EX-STATE-OWNED ENTERPRISES IN EM —STILL OUR CORE APPROACH

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10/22/2021

As an eventful year heads into the final stretch, let's evaluate one of our highest conviction investment themes in recent years.

Do we still believe investing in non-state-owned companies in emerging markets is better than investing in the full market?

Our answer to that question is: yes.

Increased Regulation Risks vs. Long-term Efficiency

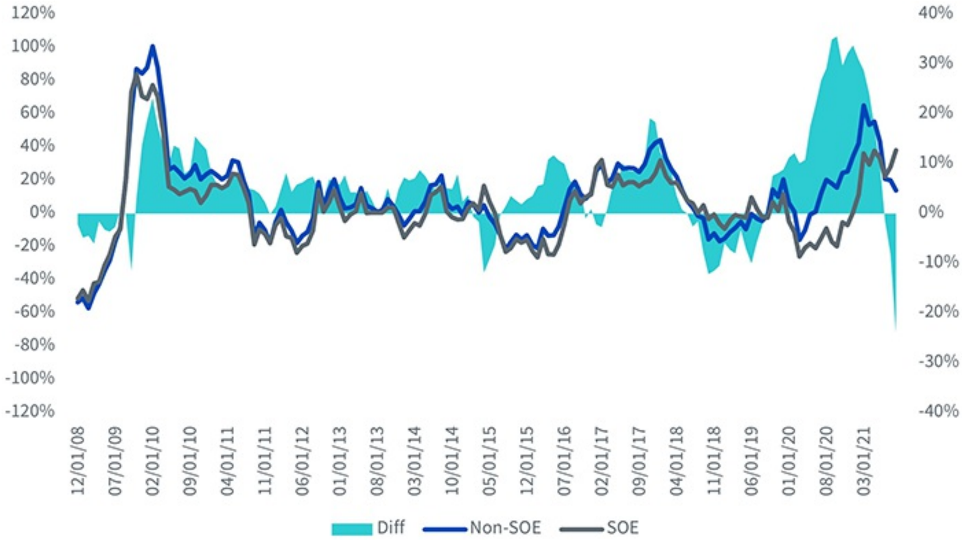
Chinese companies have been under regulatory pressure over the last few months, causing equity prices to recede as much as 32%[1] from five-year highs.

This regulation comes on the heels of an extremely profitable 2020 for technology and retail companies, and looking ahead to next year's Communist Party Congress where President Xi could be tapped to lead the country through 2032. Emerging markets are no strangers to regulatory risks; therefore, these markets tend to trade at a significant discount to developed markets and have provided higher returns over the long run.[2]

Regulatory concerns from China along with a broad-based commodity rally have impacted the relative performance of non-state-owned enterprises (non-SOEs) versus state-owned enterprises (SOEs).

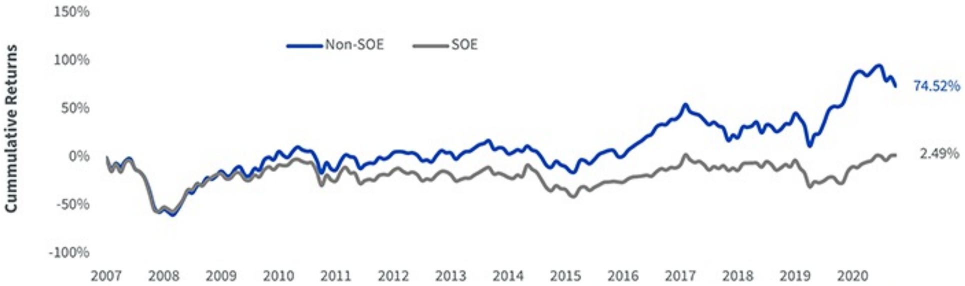
As we can see in the chart below, there have been periods where the trailing 12-month performance of non-SOEs underperformed that of SOEs. These periods have typically been short-lived, and we've seen a steep reversal in the trend.

