WisdomTree China ex-State-Owned Enterprises Fund

CXSE

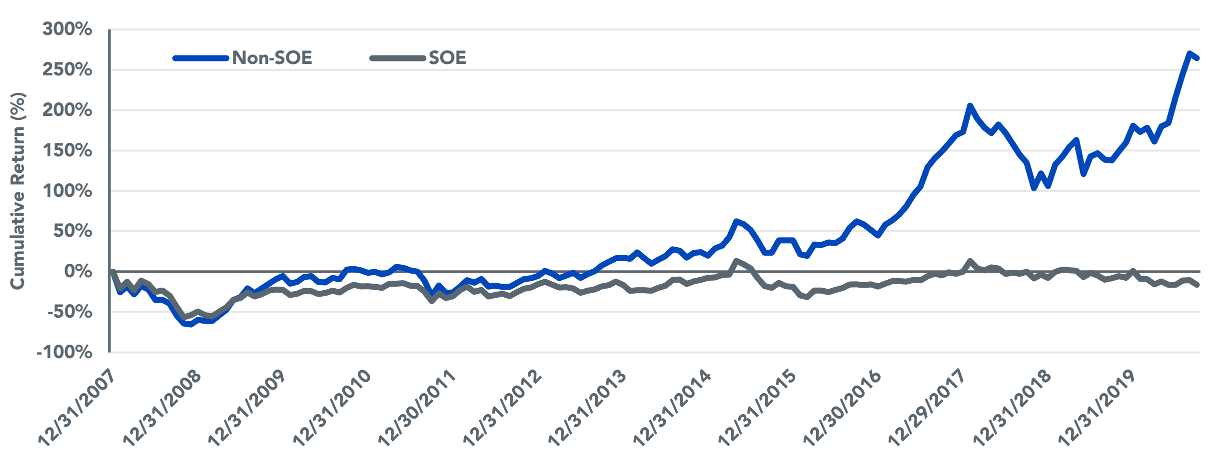
State-Owned Enterprises

An interesting dichotomy has developed in emerging markets (EM), between government actors and other investors in publicly traded equities. Some argue that government ownership can negatively impact the operational efficiency of a company. Government-owned and influenced companies typically run their businesses with a broader set of interests, appealing more to government wishes than generating the maximum possible return for shareholders. Over time, these influences can lead to quite large but fairly inefficient businesses, and as such, have the potential of stagnating the long-term growth potential of these companies in their respective emerging markets economies. Often these companies are referred to as "state-owned enterprises" (SOEs).

The Performance Difference

The first and probably most critical question to ask is whether SOEs and non-SOEs have performed differently. Intuition suggests that if shareholder returns and fundamentals such as return on equity (ROE)[1] are not the top priority of these SOEs, it would be seen in things like greater risk or lower overall performance. To show this, WisdomTree built broad market capitalization-weighted portfolios of SOEs and non-SOEs in EM. State ownership, as defined by WisdomTree, applies to firms that have more than 20% of their shares owned by government entities. The data below in figures 1 and 2 shows that over this cumulative period, there has been a consistently large performance gap in favor of non-SOEs.

Figure 1: Cumulative Returns of State-Owned Companies (SOEs) vs. Non-State-Owned Companies (Non-SOEs) in the MSCI China Index



Sources: FactSet, WisdomTree, from 12/31/2007–09/30/2020. SOEs are defined as firms that have more than 20% of their shares owned by government entities. Non-SOEs are defined as firms that have less than 20% of their shares owned by government entities. Universe of securities is the MSCI China Index. Returns are calculated in U.S. dollars. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

