THE CASE FOR JAPAN

BetaShares WisdomTree Japan ETF - Currency Hedged (ASX: HJPN)

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While most Australians know Japan as an important trading partner, it probably remains under-appreciated as an investment opportunity by many investors. After all, Japan is a vastly different country to that of Australia, and its economy has struggled in recent years with relatively low growth and stubborn price deflation.

But with misperception comes opportunity. As this note will demonstrate, Japan offers a potentially good source of additional investment return and risk diversification for Australians.

Thanks to the continued growth in the Australian excheange traded fund industry, moreover, it has now never been easier for Australians to get exposure to the performance of Japananese companies, particularly through the **Betashares WisdomTree Japan ETF – Currency Hedged (ASX: HJPN).**

Japan's equity performance has been surprisingly good over the medium/long-term

Although the Japanese share market has pulled back over the past year, this follows an extended period of relatively good performance, and its medium-term prospects remain favourable. As seen in the table and chart below, the Index which HJPN aims to track, the WisdomTree Japan Hedged Equity Index (in local currency terms) has produced annual compound returns of 9.1% p.a. over the past five years to April 2016, compared to only 6.5% p.a. for the Australian S&P/ASX 200 Index.

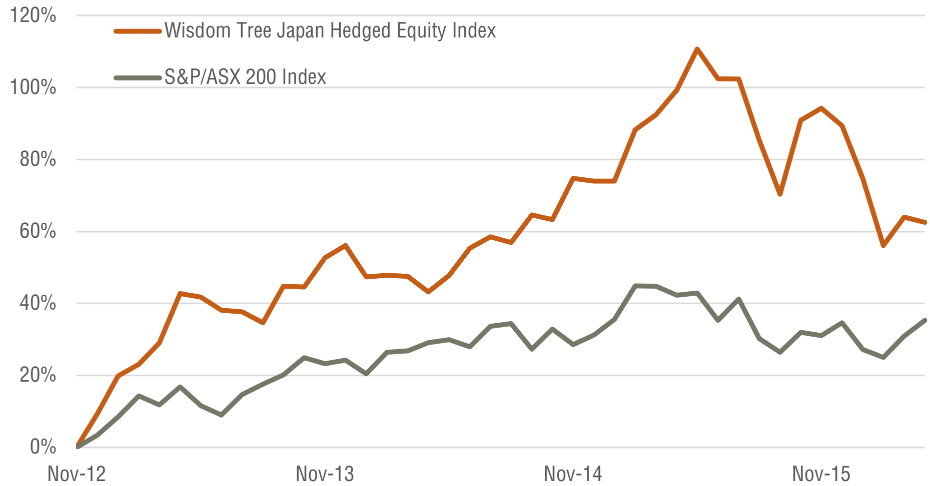
TOTAL RETURN EQUITY PERFORMANCE - TO 29 APRIL 2016 LOCAL CURRENCY

	1-yr	3-yr	5-yr	Since Abenomics
Wisdom Tree Japan Hedged Equity Index	-18.4%	4.4%	9.1%	17.0%
S&P/ASX 200 Index	-4.9%	5.0%	6.5%	9.4%

Source: Bloomberg. Table shows performance of underlying index relative to S&P/ASX 200 Index, not ETF performance and does not take into account ETF management costs. You cannot invest directly in an index. Returns for periods longer than one year are annualised. Past performance is not an indicator of future performance of index or ETF.

What's more, performance has been particularly strong since the advent of a wide-ranging reform program introduced by Japanese Prime Minister Shinzo Abe in November 2012 (dubbed "Abenomics"), which has involved more fiscal and monetary stimulus together with structural reforms to the economy and corporate governance.

JAPANESE EQUITY PERFORMANCE – CUMMULATIVE RETURN 30 NOVEMBER 2012 TO 29 APRIL 2016



Source: Bloomberg.
Graph shows performance of underlying index relative to S&P/ASX 200 Index, not ETF performance and does not take into account ETF management costs. You cannot invest directly in an index. Past performance is not an indicator of future performance of index or ETF.

