INTERNATIONAL INVESTING

CAPTURE THE OPPORTUNITIES. REDUCE THE RISK.
Approximately 97% of the world’s investment opportunities are outside Canada—and the majority of them are in the U.S. and developed international countries.

And because international investments react differently to various economic, political and market environments, they may help your portfolio perform regardless of Canadian market conditions. They do, however, come with additional risks. As you already know, timing currency moves can be extremely difficult. In the past, investors had limited options when it came to managing their currency exposure.

Recent investment innovations, however, may make the question of when to hedge irrelevant. They have created a simple way to reduce currency exposure—while maintaining the ability to use it to your advantage.
International investing is a smart way to gain diversification and performance potential. But it’s important to remember that while currencies do not always hurt returns, they do not always help them, either, and they may add volatility.

CURRENCY CAN BE A TAILWIND—OR A HEADWIND

Let’s consider a simple example. Imagine you’re on an airplane heading from Toronto to Vancouver. Because of the jet stream, which flows from west to east, you are facing a headwind that slows down the airplane and makes the flight take about 5½ hours. Your return trip, however, will only take about 4½ hours, because the jet stream now acts as a tailwind that helps propel the plane forward. Currencies are exactly the same. Sometimes they are the tailwind helping to propel the security forward, and sometimes they are the headwind holding it back.
CURRENCY CAN BE HARD TO PREDICT

Over long periods, the expected returns of currency are very low—in fact, many might say that the returns tend to “come out in the wash” (i.e.: they are approximately 0%). As you can see, there are long periods when the Canadian dollar weakens, in which case having currency exposure might propel equities higher; but there are also periods when the Canadian dollar strengthens, in which case hedging foreign currency exposure would make more sense. Predicting which way a currency will go, especially over the short term, is practically impossible for individual investors.

![Currency Impact on Cumulative Returns to MSCI EAFE Index](chart)

WisdomTree believes a strong case can be made that currency-hedged solutions provide more attractive strategic and baseline exposure for investors focused on longer-term horizons. Historically, Canadian interest rates have been higher than interest rates in foreign markets, meaning that one typically would be paid interest rate differentials when hedging foreign currency exposure.

However, many investors are reluctant to switch to a fully hedged strategy for fear of missing a period when currency exposure contributes to returns. Canadian investors might also argue that having foreign currency risk can lower the volatility to international investments, as foreign currency moves relative to the Canadian dollar tend to be negatively correlated with equity markets due to the dollar’s sensitivity to commodity prices and risky assets.

Yet there are clearly times when the dollar appreciates and being hedged would be the preferred choice. Many investors have concerns about their ability to decide when to rotate between hedged and unhedged strategies and, thus, often leave that decision to active managers.

WisdomTree created a solution to serve as a core, long-run equity allocation that embeds a rules-based, systematic and variable currency-hedging program. The goal of this approach is to solve the challenge that comes with trying to determine when it is most suitable to rotate between hedged and unhedged options.
INTRODUCING VARIABLE CURRENCY HEDGING

When currency-hedged ETFs came about, investors could simply choose whether to hedge or not to hedge. Variably hedged ETFs provide another option: to attempt to opportunistically capitalize on currencies when they may help returns—and to potentially avoid them when they don’t. They use rules-based methodologies to determine the potentially best times (and amounts) to hedge—or not to hedge.
HEDGING MADE VARIABLE

WisdomTree partnered with Record Currency Management—a respected and experienced manager of currency-hedging strategies and overlays since 1983—to create the first variably hedged ETFs. These rules-based ETFs use Record’s time-tested “signal overlay” to determine the best times and amounts for a portfolio to be hedged. Depending on market conditions and specific quantitative indicators (described below), they automatically dial the currency exposure up or down.

