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# WHAT'S PERFORMING IN CHINA?

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While we remain optimistic that a U.S.–China trade deal will ultimately be reached, investors need greater transparency into what's performing (or not) in the Chinese equity market. To help, we've created tools that break down performance by a variety of factors including share class.

In December 2017, WisdomTree partnered with Standard & Poor's (S&P) to launch the most inclusive Chinese [beta](#) product that tracks the [S&P China 500 Index](#).

The [WisdomTree ICBCCS S&P China 500 Fund \(WCHN\)](#) gives investors seeking a beta exposure to Chinese equities access to the broadest diversity of opportunities in the market by investing in [H-shares](#), [B-shares](#), [A-shares](#) and [P-chips](#): shares listed in Hong Kong, Shanghai, Shenzhen, Singapore and New York.

In addition to improving on Chinese beta exposure, we've also developed tools that can help investors stay up-to-date on what's driving returns in Chinese equity markets.

## Share Class Attribution

We recently discussed [how the different approaches of various index providers to China's financial market liberalization can severely affect an investor's return and experience](#). There was a great deal of market interest when MSCI announced they would start to include A-shares in the summer of 2017. Since then, despite A-shares representing the largest segment of the Chinese equity market, current A-share exposure in the MSCI China Index is just over 2%. In our view, the S&P China 500 Index provides a more representative exposure by allocating close to 50% to mainland shares.

Breaking down exposures by share class, we are able to show the impact of gaining broad access to the Chinese equity market. In the performance attribution report below (available to financial professionals at [www.wisdomtree.com](#)), we can see how the S&P China 500 Index has a more balanced exposure across the different share classes than the MSCI China Index, which limits its exposure to class A-shares.

Since the beginning of 2019, the Chinese equity market has experienced strong growth and the S&P China 500 Index has been in its best position to take advantage of this rebound, having nearly 50% exposure to class A-shares versus the MSCI China Index's 2.05%. This allocation was the primary driver for the almost 600 [basis points \(bps\)](#) of outperformance in the first quarter of the year.

SPC500UN - S&P China 500 Index VS. MXCN - MSCI China Index

Share Class Attribution As of: 3/29/2019

MTD **QTD** 1Y Since Inception\*

[EXPORT EXCEL](#)

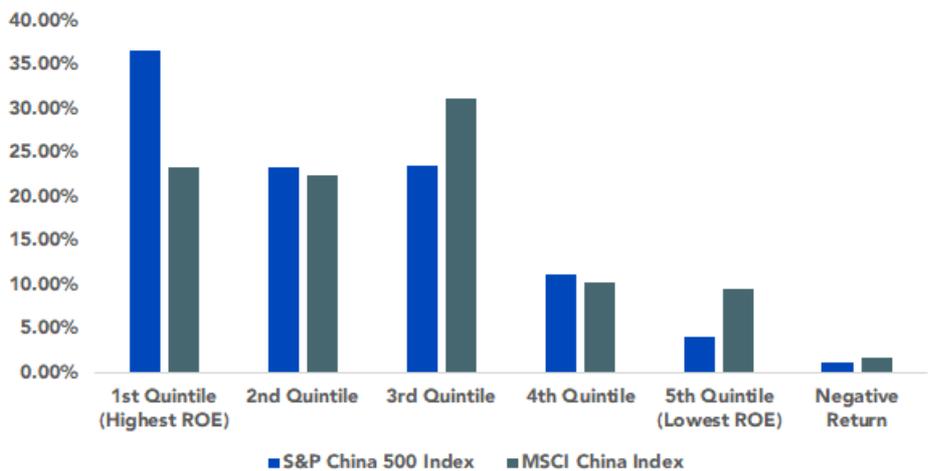
Category ^	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
A Shares	5.35%	0.03%	0.49%	5.87%	49.24%	2.37%	46.87%	30.25%	29.18%
B Shares	0.01%	0.02%	-0.01%	0.02%	0.08%	0.16%	-0.08%	18.70%	9.31%
H Shares	0.96%	-0.39%	0.19%	0.75%	16.80%	32.43%	-15.63%	10.87%	12.01%
N Shares	-1.29%	-0.19%	0.09%	-1.40%	12.94%	23.69%	-10.75%	28.90%	29.72%
P Chip	0.08%	0.22%	-0.11%	0.19%	13.82%	26.00%	-12.18%	17.75%	16.95%
Red Chip	0.51%	-0.00%	-0.00%	0.50%	7.03%	15.10%	-8.07%	12.02%	12.02%
S Shares	-0.02%	0.00%	0.02%	0.00%	0.08%	0.00%	0.08%	21.06%	0.00%
N/A	0.01%	0.00%	0.00%	0.01%	0.00%	0.25%	-0.25%	0.00%	11.54%
<b>Total</b>	<b>5.60%</b>	<b>-0.32%</b>	<b>0.67%</b>	<b>5.95%</b>	-	-	-	<b>23.64%</b>	<b>17.69%</b>