Trailing 12-Month Return



Sources: FactSet, WisdomTree, 12/31/07–09/30/21. Past performance is not indicative of futures results. SOEs are defined as firms that have more than 20% of their shares owned by government entities. Non-SOEs are defined as firms that have less than 20% of their shares owned by government entities. Universe of securities is the MSCI Emerging Markets Index.

We maintain our view that investing in companies with stronger governance and more efficient operations will tend to outperform over the long run. Whatever new regulation comes out, we believe non-SOEs will always be better positioned to be more dynamic and efficient and better maximize shareholder value than SOEs, which tend to serve government interests.



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Taking SOE Risks off the Table

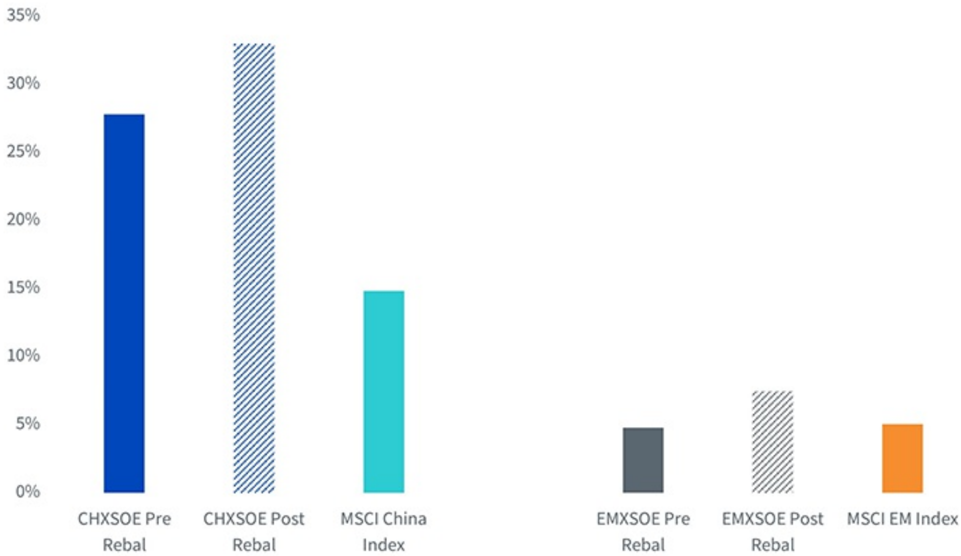
WisdomTree's Emerging Markets ex-State-Owned Enterprises Index and China ex-State-Owned Enterprises Index—EMXSOE and CHXSOE respectively—seek broad exposure to the emerging markets and Chinese markets, respectively, favoring non-SOEs and reducing the exposure to those companies that can be subject to these conflicts of interest.

EMXSOE and CHXSOE, which are tracked by the WisdomTree Emerging Markets ex-State-Owned Enterprises Fund and the WisdomTree China ex-State-Owned Enterprises Fund—XSOE and CXSE, respectively—underwent their annual reconstitutions in October.

The two most notable updates are the increased exposures to China Class A shares and how these Indexes have continued to switch from Chinese ADRs to the equivalent Hong Kong listings.

EMXSOE and CHXSOE increased their cap for Class A shares from 5% to 7.5% and 25% to 33%, respectively. The Chinese domestic stock market has continued to grow, and updating this cap will allow these Indexes to fully reflect the composition of the market. Both EMXSOE and CHXSOE will be overweight compared to their broad market benchmarks.

Class A Exposure



Sources: WisdomTree, FactSet as of 09/30/21. Subject to change.

Although we do not see delisting of ADRs as an immediate risk, we believe that as the respective Hong Kong listings become more liquid it is favorable to have exposure. During their most recent reconstitution, EMXSOE and CHXSOE switched out of 15 ADRs into their respective Hong Kong listings.

Below are the 10 largest ADRs along with their weight in CHXSOE prior to rebalance.