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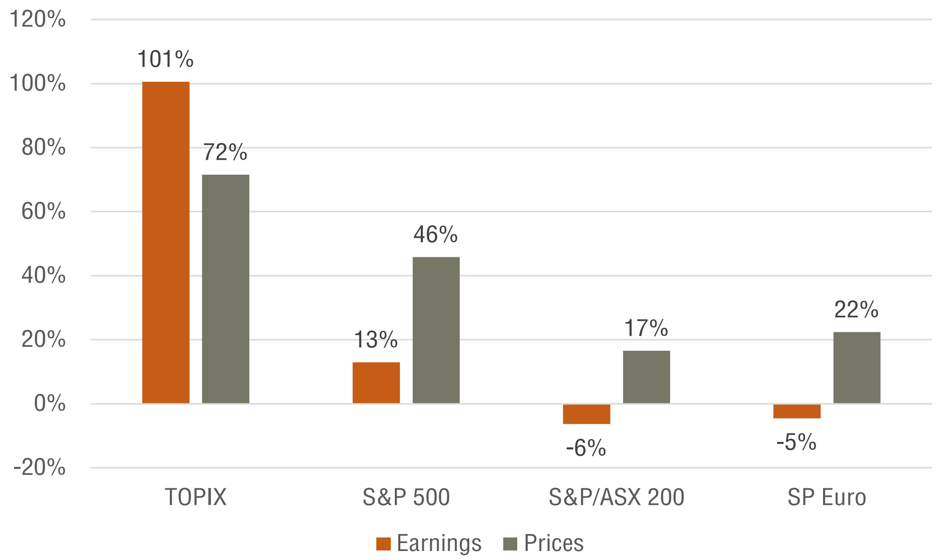
Earnings rather than valuations have pushed prices higher

Japan's strong equity market performance since Abenomics has not just occurred due to inflated investor hopes for the future, but rather real improvements in corporate earnings. Since the inception of Abenomics in October 2012, forward earnings for companies in Japan's Nikkei 225 index have doubled compared to relatively soft corporate earnings performance in Australia, Europe and the United States.

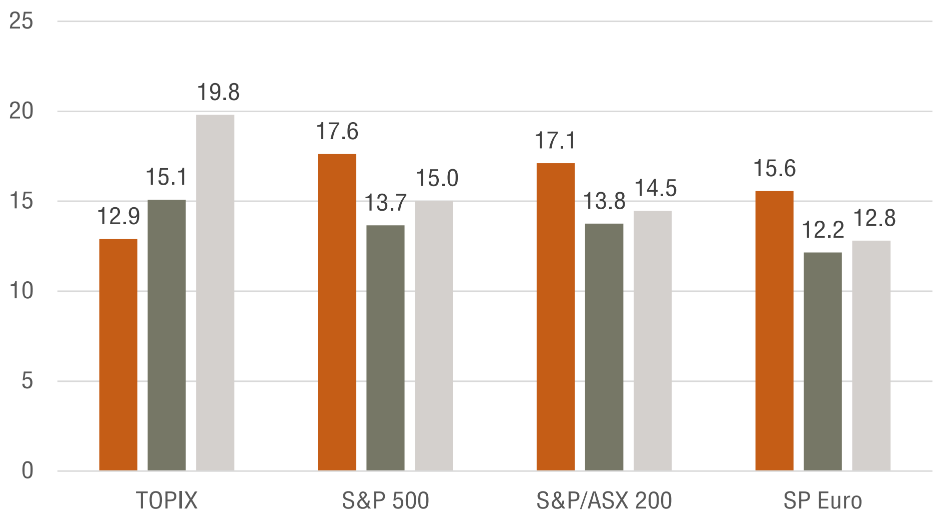
PRICE VS. EARNINGS EXPANSION SINCE START OF ABENOMICS - 30 NOVEMBER 2012 TO 29 APRIL 2016



Source: Bloomberg. Past performance is not an indicator of future performance

As a result of this improvement in earnings, the price-to-forward earnings ratio for the Japanese market has remained relatively modest in recent years, unlike the situation in Australia, Europe and the United States – where prices have run ahead of earnings. Japanese equity market valuations still appear far from stretched relative to historical standards and compared to other developed market regions.