Sources: WisdomTree, FactSet for the period 12/31/18–03/31/19. 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.

**Better Value and Higher Quality**

Another consequence of having an increased exposure to class A-shares comes in the form of better valuations and increased quality as measured by price-to-earnings (P/E) and return on equity (ROE), respectively. Using our tools, we can see that over the last year, the S&P China 500 Index has had higher average exposure to the highest ROE quintile while also being underweight in the lowest ROE quintile and negative earners.

**Average Portfolio Weight - ROE Quintiles**



Sources: WisdomTree, FactSet, for the period 03/31/18–03/31/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Next, we view attribution through the lens of earnings yields. To review, earnings yield is simply the reciprocal of the

price-to-earnings ratio. In terms of P/E quintiles, we can see that having a better valuation and lower exposure to the most expensive (highest P/E) quintile has translated into outperformance since the beginning of the year.

SPC500UN - S&P China 500 Index VS. MXCN - MSCI China Index

Earnings Yield Attribution As of: 3/29/2019

MTD OTD 1Y Since Inception\*

**EXPORT EXCEL**

Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
1st Quintile (Lowest P/E)	0.00%	0.63%	0.05%	0.68%	24.45%	24.27%	0.17%	13.87%	11.32%
2nd Quintile	-0.33%	1.93%	0.76%	2.36%	20.61%	14.87%	5.74%	24.84%	12.28%
3rd Quintile	-0.01%	0.73%	-0.04%	0.68%	11.55%	11.69%	-0.13%	22.65%	16.05%
4th Quintile	0.11%	0.99%	0.69%	1.79%	12.68%	7.60%	5.08%	33.85%	20.20%
5th Quintile (Highest P/E)	-0.53%	1.41%	-0.27%	0.60%	29.70%	38.61%	-8.92%	26.91%	23.28%
Negative Earners	-0.05%	0.14%	-0.05%	0.04%	1.00%	1.42%	-0.42%	34.76%	27.95%
N/A	-0.21%	0.34%	-0.33%	-0.20%	0.01%	1.54%	-1.53%	26.35%	23.73%
<b>Total</b>	<b>-1.01%</b>	<b>6.16%</b>	<b>0.80%</b>	<b>5.95%</b>	-	-	-	<b>23.64%</b>	<b>17.69%</b>

Sources: WisdomTree, FactSet, for the period 12/31/18–03/31/19. 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.

In our view, there will continue to be increased convergence between the role that China plays in the global economy and the role it plays in global portfolios. Through our collaboration with S&P, we are able to provide exposure to the most inclusive Chinese beta product, WCHN, that tracks the S&P China 500 Index. Through our investment in technology, we continue to develop best of breed tools to help investors not only track returns, but also understand what factors and fundamentals are driving them.

**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, 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 increase 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.

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.

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You cannot invest directly in an index.

## DEFINITIONS

**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.

**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.

**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).

**Basis point** : 1/100th of 1 percent.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

**Quality** : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Return on Equity (ROE)** : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.