EVOLVING ACCESS TO CHINESE EQUITIES

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As China continues down the path of capital market liberalization, many investors are confronted with a dizzying array of options: H-shares, B-shares, A-shares, P chips. Shares listed in Hong Kong, Shanghai, Shenzhen, Singapore and New York. While the economic rationale for investing in China may be straightforward, the means by which investors should be gaining access is not. In our view, given the diversity of opportunities in the market, any investor seeking "beta" exposure to Chinese equities should seek exposure via all means available.

China by the Numbers

The Chinese economy accounts for more than 15% of global gross domestic product (GDP) and 11% of global trade.[1] When measured purely by market cap, China has the second largest equity market in the world.[2] However, as a result of restrictions imposed by the Chinese government, these massive markets have generally been off limits for most investors. Over the last decade, Chinese policy makers led by President Xi Jinping have sought to gradually open Chinese markets to outside capital. As a result, China appears to offer an attractive mix of high growth rates, a burgeoning middle class and an economy poised to climb the value chain from export-oriented growth. In our view, China's importance in global markets will only grow as the government transitions to increase integration among global investors.

Historically, exposure to Chinese equities for non-Chinese nationals was limited to companies that listed on international exchanges. After a variety of pilot programs and special institutional frameworks, China has made dramatic steps forward over the last several years to make mainland-listed companies more accessible to global investors. As a result, we believe investors should not necessarily limit themselves to certain listing venues when constructing exposure to China. As we show below, the S&P China 500 Index is one of the only broad-based indexes offering exposure to all flavors of Chinese stocks.

Chinese Equity Market Overview

Exchange Location	Share Class	Description	Trading FX	Largest Sector	Companies	S&P China 500 Index	MSCI China Index	FTSE China 50 Index
Mainland China	A-Shares	China securities incorporated in Mainland China, listed on the Shanghai or Shenzhen Stock Exchange and traded in yuan (CNY)	CNY	Financials	Kweichow Moutai, Ping An Insurance, China Merchants Bank	●		
	B-Shares	China securities incorporated in Mainland China, listed on the Shanghai Stock Exchange (USD) and Shenzhen Stock Exchange (HKD)	USD / HKD	Industrials	Shanghai Lujiazui Fin & Trade Dev, Inner Mongolia Yitai Coal, Chongqing Changan Automobile	●	●	
International	H-Shares	China securities incorporated in Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Financials	China Construction Bank, ICBC, Ping An Insurance	●	●	●
	Red Chips	China securities of state-owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Telecom. Services	China Mobile, CNOOC, BOC Hong Kong	●	●	●
	P Chips	China securities of non-government owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Consumer Discretionary	Tencent, Geely Automobile, China Evergrande	●	●	●
	N-Shares	China securities (including ADRs) incorporated outside Greater China (mainland China, Hong Kong, Macao and Taiwan), listed on the NYSE Euronext-New	USD	Information Technology	Alibaba, Baidu, JD.com	●	●	
	S-Shares	York, NASDAQ, NYSE AMEX (N-Shares) traded on USD, and Singapore (S-Shares) Exchanges traded on Singapore Dollars (SGD)	SGD	Industrials	Yangzijiang Shipbuilding Holdings, Yanlord Land Group, SIIC Environmental	●	●	

Sources: WisdomTree, S&P, MSCI, FTSE, as of 10/31/17. You cannot invest directly in an index. Subject to change.

Additionally, the S&P approach targets a much broader number of securities (500+) for constructing the Index. In other approaches, as few as 50 stocks are expected to provide a diversified basket. Unfortunately, this currently means that investors would be forced to take a fairly concentrated position in information technology stocks by investing via the MSCI China Index or a nearly 50% weight to financials in the FTSE China 50 Index.

Index Sector Exposures as of 10/31/17

Sector	S&P China 500	MSCI China	FTSE China 50
Information Technology	21.2%	40.4%	9.4%
Financials	24.2%	23.2%	49.4%
Consumer Discretionary	11.5%	9.5%	5.9%
Consumer Staples	5.5%	2.0%	0.0%
Health Care	4.6%	2.0%	0.0%
Industrials	12.5%	4.6%	5.1%
Materials	8.1%	1.3%	2.5%
Energy	2.8%	4.7%	9.6%
Telecom. Services	1.8%	5.1%	9.4%
Utilities	2.7%	2.4%	0.5%
Real Estate	5.1%	4.8%	8.2%

Sources: S&P, MSCI, FTSE, as of 10/31/17. Subject to change.

While MSCI's China A-shares announcement last summer got investors thinking about these issues, the proposed changes won't take effect until May 2018. For investors who are thinking about how to efficiently gain broad-based exposure to all flavors of Chinese stocks, we just launched an ETF that tracks the S&P China 500 Index, the WisdomTree ICBCCS S&P China 500 Fund (WCHN).

[1]Source: IMF, as of 9/30/17.

[2]Source: World Federation of Exchanges, as of 9/30/17

Important Risks Related to this Article

While MSCI's China A-shares announcement last summer got investors thinking about these issues, the proposed changes won't take effect until May 2018. For investors who are thinking about how to efficiently gain broad-based exposure to all flavorsThere 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, including A-shares, which include risk of the RQFII regime and Stock Connect program, 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 increases its vulnerability to any single economic or regulatory development related to such sector. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. The Fund will be required to include cash as part of its redemption proceeds which introduces additional risks, particularly due to the potential volatility in the Chinese market and market closures. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. of Chinese stocks, we just launched an ETF that tracks the S&P China 500 Index, the WisdomTree ICBCCS S&P China 500 Fund (WCHN).

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IMPORTANT INFORMATION

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You cannot invest directly in an index.

DEFINITIONS

H-Share : A share of a company incorporated in the Chinese mainland that is listed on the Hong Kong Stock Exchange or other foreign exchange.

B-Shares : China securities incorporated in Mainland China, listed on the Shanghai Stock Exchange (USD) and Shenzhen Stock Exchange (HKD).

A-share : shares traded on the Shanghai and Shenzhen stock exchanges. This is contrast to Renminbi B shares which are owned by foreigners who cannot purchase A-shares due to Chinese government restrictions.

P Chips : China securities of non-government owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD).

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.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

S&P China 500 Index : Comprises 500 of the largest, most liquid Chinese companies while approximating the sector composition of the broader Chinese equity market. All Chinese share classes including A-shares and offshore listings are eligible for inclusion.

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

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.