EARNINGS EXPANSION SINCE START OF ABENOMICS - 30 NOVEMBER 2012 TO 29 APRIL 2016



Source: Bloomberg. Past performance is not an indicator of future performance

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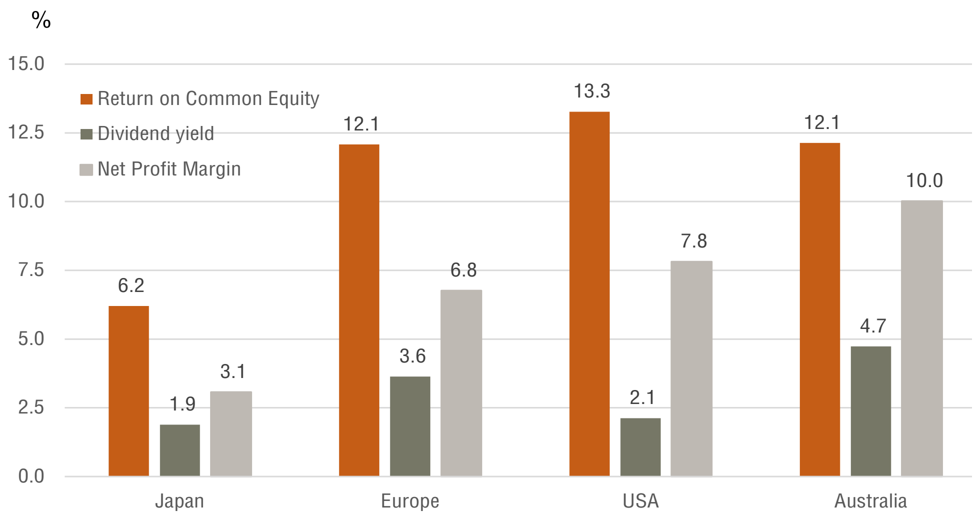
Better corporate governance should support Japanese earnings

A major reason Japanese earnings have done relatively well in recent years – despite the sluggish economy – is an overdue focus on better corporate profit performance. Compared to international peers in Europe and the United States, Japanese firms have long maintained relatively low profit margins and returns on equity. That has also been associated with relatively low dividend payouts in preference to high retained cash holdings.

MEASURES OF PROFITABILITY AND SHAREHOLDER VALUE FOR LISTED COMPANIES - 10 YRS TO APRIL 2016



Source: Bloomberg. Past performance is not an indicator of future performance

Due to recently introduced government policy initiatives, such as those requiring more independent directors and the creation of a new equity market index for the most profitable companies, the corporate culture in Japan is gradually changing toward one which better rewards equity investors. Pressure from the rising number of international investors in the Japanese equity market is another emerging force for change.

Going forward, such a focus is likely to result in continued cost and productivity improvements to boost profitability, more disciplined capital investment programs, and the return of any excess cash to investors through share back backs and dividends.

Increasing official support for the equity market

Helping support the Japanese equity market is the fact that official buying has stepped up in recent years and is likely to remain robust.

In October 2014, the Japanese Government Pension Fund (GPIF) – the largest pension fund in the world with $A1.7 trillion in assets as at December 2015 - announced it would reallocate almost half its holdings of Japanese Government bonds in preference for international bonds and equities. As at end-2015, the GPIF was still a little underweight Japanese equities relative to their target benchmark allocations, indicating potential for further buying to come. It's also possible that the GPIF might decide to increase its weighting to equities in the future, particularly given the low return offered by Japanese Government bond yields.

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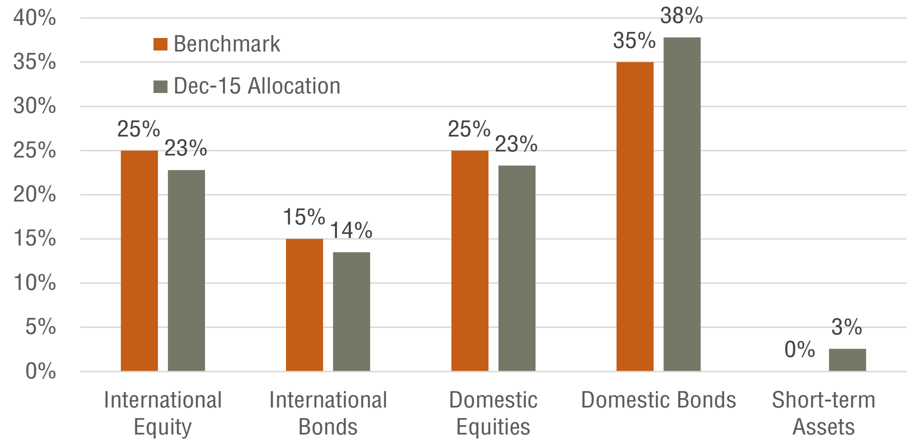
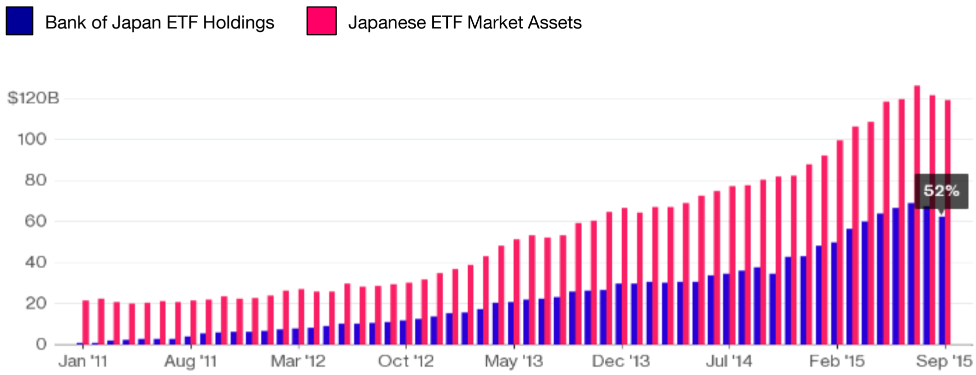
JAPANESE GOVERNMENT PENSION FUNDS (GPIF): DECEMBER 2015 ALLOCATION V BENCHMARK



