WILL EMERGING MARKETS SAVE THE TWINKIE?

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On November 16, major financial news organizations bemoaned the loss of an American classic. Hostess Brands, the baked goods company that has served Americans for the past 80 years, announced that it was filing for bankruptcy. As part of the bankruptcy process, Hostess CEO Greg Rayburn made headlines by saying he was "hopeful we can sell the brands" as the business is wound down. Noticing this opportunity, *Forbes* writer Abram Brown penned a quick piece about the largest baking company in the world, Grupo Bimbo, as a potential bidder[1] for some of Hostess' most iconic brands, including Twinkie. For a company with a global footprint and 2011 revenue of $10.7 billion,[2] it is worth noting that Grupo Bimbo is headquartered in Mexico City. Founded in 1945, the Montull family (which still retains majority control of the company) is one of the most affluent families in Mexico. Many Americans might not realize that several brands available in America, such as Thomas' English Muffins, Entenmann's Pastries, Boboli pizza dough and Sara Lee bakery products are all part of Grupo Bimbo. While many investors have long been looking to emerging markets ("EM") for growth opportunities, it is interesting that many companies headquartered in emerging markets are deriving an increasing percentage of their revenues from outside their home country. Emerging market corporate bonds are a comparatively new asset class for many investors, but the principles of investment are quite simple. The emerging market corporate bond market has evolved out of the continuing improvement in EM economic fundamentals relative to developed markets. With this reduction in credit risk, emerging market governments are increasingly issuing debt in their own currencies, as this reduces their financing costs and risk. Given global investor demand for credit risk in emerging markets, EM corporations now have the ability to issue debt denominated in U.S. dollars to fill this demand and expand their operations. In many instances, investors are moving up in the capital structure[3] by buying the debt of companies already in their equity portfolio. Noting these types of opportunities, WisdomTree, along with Western Asset Management Company ("Western") as sub-advisor, has created a fund to potentially benefit from these economic trends, the WisdomTree Emerging Markets Corporate Bond Fund. While Grupo Bimbo represents only a 2.52% allocation in our portfolio,[4] these types of investment themes are pervasive in other positions as well. In many instances, the businesses we invest in are global leaders in their product area. As an actively managed exchange-traded fund (ETF), the Fund starts with a "top-down" analysis of macroeconomic factors to establish countries and industries that we believe strike the right balance between risk and reward. After focusing on these broad investment themes, analysts at Western perform a "bottom-up," company-specific credit analysis to identify which companies to invest in. As a result of this process, we believe that investors will soon embrace this asset class for many of the same reasons investors own emerging market equities: economic growth and income potential as well as possible price appreciation. ***Hear WisdomTree's Bruce Lavine and Western's portfolio manager Matt Duda discuss emerging markets corporate bonds in this podcast.*** [1]"Next Twinkie Maker: Will a Mexican Billionaire Family Buy Hostess' Orphaned Brands?" Abram Brown, http://www.forbes.com/sites/abrambrown/2012/11/16/next-twinkie-maker-will-a-mexican-billionaire-family-buy-hostess-orphaned-brands/ [2]Bloomberg, 2012. [3]Debt investments have a senior position in the capital structure of a company; in the event of a bankruptcy, debt holders will be paid before any residual company value is distributed to equity shareholders. [4]As of November 16, 2012. Holdings subject to change. ALPS Distributors, Inc. is not affiliated with Western Asset Management Company

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