

INTRODUCING THE WISDOMTREE EMERGING MARKETS EX STATE OWNED ENTERPRISES FUND (XSOE)

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When investing in [emerging markets](#), investors always accept a degree of geopolitical risk. But in certain countries and regions, like China, Russia and Brazil, this risk may be even more pronounced. And when companies are partially or wholly owned by the government, known as “state-owned enterprises” (SOEs), the risk may be even more pronounced because the government may influence corporate decisions that are not necessarily in the best interests of investors. Now, for the first time, WisdomTree offers a solution: the WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (XSOE) provides investors with a way to capitalize on the opportunities of emerging markets without the politics involved with state-owned enterprises. The Fund is designed to track the performance of the [WisdomTree Emerging Markets ex-State-Owned Enterprises Index \(EMXSOE\)](#) after costs, fees and expenses. The first step in attempting to avoid SOEs is to understand where they are most common. The concentration of state-owned enterprises tends to be highest in countries like China, Brazil and Russia, which account for approximately 65% of the total state-owned enterprise market cap.¹ On a sector basis, ownership tends to be concentrated among the public good sectors, such as Financials, Energy, Telecom and Utilities, which are among the most systemically important sectors to economic development. The flip side to where the SOEs are, of course, is where they aren’t. Currently, governments are less involved in the Consumer Discretionary and Consumer Staples, Information Technology and Health Care sectors, as these are considered less vital to strategic economic development and government welfare. In an attempt to limit any country and sector selection risks after the removal of state-owned enterprises, the Index employs a modified [float-adjusted market-capitalization](#) weighting process to target the weights of countries in the universe **prior to the removal of state-owned enterprises** while also limiting sector deviations to 3% of the starting universe float-adjusted market. This unique index weighting process and the sector differential caps provide a type of [beta](#) exposure to the emerging markets after the removal of state-owned enterprises. Even with similar sector and country exposure to market cap emerging market exposure, there are still differences in composition, [valuations](#) and other characteristics. Comparing the [dividend yield](#) and [price-to-earnings \(P/E\) ratios](#) of the WisdomTree Emerging Market ex-State-Owned Enterprises Fund against a market cap-weighted emerging market index showed ex-State-Owned Enterprises to be slightly more expensive. On the other hand, the ex-State-Owned Enterprises Index displayed higher growth expectations.² Firms that have exhibited higher growth typically trade at premium [earnings multiples](#), and they also tend to have lower dividend yields because they reinvest the majority of their earnings. As emerging market countries have grown and transformed, investors have demanded more ways to gain access to this unique asset class. Recently, some investors have expressed concern over state-owned enterprises, and they have sought tools to limit their exposure, even after understanding the valuation differences. Investors who are interested in concentrating their exposure on the private sector and accessing the higher growth potential should find XSOE a useful tool. For full research on the Emerging Markets ex-State-Owned Enterprises Index [click here](#).

¹Sources: WisdomTree, Standard and Poor’s, as of 7/31/14. ²Sources: WisdomTree, Bloomberg, as of 9/30/14.

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DEFINITIONS

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

Float-adjusted market capitalization : Share price x number of shares outstanding, adjusted for the fact that in many emerging markets, not all of the shares outstanding regularly trade, which leads to a reduction in the number of shares outstanding used in the calculation.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

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.