Source: Bloomberg.

The Bank of Japan is also now an active buyer of Japanese equities though exchange traded funds. According to recent Bloomberg estimates, the BOJ is now a top ten investor in around 90% of the companies within the Nikkei 225 index, and owns around one half of total value of ETF assets in the Japanese market.

JAPANESE ETF ASSETS: BANK OF JAPAN V JAPANESE INDUSTRY: JANUARY 2011 - SEPTEMBER 2015



Source: Tokyo Stock Exchange.

A good source of diversity

As most investors would appreciate, there is value in having a diversified portfolio. In this regard, if ever there was an economy most unlike that of Australia, Japan would come close. After all, compared to Australia, Japan has relatively few natural resources and a smaller listed financial sector, though is a much more important global player in the consumer, industrial and information technology sectors. As can be seen in the table below, compared to the Australian S&P/ASX 200 Index, the Wisdom Tree Japan Hedged Equity Index (the index which HJPN aims to track) has notably less exposure to financials, offset by more exposure to the consumer, industrial and technology sectors.

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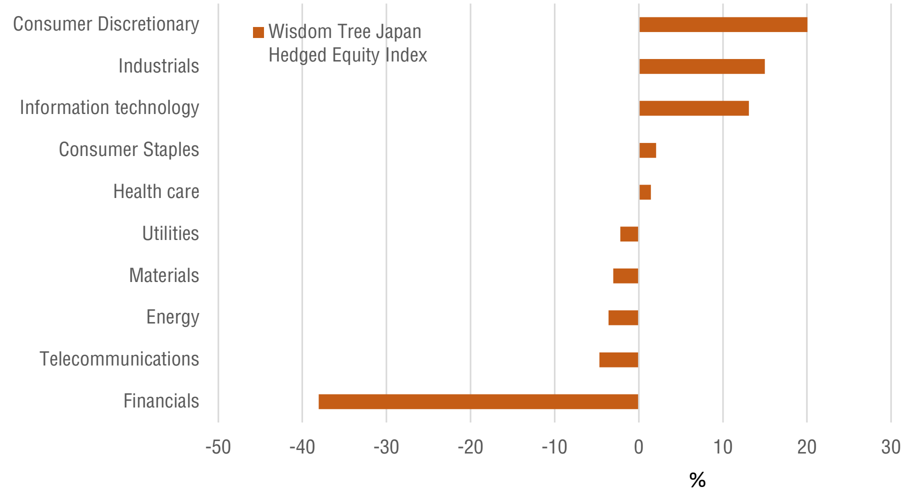
SECTOR WEIGHT DIFFERENCES WITH S&P/ASX 200 INDEX*



Source: Bloomberg. *As at December 2015

The Betashares WisdomTree Japan ETF – Currency Hedged (ASX: HJPN)

