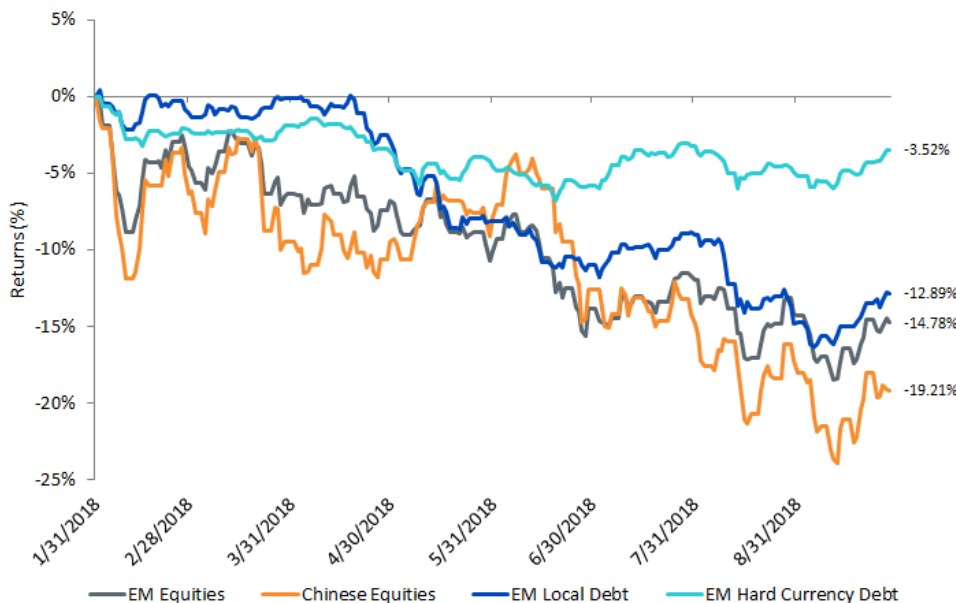


TAX LOSS OPPORTUNITIES IN EMERGING MARKET PORTFOLIOS

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After a phenomenal 2017, the last eight months have been painful for emerging market (EM) investors. The initial leg lower coincided with a general spike in [volatility](#) in February. Since then, we’ve seen declines from January levels of almost 15% for a broad EM equity index, 20% for broad China benchmarks, 13% for [EM local currency debt](#) and close to 4% for EM hard currency debt. A large portion of this was driven by EM currencies, which were down more than 8% over this time period. However, despite this period of negative performance, we believe this year’s downdraft could lead to opportunity.

EM Assets: 1/31/18–9/30/18



Source: Bloomberg, as of 9/30/18. Past performance is not indicative of future results. You cannot invest directly in an index. EM equities, Chinese equities, EM local debt, and EM hard currency debt proxied by MSCI Emerging Markets Index, MSCI China Index, J.P. Morgan GBI-EM Global Core Index and J.P. Morgan EMBI Global Core Index, respectively.

For definitions of terms in the chart, please visit our [glossary](#).

Taking Stock of EM

When assets are down by these magnitudes, it provides investors an important opportunity to evaluate the exposures in their portfolios and look for opportunities to refresh positions while booking tax losses that may offset realized gains elsewhere in the portfolio.

We examined the top 10 largest [active](#) and [passive](#) mutual funds/exchange-traded funds (ETFs) in EM equities, Chinese equities, EM local debt and EM hard currency debt and evaluated their performance during the downturn in order to highlight opportunities for tax loss harvesting.

Global EM Equities

Equity Emerging Mkts Global Lipper Category	Net Expense Ratio	As of 9/30/18			
		Q3 2018 Return	YTD Return	1-Year Return	3-Year Return
DEM	0.63%	4.74%	0.54%	7.09%	14.01%
XSOE	0.32%	-3.38%	-10.35%	-2.56%	13.35%
Top 10 Mutual Funds (By AUM) Weighted Average	0.75%	-2.41%	-7.81%	-2.07%	11.48%
Top 10 Mutual Funds (By AUM) Equally Weighted	0.85%	-2.60%	-9.52%	-3.70%	10.89%
MSCI Emerging Markets Net Total Return Index (NDUEEGF)	--	-1.09%	-7.68%	-0.81%	12.36%
# of Top 10 Funds that Outperformed Benchmark		1	2	2	2
DEM vs. Top 10 (Weighted Average)	-0.12%	7.14%	8.35%	9.16%	3.12%
DEM vs. Top 10 (Equally Weighted)	-0.22%	7.34%	10.06%	10.79%	3.81%
DEM vs. Benchmark	--	5.83%	8.22%	7.90%	2.07%
XSOE vs. Top 10 (Weighted Average)	-0.43%	-0.97%	-2.54%	-0.49%	2.30%
XSOE vs. Top 10 (Equally Weighted)	-0.53%	-0.78%	-0.83%	1.14%	3.00%
XSOE vs. Benchmark	--	-2.28%	-2.68%	-1.75%	1.24%

Sources: Bloomberg, Thomson Reuters Lipper, as of 9/30/18. DEM = WisdomTree Emerging Markets High Dividend Fund; XSOE = WisdomTree Emerging Markets ex-State-Owned Enterprises Fund. Benchmark represented by the MSCI Emerging Markets Net Total Return Index (NDUEEGF).

