CAPTURING CHINA'S EQUITY RALLY

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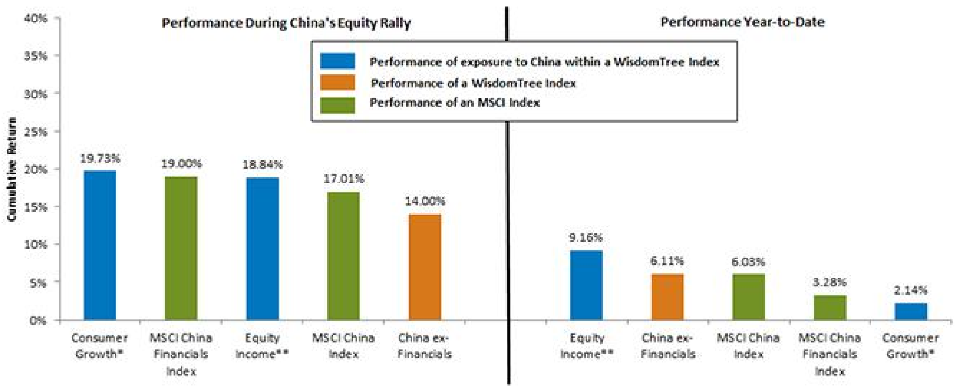
08/27/2014

As one of the largest economies and markets in the world, when China catches a so-called "economic cold," the impact reverberates throughout the global economy. Since May 7, 2014, China's equities [1] have rallied strongly, buoyed by improving economic data. It is hard to imagine emerging markets having a sustained uptrend without China's participation, so we find this upturn encouraging for emerging market assets. In this piece, we show which of WisdomTree's broadly diversified emerging markets Indexes have been most effective at capturing this inflection point in China's equities. Additionally, we look to isolate China's Financials, specifically by looking at the performance of the WisdomTree China Dividend ex-Financials Index (China ex-Financials) and the MSCI China Financials Index, since they're often mentioned as central to China's economic narrative. **Two Indexes: Similar Aggregate Exposure, Very Different Companies** Of WisdomTree's broad emerging market equity Indexes, only the WisdomTree Emerging Markets Equity Income (17.55%) & Consumer Growth (18.17%) Indexes had double-digit exposures to China as of July 25, 2014. For context, the two most widely followed market capitalization-weighted indexes of emerging market equities had 18.5% and 20.5% of their weight in China.[2] The single most important differentiating factor is that Equity Income, as a "valuation hunter" in emerging markets, has zeroed in on large Chinese banks, which are some of the least-expensive large payers of cash dividends. By virtue of Consumer Growth's methodology, these same firms are not eligible for inclusion; they are considered to be less related to the growth of Chinese domestic consumption. **How Did the Different China Exposures Perform in 2014?**



*Performance of the China exposure within the WisdomTree Emerging Markets Consumer Growth Index
**Performance of the China exposure within the WisdomTree Emerging Markets Equity Income Index
Source: Bloomberg. Performance during China's equity rally refers to period from 5/7/14 to 7/25/14; performance year-to-date refers to period from 12/31/13 to 7/25/13.
Past performance is not indicative of future results. You cannot invest directly in an index.

• **China Exposures of Both Indexes Outperform during the Rally:** In the chart, we include the performance of the MSCI China Index as a reference point for how China's equity markets overall did during the rally. Both Consumer Growth and Equity Income outperformed the MSCI China Index, and this tells us that China's recent rally has been broad in nature and not confined to the large banks—even though the performance of the MSCI China Financials Index shows that they clearly participated. **Top 3 China Stocks in Equity Income and Consumer Growth; • Consumer Growth[3]** 1.) **Ping Ann Insurance[4] (3.73%**

