

SWAPPING YOUR CHINA EXPOSURE OPPORTUNISTICALLY

Jeremy Schwartz — Global Chief Investment Officer

03/07/2016

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 30.¹ 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.² 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**

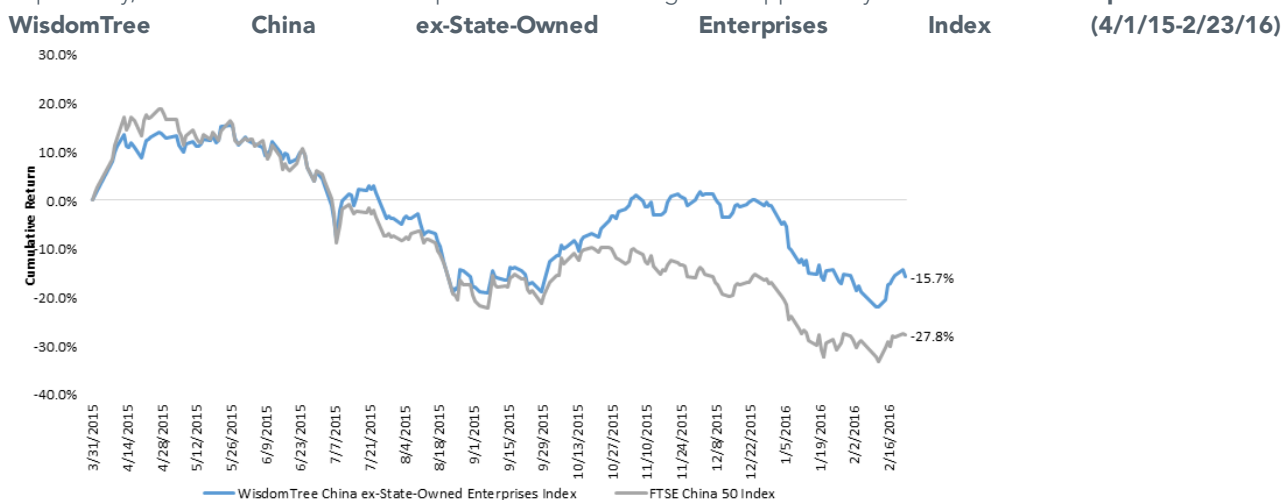
Sector Exposures	
Sector Name	Weight
Information Technology	33.8%
Consumer Discretionary	29.6%
Financials	19.3%
Consumer Staples	8.8%
Health Care	5.9%
Industrials	2.6%

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**



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. ¹Source: Bloomberg. Period from 4/27/15 to 2/23/16. ²Source: 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 standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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.