

# SWAPPING YOUR CHINA EXPOSURE OPPORTUNISTICALLY

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China is at the center of global market fears. A core concern is that China is slowing down its growth rate or transitioning from an infrastructure- and investment-led economy to more of a consumption-led and services-oriented economy. [FTSE China 50 Index](#) China’s markets are down precipitously since last April, judging by the FTSE China 50 Index, which is down about 39% since April 30.<sup>1</sup> Currently, the largest sector exposure in the FTSE China 50 Index is Financials at 51.6%. This includes many state-run banks, which make up three of the top five holdings.<sup>2</sup> While many investors might like the [valuations](#) on these stocks (such as the low [price-to-earnings ratios \[P/E\]](#) and high [dividend yields](#)), we don’t consider these to be part of the longer-run growth opportunity set of China. **Gauging the 39% Decline of China’s**



Source: Bloomberg. Period from 12/15/09 to 2/23/16 was chosen to cover the time after the recovery from the 2008–2009 crisis through the current period. Past performance is not indicative of future results. You cannot invest directly in an index.

**Equities**

**WisdomTree**

**Launched a New Benchmark for China: Removing State-Owned Enterprises** Investors who believe that fears regarding China’s economic transition are overdone and that China could successfully navigate the rotation into a consumer-driven economy may be considering the best vehicle to position for this. The popular benchmarks have nearly two-thirds of their exposure in large state banks or energy companies. These are not the firms we see representing the real consumer growth opportunity in China going forward. Interestingly, when looking at the China opportunity set outside of the state-run enterprises, a more interesting allocation emerges: Approximately two-thirds of the exposure is to China tech and Internet companies or Consumer Discretionary companies. **Sector & Top 10 Company Exposures of the [WisdomTree China ex-State-Owned Enterprises Index](#) as of 2/22/16**

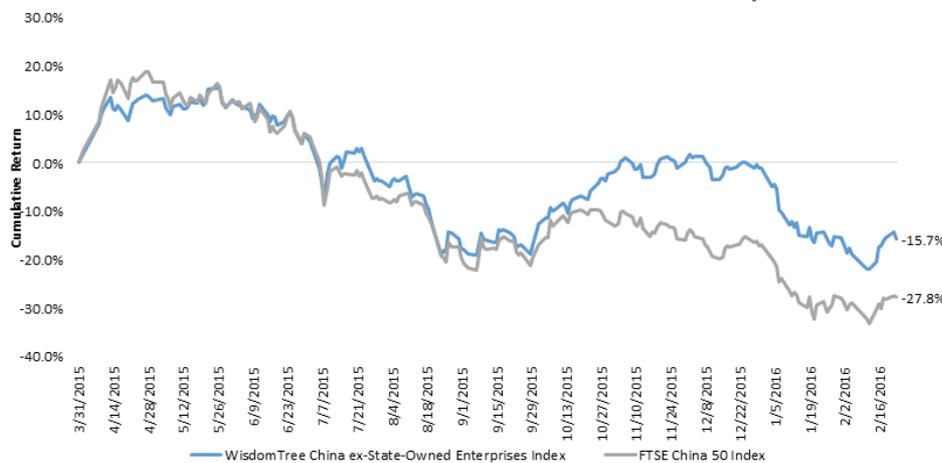
Sector Exposures	
Sector Name	Weight
Information Technology	33.8%
Consumer Discretionary	29.6%
Financials	19.3%
Consumer Staples	8.8%
Health Care	5.9%
Industrials	2.6%

Top 10 Holdings	
Company Name	Weight
JD.com Inc ADR	9.4%
Ping An Insurance (Group) Co of China Ltd. H Shares	8.9%
Baidu.com ADR	8.6%
Alibaba Group Holding Ltd. ADR	7.5%
Tencent Holdings Ltd.	7.5%
Ctrip.com International ADR	4.9%
NetEase Inc ADR	2.7%
Hengan International Group Co. Ltd.	2.6%
China Minsheng Banking Corp Ltd. H Shares	2.4%
Want Want China Holdings Ltd.	2.0%

Source: Bloomberg, with data as of 2/22/16. You cannot invest directly in an index. Holdings subject to change. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

It has been a challenging market for any China strategy, but we believe state-owned enterprises are leading the market down. Removing the state-owned firms per WisdomTree criteria has provided a source of relative outperformance during this downdraft, but more importantly, we think it could also represent a better long-term opportunity set.

**Relative Outperformance of WisdomTree China ex-State-Owned Enterprises Index (4/1/15-2/23/16)**



Source: Bloomberg, with data from 4/1/15 to 2/23/16. 4/1/15 refers to inception date for the WisdomTree China ex-State-Owned Enterprises Index. 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.

**Tax Loss Harvesting**

**during Downdrafts** We believe investors should not just think about tax planning near the year-end. Anytime there are significant pullbacks in the market, there is an opportunity to rotate into strategies that may offer better exposure to the asset class. We think the ex-state-owned enterprises version of China represents a meaningful improvement in exposure to China. This could be good timing for the opportunity to tactically book a loss while rotating into this strategy. The [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#) is built to track the performance of the WisdomTree China ex-State-Owned Enterprises Index before fees. <sup>1</sup>Source: Bloomberg. Period from 4/27/15 to 2/23/16. <sup>2</sup>Source: Bloomberg, as of 2/23/16.

**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 make it more vulnerable 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.

For more investing insights, check out our [Economic & Market Outlook](#)

**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.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**State-owned enterprise** : Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.

**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.