

2023 JAPAN INDEX REBALANCES

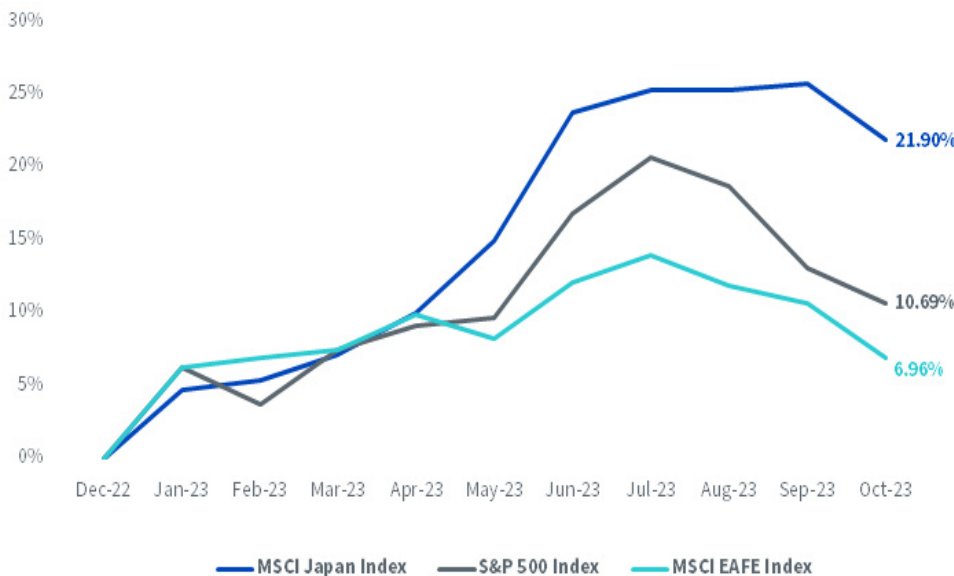
Hyun Kang – Research Analyst
11/10/2023

The Tokyo Stock Exchange (TSE) created a buzz earlier this year when it pushed listed companies to raise [price-to-book](#) ratios above one, warning that the securities of companies that fail to do so could face classification as “securities under supervision” or even delisting.

Though it is too soon to evaluate the results of the TSE’s efforts to improve corporate governance and capital efficiency, Japanese equities had a strong year of performance.

In local currencies, the [MSCI Japan Index](#) returned 21.90%, outpacing the [S&P 500 Index](#) by more than 11% and the [MSCI EAFE Index](#) by almost 15%.

Country/Region Returns, Japan vs. U.S. vs. EAFE

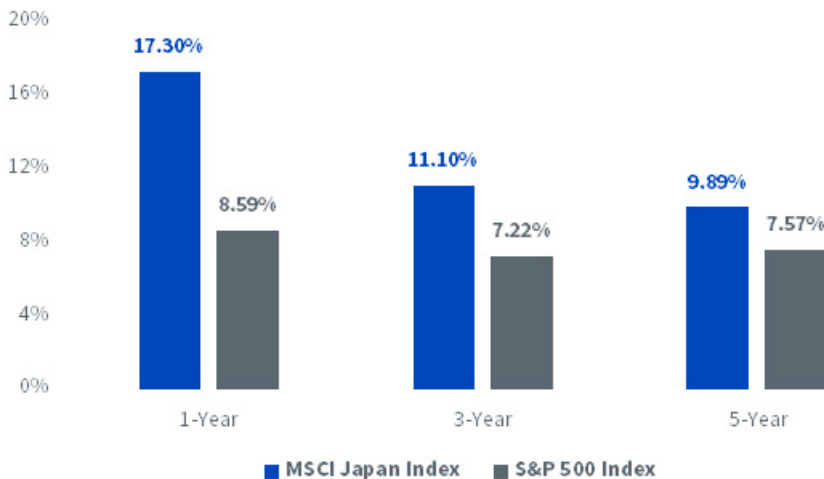


Sources: WisdomTree, MSCI, FactSet. Returns measured in net total returns in local currency for MSCI Japan and MSCI EAFE. Returns measured in gross total returns for the S&P 500. Data from 12/31/22–10/31/23. You cannot invest directly in an index. Past performance is not indicative of future returns.

One area of emphasis for activist investors in Japanese equities is getting companies to return excess cash to shareholders. This push seems to be working.

The weighted-average dividend growth for the MSCI Japan Index has consistently outpaced that of the S&P 500 Index over one-year, three-year and five-year periods.

Weighted Average Annualized Dividend Growth, MSCI Japan Index vs. S&P 500 Index



Sources: WisdomTree, MSCI, FactSet, as of 9/29/23. You cannot invest directly in an Index. Past performance is not indicative of future returns.

