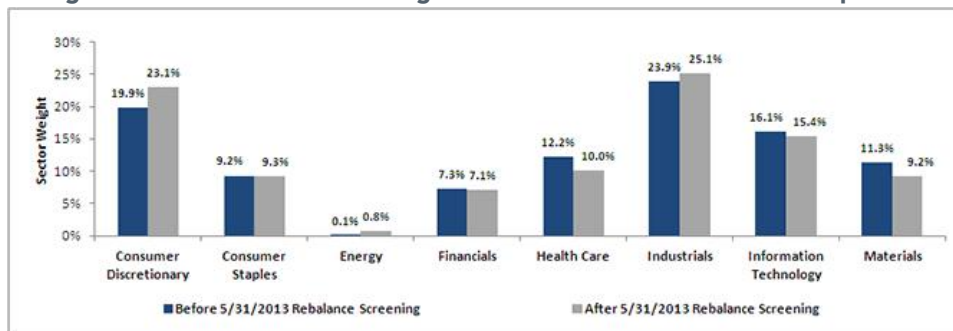


# IMPACT OF 2013 REBALANCE: WISDOMTREE JAPAN HEDGED EQUITY INDEX

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Japan has been a big focal point for global equity markets in 2013. As the yen depreciated approximately 14% through May 31, the [WisdomTree Japan Hedged Equity Index](#)—an Index specifically designed to mitigate the risk of exchange rate movements—has returned nearly 30%. (Please note that past performance is not indicative of future results.) **Annual Rebalance** A crucial point of the methodology behind the WisdomTree Japan Hedged Equity Index is a yearly (May 31) screening and rebalance, taking place in June, that focus on: • **Global Revenue Streams:** To gain membership in the WisdomTree Japan Hedged Equity Index, firms must derive less than 80% of their revenues from inside Japan. This gives the Index its tilt toward exporters, and this revenue screen is run once per year to determine the firms that are eligible for membership. • **Dividend Growth vs. Price Movement:** Once constituent eligibility is determined, constituent weighting is based on the concept of [relative value](#). Typically: o Firms whose share prices have appreciated significantly but whose dividends have remained stable or declined will tend to see decreases in weight. o Firms whose share prices have declined or remained stable but whose dividends have increased will tend to see increases in weight. These two factors ultimately determine the changes seen at the annual rebalance, and we believe that they keep the Index focused on global companies and help steer it away from firms that may have seen big run-ups in share price but whose fundamental value reflected by their dividend payments may not have grown commensurately. **Generally Small Shifts in Sector Weights** At the May 31, 2013, rebalance screening, changes in sector weights were relatively minor.

**Changes in Sector Weights for WisdomTree Japan Hedged Equity Index**

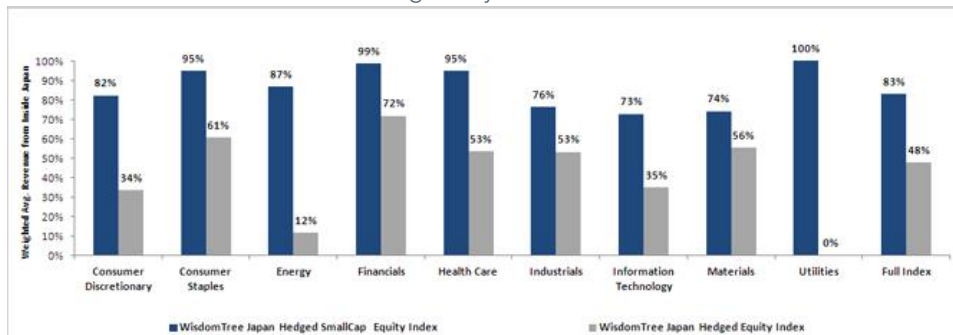


Sources: WisdomTree, Standard & Poor's; as of 5/31/13  
You cannot invest directly in an Index. Holdings subject to change.

## • Additions in Weight:

Consumer Discretionary was the greatest addition at 3.2%, with the greatest single company addition being Fast Retailing Co., a .84% weight. This is an apparel company best known for its Uniqlo brand. The Consumer Discretionary sector, among large-cap exporters, is also one of the most globally sensitive sectors in Japan once the export filter is applied (as discussed below). Industrials was the second-greatest addition in weight, with a 1.2% increase, with Mitsubishi Corp. and Japan Airlines Co. being the two largest single company additions in this sector, at 2.67% and 1.01%, respectively. • **Reductions in Weight:** Health Care and Materials represented the two greatest reductions in weight, at 2.2% and 2.1%, respectively. • **Utilities and Telecommunications:** These two sectors contain firms that tend to derive more than 80% of their revenues from inside Japan. Since the implementation of the 80% revenue filter for this Index on November 30, 2012, no firms from either of these sectors have qualified for inclusion, which is why neither is shown in this chart. **Japan's Global Revenue Generators** In the chart that follows, we compare the weighted average revenues from inside Japan of the constituents of the [WisdomTree Japan Hedged SmallCap Equity Index](#) and the

WisdomTree Japan Hedged Equity Index. This is a useful comparison because, while both Indexes consist solely of dividend-paying companies, the small-cap Index does not filter out firms that generate more than 80% of their revenues from inside Japan. These two Indexes are designed to provide contrasting and complementary exposures: the small-cap one is focused on stocks more sensitive to the underlying local Japanese economy, and the export-tilted Japan Hedged Equity Index is focused on those with a global revenue base. Within every sector, the revenue filter applied to determine constituent eligibility led to lower weighted average revenues being generated from inside Japan, thereby indicating that its constituents are more globally focused in their revenue base. **Revenues from Inside Japan**



Sources: WisdomTree, Bloomberg, Standard & Poor's, as of 5/31/2013. Subject to change.

• While the WisdomTree Japan Hedged SmallCap Equity Index derives 83% of its weighted average revenues from inside Japan, the WisdomTree Japan Hedged Equity Index derives a little more than half that (48%) from inside Japan. **Conclusion** Japan is gaining attention primarily due to government activities aimed at promoting economic growth. When people consider how these policies might impact equity markets, we recommend taking a step back and noting the bigger picture. If one is interested in equities sensitive to domestic Japanese demand, the [WisdomTree Japan Hedged SmallCap Equity Index](#) clearly has more of its revenues coming from inside Japan. However, if one is interested in equities characterized by global revenue streams, the [WisdomTree Japan Hedged Equity Index](#) could better represent that economic view.

**Source is Bloomberg unless otherwise noted.**

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## **DEFINITIONS**

**WisdomTree Japan Hedged Equity Index** : Index designed to provide exposure to Japanese equity markets while at the same time neutralizing exposure to fluctuations of the Japanese yen movements against the U.S. dollar. Constituents are dividend-paying companies incorporated in Japan that derive less than 80% of their revenue from sources in Japan. Weighting is by cash dividends paid.

**Relative value** : The relationship between a particular attribute, e.g., a dividend, and the firm's share price compared to that of another firm.