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 www.wisdomtree.com. Aggregate level performance data for the Lipper category funds is limited in nature due to varying inception dates.

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.

The Net Expense Ratio for XSOE reflects a contractual waiver of 0.26% through July 31, 2019.

For standardized performance of the Funds, please see their respective ticker: [DEM](#), [XSOE](#).

Opportunities in Emerging Market Equities: Whether one has been allocating to core and broad-based passive ETFs or using an active manager, this has been a tough year for EM equity positions. There are a few options to consider when swapping EM equities.

- **Emerging Markets Value:** [DEM](#), our high-dividend fund, has over a 10-year history of outperforming the MSCI Emerging Markets Index; it has one of the lowest valuations of strategies we have, with aggregate [price-to-earnings ratios](#) less than 10x earnings. As of September 30, 2018, this has a [correlation](#) with the broad MSCI Emerging Markets Index over the last three years of 0.92 and has been outperforming in 2018 due to being under-weight in the Technology sector and over-weight in the Energy and Materials sectors.

- **Emerging Markets Growth Oriented:** [XSOE](#), our ex-state-owned enterprises ETF, is positioned as a unique factor strategy that tilts to consumer- and technology-oriented companies, which generally have been showing strong underlying growth trends over the last few years. XSOE has very high tracking to the general market indexes with 0.98 correlation over the last three years but 100 basis points (bps) of annualized outperformance.

Chinese Equities

Equity Greater China Lipper Category	Net Expense Ratio	As of 9/30/18			
		Q3 2018 Return	YTD Return	1-Year Return	3-Year Return
CXSE	0.32%	-12.10%	-15.87%	-7.07%	20.50%
WCHN	0.55%	-6.19%	-13.09%	N/A	N/A
Top 10 Mutual Funds (By AUM) Weighted Average	1.09%	-7.57%	-7.49%	1.40%	14.25%
Top 10 Mutual Funds (By AUM) Equally Weighted	1.39%	-8.19%	-7.26%	1.41%	14.78%
MSCI China Net Total Return Index (NDEUCHF)	--	-7.51%	-9.12%	-2.20%	13.69%
# of Top 10 Funds that Outperformed Benchmark		5	7	9	8
CXSE vs. Top 10 (Weighted Average)	-0.77%	-4.53%	-8.38%	-8.47%	7.95%
CXSE vs. Top 10 (Equally Weighted)	-1.07%	-3.92%	-8.60%	-8.48%	7.36%
CXSE vs. Benchmark	--	-4.59%	-6.74%	-4.87%	8.58%
WCHN vs. Top 10 (Weighted Average)	-0.54%	1.38%	-5.60%		
WCHN vs. Top 10 (Equally Weighted)	-0.84%	1.99%	-5.83%		
WCHN vs. Benchmark	--	1.32%	-3.96%		

Sources: Bloomberg, Thomson Reuters Lipper, as of 9/30/18. CXSE = WisdomTree China ex-State-Owned Enterprises Fund; WCHN = WisdomTree ICBCSS S&P China 500 Fund. Benchmark represented by the MSCI China Net Total Return Index (NDEUCHF).

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 www.wisdomtree.com. Aggregate level performance data for the Lipper category funds is limited in nature due to varying inception dates.

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The Net Expense Ratio for CXSE reflects a contractual waiver of 0.31% through July 31, 2019.

For standardized performance of the Funds, please see their respective ticker: [CXSE](#), [WCHN](#).

Opportunities in China: Clearly, the Trump administration has taken a very hard-line stance on China, and how these negotiations will play out is tough to say. We believe ultimately some type of deal will be made, similar to the [new USMCA \(aka, the revised NAFTA\)](#). If one has losses in China exposures, we like the long-run merits of the China ex-state owned enterprises theme. At 32 bps, [CXSE](#) is approximately half the expense ratio of the largest ETFs in the category while giving a unique lens into the longer-run consumer and technology themes of the newer economy sectors in China.

For broad China access, [WCHN](#) is an all-inclusive Fund we see for accessing all share classes of Chinese equities, with 50% of its weight in [A-shares](#). While the Consumer Discretionary sector has underperformed Energy by a large margin over the past year, we continue to believe that our approaches to beta in China could represent a more intuitive approach for accessing the future engine of Chinese growth.

