

WisdomTree Yield Enhanced Global Aggregate Bond Fund

GLBY

The global universe of investment-grade bonds (from established issuers) offers more than \$49 trillion in potential investment opportunities. Like the domestic bond market, the global bond market is dominated by the debt of government and agencies, when viewed through outstanding debt. The most followed global index, the Bloomberg Barclays Global Aggregate (Global Agg), features a concentration of about 65% in government and government-related debt as of September 30, 2018. Corporate and securitized debt are relatively small exposures at 20% and 15%, respectively. The Global Agg also features heavy allocations to Japanese government bonds, which currently offer low yields¹ on an unhedged² and hedged³ basis.⁴ We think that systematic rules-based strategies can be developed to prudently unlock greater earning power within global bonds and produce risk/return trade-offs more favorable to investor needs.

WisdomTree worked with Bloomberg to take a different approach to global fixed income. The WisdomTree Yield Enhanced Global Aggregate Bond Fund (GLBY) employs systematic rules-based strategies to enhance potential yield not only at the country level but also at the global level by taking advantage of opportunities existing between currency blocks. The construction process also adheres to disciplined risk management through currency hedging and constraints on tracking error⁵, sector exposures and interest rate risk to broadly maintain the risk characteristics associated with a diversified global portfolio.

THE BLOOMBERG BARCLAYS GLOBAL AGGREGATE ENHANCED YIELD INDEX'S FOUR-STEP METHODOLOGY

1. Decompose the global investment-grade universe into distinct investment buckets.
2. Reweight the sector and maturity buckets in each currency block to enhance yield while adhering to disciplined risk constraints.
3. Reweight the currency blocks to enhance net yield while abiding by disciplined risk constraints.
4. Hedge the bond cash flows back to U.S. dollars.

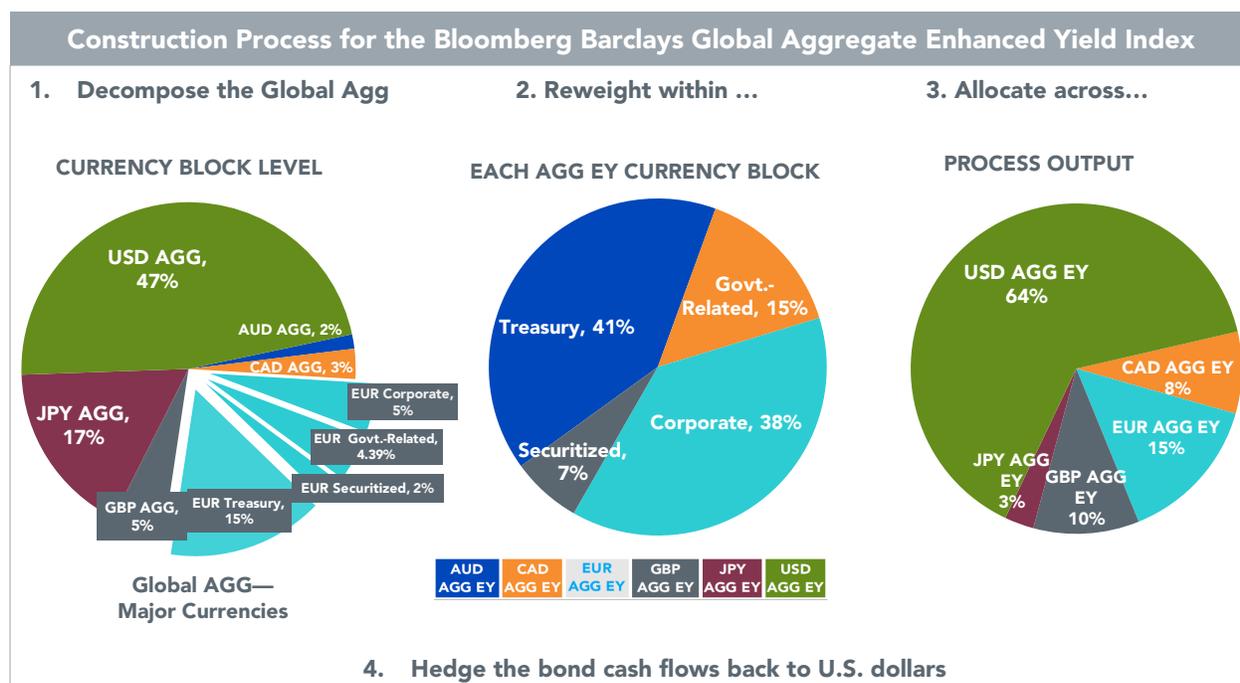
¹ Yield: The income return on an investment. Refers to the interest or dividends received from a security, typically expressed annually as a percentage of the market or face value.