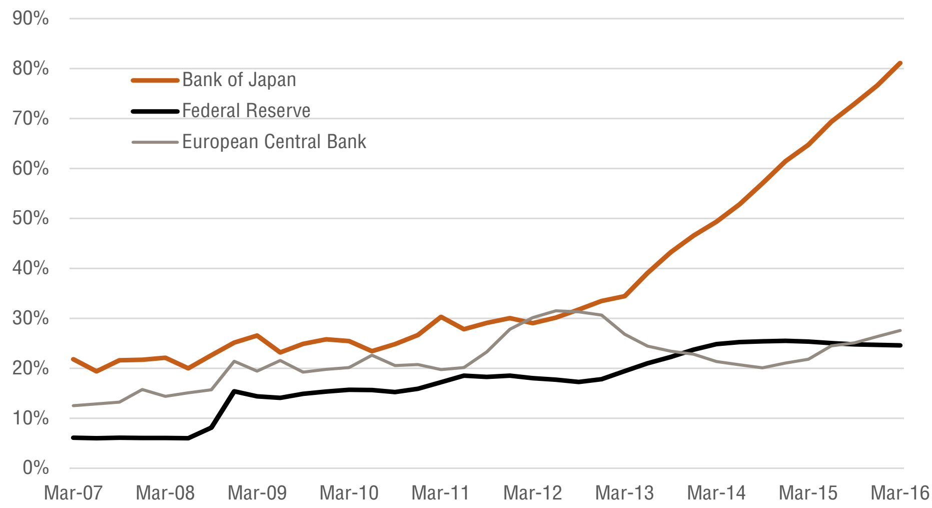
As an ASX traded product, HJPN is designed to provide Australian investors with relatively easy and diversified exposure to the Japanese equity market through a single, transparent fund, with competitive management costs. But while HJPN allows investors to gain exposure to Japanese equities just as easily as they can to listed Australian company shares, it is also structured to focus on globally competitive dividend-paying companies, and to minimise the currency risks. In addition, as a locally domiciled fund, it reduces the administrative obligations that can be associated with some other ASX-traded ETFs providing exposure to international equities.

> *Getting paid to reduce downside Yen currency risk*

When investing internationally, investors have a choice to either hedge or not to hedge currency risk. Not hedging currency risk effectively means investment performance will reflect two often disparate factors: the performance of the international equity market in question, and the performance of that market's relevant currency. In the case of an unhedged investment in Japan by Australian investors, for example, any returns from the equity market would be offset to the extent the Yen also fell against the Australian dollar – though, of course, returns would also be boosted if the Yen rose in value.

So as to provide a "purer" exposure to the Japanese equity market – without having to worry about the currency – HJPN is currency hedged for Australian investors. While picking currency trends is notoriously difficult, in the current global climate hedging also has the advantage of guarding against potential future substantial weakness in the Yen given the extraordinary measures being taken by Japanese policy makers to boost inflation. Indeed, the Bank of Japan is currently running an extensive quantitative easing program which has already pushed central bank assets to 80% of GDP. Due to a reliance on exports as a source of economic growth, Japanese policy makers remain very keen to encourage a competitively cheap Yen.

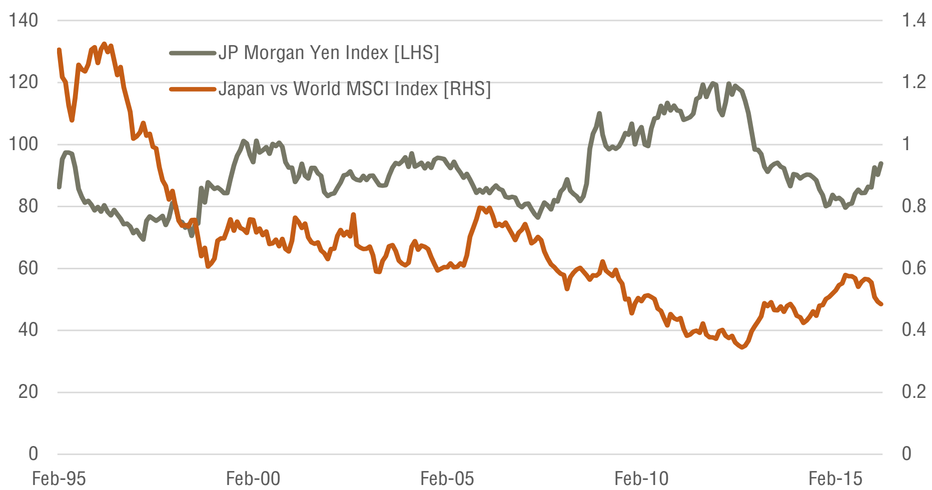
CENTRAL BANK ASSETS - % OF NOMINAL GDP : MARCH 2007 - MARCH 2016



Source: Bloomberg.

