INTRODUCING CURRENCY HEDGING TO GLOBAL EX U.S. REAL ESTATE

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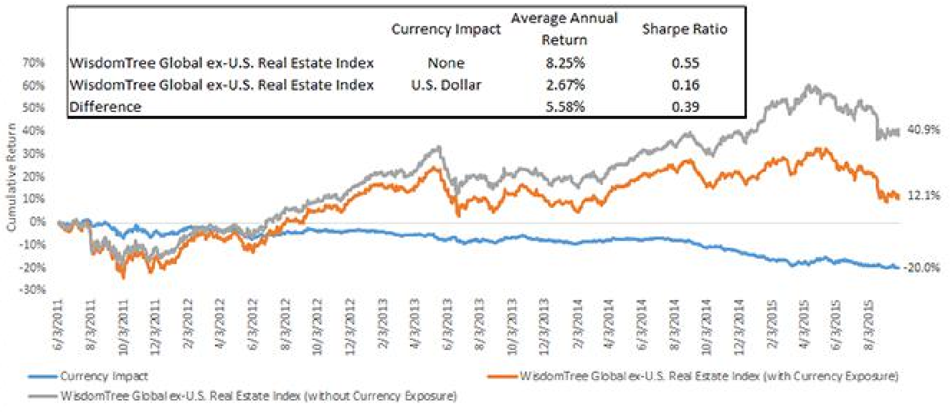
At WisdomTree, we introduced in 2009 the concept of currency-hedged equities to the exchange-traded fund (ETF) structure—a concept that caught fire subsequent to the introduction of Abenomics in Japan in late 2012.[1] Since then, similar excitement has taken hold of eurozone equities and is beginning to take hold more broadly in developed international equities.[2] The Bottom Line: We believe investors have awakened to the "currency factor," which we've seen can have rather significant impacts on the risk /return profile of different investments over time. **Currency Hedging Meets Global ex-U.S. Real Estate** Real estate occupies an interesting asset class in the current market environment. One of the more attractive potential attributes of real estate is that of rising income streams, thereby providing the potential to keep pace with inflation. We don't have notable inflation today, but all of the central bank policies that contribute to making currency hedging interesting may lead to higher inflation in the future. The current low-interest rate stance, seen from the perspective of developed market central banks, could, however, make the relatively higher dividend yields of real estate attractive presently, as income-generating assets. **The critical question:** Does global ex-U.S. real estate represent an interesting valuation opportunity today compared to other asset classes? If so, accessing it while seeking to neutralize the challenges and headwinds that could come from a stronger U.S. dollar could be of particular interest. **How Does WisdomTree Focus on Global ex-U.S. Real Estate?** At WisdomTree, we have a history of designing Indexes that weight securities by their fundamentals, and the case of the WisdomTree Global ex-U.S. Real Estate Index is no different. This Index weights each constituent by dividends paid. What does this mean? Well, the simplest way to see that is by looking at the difference in dividend yield versus a similar universe of securities[3]: • **FTSE EPRA/NAREIT Global ex US Index:** This Index has a dividend yield of approximately 3.3%, achieved by weighting constituents on the basis of float-adjusted market capitalization. • **WisdomTree Global ex-U.S. Real Estate Index:** This Index has a dividend yield of approximately 4.4%, achieved by weighting constituents on the basis of the income they generated over the prior annual cycle.[4] **Gauging the Attractiveness of Global ex-U.S. Real Estate** It's worth noting that, when looking at real estate globally, approximately 60% of the opportunity set is outside of the United States, as compared to equities broadly, where slightly more than half of the opportunity set lies abroad.[5] • **Low Interest Rates Could Continue:** Taking the top five country exposures in the MSCI AC World ex-US Index , we see the following 10-year government bond yields: Japan, 0.3%; United Kingdom, 1.8%; France, 0.8%; Switzerland, -0.33%; and Germany, 0.4%.[6] • **Real Estate Is Currently Interesting Compared to Fixed Income:** WisdomTree's Global ex-U.S. Real Estate Index weights constituents by the income they generate, and while the risk profile of these assets is different from that of government bonds, the current income advantage may be of interest. Comparing the aforementioned country exposures, we see: Japan, 1.64%; United Kingdom, 3.05%; France, 4.30%; Switzerland, 4.39%; and Germany, 2.59%.[7] **Don't Let Currency Movements Swamp the Attractiveness of the Asset**

Class We've written extensively about currency exposure having the potential to add uncompensated risk over time. The WisdomTree Global ex-U.S. Real Estate Index has been around for more than four years, so we looked to quantify the currency impact from a risk and return perspective over that period. **How WisdomTree's Index Has Performed during a "Strong Dollar" Period**



Sources: WisdomTree, Standard & Poor's, with data from 6/6/11 to 9/30/15. 6/6/11 corresponds to the inception date of the WisdomTree Global ex-U.S. Real Estate Index. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms in the chart, please visit our glossary. • On a cumulative basis, we see that the currencies represented in the WisdomTree Global ex-U.S. Index universe depreciated 20.0% over the period against the U.S. dollar. The difference in average annual returns between the WisdomTree Global ex-U.S. Index measured with currency and without currency impact amounted to nearly 5.6% per year. • On a risk-adjusted basis, we see that the Sharpe ratio increased by 0.39 when the impact of currency was excluded. **How to Strategically Allocate to Global ex-U.S. Real Estate** In reality, we understand that this period was characterized by dollar strength. However, we pose this question: Is an allocation to global ex-U.S. real estate being made in order to take advantage of a particular movement in currency compared to the U.S. dollar, or is the allocation more due to the attributes of the asset class, such as the income-generating potential? Since we think that exposure to the income-generating assets is of primary importance, we think that approaches designed to mitigate the impact of currency movements could be of interest, and that is why we created the WisdomTree Global ex-U.S. Hedged Real Estate Index. [1]Source: Bloomberg. [2]Developed international equities refers to the MSCI EAFE Index universe. [3]Source: Bloomberg, with data as of 10/28/15. [4]Refers to the period of payments occurring over the 12 months prior to September 30 of each year, the annual screening date for this Index. [5]Source: Bloomberg, with data as of 10/28/15. Real estate universes: FTSE EPRA/NAREIT Global ex US Index and FTSE EPRA/NAREIT United States Index. Equity universe: MSCI ACWI Index. [6]Source: Bloomberg, with data as of 10/28/15. [7]Source: Bloomberg, with data as of 10/28/15.

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Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

Investments in real estate involve additional special risks, such as credit risk, interest rate fluctuations and the effect of varied economic conditions.

For standardized performance and the most recent month-end performance click here NOTE, For more investing insights, check out our [Economic & Market Outlook]

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You cannot invest directly in an index.

DEFINITIONS

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

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.

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).

Currency Factor : Currency is one of the factors that affect the fund return.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

Inflation : Characterized by rising price levels.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

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

Float-adjusted market capitalization : Share price x number of shares outstanding, adjusted for the fact that in many emerging markets, not all of the shares outstanding regularly trade, which leads to a reduction in the number of shares outstanding used in the calculation.

MSCI AC World ex-US Index : Measures the performance of companies incorporated in both emerging markets and developed markets, excluding the United States. Index weighting is by market cap.

Risk-adjusted basis : When calculating the return, we refines the return by measuring how much risk is involved in producing that return.

Sharpe ratio : Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Annual screening date : The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

MSCI ACWI Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.