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

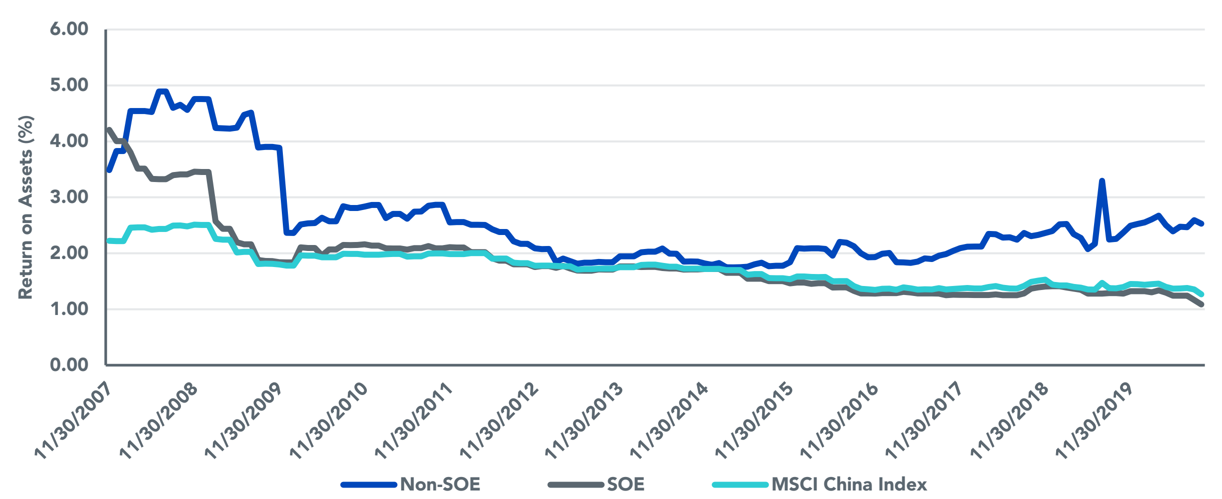
Figure 2: Standardized Annual Returns (as of 09/30/2020)					
	1 Year	3 Year	5 Year	10 Year	Since 12/31/2007
Non-SOE	53.34%	13.55%	24.14%	13.52%	10.67%
SOE	-8.91%	-4.30%	0.92%	0.45%	-1.39%

Source: WisdomTree, as of 09/30/2020. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. Universe of securities is the MSCI China Index.

DIFFERENTIATION IN FUNDAMENTALS

After performance, the next area of consideration is fundamentals. Again, intuition suggests that if SOEs are being mismanaged in ways that do not put the interest of shareholders first, it would show up in some fashion through either "lower quality" or "less efficient" fundamental metrics. One way to highlight this would be to view some of the fundamental metrics across time, such as with return on assets (ROA)[2] and ROE. As seen in figures 3 and 4, the non-SOEs have had a distinct advantage over this period, and the difference to SOEs also appears to be widening during most recent time frames.

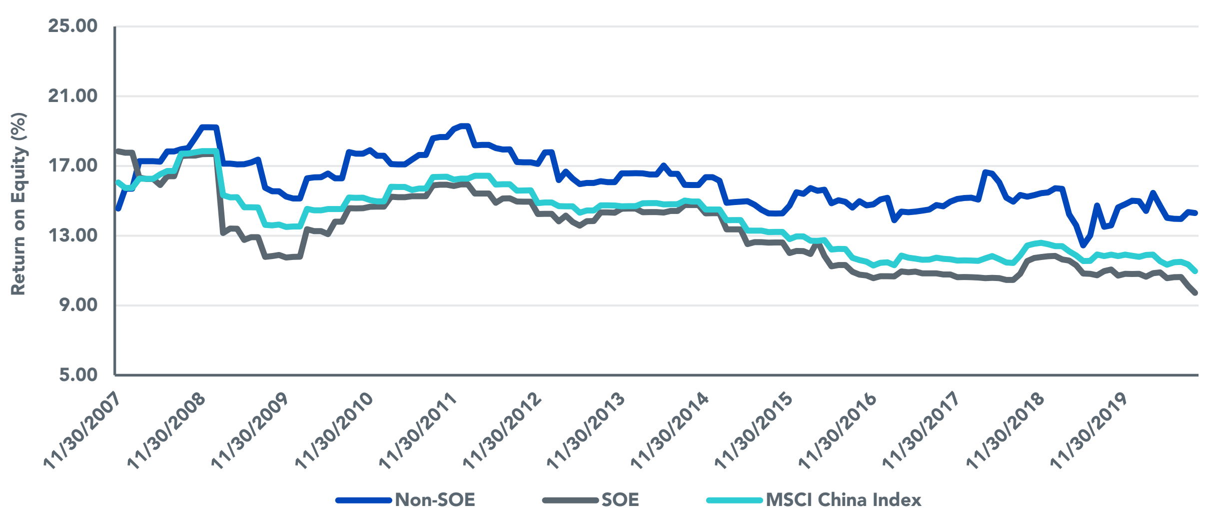
Figure 3: Return on Assets as a Measure of Quality



Sources: FactSet, MSCI, WisdomTree, as of 11/30/2007 – 09/30/2020. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

[2] 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.

