

---

# EVOLVING ACCESS TO CHINESE EQUITIES

Bradley Krom – U.S. Head of Research  
12/21/2017

As China continues down the path of capital market liberalization, many investors are confronted with a dizzying array of options: [H-shares](#), [B-shares](#), [A-shares](#), [P chips](#). Shares listed in Hong Kong, Shanghai, Shenzhen, Singapore and New York. While the economic rationale for investing in China may be straightforward, the means by which investors should be gaining access is not. In our view, given the diversity of opportunities in the market, any investor seeking “[beta](#)” exposure to Chinese equities should seek exposure via all means available.

## China by the Numbers

The Chinese economy accounts for more than 15% of [global gross domestic product \(GDP\)](#) and 11% of global trade.<sup>1</sup> When measured purely by [market cap](#), China has the second largest equity market in the world.<sup>2</sup> However, as a result of restrictions imposed by the Chinese government, these massive markets have generally been off limits for most investors. Over the last decade, Chinese policy makers led by President Xi Jinping have sought to gradually open Chinese markets to outside capital. As a result, China appears to offer an attractive mix of high growth rates, a burgeoning middle class and an economy poised to climb the value chain from export-oriented growth. In our view, China’s importance in global markets will only grow as the government transitions to increase integration among global investors.

Historically, exposure to Chinese equities for non-Chinese nationals was limited to companies that listed on international exchanges. After a variety of pilot programs and special institutional frameworks, China has made dramatic steps forward over the last several years to make mainland-listed companies more accessible to global investors. As a result, we believe investors should not necessarily limit themselves to certain listing venues when constructing exposure to China. As we show below, the [S&P China 500 Index](#) is one of the only broad-based indexes offering exposure to all flavors of Chinese stocks.

## Chinese Equity Market Overview

Exchange Location	Share Class	Description	Trading FX	Largest Sector	Companies	S&P China 500 Index	MSCI China Index	FTSE China 50 Index
Mainland China	A-Shares	China securities incorporated in Mainland China, listed on the Shanghai or Shenzhen Stock Exchange and traded in yuan (CNY)	CNY	Financials	Kweichow Moutai, Ping An Insurance, China Merchants Bank	●		
	B-Shares	China securities incorporated in Mainland China, listed on the Shanghai Stock Exchange (USD) and Shenzhen Stock Exchange (HKD)	USD / HKD	Industrials	Shanghai Lujiazui Fin. & Trade Dev., Inner Mongolia Yifai Coal, Chongqing Changan Automobile	●	●	
International	H-Shares	China securities incorporated in Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Financials	China Construction Bank, ICBC, Ping An Insurance	●	●	●
	Red Chips	China securities of state-owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Telecom. Services	China Mobile, CNOOC, BOC Hong Kong	●	●	●
	P Chips	China securities of non-government owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD)	HKD	Consumer Discretionary	Tencent, Geely Automobile, China Evergrande	●	●	●
	N-Shares	China securities (including ADRs) incorporated outside Greater China (mainland China, Hong Kong, Macao and Taiwan), listed on the NYSE Euronext-New York, NASDAQ, NYSE AMEX (N-Shares) traded on USD, and Singapore (S-Shares) Exchanges traded on Singapore Dollars (SGD)	USD	Information Technology	Alibaba, Baidu, JD.com	●	●	
	S-Shares		SGD	Industrials	Yangzijiang Shipbuilding Holdings, Yanlord Land Group, SIIC Environmental	●	●	

Sources: WisdomTree, S&P, MSCI, FTSE, as of 10/31/17. You cannot invest directly in an index. Subject to change.

Additionally, the S&P approach targets a much broader number of securities (500+) for constructing the Index. In other approaches, as few as 50 stocks are expected to provide a diversified basket. Unfortunately, this currently means that investors would be forced to take a fairly concentrated position in information technology stocks by investing via the [MSCI China Index](#) or a nearly 50% weight to financials in the [FTSE China 50 Index](#).

Index Sector Exposures as of 10/31/17

Sector	S&P China 500	MSCI China	FTSE China 50
Information Technology	21.2%	40.4%	9.4%
Financials	24.2%	23.2%	49.4%
Consumer Discretionary	11.5%	9.5%	5.9%
Consumer Staples	5.5%	2.0%	0.0%
Health Care	4.6%	2.0%	0.0%
Industrials	12.5%	4.6%	5.1%
Materials	8.1%	1.3%	2.5%
Energy	2.8%	4.7%	9.6%
Telecom. Services	1.8%	5.1%	9.4%
Utilities	2.7%	2.4%	0.5%
Real Estate	5.1%	4.8%	8.2%

Sources: S&P, MSCI, FTSE, as of 10/31/17. Subject to change.

While MSCI’s China A-shares announcement last summer got investors thinking about these issues, the proposed changes won’t take effect until May 2018. For investors who are thinking about how to efficiently gain broad-based exposure to all flavors of Chinese stocks, we just launched an ETF that tracks the S&P China 500 Index, the [WisdomTree ICBC CS S&P China 500 Fund \(WCHN\)](#).

<sup>1</sup>Source: IMF, as of 9/30/17.

<sup>2</sup>Source: World Federation of Exchanges, as of 9/30/17

#### Important Risks Related to this Article

While MSCI's China A-shares announcement last summer got investors thinking about these issues, the proposed changes won't take effect until May 2018. For investors who are thinking about how to efficiently gain broad-based exposure to all flavors 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. of Chinese stocks, we just launched an ETF that tracks the S&P China 500 Index, the WisdomTree ICBCCS S&P China 500 Fund (WCHN).

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies, Inc. and is licensed for use by WisdomTree Investments, Inc. Neither MSCI, S&P nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

## DEFINITIONS

**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).

**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.

**Gross domestic product (GDP)**: The sum total of all goods and services produced across an economy.

**Market Capitalization**: 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.

**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.

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

**FTSE China 50 Index**: a market capitalization weighted index tracking the top 50 Chinese companies. Stocks are weighted by H or Red Chip share cap as appropriate.