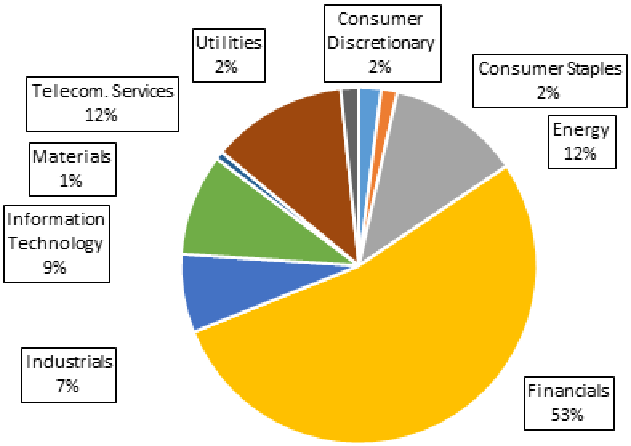
OLD CHINA VS. NEW CHINA

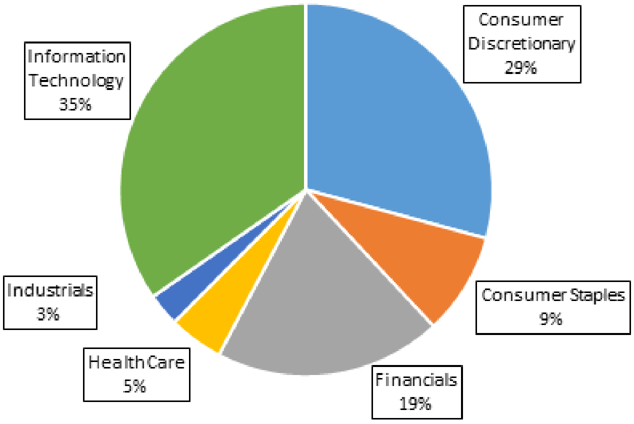
Jeremy Schwartz — Global Head of Research
04/11/2016

China, China, China. During the last nine months, the market's volatility and cues are all stemming from data coming out of China. This even includes testimony from the Federal Reserve (Fed) chairman, Janet Yellen, who apparently is tailoring U.S. monetary policy to global growth concerns that have emanated from China.[1] Investors are especially anxious that a slowdown in China's economy may lead to policy missteps and a large currency devaluation that could send shockwaves of deflation pressure around the globe and touch off currency wars across Asia. We do not believe China intends to spark an Asian currency war, WisdomTree Japan CEO Jesper Koll has written. Rather, we see China working toward its long-term goal of making the yuan Asia's reserve currency of choice—and to achieve that goal, it most likely will defend the yuan as a strong and stable currency against a basket of its trading partners. In contrast to U.S. politicians who think China is manipulating its currency too low, we see China actually intervening to keep its currency stable. Why? **China Is No Longer Powered by Exports** China's economy is shifting toward a consumption- and services-based economy, not one powered by infrastructure and investment-led growth. The vast majority of what China produces for industrial output is actually consumed in China.[2] This is one of the reasons we see China's interest in keeping a stable currency. Over time, imports to China are going to play larger role, and a strong currency will give the country's consumers more purchasing power. **The Old vs. New Economy in China** With these long-run economic goals in mind, it is worth asking if investors in Chinese equity markets are positioned appropriately. Traditional indexes (and the popular China equity exchange-traded funds [ETFs] that are designed to track them) largely comprise state-run banks, communication stocks and energy companies. In fact, about 75% of the traditional index[3] is made up of state-run companies. **Old-Economy Domination by State-Run Banks: FTSE China 50 Index**



Source: Bloomberg, as of 3/31/16. Subject to change. You cannot invest directly in an index.

