

A STRATEGIC EXPOSURE TO EMERGING MARKETS

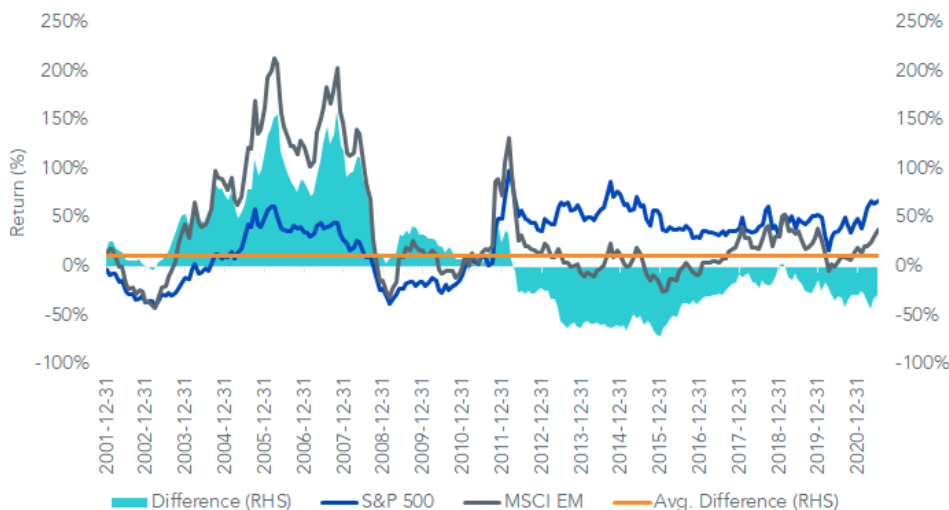
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Emerging markets (EM) have struggled to find footing this year.

After a strong end to 2020, the asset class—which has become slightly [growth](#)-tilted in recent years—has been impacted by a [value](#) run-up, regulatory clampdown of technology companies in China and rising U.S. rates. All of this as U.S. markets continue to surge.

As seen below, the difference in trailing three-year returns between the [S&P 500 Index](#) and the [MSCI EM Index](#) is at levels not seen since 2016, and market cycles have shown that this difference tends to revert to the long-term mean (+10%). We therefore encourage investors to look for the best strategic exposure to EM for their portfolio.

Rolling 36-Month Return



Sources: WisdomTree, FactSet. Data from 12/31/1998–6/30/2021. You cannot invest directly in an index. Past performance is not indicative of future returns.

Strategically Removing State-Owned Enterprises

The [WisdomTree Emerging Markets ex-State-Owned Enterprises Index \(EMXSOE\)](#), which excludes companies with significant government ownership, was designed to be a low [tracking error](#)/high-[correlation](#) portfolio as compared to the MSCI EM Index.

Trailing 12-Month Correlation

EMXSOE vs. MSCI EM Index



Sources: WisdomTree, FactSet. Data from 8/31/14–6/30/21. You cannot invest directly in an index.

State-owned enterprises (SOEs) may be influenced by a broader set of national interests other than focusing solely on maximizing shareholder value. These conflicts of interest can cause stagnation in the long-term growth potential of these companies, which can result in operational inefficiencies and weaker levels of profitability. State-owned banks in China are a prime example of these other interests—they are often asked to extend loans to troubled companies in the name of “national service.”

By removing SOEs, EMXSOE has higher profitability, lower leverage, and faster revenue and earnings growth rates than the MSCI Emerging Markets (EM) Index.

Aggregate Fundamentals (06/30/2021)		
	EMXSOE	MSCI EM
Return On Assets	2.36%	1.58%
Return On Equity	12.02%	11.24%
Leverage (Assets / Equity)	5.08	7.10
Imp. Growth Rate (ROE x Earnings Retention)	8.22%	7.46%
Trailing 3yr. Revenue Growth	12.74%	11.17%
Trailing 3yr. Earnings Growth	21.38%	20.11%

Sources: WisdomTree, FactSet, as of 6/30/21. You cannot invest directly in an index. The information above does not represent performance in addition favorable metrics are no guarantee of favorable performance.

Removing SOEs, which tend to be concentrated in “old economy” sectors like Financials, Energy and Materials, results in EMXSOE having modest structural tilts toward “new economy” sectors like Information Technology, Consumer Discretionary and Communication Services.

New economy sectors may be better positioned to take advantage of a growing middle class and increased domestic consumption—trends we believe will persist into the future. Meanwhile, old economy sectors rely more on international growth and could be more prone to suffer from global trade and unfavorable currency moves.

The table below, which comes from our [performance attribution tool](#), highlights how, over the past three years, EMXSOE’s 3.71% annual outperformance versus MSCI has been driven by both the resulting sector exposures (Allocation column) and the SOE screen (shown as the Stock selection component).