² Unhedged: Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

³ Hedge: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

⁴ Sources: Bloomberg, WisdomTree.

⁵ 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.



Source: WisdomTree, as of 9/30/18. Global AGG—Major Currencies is the subset of the Bloomberg Barclays Global Aggregate Index with only the six major currencies (AUD, CAD, EUR, GBP, JPY, USD). Global AGG EY is a proxy for the Bloomberg Barclays Global Aggregate Enhanced Yield Index. You cannot invest directly in an index. Subject to change.

- 1. Decompose the global investment-grade universe into distinct investment buckets.** The global enhanced yield strategies decompose the Global Aggregate into unique maturity and sector buckets in each of the major currency exposures. The six largest currency exposures in the Global Agg (USD, CAD, EUR, JPY, GBP and AUD) make up 95% of the market value, while the other 20 currencies provide only 5%. For simplicity’s sake, we focus on these currencies. In total, there are 104 distinct buckets considered for the Bloomberg Barclays Global Aggregate Enhanced Yield Index.
- 2. Reweight the sector and maturity buckets in each currency block to enhance yield while adhering to disciplined risk constraints.** The following constraints are added to control risk and concentration while limiting turnover: In reweighting the sectors and maturity buckets, the process derives a yield-enhanced index for the specified currency block. While the number of buckets ranges from eight in Australia to 36 in Europe, each process is similar in that tracking error volatility⁶ to the respective market cap-weighted currency block is limited to 35 bps⁷ per month (120 bps annualized), duration⁸ is capped at one year over the benchmark and sectors are kept within 20% of their weight in their benchmarks.

⁶ Volatility: A measure of the dispersion of actual returns around a particular average level.

⁷ Basis point: 1/100th of 1 percent.

⁸ Duration: A measure of a bond’s sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

- 3. Reweight the currency blocks to enhance net yield while abiding by a set of disciplined risk constraints.** For FX⁹-hedged bond portfolios, enhancing the incremental yield offered by bonds relative to their short interest rates is a consistent means of unlocking yield potential in a global strategy, when each flow is hedged to a common currency. Using net yield¹⁰ as an input into the investment process, weights are reallocated between currency blocks, subject to tracking error limitations and risk constraints. The process is afforded 50 bps tracking error volatility a month relative to each underlying global universe. Resulting currency weights are then applied to the currency blocks to derive individual security exposures. *The hedge-adjusted yield for the resulting index can be approximated by the USD short interest rate + the weighted average net yield. Supply and demand considerations can also exert additional influence on the yield, but interest rate differentials are the most consistent influencers.*
- 4. Hedge the bond cash flows back to U.S. dollars.** To mitigate currency risk, the returns are hedged to U.S. dollars through positions in 1-month currency forwards. The currency forward positions will be rolled and adjusted with the month-end rebalance.