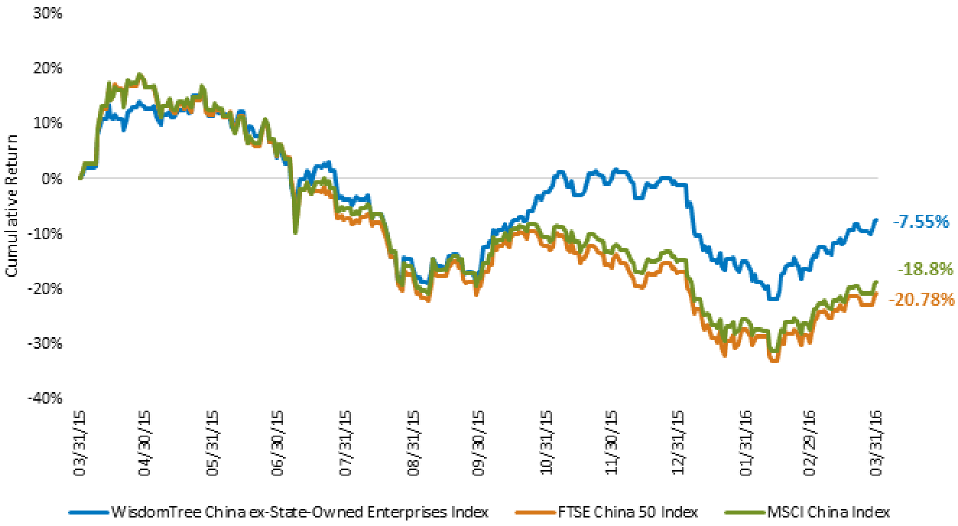
WisdomTree believes these old-style indexes are not at all positioned to capitalize on China's economic rebalancing initiatives. The growth in China's economy is better represented by a consumer-oriented or service-led economy. Those are companies in the technology sector (such as Alibaba, JD.com and Tencent), automakers (Great Wall Motors) or travel and tourism companies (Ctrip.com).[4] The WisdomTree China ex-State-Owned Enterprises Index was designed with this theme in mind. Removing the traditional state-run companies[5] leaves a very different sector profile of the Chinese markets. Technology and consumer sectors dominate (making up almost two-thirds of exposure), compared to the traditional index focus on large banks and energy companies. **New Economy: WisdomTree China Ex-State-Owned Enterprises Index**



Source: Bloomberg, as of 3/31/16. Subject to change. You cannot invest directly in an index.

Since the inception of this Index, now just about hitting its one-year-live anniversary, the relative performance difference versus the major China indexes has been rather large. [Click here for the standardized performance of the WisdomTree China ex-State-Owned Enterprises Index]().

Differentiated Performance in a Challenging Market for China's Equities



Source: Bloomberg, with data since the WisdomTree Index inception date of 4/1/15 to 3/31/16. 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.

Reallocating to China

China has been a source of global concern, but we believe much of the anxiety over the currency devaluation is misplaced. If you share our view that China will remain committed to growing its consumer-driven economy, we believe the [WisdomTree China ex-State-Owned Enterprises Fund, CXSE](), which is designed to track the performance of the WisdomTree China ex-State-Owned Enterprises Index discussed above, could be one of the best positioned vehicles for rebalancing the Chinese economy away from infrastructure and toward consumption and services. On a tactical basis, one argument for repositioning now is that many investors in legacy China positions are likely facing a loss—with the sell-off in China over recent years. The time could be ripe for [tax-loss harvesting]() out of those older positions into a strategy that is better positioned to reflect China's economic growth goals going forward.

[1]Source: Howard Schneider and Lindsay Dunsmuir, "Yellen: Fed Not Likely to Reverse Course on Rates Despite Risks," Reuters, 2/11/16. [2]Source: Andy Rothman, "What to Trust? Measuring the Chinese Economy," Sinology, 3/8/16. [3]Traditional index: Refers to the [FTSE China 50 Index]() universe, as of 3/31/16. [4]For current holdings of the [WisdomTree China ex-State-Owned]()

Enterprises Index. For current holdings of the WisdomTree China ex-State-Owned Enterprises Fund. [5]State-owned enterprises: Government ownership of more than 20% of outstanding shares of companies.

Important Risks Related to this Article

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, 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 sectors.

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.

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Volatility : A measure of the dispersion of actual returns around a particular average level. .

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Devaluation : deliberate downward adjustment to the value of a country's currency, relative to another currenc.

Deflation : The opposite of inflation, characterized by falling price levels.

Reserve currency : A foreign currency held by a central bank or monetary authority as a long-term store of value.

Purchasing power parity : Academic concept stating that exchange rates should adjust so that equivalent goods and services cost the same across countries, after accounting for exchange-rate differences.

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.

Tax Loss Harvesting : Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.