
HOW TO ACCESS CHINA IN 2019

Kara Marciscano — Associate, Research
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This was expected to be the year of the global economic slowdown. But the year-to-date synchronized rally in global equities has stolen the spotlight.

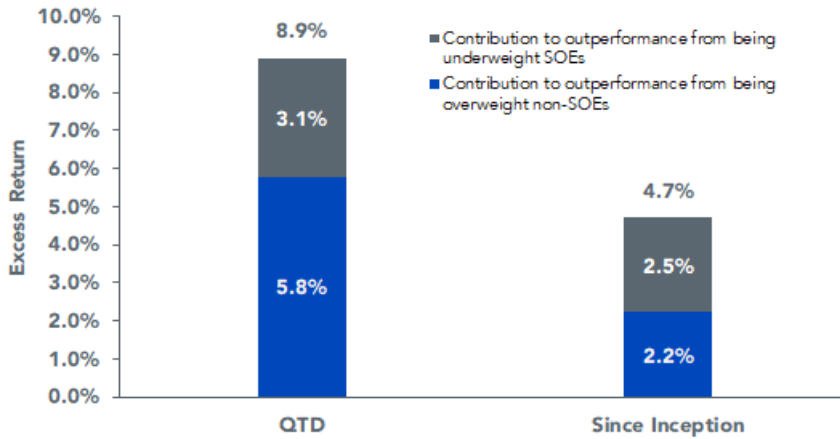
Chinese equities have been the star performer so far. The [MSCI China Index \(MXCN\)](#) returned 17.69% in the first quarter of 2019, marking the strongest quarter of performance in almost 10 years.¹

The year-to-date performance of the [WisdomTree China ex-State-Owned Enterprises Index \(CHXSOE\)](#) has been even stronger than MXCN's. **CHXSOE returned 26.60% in the first quarter of 2019, delivering 891 basis points (bps) of outperformance over MXCN.**

A significant source of CHXSOE's outperformance was the exclusion of companies owned or influenced by the government. CHXSOE invests only in [non-state-owned enterprises \(non-SOEs\)](#), which are defined as companies with less than 20% government ownership.

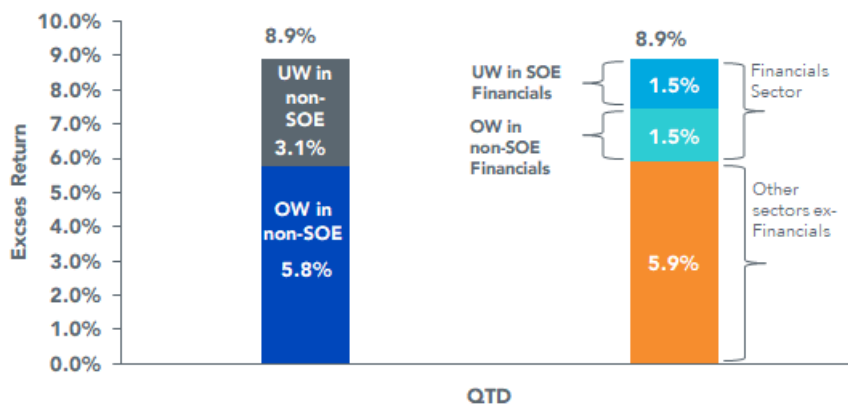
The quarter-to-date and since-inception outperformance of CHXSOE versus MXCN (figure 1) confirms the intuition that non-SOEs are less constrained by the government's agenda. Thus, they're better able to drive operational efficiencies in alignment with maximizing shareholder return.

Figure 1: CHXSOE Outperformance vs. MSCI China Index



Sources: WisdomTree, FactSet. Quarter-to-date (QTD) performance is for the time period 12/31/18-3/29/19. Since Inception performance is for the period 4/1/15-3/29/19. 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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

Dissecting CHXSOE’s excess return in the most recent quarter, we find that the Financials sector has been the greatest contributor to outperformance by a significant margin (figure 2). The Financials sector added 305 bps of outperformance and accounted for about a third of CHXSOE’s excess return in the first quarter of 2019. For context, the added return from the Financials sector was equal to the combined contribution from the next top-three ranking sectors: Consumer Discretionary (+108 bps), Information Technology (+105 bps) and Health Care (+92 bps).



Sources: WisdomTree, FactSet. Quarter-to-date (QTD) performance is for the period 12/31/18 – 3/29/19. OW = over-weight; UW = under-weight. Past performance is not indicative of future results. You cannot invest directly in an index.

Getting more granular, the contributions from being under-weight in SOE financial companies (+148 bps) and over-weight in their non-SOE competitors (+153 bps) were roughly equal in the first quarter of 2019.

More than half of MXCN’s allocation to the Financials sector is concentrated in the Big Four state-owned banks:

Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and the Bank of China.² The exclusion of these Big Four banks added 170 bps to CHXSOE’s excess return in the first quarter of 2019.

The majority of CHXSOE’s allocation to Financials is held in Ping An Insurance Company of China and its subsidiary Ping An Bank, which altogether contributed 133 bps of outperformance in the first quarter of 2019.

Comparing the fundamentals of Ping An Bank and Ping An Insurance to the average of the Big Four helps explain CHXSOE’s recent outperformance (figure 3).³

Ping An Bank has driven greater deposit and loan growth, and it has a steeper [net interest margin](#) than the SOE-bank average over the last five years. Ping An Bank’s relative strength has benefited its parent company, Ping An Insurance. The insurer has delivered a higher return on equity than the Big Four average, with a similar level of [leverage](#) and greater balance sheet growth.

Figure 3: Fundamentals

Company	5-Year Compound Annual Growth Rate				5-Year Average			Current		
	Deposits	Loans	Assets	Equity	Net Interest Margin	ROE	Debt-to-Equity	Dividend Yield	Estimated Price-to-Earnings	Price-to-Book
"Big Four" Average	7.6%	9.2%	8.7%	12.0%	2.3%	15.4%	1.8x	4.5%	6.5x	0.9x
Ping An Bank	14.8%	17.7%	12.6%	14.4%	2.6%	13.0%	4.0x	1.1%	8.2x	1.0x
Ping An Insurance	NA	NA	14.4%	23.5%	NA	16.7%	2.0x	2.1%	10.9x	2.7x

Sources: WisdomTree, FactSet. 5-Year Compound Annual Growth Rates as well as the 5-Year Averages are for the period 3/31/14–3/29/19. Data under Current is as of 3/29/19. Past performance is not indicative of future results.

For definitions of terms in the chart, please visit our [glossary](#).

For investors who prefer to limit their exposure to state-owned-enterprises, the [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#) could be a well-suited investment.

¹Sources: WisdomTree, Bloomberg, as of 3/31/19.

²As of 5/1/19, the WisdomTree China ex-State-Owned Enterprises Fund does not hold Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China or the Bank of China

³As of 5/1/19, the WisdomTree China ex-State-Owned Enterprises Fund held 9.4% and 1.0% of its total weight in Ping An Insurance Company of China and Ping An Bank, respectively.

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You cannot invest directly in an index.

DEFINITIONS

MSCI China Index : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

Basis point : 1/100th of 1 percent.

Ex-SOEs : ex-state owned enterprises or companies that are neither wholly or partially owned and operated by a government.

Net interest margin : A measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.