buybacks in Japan were the highest they've ever been, and aggregate dividends grew by more than 13% over the past year. The chart below shows how the pace of share buybacks and dividend payments has accelerated in Japan since 2012.



Sources: WisdomTree Japan, Tokyo Stock Exchange, as of 1/25/16. Past performance is not indicative of future results.

When companies buy back their stock or pay out dividends to their shareholders, they, in effect, reduce shareholder equity, the denominator in the ROE ratio. This has the effect of increasing the ROE margin for each incremental yen of profit. And with record levels of cash now sitting inside corporate coffers, we believe robust share buybacks and dividend growth are likely to continue in Japan through the remainder of Abe's term. **Japan Quality Dividend Growth ETFs: Both Yen Hedged or Unhedged** Looking at the performance of the various Japan benchmarks, it is clear the stock selection process underlying WisdomTree's quality dividend growth strategy has been adding value since WisdomTree started to calculate the [WisdomTree Japan Quality Dividend Growth Index](#) in March 2014. Since its inception, this Index has outperformed both the unhedged MSCI Japan Index and the JPX-Nikkei Index 400, a so-called "smart beta" Index that selects companies based on quantitative screens including ROE and operating profits. **Average Annual Total Returns as of 12/31/2015**

Index	WT Index Inception	1 Year	Since WisdomTree Index Inception
WisdomTree Japan Quality Dividend Growth Index	3/3/2014	13.08%	7.22%
JPX-Nikkei Index 400*		10.08%	5.84%
MSCI Japan Index		9.57%	5.31%

*The JPX Nikkei 400 Index has been converted from JPY Net Returns into USD Net Returns using a daily spot (USD vs JPY) conversion rate as per Bloomberg's closing prices.

Sources: WisdomTree, Bloomberg and Nikkei as of 2/18/2016. 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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

Conclusion For investors interested in tapping into this trend in Japan, WisdomTree recently launched two new exchange-traded-funds (ETFs) that select Japanese companies that have exhibited high ROE and high return on assets (ROA) through a quality growth selection process. WisdomTree weights the stocks in the portfolio annually based on the cash dividends companies have paid in the prior year, in effect rewarding companies that grow their dividends with greater weights. WisdomTree offers hedged and unhedged versions of this strategy. The [WisdomTree Japan Quality Dividend Growth Fund \(JDG\)](#) seeks to provide exposure to higher-quality stocks in Japan that may be positioned to grow their dividends faster than the broader Japanese market. For investors looking to get the same strategy in a currency-hedged format, WisdomTree also offers the [WisdomTree Japan Hedged Quality Dividend Growth Fund \(JHDG\)](#). JHDG owns the same stocks as JDG, but it rolls forward contracts at the end of the each month to mitigate the impact that currency fluctuations in the yen have on the performance of the Fund. 1Sources: WisdomTree Japan, Tokyo Stock Exchange, as of 1/25/16.

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 may be more vulnerable to any single economic, regulatory or sector-specific development. This may result in greater share price volatility. The Funds focus their investments in Japan, which can be impacted by the 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.

JHDG 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 these Funds can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers. The Funds invest in the securities included in, or representative of, their Indexes regardless of their investment merit, and the Funds do not attempt to outperform their Indexes or take defensive positions in declining markets. Due to the investment strategy of the Funds, they may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.