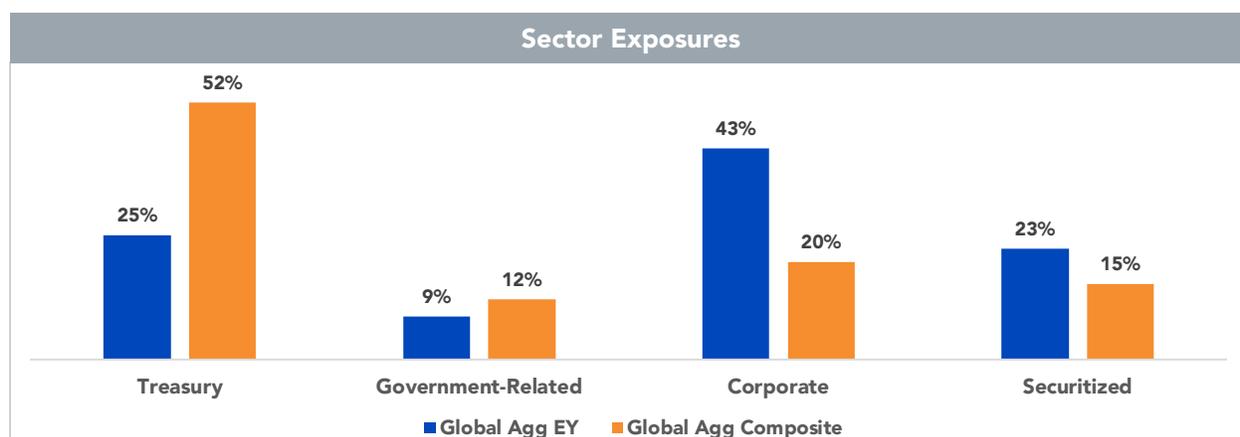
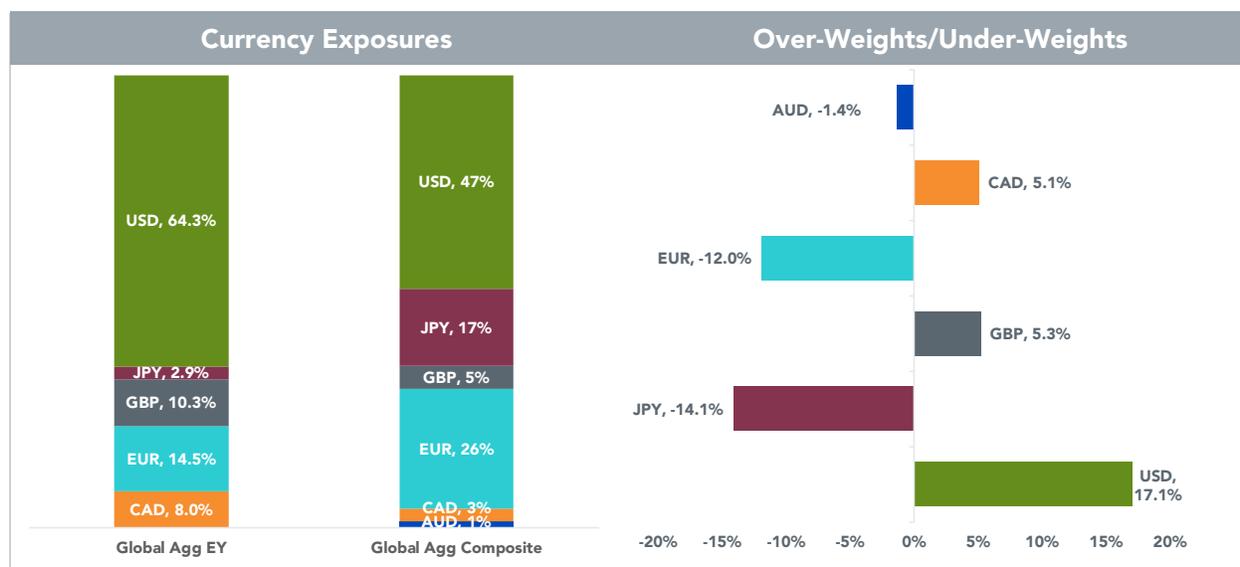
THE RESULT

As of September 30, 2018, the Bloomberg Barclays Global Aggregate Enhanced Yield Index delivered an additional 63 bps of yield compared to the Global Agg with a similar volatility profile. In our view, this mechanical approach enhances the desirable characteristics of the Global Agg while also enhancing the income potential of the strategy. For investors seeking to hit minimum income targets, this modification of the Global Agg could help them achieve their objectives. For advisors concerned about the high-yield bond market, this approach also provides higher income potential in an investment-grade portfolio.

