EURO HEDGING STARTS TO WORK IN 2014

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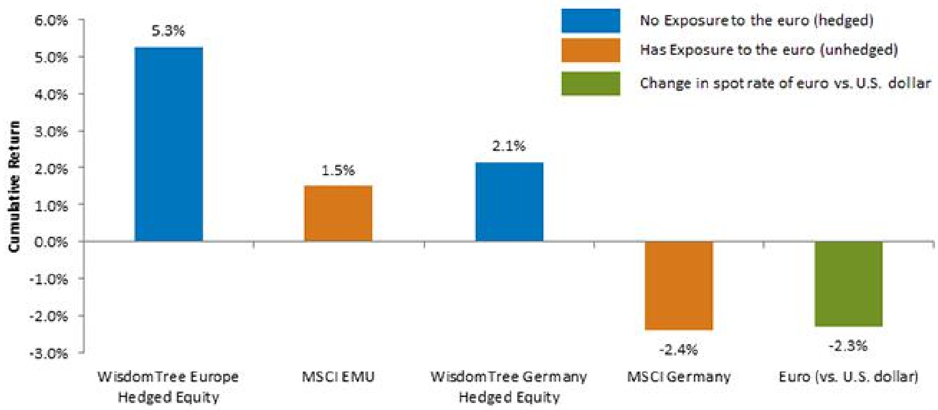
At his May 8, 2014, press conference, European Central Bank president Mario Draghi stated, "I can say one thing: that certainly the strengthening of the euro in the context of low inflation and still low levels of economic activity is, as I said, a cause for serious concern in the view of the Governing Council."[1] Since that time, the euro has depreciated, and we believe that, even if it is not explicitly stated, the level of $1.40 is a proverbial line in the sand for Draghi. The good news for Draghi is that the euro's strength has started to abate—which means euro currency-hedged strategies are starting to work and should become a greater focus for U.S. investors looking to capitalize on the European equity opportunities. **European Central Bank Took Decisive Action; Euro Finally Reacting** On June 3, 2014, Draghi announced a set of actions aimed at helping the eurozone economy continue on the path of recovery. We wrote about them here. As is often the case with central bank policy, it takes some time for the impacts of policy changes to become apparent. The euro hadn't really moved much from June 3, 2014 ($1.3628),[2] all the way up to July 14, 2014 ($1.3619). By July 25, 2014, it dropped to $1.3430. While some might say that doesn't seem like much, on a technical (or price-pattern) basis, there has been a deterioration of the euro's stubborn strength: • The euro's 50-day moving average crossed below its 100-day moving average on June 13, 2014. • On July 4, 2014, the euro's 50-day moving average crossed below its 200-day moving average. While technical signals by no means predict the future with certainty, they paint a picture for the deteriorating trends in euro price activity. **Importance of Currency Hedging** Any U.S. investor excited about the prospects of a European recovery should be thinking about two things when considering equity exposure to the eurozone: the equities and the currency. Today, tools exist to mitigate the impact of currency on returns. WisdomTree has created two such Indexes: • WisdomTree Europe Hedged Equity Index • WisdomTree Germany Hedged Equity Index Both provide exposure to equities without providing exposure to the euro. **WisdomTree's Euro-Hedged Indexes in 2014**



Source: Bloomberg, with data from 12/31/13 to 7/25/14. Past performance is not indicative of future results. You cannot invest directly in an index.

• **Euro Depreciates More Than 2%:** While the two WisdomTree Indexes hedge the impact of the euro, the two

MSCI Indexes shown do not. In a depreciating euro environment, this can be an important source of potential outperformance. • **Dividend-Weighted Focus on Exporters:** Both WisdomTree Indexes are weighted by dividends and focus on exporters within their respective universes. Of course, this orientation can also impact performance. **Zooming in on drivers of performance for WT Europe Hedged Equity vs. MSCI EMU:**[3] - **Financials:** Financials are currently the largest weight in the [MSCI EMU Index](#) (23.5%) but are only 13.0% of the WisdomTree Europe Hedged Equity Index. Both strong stock selection and a substantial under-weight to Financials contributed positively to performance. - **Consumer Staples:** Consumer Staples are the largest sector in the WT Europe Hedged Equity currently (21%) but are only 10% of the MSCI EMU. This was one of the best-performing sectors year-to-date, contributing positively to performance. These companies often are exporters that benefit from a weaker euro. - **Utilities:** Utilities were quite strong across the eurozone, but WT Europe Hedged Equity was hurt by being under-weight in this sector (2.6%) currently versus 6.5%. **Zooming in on WT Germany Hedged Equity vs. [MSCI Germany](#):** Additional outperformance came from strong stock selection within the Consumer Discretionary sector (average weight of more than 24%) and nearly double the weight to Germany's strongest-performing sector in 2014, Utilities (more than 8% average weight). Only two sectors—Materials and Consumer Staples—hurt relative performance.[4] **Blending Currency Hedging with Unhedged Approaches?** We've been writing about currency hedging for some time, and we continue to advocate that, if an investor isn't sure of the future direction of an international currency—in this case the euro—the baseline exposure should not be in a 100% unhedged approach. We've seen strong interest in currency hedging within the broader eurozone region, but those looking at the performance of German equities in particular have not yet embraced the hedged concept. Given European Central Bank policy and the trend of the euro, we believe it could be time to think about currency hedging of both broad, eurozone-related equities and German equities. [1]European Central Bank, transcript of May 8, 2014, remarks after monetary policy meeting. [2]Source: Bloomberg, for all euro exchange rates, as of specified dates. [3]Source for sub-bullets: Bloomberg, with performance data from 12/31/13 to 7/25/14, and current sector weights as of 7/25/14. [4]Source: Bloomberg, for period 12/31/13 to 7/25/14.

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You cannot invest directly in an index.

DEFINITIONS

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.

50-day moving average : Average of the prior 50 days' worth of price values, with an increasing trend indicating relative strength and a decreasing trend indicating relative weakness.

100-day moving average : Average of the prior 100 days' worth of price values, with an increasing trend indicating relative strength and a decreasing trend indicating relative weakness.

200-day moving average : Average of the prior 200 days' worth of price values, with an increasing trend indicating relative strength and a decreasing trend indicating relative weakness.

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

MSCI EMU Index : A free float-adjusted market capitalization-weighted index designed to measure the performance of the markets in the European Monetary Union.

MSCI Germany Index : Index weighted by float-adjusted market capitalization designed to measure the performance of the German equity market.