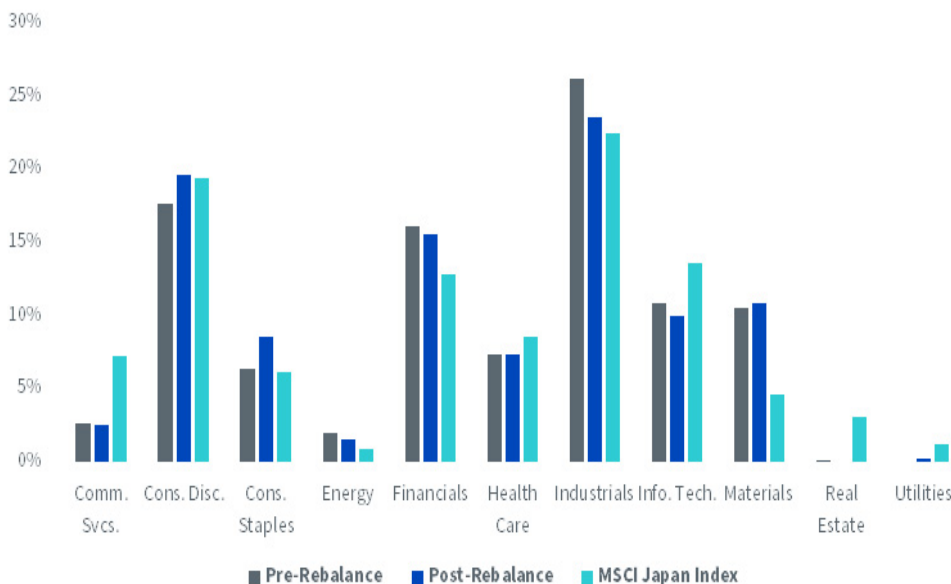
2023 Index Reconstitution: Japanese Equity Indexes

The reconstitution of the underlying Indexes of the [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#), the [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#) and DXJS’s unhedged counterpart, the [WisdomTree Japan SmallCap Dividend Fund \(DFJ\)](#), was effective at the close of November 8.

Following the rebalance, DXJ’s Index, the [WisdomTree Japan Hedged Equity Index \(WTIDJH\)](#) largely maintained its sector under- and over-weights relative to the MSCI Japan Index.

Japanese equities performed well year-to-date across most sectors, and WTIDJH increased allocations to the Consumer Discretionary, Consumer Staples and Materials sectors. The Index decreased its exposure to Energy and Industrials.

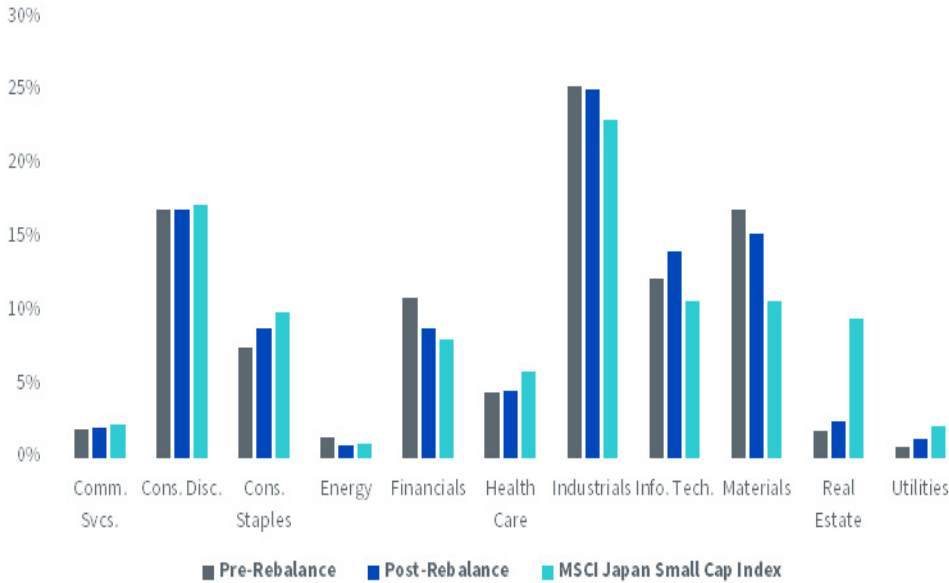
The DXJ Rebalance: what Changed in the Index



Sources: WisdomTree, MSCI, FactSet, as of 10/31/23. Sector weights are those of DXJ’s underlying Index, the WisdomTree Japan Hedged Equity Index. You cannot invest directly in an Index.

Looking at small caps, [DFJ’s](#) Index, the [WisdomTree Japan SmallCap Dividend Index \(WTJSC\)](#), increased allocations to Information Technology companies and dropped allocations to Financials, Energy and Materials, relative to the [MSCI Japan Small Cap Index](#).

