THE NEW AND POTENTIALLY BETTER WAY TO INVEST IN EMERGING MARKETS

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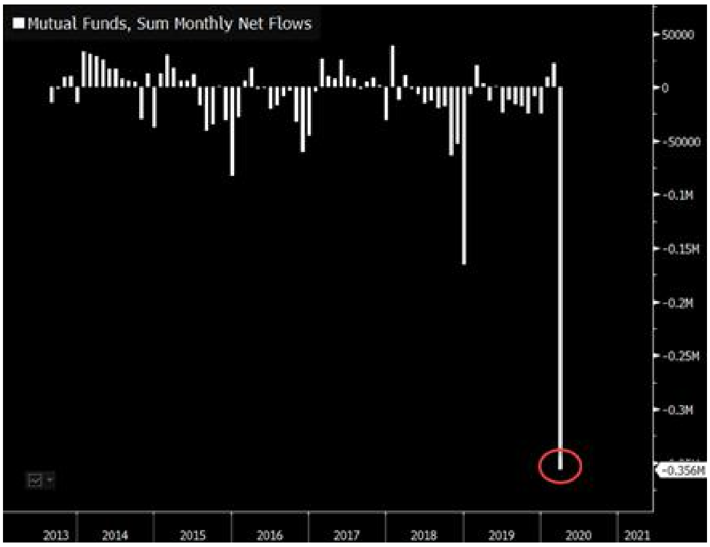
We just finished one of the most volatile months in the market on record, and the movement from mutual funds to ETFs is something to behold.

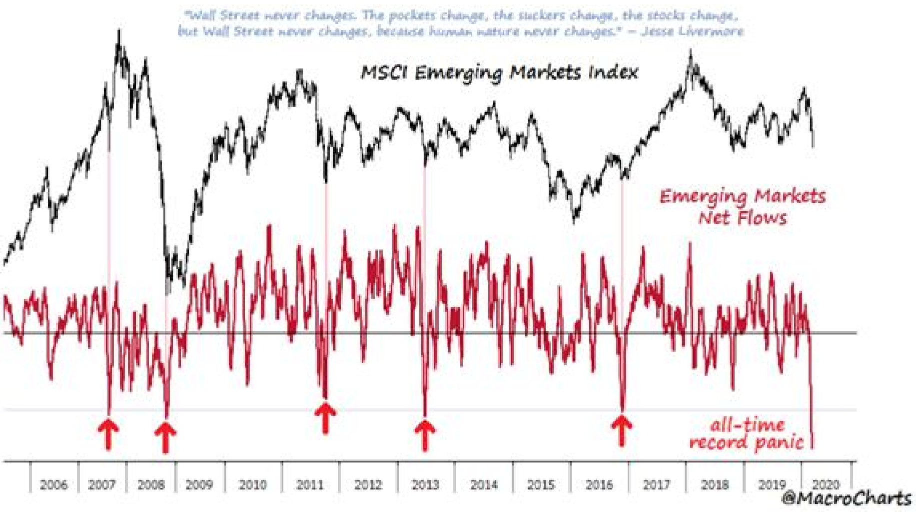
Mutual funds had $356 billion in outflows year-to-date through March 27, and all the outflows came in March. ETFs, by comparison, experienced approximately $55 billion of positive flow in the U.S. during the same period.



Source: Bloomberg as of March 27, 2020.

While outflows spanned asset classes and sectors, the chart below illustrates how emerging markets flows indicated all-time record panic levels—and that these past panic points were good buying opportunities.

Global Emerging Markets Flows Hit an All-Time Record in Panic Selling



Source: MacroCharts, July 2005 to March 12, 2020. Past performance is no guarantee of future results.
An investor cannot invest directly in an index.

For definitions of indexes in the chart, please visit our glossary.

Investors often utilize the market falls to clean up portfolios and move toward the more tax-efficient, transparent[1], liquid and lower-cost[2] wrapper: the ETF.

But it's not just the ETF wrapper attracting investors.

The SPIVA Scorecard, produced by Standard & Poor's, shows how active mutual fund managers perform versus passive index funds. The 2019 scorecard was just released, and there are interesting long-term findings to consider in the emerging markets space.

Less than 10% of active emerging markets (EM) equity managers outperformed their cap-weighted benchmarks during the 15-year period ended 2019. That period captures a full market cycle and includes the global financial crisis.

Did years of volatility like 2008 and 2009 give active EM managers more opportunity to navigate crisis points and add value?

No.

Less than 35% of EM funds outperformed their cap-weighted benchmark in 2008, and less than 30% of EM funds outperformed their cap-weighted benchmark during the rebound in 2009. Those are extremely low numbers—especially since the median expense ratio for active managers in the emerging markets category is 1.25%.[3]

WisdomTree's Modern Alpha® Approach

ETFs are no longer just used to track traditional benchmarks. WisdomTree's unique Modern Alpha approach incorporates a disciplined investment strategy to seek to add value versus traditional beta-oriented instruments.

We believe that by marrying our value-added approach to index construction with the benefits of the ETF structure, we have the potential to deliver a better investing experience.

In emerging markets, the WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (XSOE) has been a standout.

One of the most important risks in emerging markets is the involvement of the government in company direction through a significant ownership stake. Companies do not always act in the best interest of their shareholders when the government is involved. Think about it: Would you rather own UPS (a for-profit public company) or the United States Postal Service (a government-run entity) ? UPS as a public company is focused on maximizing shareholder value; the United States Postal Service is teetering on the edge of insolvency, according to Postmaster General Megan Brennan . We believe the same applies in emerging markets.[4]

Removing state-owned enterprises from our universe has resulted in:

- A core emerging markets fund tilted to growth and quality exposures
- Potential for outperformance: XSOE has provided attractive relative returns over the five years since inception
- During the recent drawdown, XSOE outperforming the MSCI Emerging Markets Index by 226 basis points in Q1 2020

Performance as of 3/31/2020										
				Cumulative Performance as of 3/31/2020			Average Annual Performance as of 3/31/2020			
Fund	Ticker	Inception Date	Net Expense Ratio (%)	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (NAV)	XSOE	12/10/14	0.32%*	-14.78%	-21.34%	-21.34%	-13.38%	1.03%	1.22%	--
WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (MP)				-15.69%	-21.71%	-21.71%	-13.42%	0.51%	1.28%	--
MSCI Emerging Markets Index	--	--	--	-15.40%	-23.60%	-23.60%	-17.69%	-1.62%	-0.37%	0.68%

Sources: WisdomTree, Bloomberg. * XSOE's net expense ratio of 0.32% (the amount charged to shareholders) reflects a contractual waiver of 0.26% through July 31, 2020.)

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com. An investor cannot invest directly in an index.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total Returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Given the underperformance of active managers in the emerging markets space, it helps to ask: Why pay more for active management that hasn’t been outperforming?

[1]Holdings are displayed daily on the website.

[2]Ordinary brokerage commissions apply.

[3]Source: Morningstar average expense ratio data, as of 12/31/19.

[4]Charles Lane, “A disaster brewed for years in the Postal Service,” The Washington Post, 4/13/20.

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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DEFINITIONS

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Market capitalization-weighting : 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.

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.

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

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.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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.

Basis point : 1/100th of 1 percent.