Figure 4: Return on Equity as a Measure of Quality



Sources: FactSet, MSCI, WisdomTree, as of 11/30/2007 – 09/30/2020. Past performance is not indicative of future results. You cannot invest directly in an index.

Benchmark Exposure Analysis

Lastly, it is prudent to consider the exposure of SOEs compared to non-SOEs in the broad MSCI China Index. Since the end of 2007, the benchmark has seen an evolution of exposures. SOEs continue to occupy a large share of the market's overall exposure. Worth noting is the growth of the Information Technology and Consumer sectors over this period, particularly among non-SOEs. It is no coincidence that these "new economy" sectors have been among the key drivers of broad EM returns and overall growth of the market, as some of the more traditional, "old economy" sectors, such as Energy and Financials, have lost market share and continue to be the largest sectors of SOEs.

Sector Exposures as of 09/30/2020	**MSCI China Index**		**WisdomTree China ex-State-Owned Enterprises Index**
	Non-SOE	SOE	
"New Economy"	**90.49%**	**33.16%**	**88.81%**
Communication Services	24.65%	7.56%	18.66%
Consumer Discretionary	47.92%	2.67%	42.04%
Consumer Staples	2.47%	9.32%	5.16%
Health Care	6.47%	1.50%	8.83%
Industrials	3.34%	8.74%	5.18%
Information Technology	5.64%	3.36%	8.94%
"Old Economy"	**9.51%**	**66.84%**	**11.19%**
Energy	0.20%	6.97%	0.07%
Financials	4.52%	41.87%	6.89%
Materials	0.80%	5.61%	0.35%
Real Estate	3.48%	6.67%	3.40%
Utilities	0.50%	5.73%	0.48%

Sources: MSCI, WisdomTree, as of 09/30/2020. Exposures expected to change. Exposures may not sum to 100% due to rounding.

WisdomTree®

The WisdomTree China ex-State-Owned Enterprises Fund

WisdomTree's unique product lineup of broad EM and country-specific ex-SOE equity funds is truly the first of its kind, offering targeted exposures to EM companies that have less than 20% government ownership.

The WisdomTree China ex-State-Owned Enterprises Fund seeks to track the price and yield performance of the WisdomTree China ex-State-Owned Enterprises Index before fees and expenses.

Quick Facts	
Ticker	CXSE
Exchange	NASDAQ
Expense Ratio (Gross)	32bps[3]
Expense Ratio (Net)	32bps
Structure	Open-end ETF
Exposure	Emerging markets stocks that are not of state-owned enterprises, which is defined as having more than 20% government ownership.
Rebalancing	The portfolio is rebalanced on an annual basis.

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures and uncommon access to provide investors with the potential for income, performance, diversification and more.

For more information about CXSE, contact your WisdomTree representative or visit WisdomTree.com.

[3] Basis points (bps): 1/100th of 1 percent.

Definitions and Disclosures

The WisdomTree China ex-State-Owned Enterprises Index measures the performance of Chinese stocks that are not state owned enterprises.

The MSCI China Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in China and captures large and mid-cap representation across China H-shares, B-shares, red chips, P chips and foreign listings (e.g., ADRs). With 150 constituents, the index covers about 85% of this China equity universe.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit WisdomTree.com to view or download a prospectus. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including 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 China, including A-shares, which include the risk of the Stock Connect program, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. Investments in emerging or offshore markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. The Fund's exposure to certain sectors may increases its vulnerability to any single economic or regulatory development related to such sector. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Unless otherwise stated, the data source is WisdomTree.

You cannot invest directly in an index. Additional index information is available at www.wisdomtree.com.

WTGM-2203

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