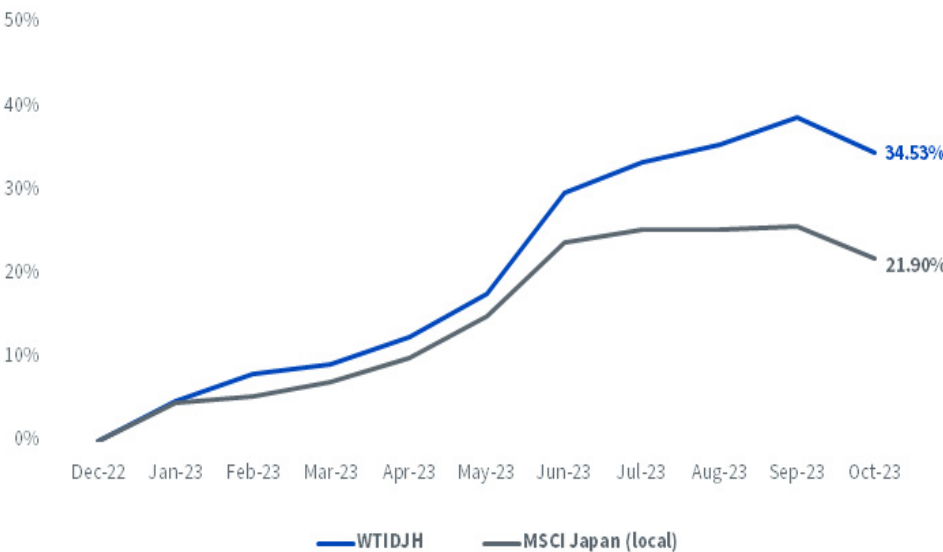
The DFJ Rebalance: What Changed in the Index



Sources: WisdomTree, MSCI, FactSet, as of 10/31/23. Sector weights are those of DFJ's underlying Index, the WisdomTree Japan SmallCap Dividend Index. You cannot invest directly in an Index.

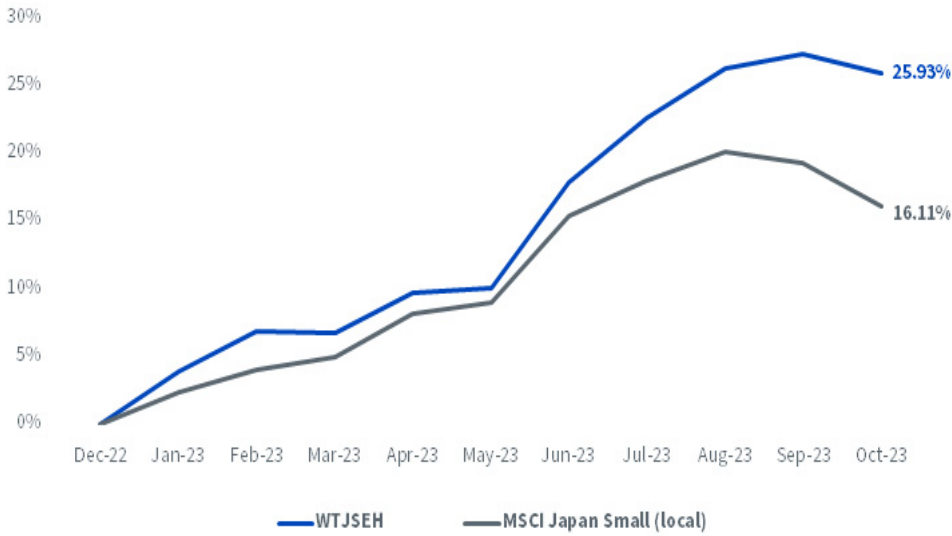
Year to date, the WisdomTree Japan Hedged Equity Index outperformed the MSCI Japan Index by almost 13%, and the [WisdomTree Japan Hedged SmallCap Equity Index \(WTJSEH\)](#) outperformed the MSCI Japan Small Cap Index by almost 10%. The WisdomTree Japan SmallCap Dividend Index outperformed the MSCI Japan Small Cap Index by more than 3%.

