DIVIDENDS HAVE BEEN GREAT INTERNATIONALLY—DON’T LOSE ON THE CURRENCY!

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In the current low-interest-rate environment, focusing on dividends has been popular. Many indexes focused on developed international equities showcase higher dividend yields than those within the United States—not surprising, in that international companies tend toward higher dividend payout ratios than U.S. companies.[1] However, some of the most widely followed indexes of international dividend payers do not hedge their exposure to currency fluctuations against the U.S. dollar. We’ve seen this have a SIGNIFICANT impact on recent performance. The potential certainly exists for currency movements to wipe out any benefit of a dividend-focused approach in developed international equities. **The Difference Hedging the Currency Exposure Can Make (12/1/13–8/3/15)**

	1-Year	3-Year	5-Year	10-Year	Since WT Index Inception
WisdomTree International Hedged Dividend Growth Index	9.54%	N/A	N/A	N/A	8.49%
S&P International Dividend Opportunities Index	-14.63%	3.97%	4.16%	N/A	-2.26%
Dow Jones EPAC Select Dividend Index	-14.75%	8.14%	9.61%	-0.65%	-4.00%

Source: Bloomberg, with average annual returns measured as of 6/30/15, the end of the most recent quarter. Cumulative returns measured from 12/1/13 to 8/3/15 to indicate the period since the inception date of the WisdomTree International Hedged Dividend Growth Index. You cannot invest directly in an index. Past performance is not indicative of future results.

For definitions of indexes in the chart visit our glossary.

- **Yield-Focused Dividend Indexes:** The S&P International Dividend Opportunities Index —which focuses on higher-yielding international equities—was nearly 50% exposed to the Australian dollar and the euro. The Dow Jones EPAC Select Dividend Index was more than 60% exposed to this same combination of currencies. No matter the merits of the stock selection approaches employed, if these currencies are depreciating against the U.S. dollar, it could contribute to a difficult environment for these Indexes.
- **Growth-Focused Dividend Index:** The WisdomTree International Hedged Dividend Growth Index takes a different approach, not focusing on the highest-yielding dividend payers, but more importantly seeking to neutralize the currency exposure. This way the experience of index returns is dictated by the dividend focus and quality selection, as opposed to being further impacted by any movements in

currency.[2] **Currency Was the Key Driver: More than Stock Selection** While WisdomTree believes its dividend growth methodology provides an important long-run strategy that can complement the benefits of a value- or yield-focused selection methodology, over this period,[3] currency was the dominant factor impacting returns. Moreover, some markets, countries and regions have higher dividend yields than others. Strategies that focus on higher-dividend-yielding securities will habitually tend toward certain areas of global equities and away from others. Based on what we have seen, some of the larger exposures[4] (based on currency) were as follows:[5] • **Australian Dollar:** The Australian dollar depreciated 9.72% against the U.S. dollar in 2015, through August 3. This is a "commodity currency," which means that the direction of commodity price movements tends to relate to the strength (or weakness) of the Australian dollar. Through August 3, the S&P GSCI Index was down more than 16% for the year. • **Euro:** One of the key forces impacting currency markets today regards central bank policy divergence. In the U.S., the Federal Reserve is contemplating raising short-term interest rates. In the euro area, a policy of quantitative easing is in full force. Over time, this can have the potential to encourage a weaker euro against the U.S. dollar—and the euro has depreciated about 10% over this period. • **British Pound:** The United Kingdom tends to feature a number of high-yielding dividend payers. In 2015, the British pound hasn't depreciated much, so exposure here on the currency side hasn't been problematic of late. • **Canadian Dollar:** The Canadian dollar depreciated 11.86% against the U.S. dollar in 2015 over this period. Like the Australian dollar, this is also considered a commodity currency. Within Canada, oil is particularly important. On August 3, 2014, the price of oil was above $100 a barrel. One year later it was approximately $50. When that happens, it can be difficult to argue for a stronger Canadian dollar. **Minimize the Risk of Regret (& Blend the Focus on Dividends)** Many investors don't like the idea of taking a "bet" one way or the other on currency. For people who are already invested internationally—while making a full bet on the currencies that are inherent to international *unhedged* investments—we think the concept of 50% exposure to a hedged strategy and 50% exposure to an unhedged strategy is an interesting starting point. Here, a 50-50 starting point that combines the WisdomTree International Hedged Dividend Growth Index with either the S&P International Dividend Opportunities or the Dow Jones EPAC Select Dividend Indexes provides further complementarity as they focus on different types of dividend payers: one on the growth segment and one on the yield segment. But for investors who have no exposure today and are looking to add international exposure, a natural starting point could be the WisdomTree International Hedged Dividend Growth Index—which focuses on the stocks in international markets while hedging the currency exposure to target just the local market returns. [1]Source: Bloomberg, as of 8/3/15. Refers to the MSCI EAFE Index universe for developed international equities and the S&P 500 Index universe for U.S. equities. [2]Source for bullet points: Bloomberg, with data measured as of 8/3/15. [3]Refers to the period 12/1/13 to 8/3/15, or the live performance history of the WisdomTree International Hedged Dividend Growth Index. [4]The Australian dollar, euro, British pound and Canadian dollar were the four largest currency exposures within both the S&P International Dividend Opportunities Index and the Dow Jones EPAC Select Dividend Index as of 8/3/15, with source Bloomberg. [5]Source for bullet points: Bloomberg, for period 12/31/14–8/3/15, unless otherwise specified.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

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You cannot invest directly in an index.

DEFINITIONS

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

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

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

Dividend Payout Ratio : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

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.

S&P International Dividend Opportunities Index : Designed to measure the performance of companies in developed international markets with relatively higher dividend yields that meet other criteria defined by Standard & Poor’s. Weighting is by dividend yield.

Dow Jones EPAC Select Dividend Index : Designed to measure the performance of relatively higher-yielding companies in developed market countries outside the United States that meet certain dividend criteria defined by Dow Jones. Weighting is by dividend yield.

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 tim.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

S&P GSCI Index : leading measure of general commodity price movements and performance over time.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.