

NEW WAYS TO PLAY ABENOMICS

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There has been a great deal of excitement surrounding the economic policies of “Abenomics” that aim to end [deflation](#) in Japan and restore more positive economic growth. Since the election of prime minister Shinzo Abe at the end of 2012, billions of dollars have flowed into Japanese equities. Most allocations to Japan have come in the form of broad-based exposure vehicles, and there have also been increasing allocations to individual stocks. And in 2013, many broad-based indexes¹ delivered compelling returns. However, as Abenomics continues to gain traction and Abe makes more progress on his growth strategy for Japan (the “third arrow” of Abenomics), we believe that there will be an ongoing effort to distinguish the stocks and sectors most primed to benefit from the new government initiatives. While broad-based approaches should continue to serve many investors well, we believe there is also a place for more finely honed precision tools to express specific views regarding how Abenomics will play out. WisdomTree has developed five new Japan sector Indexes designed to be primary [beta benchmarks](#) for three Japanese investment themes stemming from Abenomics, which we describe in detail below. **WisdomTree’s Five Japan Sector Indexes** The three themes WisdomTree identified—and that broadly characterize our new sector Indexes—are reflation, Abe’s growth strategy and yen sensitivity. **Reflation** • [WisdomTree Japan Hedged Financials Index](#) • [WisdomTree Japan Hedged Real Estate Index](#) A critical component of Abenomics involves the [reflation](#) of financial assets. The Bank of Japan (BOJ) itself has stated its goal to suppress equity [risk premiums](#) by expanding its balance sheet to purchase exchange-traded funds and making direct investments into real estate investment trusts. The Japanese financial sector stocks and real estate-related companies are therefore part of a theme many refer to as “Japanese reflation.” **Abe’s Growth Strategy** • [WisdomTree Japan Hedged Health Care Index](#) • [WisdomTree Japan Hedged Tech, Media and Telecom Index](#) Abe has stated that health care is an important sector to contribute to Japan’s economic growth and that he wants to use it as part of his growth strategy. As technology companies should also receive a boost from new government initiatives supporting additional capital spending, we believe tech, media and telecom stocks are also poised to be beneficiaries of Abenomics growth strategies. **Yen Sensitivity** • [WisdomTree Japan Hedged Capital Goods Index](#) The capital goods sector, which we broadly define to include automobile companies and related suppliers, typically includes the most export-oriented stocks. These stocks are often most sensitive to changing exchange rates—so if the yen continues its slide, these stocks could benefit. **Conclusion** I believe 2013 marked the start of a multi-year bull market in equities, and I think there is investor demand for more specific executions on the Japan trade. With these new sector Indexes, WisdomTree has expanded the Abenomics tool kit from broad-based exposures—such as the ones represented in the [WisdomTree Japan Hedged Equity Index](#)—to more specific Japanese investment themes: reflation, Abe’s growth strategy and yen sensitivity. ¹Includes the MSCI Japan Index, MSCI Japan Local Currency Index, WisdomTree Japan Hedged Equity Index, MSCI Japan Small Cap Index and WisdomTree Japan SmallCap Dividend Index for period 12/31/2012 to 12/31/2013.

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DEFINITIONS

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.

Deflation: The opposite of inflation, characterized by falling price levels.

Beta benchmark: Characterized by measuring the performance of a particular universe of equities without attempting to utilize selection and weighting to generate differences in performance relative to this universe.

WisdomTree Japan Hedged Financials Index: An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese financial companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

WisdomTree Japan Hedged Real Estate Index: An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese real estate companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

Reflation: The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

Risk premium: Equity investments are not risk free, but it is thought that investors buy stocks because the returns they expect are high enough to allow them to take the risk.

WisdomTree Japan Hedged Health Care Index: An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese health care companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

WisdomTree Japan Hedged Tech, Media and Telecom Index: An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese tech, media and telecom companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

WisdomTree Japan Hedged Capital Goods Index: An index weighted by float-adjusted market capitalization, designed to provide exposure to Japanese capital goods companies while at the same time neutralizing exposure to fluctuations between the yen and the U.S. dollar.

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.