WisdomTree Japan Hedged Equity Index (WTIDJH) vs. MSCI Japan YTD Returns



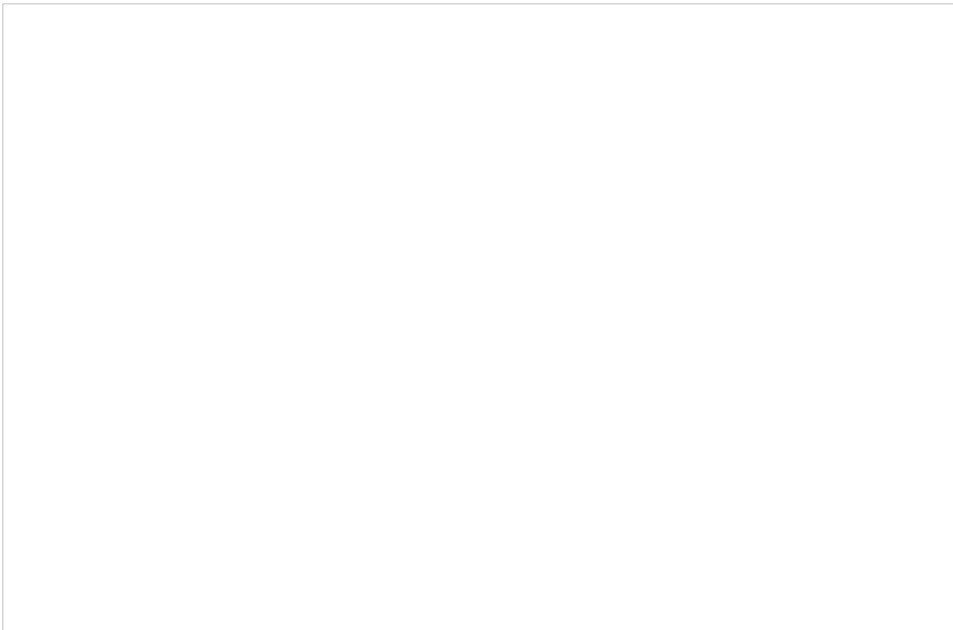
Source: WisdomTree. Data from 12/31/22—10/31/23. Returns measured in net total returns in local currency for MSCI Japan. You cannot invest directly in an Index. Past performance is not indicative of future returns.

WisdomTree Japan Hedged SmallCap Equity Index (WTJSEH) vs. MSCI Japan Small Cap YTD Returns



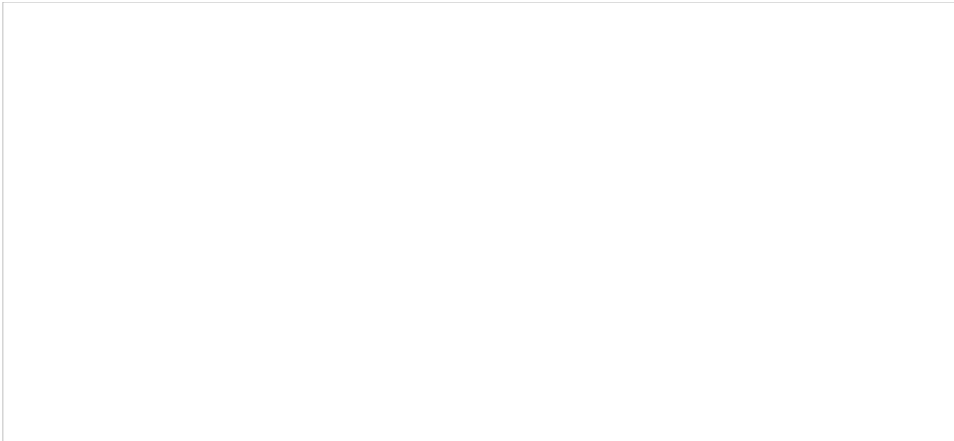
Source: WisdomTree. Data from 12/31/22–10/31/23. Returns measured in net total returns in local currency for MSCI Japan. You cannot invest directly in an index. Past performance is not indicative of future returns.

WisdomTree Japan SmallCap Dividend Index (WTJSC) vs. MSCI Japan Small Cap YTD Returns



Following the annual rebalance, profitability metrics and distributions of the WisdomTree Japan Hedged Equity Index remain higher than those of its benchmark, the MSCI Japan Index. The WisdomTree Japan SmallCap Dividend Index saw improvements to its [dividend yield](#), [return on assets](#) and [return on equity](#) following its rebalance, and its [price-to-earnings](#) decreased from 13.2x to 11.9x post-rebalance.

Rebalance Fundamentals Comparison



For definitions of terms in the table above, please visit the [glossary](#).

For additional detail on the rebalance of each of the Indexes, please go to their respective Index pages on the WisdomTree website:

- [WisdomTree Japan Hedged Equity Index](#) (the [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)
- [WisdomTree Japan Hedged SmallCap Equity Index](#) (the [WisdomTree Japan Hedged SmallCap Equity Fund \(DXJS\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)
- [WisdomTree Japan SmallCap Dividend Index](#) (the [WisdomTree Japan SmallCap Dividend Fund \(DFJ\)](#) seeks to track the price and yield performance, before fees and expenses, of this Index)

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There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For the top 10 holdings of DXJS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dxjs>

For the top 10 holdings of DXJ please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dxj>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Funds

- + [WisdomTree Japan Hedged SmallCap Equity Fund](#)
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View the online version of this article [here](#).

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DEFINITIONS

Price-to-book ratio: Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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.

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

Return on assets (ROA): Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.