AN OUTPERFORMING JAPAN DIVIDEND GROWTH STRATEGY

Jeremy Schwartz — Global Chief Investment Officer
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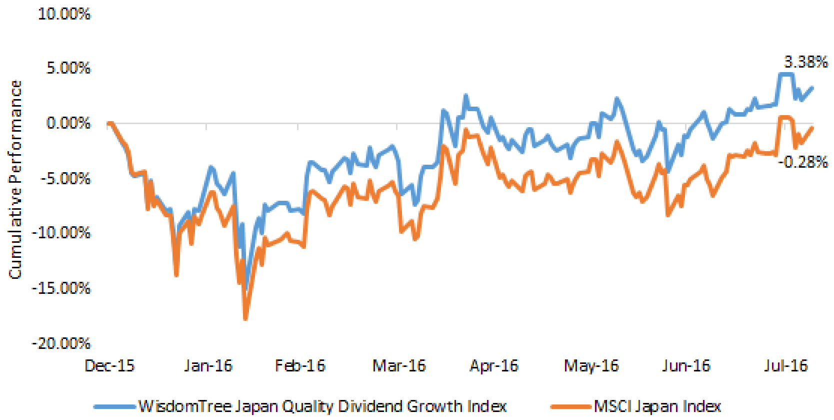
Prior to Prime Minister Shinzo Abe coming to power in 2013 and the implementation of his aggressive fiscal and monetary policy, also known as "Abenomics," Japan did not compare favorably to other major developed markets in terms of shareholder rewards, either dividends or buybacks. Although Japanese companies have, on a historical basis, been among the most prodigious cash generators in the developed world, they have also been tight-fisted with that cash compared to their counterparts in the U.S. or the UK. A key element to Abenomics, the effort's third arrow, is private sector structural reform. That effort is still in its nascent stages, but we see evidence that Japanese companies are responding to efforts aimed at shoring up allocation of capital. In anticipation of increased monetary stimulus from the Bank of Japan (BOJ), Japanese stocks rallied last month after trailing broader developed market benchmarks for much of this year. However, Japanese dividend growers outperformed during the rough patch for Japan's equity markets. As the chart below highlights, the WisdomTree Japan Quality Dividend Growth Index outperformed the MSCI Japan Index by more than 350 basis points (bps) for the year ended August 8.[1]

Year-to-date Outperformance



Sources: WisdomTree, Bloomberg, 12/31/15–8/8/16. 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.

Knowing that dividends are on the rise in Japan is only one part of the equation. Identifying the sectors with the best combinations of recently impressive payout growth and the most potential to consistently pay dividends over the long term is critical. The WisdomTree Japan Quality Dividend Growth Fund (JDG) is designed to track the aforementioned WisdomTree Japan Quality Dividend Growth Index after fees and expenses. This strategy uses WisdomTree's forward-looking dividend growers stock-selection methodology, which allows investors to access higher-quality Japanese dividend payers while potentially lowering portfolio volatility. Clearly, the aim of JDG is to offer investors a viable strategy for identifying the best opportunities of future dividend growth in Japan. However, JDG also has had a favorable advantage on current dividend yield as it sported a dividend yield that was 30 bps higher than the MSCI Japan Index as of August 8.[2]

Weighted Dividends

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performance of JDG. Focusing on dividend growth, we see advantages in JDG's methodology. In fact, the dividend growth rate of companies in JDG topped that of the MSCI Japan Index over the trailing one-, three- and five-year periods. The average dividend growth in JDG is nearly 14.3%, more than 40 percent above MSCI Japan's dividend growth trajectory. Since the implementation of Abenomics three years ago, weighting Japanese stocks by dividends has proved particularly advantageous as JDG delivered dividend growth of 17 percent, compared to around 12 percent by the MSCI Japan Index. Sector allocations underscore some of JDG's dividend advantage. Just look at Japanese Consumer Discretionary names, which are predominantly exporters. JDG's weight to that group is currently more than 300 basis points than what is found in the MSCI Japan Index. If we isolate the discretionary names in JDG, we not only find a higher dividend yield than the comparable group in the MSCI Japan Index, but superior dividend growth over the trailing one-, three- and five-year periods. **To Hedge or Not to Hedge?** When considering international investments, many investors think only about equity risk, often not realizing that in an unhedged investment they are also making a currency bet. That potentially diminishes returns during times of yen weakness. At WisdomTree, we believe the yen is poised to remain structurally weak over the long term. The WisdomTree Japan Hedged Quality Dividend Growth Fund (JHDG), which is designed to track the WisdomTree Japan Hedged Quality Dividend Growth Index after fees and expenses, is one avenue to tap that theme. A 50/50 strategy with both JDG and JHDG can be employed as another strategy that hedges a portion of the yen risk but keeps some in the event it strengthens. **Conclusion** WisdomTree has been providing investors with efficient, low-cost[3] access to Japanese equities for more than a decade, and we've been expanding and refining that toolbox over the past several years. With Japan delivering some of the best dividend growth in the developed world over the past several years, investors looking to access that trend can consider the WisdomTree Japan Quality Dividend Growth strategies. [1]Sources: Bloomberg, WisdomTree. [2]Source: WisdomTree data, FactSet, as of 8/8/16. [3]Ordinary brokerage commissions apply.

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DEFINITIONS

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Dividend : A portion of corporate profits paid out to shareholders.

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

Third arrow policies : The part of Japan's Abenomics process of reform that is focused on structural changes intended to promote economic growth.

MSCI Japan Index : A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.

Basis point : 1/100th of 1 percent.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.