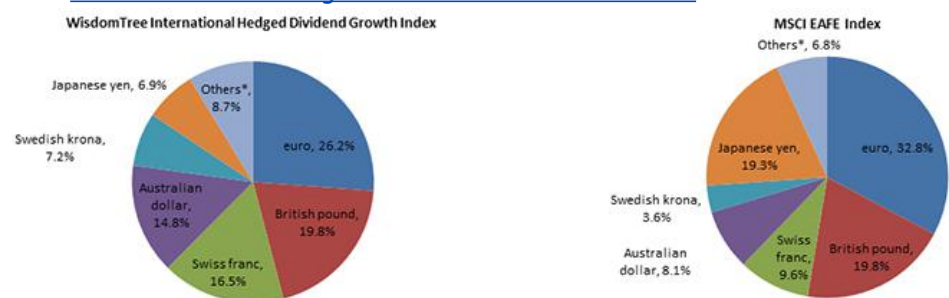


# INTRODUCING THE INTERNATIONAL HEDGED DIVIDEND GROWTH INDEX

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We have been focusing on the motivations to hedge currencies from a high-level perspective and outlined the [three myths to currency hedging](#). To help provide a broad-based benchmark to this concept of [currency-hedged](#) allocations, WisdomTree created an Index of developed world dividend growth stocks that we believe are attractive candidates for a currency-hedged strategy. The [WisdomTree International Hedged Dividend Growth Index](#) covers the same 21 equity markets as the [MSCI EAFE Index](#). However, it includes only dividend-paying securities that WisdomTree believes have above-average prospects for dividend growth. The universe of eligible companies begins with the [WisdomTree DEFA Index](#), a very broad measure of the performance of 2,193 investable dividend payers as of March 31, 2014. Then we add the following screening criteria: • Minimum [market capitalization](#) of \$1.0 billion • [Dividend coverage ratio](#) greater than 1.0x • The 300 companies with the best combined rank of growth and [quality](#) factors from this universe o Growth Ranking 50%: Derived from long-term earnings growth expectations, which ultimately encompass the estimated growth in operating earnings per share over the company’s next full business cycle, typically three to five years o Quality Ranking 50%: Split evenly between three-year average [return on assets \(ROA\)](#) and three-year average [return on equity \(ROE\)](#). In our [blog post](#) introducing the [WisdomTree Europe Dividend Growth Index](#), we discussed the specific motivations for the growth and quality factors that are the same factors driving selection across all our dividend growth strategies (U.S., emerging markets, Europe, global ex-US). In short, we believe ROE is a key driver of sustainable long-term dividend growth over time, and companies that have better earnings growth have the most potential to raise dividends over time. Below we discuss some of the key exposures and differentiated positions—from a currency and sector perspective—of this new [International Hedged Dividend Growth Index](#). **Which Currencies**



\*Others: Norwegian krone, Israeli shekel, Hong Kong dollar, Singapore dollar, Danish krone and New Zealand dollar. Sources: WisdomTree, Standard & Poor’s, Bloomberg, with data as of 3/31/14. You cannot invest directly in an index. Subject to change.

## Are Being Hedged?

- **Most Notable Difference—Yen Under-weight:** When measured against the MSCI EAFE Index, the largest under-weight is the Japanese yen. Japanese firms, compared to the rest of the developed international equity landscape, tend to have lower ROE and ROA figures. A number of currency-hedged Japan strategies can blend in with this International Hedged Dividend Growth exposure to increase exposure to Japan if one has a more favorable outlook on Japan. As the ROE and ROA metrics improve, or earnings growth expectations rise, Japan’s weight can also increase in this index during subsequent annual index screenings over time.
- **Cost of Hedging:** An important element to

consider is the ultimate cost of hedging, which can be estimated as the weighted average difference in short-term interest rates relative to the United States. For the WisdomTree International Hedged Dividend Growth Index, this figure is 0.51%, whereas for the MSCI EAFE Index it would be 0.25%. Both are relatively small numbers to remove a large source of additional [volatility](#). Importantly, as central bank policies change, we believe this cost is likely to keep decreasing and may actually turn into a small positive in the near future if the U.S. raises short-term interest rates ahead of foreign central banks.

- The differentials in the cost to hedge the WisdomTree Index and the MSCI Index can be explained by the MSCI EAFE Index weight containing three times the exposure to the yen, a currency with a minimal cost to hedge. The other notable difference is the higher weight within the WisdomTree International Hedged Dividend Growth Index to Australia, which has a higher cost to hedge than some of the other developed markets.

**Sector Allocation Differentials** The growth and quality selection factors emphasize companies that are employing less [leverage](#) to achieve their return on equity. This often results in an under-weight in financials and utilities, and this is true of this new WisdomTree dividend growth Index. Health Care, Consumer Discretionary and Consumer Staples stocks receive greater weights in this Index, as these sectors typically have higher return-on-equity and return-on-assets metrics.

**Conclusion: Growth and Quality at a Reasonable Price** WisdomTree believes currency-hedged investment strategies are growing in prominence due to shifting policy winds among global central banks. We believe the new International Hedged Dividend Growth Index represents a potential marriage of growth and quality characteristics with this added currency-hedged feature. This type of exposure represents to us an attractive holding for core allocations to developed international stocks.

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## DEFINITIONS

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

**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.

**Market Capitalization**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Dividend coverage ratio**: Earnings per share divided by dividends per share. Higher numbers indicate a firm has a greater amount of earnings per share relative to its dividend payments.

**Quality**: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

**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.

**Volatility**: A measure of the dispersion of actual returns around a particular average level.

**Leverage**: Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.