Indeed, as seen in the chart below, historically the Japanese market has tended to outperform international share markets generally during periods of currency weakness, suggesting tactical allocations to the market by foreign investors on a hedged basis may be beneficial. This is because, as Japan is an export-driven economy, when the Yen weakens, the equity markets tend to rise. As such, investors exposed to the Yen as well as Japanese equities may not be able to fully realise the equity market's potential gains. By hedging currency exposure, HJPN offers investors a way to more fully access the return potential of Japanese equities in a weakening Yen environment.

JAPANESE EQUITY PERFORMANCE VS YEN: FEBRUARY 1995 - APRIL 2016



Source: Bloomberg. Past performance is not an indicator of future performance.

Another advantage of currency hedging in the case of a country such as Japan with very low (in fact currently negative) overnight interest rates is that it provides Australian investors access to the 'carry trade' (i.e. the relative difference between Japanese interest rates and those of Australia). This interest rate differential is essentially passed on to investors which boosts returns over time (so long as the interest rate differential remains positive). That's because the process of hedging currency risk is akin to borrowing Japanese Yen (at very low rates) – to offset the currency exposure from the investment in Japanese equities – and then using these borrowings to buy Australian dollars which earn a higher interest rate return.

In other words, Australian investors are paid to reduce their currency risk by hedging exposure to fluctuations in the Japanese Yen.

> *Focus on globally competitive dividend paying companies*

The index which HJPN aims to track adopts transparent "rules based" criteria for stocks to be included in the index that focus on the largest dividend paying stocks on the Japanese market and which also generate a portion of their revenues offshore (no more than 80% of the company's revenues can be generated from inside Japan). This allows HJPN to provide exposure to a selection of globally competitive Japanese companies. These companies are well placed to benefit from growth in international trade and the potential ongoing reliance by the Japanese economy on exports and currency weakness to sustain economic growth. By weighting stocks according to dividends, moreover, the Fund's index tilts exposure toward those companies with the potential to produce sustainable profits and which are focused on shareholder value.

> *Reduced administrative and international tax obligations*

Like all BetaShares Funds, HJPN is an Australian domiciled fund. Therefore, investors in HJPN do not need to fill out W-8 BEN forms, or risk any potential U.S. estate tax issues, unlike investors in "cross listed" alternative exposures.

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Benefits of BetaShares WisdomTree Japan ETF – Currency Hedged

- Access - simple and cost-effective way to access a diversified portfolio of Japanese equities
- Reduce currency risk - Yen exposure is hedged substantially back to the Australian dollar to reduce currency risk for Australian investors
- Diversification - diversify global equities allocation to Japan, which includes a number of sectors which are under-represented in the Australian equities market
- Low cost - cost of ETF is lower than traditional active managers focusing on Japanese equities
- Reduced administrative burden - as an Australian domiciled fund, investors do not need to fill out W-8 BEN forms, or risk any potential U.S. estate tax issues
- ASX-traded - the ETF can be bought or sold like any share, and is not platform dependent
- Liquidity - trades on ASX during the day
- Transparent - portfolio holdings, value of ETF's assets and net asset value per unit available daily on BetaShares' website

Uses of BetaShares WisdomTree Japan ETF – Currency Hedged

The ETF may be suitable for a variety of investors and uses including:

- Gain broad exposure to dividend paying, globally competitive Japanese companies
- A core component of a global equities allocation providing transparency and diversification benefits
- Tactical exposure to Japanese equities

Trading Information

BetaShares ETFs can be bought or sold during the trading day on the ASX, and trade like shares.

EXCHANGE	ASX
ASX CODE	HJPN
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG CODE	HJPN AU
IRESS CODE	HJPN.AXW

Index Information

INDEX	WisdomTree Japan Hedged Equity Index
BLOOMBERG INDEX CODE	WTIDJTRH INDEX

Fund Information

ISSUER	BetaShares Capital Ltd
ADMINISTRATOR	RBC Investor Services
CUSTODIAN	RBC Investor Services
REGISTRAR	Link Market Services
AUDITOR	KPMG
DISTRIBUTIONS	Semi-Annual
MANAGEMENT FEE	0.51% p.a
EXPENSES	estimated at 0.07% p.a
FUND INCEPTION	10 May 2016

Available at betashares.com.au

- Net asset value
- Product disclosure statement
- Portfolio holdings
- Distribution details

Contacts for Institutional Clients

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