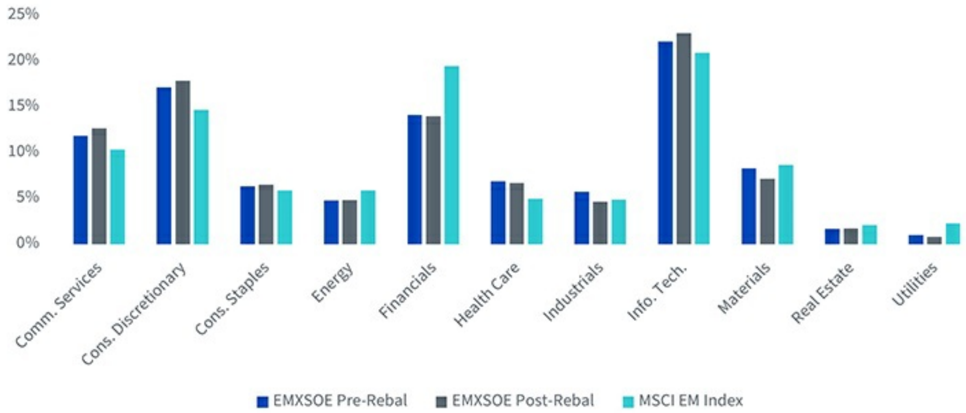
Sedol	Name	CHXSOE Pre-Rebal Weight
BMM27D9	JD.com, Inc.	3.37%
B0FXT17	Baidu, Inc.	2.48%
BFZX9H8	NIO, Inc. (China)	2.11%
2606440	NetEase, Inc.	2.00%
BYVW0F7	Pinduoduo, Inc.	1.94%
BFNLRN6	Bilibili, Inc.	0.87%
BYYDFN0	ZTO Express (Cayman), Inc.	0.85%
BK1K3N2	Trip.com Group Ltd.	0.80%
BD9GVY0	Zai Lab Ltd.	0.43%
BD6FLL7	GDS Holdings Ltd.	0.41%

Source: WisdomTree as of 09/30/21. Weights subject to change.

EMXSOE Rebalance Highlights

After reconstitution, EMXSOE's country exposure was reset to match its starting universe, while its sector tilts continue to be overweight in the Consumer Discretionary and Information Technology sectors and underweight in Financials and Energy.

Sector Exposures



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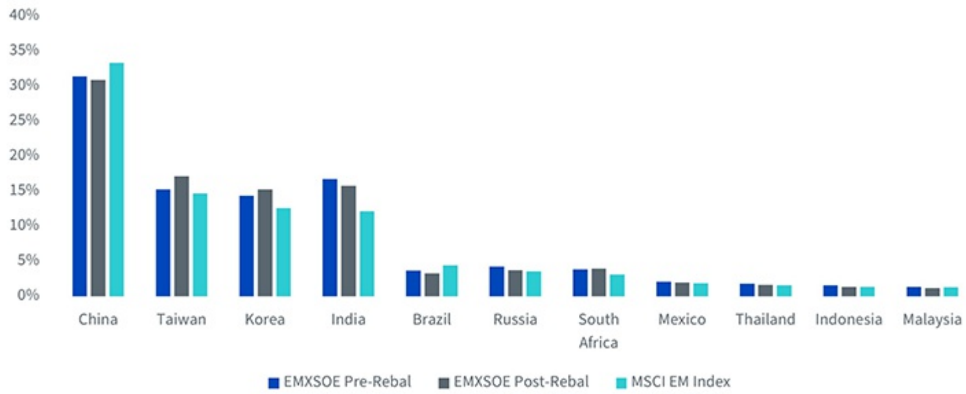
Country Exposures



Sources: WisdomTree, FactSet, as of 09/30/21. Subject to change.

CHXSOE Rebalance Highlights

CHXSOE pared some of its sector tilts during reconstitution but remains overweight in the Information Technology and Health Care sectors, and underweight in Energy and Financials with respect to the MSCI China Index.

Sector Exposures

[1] Sources: WisdomTree, FactSet. Data as of 09/30/21.

[2] MSCI Emerging Markets Index hast outperformed MSCI EAFE Index by 340 basis points annually since 2001. Sources: WisdomTree, FactSet. Data from 09/30/01–09/30/21.

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.

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DEFINITIONS

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

ADRs : American Depository Receipts, shares of a firm incorporated outside the U.S. but issued by a global bank and traded in the U.S., denominated in U.S. dollars.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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