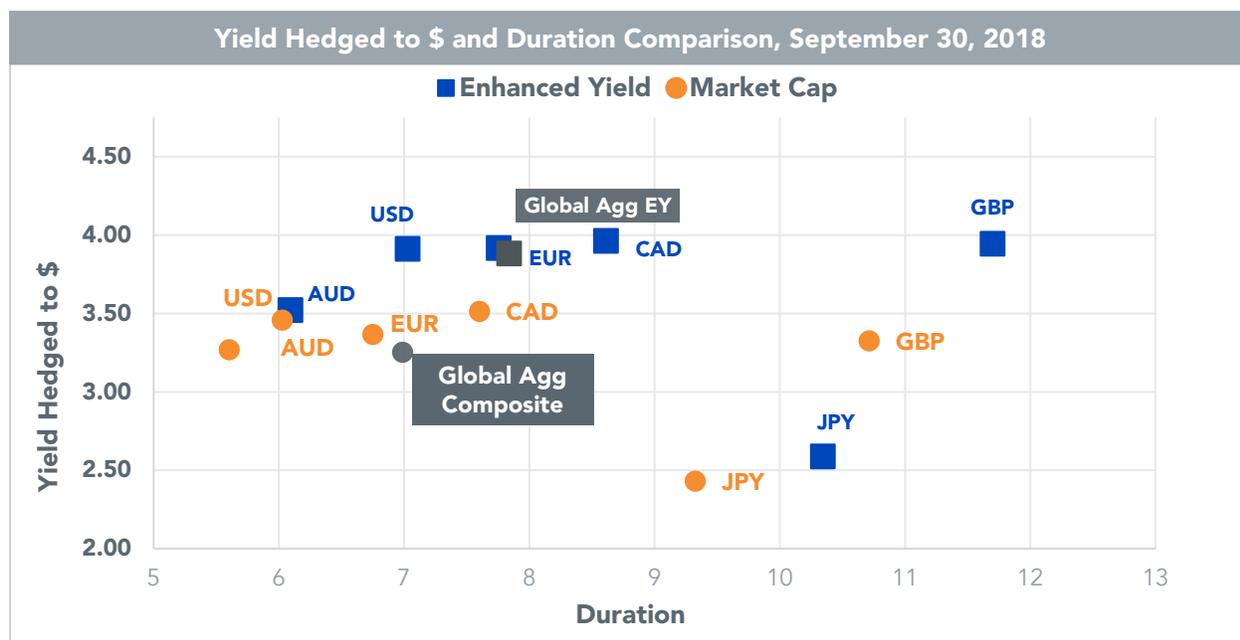
⁹ Foreign exchange (forex, FX): The exchange of one currency for another, or the conversion of one currency into another currency.

¹⁰ Net yield: The rate of return on an investment after subtracting all expenses, such as commissions, costs of purchase, and taxes.

SNAPSHOT OF THE GLOBAL AGG ENHANCED YIELD INDEX RELATIVE TO THE GLOBAL AGG COMPOSITE (as of 9/30/18)



Source: WisdomTree, as of 9/30/18. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. The Global Agg Composite is the subset of the Bloomberg Barclays Global Aggregate Index with only the six major currencies (AUD, CAD, EUR, GBP, JPY, USD).



Source: WisdomTree, as of 9/30/18. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. The Global Agg Composite is the subset of the Bloomberg Barclays Global Aggregate Index with only the six major currencies (AUD, CAD, EUR, GBP, JPY, USD). Yield Hedged to \$ is the resulting index yield after hedging from local to base currency calculated using differences in government short rates. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

WHY HEDGE?

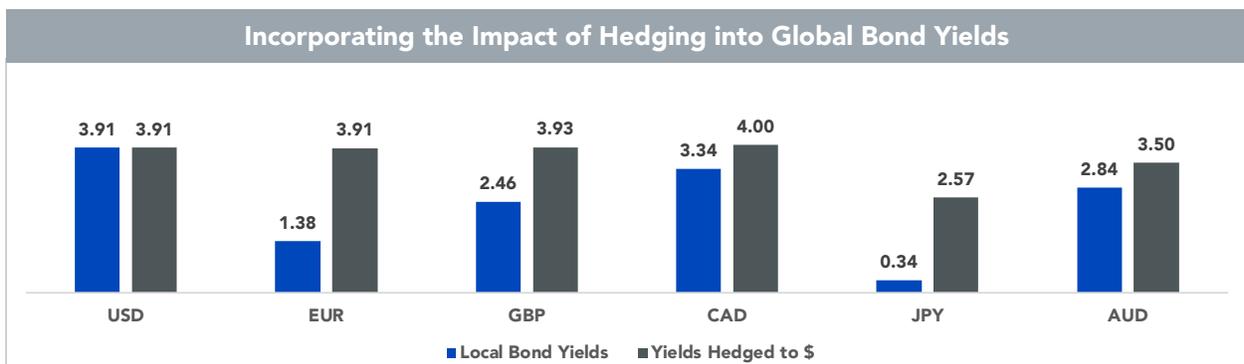
With developed markets, long-only currency returns tend to mean-revert over long horizons, and investors in unhedged exposures endure considerable incremental volatility with poor prospects for incremental long-term excess returns. We looked at rolling five-year investment horizons since 1980 and compared the incremental volatility from unhedged currency exposure from the Bloomberg Barclays Global Aggregate ex-USD Index with the incremental returns from holding that currency exposure instead of hedging back to U.S. dollars (Global Agg ex-USD [USD Hedged]). To be sure, incremental returns swung back and forth, but incremental return pickup exceeded the incremental pickup in volatility only 3.15% of the time. In most cases, the incremental volatility from currency is substantial. For the horizon ending September 30, 2018, a hedged international bond allocation generated 2.4% in annualized volatility, while the same bond portfolio left unhedged generated an annualized volatility of 6.6%. Within strategic bond allocations, this incremental volatility from currency exposure represents how a great deal of risk may have been reduced.

