

WHICH CHINESE STOCKS ARE ELIGIBLE IN YOUR INDEX?

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On June 9, 2015, MSCI announced that it was not ready to include Chinese [A-shares](#) in their global indexes. In that announcement the company voiced a series of concerns that need to be addressed before inclusion and a roadmap of how it plans to include these shares. Part of that roadmap toward full adoption includes opening up MSCI's indexes to Chinese companies that are listed in overseas markets. MSCI will potentially include 17 overseas listed stocks between November 2015 and May 2016, which they estimate to represent 12.9% of the eligible Chinese market cap.¹ WisdomTree has also been monitoring the continued openness of the Chinese A-share market to foreign investors for potential inclusion in the [WisdomTree China ex-State-Owned Enterprises Index \(CHXSOE\)](#). Unlike MSCI, WisdomTree has already allowed overseas Chinese equities for inclusion in CHXSOE as well as the [WisdomTree Emerging Markets Consumer Growth Index \(WTECMG\)](#). To WisdomTree, the traditional Hong Kong-listed [Chinese market](#) is saturated with the large [state-owned](#) Chinese companies, particularly in the Financials, Energy and Telecom sectors. This is noticeable when we examine the current [MSCI China Index \(MXCN\)](#), which has over 60% weight in those three sectors and approximately 70% weight in companies we would consider state owned.² Although the Chinese state-owned Financials are some of the lowest-priced stocks globally, there is a demand for exposure to the Chinese private sector, which is why WisdomTree decided to include these stocks in select indexes focused on the [emerging market](#) consumer. Over the past few years, we have witnessed Chinese companies decide to list their shares on the U.S. market, which we believe reflects an effort to more easily access global capital. One noticeable similarity between most of the companies is that they tend to be a part of the Information Technology or Consumer Discretionary sector and their business is focused on the emerging Chinese consumer. Below, we list the 20 largest Chinese companies that are listed on a U.S. stock exchange and their respective weights in CHXSOE and MXCN.

Twenty Largest Chinese Companies Listed in U.S.

Ticker	Name	Sector	WisdomTree China ex-State-Owned Enterprises	MSCI China
BABA	Alibaba Group Holding Ltd	Information Technology	7.14%	N/A
BIDU	Baidu Inc	Information Technology	6.28%	N/A
JD	JD.com Inc	Consumer Discretionary	4.26%	N/A
NTES	NetEase Inc	Information Technology	2.36%	N/A
VIPS	Vipshop Holdings Ltd	Consumer Discretionary	2.06%	N/A
CTRP	Ctrip.com International Ltd	Consumer Discretionary	3.29%	N/A
QIHU	Qihoo 360 Technology Co Ltd	Information Technology	1.09%	N/A
WUBA	S8.com Inc	Information Technology	N/A	N/A
QUNR	Qunar Cayman Islands Ltd	Consumer Discretionary	N/A	N/A
ATHM	Autohome Inc	Information Technology	N/A	N/A
CMCM	Cheetah Mobile Inc	Information Technology	N/A	N/A
YOKU	Youku Tudou Inc	Information Technology	0.82%	N/A
EDU	New Oriental Education & Technology Group Inc	Consumer Discretionary	0.79%	N/A
JIDG	Joymain International Development Group Inc	Health Care	N/A	N/A
MR	Mindray Medical International Ltd	Health Care	0.99%	N/A
YY	YY Inc	Information Technology	0.40%	N/A
CBPO	China Biologic Products Inc	Health Care	N/A	N/A
MOMO	Momo Inc	Information Technology	N/A	N/A
WX	WuXi PharmaTech Cayman Inc	Health Care	1.40%	N/A
WB	Weibo Corp	Information Technology	N/A	N/A
Sum			30.89%	0.00%

Sources: WisdomTree, Bloomberg, as of 7/31/15. Holdings are subject to change.

• **MSCI China Under-weight Information Technology:** By not including these U.S.-listed Chinese securities, MXCN is under-weight Information Technology compared to CHXSOE, with 13.8% exposure, compared to 31.7%. The largest company MXCN is excluding is Alibaba, an Internet-based e-commerce business considered the Amazon and eBay of China, but with (currently) higher revenues. Another is Baidu, a Chinese search engine often thought of as the Google of China. Although MXCN will be adding weight to the Information Technology sector, we expect MXCN to remain under-weight compared to CHXSOE and heavily invested in the many state-owned companies that still dominate China’s market. One could potentially expect volume and buying pressure to pick up in many of these names as we get closer to November.³ As these securities are added to various MSCI indexes, many [active managers](#) and other investment vehicles that track these indexes should be inclined to also purchase these securities. It is difficult to determine the exact dollar amount that will flow into these securities, but we believe it will be noticeable. ¹Source: MSCI, “Consultation on China A-Shares Index Inclusion Roadmap”, June 2015. ²Sources: WisdomTree, Bloomberg, as of 7/31/15. ³MSCI will potentially include 17 overseas-listed stocks between November 2015 and May 2016, so November could mark the beginning of increased activity in these names.

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Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

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DEFINITIONS

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.

WisdomTree China ex-State-Owned Enterprises Index: Measures the performance of Chinese stocks that are not state-owned enterprises. State-owned enterprises are defined as government ownership of more than 20% of outstanding shares of companies.

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

Emerging market: Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

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