

A DIFFERENT APPROACH TO CHINA'S EQUITY MARKETS

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Few countries have the ability to influence global markets to the degree that China does. Investor sentiment here can have significant implications for both developed and emerging markets. The second half of 2015 has been difficult for China's equity markets, to say the least.

- **Lower Economic Growth:** China is undergoing an important transition from investment-led economic growth to having consumption play a more significant role. A critical result of this shift could be that the former double-digit levels of year-over-year economic growth truly become a thing of the past.¹ This has also had implications in the commodity markets, as one key factor influencing commodity price behavior is potential demand from China. As we look at the [S&P GSCI Index](#), down 33.40% year-to-date, this is definitely an important contributing reason.²
- **Signals within Currency Markets:** In early August 2015, a few adjustments to the value of the yuan compared to the U.S. dollar impacted market perceptions of China, making some wonder if there would be a "[currency war](#)" in Asia.³ We did not think that to be a high-probability event, largely due to China's perceived desire for inclusion in the International Monetary Fund's [Special Drawing Rights \(SDR\) basket](#). Recently, the yuan did achieve this status, and we believe that the generally stable policy that China has taken—as opposed to making big changes with increasing frequency—was a large factor.⁴
- **What to Do in a Tough Chinese Equity Market** Seeing the difficulties experienced in China and broader emerging markets in 2015, one response might have been to avoid China entirely—certainly a valid point of view. However, China represents approximately 2.2% of the [MSCI ACWI Index](#), currently the largest emerging market exposure in this Index,⁵ and it is also the world's second largest economy,⁶ so dropping the exposure could introduce a substantial risk relative to global equity performance benchmarks. Additionally, the markets that China impacts stretch far beyond its borders. So if investors do not want to completely avoid China, what approach could make more sense than simply owning the broad Chinese equity market? **China's Equities without Government Ownership** On April 1, 2015, WisdomTree launched a [China ex-State-Owned Enterprises Index](#). The [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#), which tracks this Index before fees and expenses, was launched on July 1, 2015. Looking at the total returns at [net asset value](#) from this point through December 30, 2015, we've seen:⁷
 - CXSE: -7.81%
 - [Shanghai Composite Index](#): -14.96%
 - [MSCI China Index](#): -19.81%

China's equities tilting away from state-owned firms have delivered distinctly different performance from broader measures of China's equity performance. **Drivers of China's ex-State-Owned Equity Advantage in 2015 (Average Annual Returns as of September 30, 2015)**

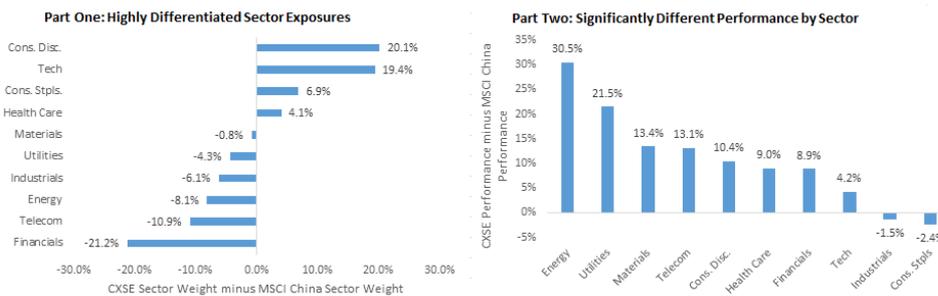
	Fund Information			Total Return NAV				Market Price			
	Ticker	Exp. Ratio	Inception Date	1-Year	3-Year	5-Year	Since Fund Inception	1-Year	3-Year	5-Year	Since Fund Inception
WisdomTree China ex-State-Owned Enterprises Fund ¹	CXSE	0.53%	9/19/2012	-16.44%	-2.90%	N/A	-2.88%	-17.37%	-2.97%	N/A	-3.41%
MSCI China Index				-5.04%	3.82%	0.00%	3.84%	-5.04%	3.82%	0.00%	3.84%

¹The Fund's net expense ratio of 0.53% (the amount charged to shareholders) reflects a contractual waiver of 0.10% through July 31, 2016.

Source: WisdomTree

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.

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.



Source: Bloomberg. Sector over- and under-weights are based on a calculation of the average weight in each sector for CXSE minus the average weight in each respective sector for the MSCI China Index over the period from July 1, 2015, to December 30, 2015. Performance comparison is based on taking the performance of each sector in CXSE minus that of each respective sector in the MSCI China Index over the period from July 1, 2015, to December 30, 2015.

• Differentiated Sector Exposures: CXSE has exhibited very different sector exposures than the MSCI China Index. Two approx.. 20% over-weights are in Consumer Discretionary and Information Technology. Financials, on the other hand, was a more than 21% under-weight. It's also notable that Telecommunication Services, Energy, Utilities and Materials are sectors with under-weights within CXSE compared to the MSCI China Index.

• Significantly Different Sector Performance: To be fair, any sector performance advantage over this particular period is about being "less negative," as opposed to finding stocks that are performing extremely well. The outperformance seen within CXSE's Energy, Utilities, Materials and Telecommunication Services sectors over the same respective sectors within the MSCI China Index is basically about avoiding the big drawdowns that those sectors have seen recently.

Building Awareness of a New Way to Think About China's Equity Markets Every ETF—including CXSE—represents a tool that provides access to a particular market. We believe that looking at China through the lens of firms that are not state-owned is something new that no other ETFs are doing. If the differentiated performance persists, it could be a very interesting new "smart beta" factor exposure that could apply beyond China to other major emerging markets.

¹Source: Mark Magnier, "China Economic Growth Falls Below 7% for First Time Since 2009," The Wall Street Journal, 10/18/15. ²Source: Bloomberg, for period 12/31/14 to 12/30/15. ³Source: Neil Irwin, "Why Did China Devalue its Currency? Two Big Reasons," The New York Times, 8/11/15. ⁴Source: "IMF's Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi," International Monetary Fund Press Release, 11/30/15. ⁵Source: Bloomberg, with data as of 12/30/15. ⁶Source: International Monetary Fund World Economic Outlook Database, October 2015 data update. ⁷Source for bullet points: Bloomberg.

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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, 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 risk 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 sectors.

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DEFINITIONS

S&P GSCI Index: leading measure of general commodity price movements and performance over time.

Currency wars: a policy response in which one country attempts to weaken their currency in response to the currency weakening policies of an economic rival or group of rivals.

Special Drawing Rights (SDR): an international reserve asset and accounting measure created by the IMF.

MSCI ACWI Index: A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

Net Asset Value (NAV): The calculated assets minus liabilities divided by shares outstanding. NAV is the straightforward account of the actual assets in the fund.

Shanghai Composite Index: A stock market index of all A shares and B shares that are traded on the Shanghai Stock Exchange.

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

Smart Beta: A term for rules-based investment strategies that don't use conventional market-cap weightings.