HOW INVESTORS MAY WANT TO VIEW YIELD IN GLOBAL FIXED INCOME PORTFOLIOS

A foreign bond’s yield is not always a comprehensive measure for assessing income potential by a domestic investor. The stated yield suggests the value of the bond interest payments in that currency. The value could be either augmented or lost when translated to U.S. dollars. In addition to helping reduce volatility, currency hedging can also create a distinct third potential return stream that investors may want to consider when looking at the earnings potential of the portfolio. Depending on the environment, the impact from currency hedging on earnings potential can be considerable. When U.S. short rates are significantly different from other global short rates, a foreign bond’s earnings potential can be either much higher or lower than its stated local yield.

- + **Hedging into Rate Strength:** When U.S. interest rates are higher than the others, hedging bond cash flows to U.S. dollars is likely to boost income potential.
- + **Hedging into Rate Weakness:** When U.S. interest rates are lower than other short rates, the process of hedging is likely to detract from income potential.

Right now, U.S. short interest rates are much higher than those of other developed markets, and adjusting for potential hedged returns creates a different potential yield profile.



Sources: WisdomTree, Bloomberg, as of 9/30/18. Local Bond Yields and Yields Hedged to \$ are calculated using the Bloomberg Barclays Global Aggregate Enhanced Yield Index. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

HOW CAN INVESTORS INCORPORATE THIS STRATEGY INTO THEIR PORTFOLIOS?

The global strategy can provide a risk-conscious way for investors to diversify their core bond portfolios. The strategy offers the potential of one-trade access to a diversified global bond portfolio.

CORRELATIONS OF DOMESTIC AND GLOBAL ASSETS

Correlation Matrix of Monthly USD Returns (7/31/07–9/30/18)					
1. US Agg	2. Global Agg ex-USD Hedged USD	3. Global Agg Hedged USD	4. S&P 500	5. MSCI ACWI	
1	0.75	0.93	0.02	0.09	1. US Agg
	1	0.94	-0.10	-0.08	2. Global Agg ex-USD Hedged USD
		1	-0.04	0.01	3. Global Agg Hedged USD
			1	0.96	4. S&P 500
				1	5. MSCI ACWI

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INTRODUCING THE WISDOMTREE YIELD ENHANCED GLOBAL AGGREGATE BOND FUND (GLBY)

To provide tradable access to the Global Agg Enhanced Yield, WisdomTree launched the WisdomTree Yield Enhanced Global Aggregate Bond Fund (GLBY). By sourcing opportunities within the Global Agg, GLBY offers the opportunity to enhance the income potential of a core bond portfolio while continuing to benefit from the diversification of a multisector portfolio.

WisdomTree Yield Enhanced Global Aggregate Bond Fund Quick Facts	
Ticker	GLBY
Exchange	NYSE
Expense Ratio (Gross)	20 bps
Structure	Open-end ETF
Exposure	Global investment-grade fixed income hedged to U.S. dollars
Objective	The Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Barclays Global Aggregate Enhanced Yield Index (U.S. Hedged).

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures and uncommon access to provide investors with the potential for income, performance, diversification and more.

For more information about GLBY, contact your WisdomTree representative or visit WisdomTree.com.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.9473 or visit WisdomTree.com. Investors should read the prospectus carefully before investing.

There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Investing in mortgage- and asset-backed securities involves interest rate, credit, valuation, extension and liquidity risks and the risk that payments on the underlying assets are delayed, prepaid, subordinated or defaulted on. The Fund uses various strategies to attempt to minimize the impact of changes in the value of the non-U.S. currencies against the U.S. dollar. These strategies may not be successful. Derivatives used by the Fund to offset its exposure to foreign currencies represented in the Index may not perform as intended. There can be no assurance that the Fund's hedging transactions will be effective. Due to the investment strategy of the 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.

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Bloomberg Barclays Global Aggregate Index: Represents the investment-grade, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities as well as mortgage- and asset-backed securities. Bloomberg Barclays Global Aggregate Enhanced Yield Index: A constrained, rules-based approach that reweights the sector, maturity and credit quality of the Barclays Global Aggregate Index across various subcomponents in order to enhance yield.

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