THE SIGNAL OVERLAY

Record uses three indicators to help determine the right times and amounts to be hedged.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
<th>Hedges Currency If</th>
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<tbody>
<tr>
<td>Momentum</td>
<td>Sensitivity to how a foreign currency tends to trade against the Canadian dollar</td>
<td>The foreign currency is experiencing a downward trend</td>
</tr>
<tr>
<td>Interest Rate Differential (aka “Carry”)</td>
<td>The difference between the one-month forward interest rate of a foreign currency and the Canadian dollar</td>
<td>The interest rate of the foreign currency is lower than that of the Canadian dollar</td>
</tr>
<tr>
<td>Value</td>
<td>Using the concept of purchasing power parity to define a measure of relative value for a foreign currency against the Canadian dollar</td>
<td>The foreign currency is “expensive” compared to the Canadian dollar</td>
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**VARIABLE HEDGING, SOLID RESULTS.**

In the hypothetical examples below, we applied Record’s signal overlay to the S&P 500 Index and the MSCI EAFE Index. As you can see, the signal overlay on the S&P 500 Index improved returns by almost 90 bps over the period. Additionally, for the MSCI EAFE Index, the signal overlay reduced volatility by 40 bps and improved returns by over 70 bps over the period.

Sources for both charts: Standard & Poors, MSCI, Record Currency Management
THE ADVANTAGES OF ETFs

Currency hedging can help reduce the risks and volatility of international investments. But it can be quite complicated to do yourself, as it involves forward contracts, significant investments and more. ETFs offer a simple way not only to invest in international opportunities but also to hedge currencies. And they can be very effective in helping investors reach their long-term goals. Below, we illustrate how ETFs compare to another popular investment choice, traditional mutual funds:

<table>
<thead>
<tr>
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<th>Exchange-Traded Funds</th>
<th>Mutual Funds</th>
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<tbody>
<tr>
<td><strong>Bought &amp; Sold</strong></td>
<td>Trade on exchange like stocks</td>
<td>Through mutual fund companies</td>
</tr>
<tr>
<td><strong>Sales Charges</strong></td>
<td>None (though ordinary brokerage fees may apply)</td>
<td>May have sales loads, purchase and/or redemption fees</td>
</tr>
<tr>
<td><strong>Minimum Investment</strong></td>
<td>None</td>
<td>Varies</td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td>Intraday—investors can buy and sell shares anytime during the trading day</td>
<td>Can be bought and sold only at the end of the day once the market has closed</td>
</tr>
<tr>
<td><strong>Tax Efficiency</strong></td>
<td>Because ETF units are created and redeemed “in kind,” it makes them generally more tax efficient. Put simply, when units are created, the underlying securities are transferred “in-kind” in return for ETF units and vice versa for redemptions. This typically avoids a capital gain event for the ETF because the ETF does not have to sell portfolio holdings to fund the redemption.</td>
<td>Conversely, anytime the mutual fund sells securities that have appreciated, it creates a capital gain in the fund. And all accrued capital gains must be paid out to security holders at the end of each year.</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>Fund holdings are typically published daily on ETF provider websites.</td>
<td>Fund holdings are typically published quarterly and are a historical look back.</td>
</tr>
</tbody>
</table>
AN INNOVATIVE APPROACH

Investment opportunities abound outside Canada. They are, in fact, already a part of your life—just look at the brands in your pantry, the clothes you wear and the electronics in your home. And these companies deserve to be a part of your portfolio. But you no longer have to accept the currency risk they offer.

Currency-hedged ETFs provide investors the opportunity to fully hedge the currency risk or to potentially capitalize on it. WisdomTree" pioneered the concept of currency-hedged ETFs and offers the largest family of variably hedged and fully hedged ETFs—covering single countries and regions around the world.

Learn more about currency-hedged ETFs at WisdomTree.com.

\[2 \text{“WisdomTree” is a marketing name used by WisdomTree Investments, Inc., and its affiliates globally. WisdomTree Asset Management Canada, Inc., a wholly owned subsidiary of WisdomTree Investments, Inc., is the manager of the WisdomTree ETFs listed for trading on the Toronto Stock Exchange.}\]
At WisdomTree, we do things differently. Our ETFs are built with proprietary methodologies, smart structures and/or uncommon access to provide investors with the potential for income, performance, diversification and more. We sponsor distinct ETFs that span asset classes and countries around the world.
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MSCI EAFE Index: A market cap-weighted index composed of companies representative of the developed market structure of 21 developed countries in Europe, Australasia and Japan.

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