

## ENHANCING ACCESS TO CHINESE EQUITIES

As China continues down the path of capital market liberalization, many investors are confronted with a dizzying array of options: H-shares, B-shares, A-shares, P-chips. Shares listed in Hong Kong, Shanghai, Shenzhen, Singapore and New York. While the economic rationale for investing in China may be straightforward, the means by which investors should gain access is not. In our view, given the broad diversity of opportunities in the market, any investor seeking “beta”<sup>1</sup> exposure to Chinese equities should do so via all means available. This was the primary motivation behind WisdomTree’s decision to partner with Standard & Poor’s (S&P) to provide exposure to one of the broadest representations in the ETF market, the S&P China 500 Index.

The WisdomTree ICBCCS S&P China 500 Fund (WCHN) seeks investment results that, before fees and expenses, generally correspond to the performance of the S&P China 500 (USD).

## CHINA BY THE NUMBERS

The Chinese economy continues to account for a significant portion of global GDP and global trade, and when measured purely by market cap, China has the second-largest equity market in the world.<sup>2</sup> However, as a result of restrictions imposed by the Chinese government, these massive markets have generally been off limits for most investors. Over the last decade, Chinese policy makers, led by president Xi Jinping, have sought to gradually open Chinese markets to outside capital. As a result, China appears to offer an attractive mix of high growth rates, a burgeoning middle class and an economy poised to climb the value chain from export-oriented growth. In our view, China’s importance in global markets will only grow as the government transitions to increase integration among global investors.

Historically, exposure to Chinese equities for non-Chinese nationals was limited to companies that listed on international exchanges. After a variety of pilot programs and special institutional frameworks, China has made dramatic steps forward over the last several years to make mainland-listed companies more accessible to global investors. As a result, we believe investors should not necessarily limit themselves to certain listing venues when constructing exposure to China. As illustrated in Figure 1, below, the S&P China 500 Index is one of the only broad-based indexes offering exposure to all flavors of Chinese stocks.

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<sup>1</sup> Beta: Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark.

<sup>2</sup> Sources: IMF and World Federation of Exchanges, as of 12/31/2018

Figure 1: Share Class Exposures

Exchange Location	Share Class	Description	Trading FX	Largest Sector	Companies	S&P China 500 Index	MSCI China Index	FTSE China 50 Index
Mainland China	A-Shares	Chinese securities incorporated in mainland China, listed on the Shanghai or Shenzhen Stock Exchange and traded in yuan (CNY)	CNY	Financials	Kweichow Moutai, Ping An Insurance, China Merchants Bank	●	●	
	B-Shares	Chinese securities incorporated in mainland China, listed on the Shanghai Stock Exchange (USD) and the Shenzhen Stock Exchange (HKD)	USD/HKD	Industrials	Shanghai Lujiazui Fin & Trade Dev, Inner Mongolia Yitai Coal, Chongqing Changan Automobile	●	●	
International	H-Shares	Chinese securities incorporated in mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Financials	China Construction Bank, ICBC, Ping An Insurance	●	●	●
	Red-Chips	Chinese securities of state-owned companies incorporated outside mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Telecom Services	China Mobile, CNOOC, Boc Hong Kong	●	●	●
	P-Chips	Chinese securities of non-government-owned companies incorporated outside mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Consumer Discretionary	Tencent, Geely Automobile, China Evergrande	●	●	●
	N-Shares	Chinese securities (including ADRs) incorporated outside Greater China (mainland China, Hong Kong, Macao, and Taiwan), listed on the NYSE Euronext-New York, NASDAQ, NYSE AMEX (N-Shares), traded in USD, and Singapore Exchanges (S-Shares), traded in Singapore dollars (SGD)	USD	Information Technology	Alibaba, Baidu, JD.com	●	●	
	S-Shares		SGD	Industrials	Yangzijiang Shipbuilding Holdings, Yanlord Land Group, SINC Environmental	●	●	

Sources: S&P, MSCI, FTSE, WisdomTree, as of 12/31/2018. Foreign Exchange (FX): The exchange of one currency for another, or the conversion of one currency into another currency.

Additionally, the S&P approach also targets a much broader number of securities (500+) for constructing the index. In other approaches, as few as 50 stocks are expected to provide a diversified basket. Unfortunately, this currently means that investors would be forced to take a fairly concentrated position in information technology stocks by investing via the MSCI China Index. In the case of the FTSE China 50, nearly half of the Index weight is in financials.

Figure 2: Index Sector Exposures

Sector	S&P China 500	MSCI China
Communication Services	13.23%	27.39%
Consumer Discretionary	15.28%	19.95%
Consumer Staples	5.24%	2.55%
Energy	3.59%	5.19%
Financials	25.13%	23.29%
Health Care	4.94%	2.82%
Industrials	11.40%	5.38%
Information Technology	5.49%	2.51%
Materials	7.16%	2.08%
Real Estate	5.40%	5.76%
Utilities	3.13%	3.08%

Sources: S&P, MSCI, as of 12/31/2018. You cannot invest directly in an index. Subject to change.

## INVESTMENT STRATEGY

The S&P China 500 Index follows the below methodology and is rebalanced on a semi-annual basis:

- + **Index Universe:** Constituents must be included in the S&P Total China BMI, which represents the entire investable universe of Chinese companies including A-Shares and offshore listings and meet minimum eligibility criteria.
- + **Constituent Selection:** 500 of the largest, most liquid Chinese companies by total market capitalization and median daily trading volume within the 11 GICS® (Global Industry Classification Standard) sectors, with the goal of maintaining comparable sector weights as the S&P Total China BMI.
- + **Weighting:** The index is weighted by float-adjusted market capitalization.

## WHY INVEST IN WCHN

- + Compelling opportunity to gain broad-based exposure to a fast-growing economy that's in the early stages of liberalizing its capital markets
- + Gain comprehensive exposure to Chinese equities without the concentration risk of other indexes
- + Can be used as a stand-alone strategy or in conjunction with other emerging market equity strategies

### Quick Facts

Ticker	WCHN
Exchange	NYSE Arca
Expense Ratio (Gross)	55bps
Expense Ratio (Net)	55bps
Structure	Open-end ETF
Exposure	Large-Cap Broad Market China
Rebalancing	The portfolio is rebalanced on a semi-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 WCHN, contact your WisdomTree representative or visit [WisdomTree.com](http://WisdomTree.com).

**Definitions and Disclosures:**

**Beta:** Measure of the volatility of an index or investment relative to a benchmark. A reading of 1.00 indicates that the investment has moved in lockstep with the benchmark; a reading of -1.00 indicates that the investment has moved in the exact opposite direction of the benchmark. **Foreign Exchange (FX):** The exchange of one currency for another, or the conversion of one currency into another currency. **S&P China 500 Index:** The S&P China 500 comprises 500 of the largest, most liquid Chinese companies while approximating the sector composition of the broader Chinese equity market. All Chinese share classes including A-shares and offshore listings are eligible for inclusion. **MSCI China Index:** The MSCI China Index 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. **S&P Total China BMI Index (USD):** Combining the S&P China A BMI and S&P China BMI, this index represents the entire investable universe of Chinese companies. **FTSE China 50 Index:** A market capitalization-weighted index tracking the top 50 Chinese companies. Stocks are weighted by H or Red Chip share cap as appropriate

**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. Please read the prospectus carefully before you invest.**

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 risk of the RQFII regime and 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 increase 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. The Fund will be required to include cash as part of its redemption proceeds which introduces additional risks, particularly due to the potential volatility in the Chinese market and market closures. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Diversification does not eliminate the risk of experiencing investment losses.

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