EM Local Debt

		As of 9/30/18			
Bond Emerging Markets Global LC Lipper Category	Net Expense Ratio	Q3 2018 Return	YTD Return	1-Year Return	3-Year Return
ELD	0.55%	-3.16%	-10.45%	-9.77%	3.38%
Top 10 Mutual Funds (By AUM) Weighted Average	0.87%	-2.12%	-8.95%	-8.45%	4.87%
Top 10 Mutual Funds (By AUM) Equally Weighted	0.86%	-1.93%	-9.02%	-8.43%	4.91%
J.P. Morgan GBI-EM Global Diversified Index Unhedged USD (JGENVUUG)	--	-1.82%	-8.15%	-7.40%	5.17%
# of Top 10 Funds that Outperformed Benchmark		3	2	2	3
ELD vs. Top 10 (Weighted Average)	-0.32%	-1.04%	-1.50%	-1.33%	-1.64%
ELD vs. Top 10 (Equally Weighted)	-0.31%	-1.23%	-1.42%	-1.34%	-1.68%
ELD vs. Benchmark	--	-1.33%	-2.30%	-2.38%	-1.99%

Sources: Bloomberg, Thomson Reuters Lipper, as of 9/30/18. ELD = WisdomTree Emerging Markets Local Debt Fund. Benchmark represented by the J.P. Morgan GBI-EM Global Diversified Index Unhedged USD (JGENVUUG).

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 www.wisdomtree.com. Aggregate level performance data for the Lipper category funds is limited in nature due to varying inception dates.

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For standardized performance of ELD, please click [here](#).

Opportunities in Emerging Market Local Debt: We tend to think of complementing EM equities with EM debt as a way to lower volatility, but over last eight months, the equity and debt declines have been almost identical because of currency weakness. This is a category where all-in yields have also picked up, so many conversations we've had recently are about wanting to maintain exposure to the asset class while picking up the tax loss trade.

EM Hard Currency Debt

		As of 9/30/18			
Bond Emerging Markets Global HC Lipper Category	Net Expense Ratio	Q3 2018 Return	YTD Return	1-Year Return	3-Year Return
EMCB	0.60%	1.13%	-2.40%	-1.48%	5.31%
Top 10 Mutual Funds (By AUM) Weighted Average	0.75%	1.32%	-4.73%	-4.28%	6.40%
Top 10 Mutual Funds (By AUM) Equally Weighted	0.77%	1.12%	-4.97%	-4.45%	6.34%
J.P. Morgan CEMBI Diversified Index (JCMDCOMP)	--	1.44%	-1.66%	-0.97%	5.58%
# of Top 10 Funds that Outperformed Benchmark		5	0	0	7
EMCB vs. Top 10 (Weighted Average)	-0.15%	-0.19%	2.33%	2.81%	-1.24%
EMCB vs. Top 10 (Equally Weighted)	-0.17%	0.01%	2.58%	2.97%	-1.17%
EMCB vs. Benchmark	--	-0.31%	-0.74%	-0.51%	-0.31%

Sources: Bloomberg, Thomson Reuters Lipper, as of 9/30/18. EMCB = WisdomTree Emerging Markets Corporate Bond Fund. Benchmark represented by the J.P. Morgan CEMBI Diversified Index (JCMDCOMP).

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 www.wisdomtree.com. Aggregate level performance data for the Lipper category funds is limited in nature due to varying inception dates. EMCB = WisdomTree Emerging Markets Corporate Bond Fund. Benchmark represented by the J.P. Morgan CEMBI Diversified Index (JCMDCOMP).

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For standardized performance of EMCB, please click [here](#).

Opportunities in Emerging Market Hard Currency Debt: while EM currency weakness has accounted for a majority of the losses in EM local debt, rising U.S. interest rates and widening [credit spreads](#) have served as a headwind for EM fixed income denominated in U.S. dollars. In our view, we're currently more constructive on corporate debt compared with sovereign debt. Additionally, EM corporate debt tends to have less [interest rate risk](#) than EM sovereigns. Therefore, if you're concerned about rising rates in your bond portfolio, EM corporates could be an attractive way to manage volatility across EM while diversifying away from traditional U.S. corporate [credit risk](#).

Conclusion

The U.S. dollar, after being weaker against pretty much every EM currency in 2017, has been considerably stronger in 2018. The Federal Reserve has continued to hike rates so that some of the “[carry spreads](#)” for emerging markets started to look less attractive, resulting in a tightening of financial conditions. Investors are questioning if there are risks of contagion like those we saw in the late '90s.

In short, the market is thinking of all the things that could potentially go wrong for emerging markets versus what could go right. While the near term will undoubtedly be subject to volatility, we believe the current downdraft could present an opportunity for long-term allocators to refresh valuation and improve the tax profile of their portfolio while at the same time maintaining a high correlation with traditional benchmarks.

All data is sourced from Bloomberg as of September 30, 2018, unless otherwise stated.

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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](#).

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DEFINITIONS

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

EM local currency debt: Debt denominated in the local currencies of emerging market governments.

Active: Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Passive: Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

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.

Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

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.

Credit spread: The portion of a bond's yield that compensates investors for taking credit risk.

Interest rate risk: The risk that an investment's value will decline due to an increase in interest rates.

Credit risk: The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Carry: The amount of return that accrues from investing in fixed income or currency forward contracts.