weight): Ping Ann provides property, casualty and life insurance as well as financial services in China. As of July 25, 2014, its price-to-earnings (P/E) ratio was about 11.0x, compared to that of the MSCI China Index, which was 9.8x. During China's equity rally, the stock was up about 14.8%, but year-to-date it's still down about 6.4%. 2.) **Dongfeng Motor[5] (3.14% weight):** Dongfeng is a comprehensive supplier of vehicles and vehicle parts in China. Even with 37.6% returns during the rally and 17.26% returns year-to-date, its P/E ratio (7.6x) remains below that of China's equity markets, due largely to expectations of strong earnings growth. 3.) **PICC Property & Casualty[6] (2.18% weight):** PICC provides a wide range of property and casualty insurance services in China, and its P/E valuation was 10.7x. During China's recent rally, shares were up over 23%, and they are up nearly 13% for the year. • **Equity Income**[7] 1.) The three firms China Construction Bank[8] (4.58% weight), Industrial & Commercial Bank of China[9] (3.25% weight) and Bank of China[10] (2.17% weight) are all large, state-owned Chinese banks. These are some of the largest payers of cash dividends across all emerging markets, which accounts for their large weights. 2.) Even though each of these firms has delivered positive performance year-to-date and double-digit performance during the recent rally, P/E ratios for all of them remain below 5.0x. China Construction Bank is the "most expensive" at 4.9x. **Positioning for Upturn in China** One point of this blog post is to highlight that an investor's China exposure does not need to be defined by large, state-owned banks. Sure, these firms are important and, currently, are some of the least expensive equities in China, but the methodologies of Consumer Growth and China ex-Financials avoid them, providing tools that can potentially be helpful complements to traditional, market capitalization-weighted approaches to China's equities. [1]Refers to performance of the MSCI China Index through 7/25/14.Source: Bloomberg. [2]Refers to the MSCI Emerging Markets Index (about 18.5% weight to China) and the FTSE Emerging Markets Index (about 20.5% weight to China) as of 7/25/14. Source: Bloomberg. [3]Source for all sub-bullet information: Bloomberg, with valuation data as of 7/25/14, year-to-date performance data from 12/31/13 to 7/25/14 and performance during the rally data from 5/7/14 to 7/25/14. [4]As of 7/25/14, Ping Ann Insurance was a 0.30% weight in the WisdomTree Global ex-U.S. Dividend Growth Index, a 0.09% weight in the WisdomTree Asia Pacific ex-Japan Index, and a 0.59% weight in the WisdomTree Emerging Markets Dividend Growth Index. [5]As of 7/25/14, Dong Feng Motor was a 1.84% weight within the WisdomTree China Dividend ex-Financials Index and a 0.26% weight within the WisdomTree Asia Pacific ex-Japan Index. [6]As of 7/25/14, PICC Property & Casualty was a 0.21% weight within the WisdomTree Asia Pacific ex-Japan Index. [7]Source for all sub-bullet information: Bloomberg, with valuation data as of 7/25/14, year-to-date performance data from 12/31/13 to 7/25/14 and performance during the rally data from 5/7/14 to 7/25/14. [8]As of 7/25/14, China Construction Bank was a 1.44% weight in the WisdomTree Global Equity Income Index and a 3.83% weight within the WisdomTree Asia Pacific ex-Japan Index. [9]As of 7/25/14, Industrial & Commercial Bank of China was a 0.47% weight within the WisdomTree Global Equity Income Index and a 1.26% weight within the WisdomTree Asia Pacific ex-Japan Index. [10]As of 7/25/14, Bank of China was a 0.32% weight within the WisdomTree Global Equity Income Index and a 0.84% weight within the WisdomTree Asia Pacific ex-Japan Index.

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DEFINITIONS

WisdomTree China Dividend ex-Financials Index : The Index measures the performance of dividend paying stocks outside financials sector. It is comprised of the 10 largest stocks selected by float adjusted market capitalization in each sector except financials, selected from a universe of Chinese companies with at least $1 billion of float-adjusted market capitalization.

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

WisdomTree Emerging Markets Equity Income Index : A subset of the WisdomTree Emerging Markets Dividend Index measuring the performance of the higher-yielding stocks as measured by trailing 12-month dividend yields, weighted by cash dividends.

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.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.