EMXSOE - WisdomTree Emerging Markets ex-State-Owned Enterprises Index VS. MXEF - MSCI Emerging Markets Index

Sector Attribution As of: 6/30/2021

MTD QTD YTD 1Y 3Y 5Y Since Inception*

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Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
Financials	0.46%	0.66%	-0.24%	0.88%	15.18%	21.81%	-6.63%	6.78%	3.99%
Consumer Discretionary	0.06%	0.51%	0.17%	0.75%	20.18%	15.25%	4.93%	12.84%	9.58%
Communication Services	-0.06%	0.62%	0.10%	0.66%	14.39%	12.17%	2.22%	13.19%	8.52%
Energy	0.13%	0.56%	-0.17%	0.52%	5.05%	6.72%	-1.67%	15.57%	7.19%
Information Technology	0.33%	-0.07%	-0.00%	0.26%	18.23%	16.65%	1.58%	29.61%	30.12%
Industrials	0.02%	0.24%	-0.01%	0.25%	4.99%	5.07%	-0.08%	14.68%	9.36%
Materials	-0.04%	0.25%	-0.03%	0.18%	6.34%	7.43%	-1.10%	17.97%	14.06%
Utilities	0.10%	0.17%	-0.10%	0.17%	1.10%	2.44%	-1.34%	8.63%	3.43%
Real Estate	0.06%	0.10%	-0.02%	0.14%	2.22%	2.70%	-0.48%	1.72%	-0.65%
Health Care	0.00%	0.08%	0.01%	0.10%	4.87%	3.41%	1.46%	13.46%	10.36%
Consumer Staples	-0.05%	-0.14%	-0.02%	-0.21%	7.47%	6.36%	1.11%	3.34%	5.48%
Total	1.02%	2.98%	-0.29%	3.71%	-	-	-	14.99%	11.27%

Sources: WisdomTree, FactSet. Data from 6/30/18-6/30/21. You cannot invest directly in an index. Weightings are subject to change.

Better Quality = Better Performance

Excluding SOEs has caused EMXSOE to overweight more efficient companies, translating into better aggregate profitability.

Since its inception in August 2014, we can see how EMXSOE’s persistent overweight to companies with higher ROE and underweight to less-profitable companies have significantly contributed to its 3.35% annualized outperformance.



EMXSOE - WisdomTree Emerging Markets ex-State-Owned Enterprises Index VS. MXEF - MSCI Emerging Markets Index

Return on Equity Attribution As of: 6/30/2021

MTD QTD YTD 1Y 3Y 5Y Since Inception*

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Category	Attribution Component				Average Category Weight			Category Performance	
	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Wgt	WT Index Return	Benchmark Return
1st Quintile (Highest ROE)	0.47%	0.08%	0.01%	0.56%	35.95%	26.72%	9.23%	10.56%	10.20%
2nd Quintile	0.15%	0.57%	-0.11%	0.61%	20.51%	22.08%	-1.57%	5.22%	2.48%
3rd Quintile	0.01%	1.16%	-0.22%	0.95%	16.15%	19.50%	-3.35%	12.68%	6.72%
4th Quintile	0.11%	0.44%	0.01%	0.55%	14.02%	15.49%	-1.47%	5.58%	3.00%
5th Quintile (Lowest ROE)	0.09%	0.57%	-0.13%	0.54%	9.17%	12.27%	-3.10%	6.32%	1.71%
Negative Return	0.00%	0.02%	0.04%	0.06%	3.50%	3.19%	0.31%	4.80%	4.51%
N/A	0.06%	0.07%	-0.05%	0.08%	0.70%	0.75%	-0.05%	0.08%	18.86%
Total	0.90%	2.90%	-0.45%	3.35%	-	-	-	9.22%	5.87%

Sources: WisdomTree, FactSet. Data from 8/31/14-6/30/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

Using the [WisdomTree Emerging Markets ex-State-Owned Enterprise Fund \(XSOE\)](#), which seeks to track EMXSOE, as the strategic EM holding within your portfolio can help on several levels.

XSOE seeks to provide investors with a broad exposure to the EM space, avoiding significant country and sector tilts and maintaining a high correlation to the MSCI EM Index.

XSOE seeks to have better aggregate quality (profitability) than the broad market and can help mitigate [drawdowns](#).

XSOE seeks to achieve a balance between higher growth potential and reducing downside risk compared to the broad market.

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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.

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DEFINITIONS

Growth: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

MSCI Emerging Market Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

Tracking Error: Can be discussed as both the standard deviation of excess return relative to a specific benchmark, or absolute excess return relative to a specific benchmark.

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.

State-owned enterprise: Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Drawdowns: Periods of sustained negative trends of return.