MANAGING INTEREST RATE RISK IN EMERGING MARKETS

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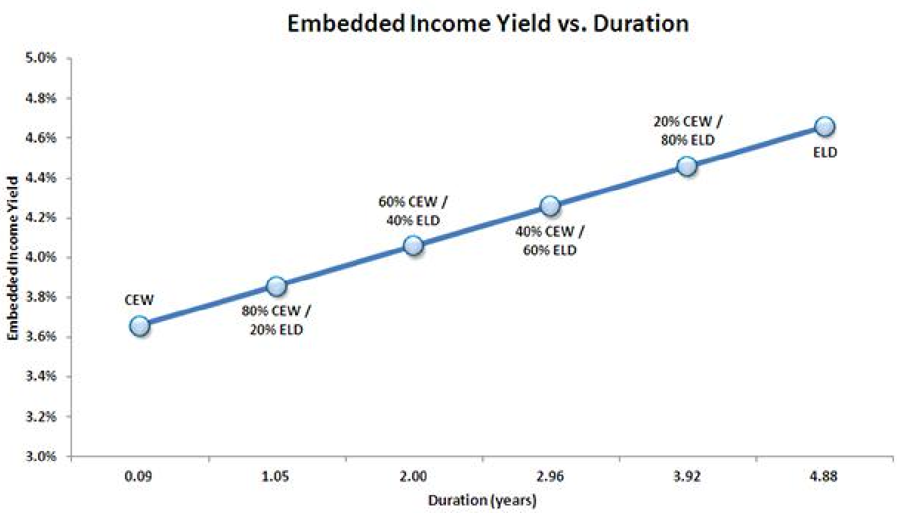
04/18/2013

With persistent concerns about rising interest rates in the U.S., we believe an unsung benefit of allocations to emerging market (EM) fixed income is the ability to diversify away from developed market economies, interest rate cycles and currencies. However, as we have highlighted previously, not all emerging markets are created equal. Economists are predicting interest rate hikes by the end of 2013 for some EM countries and interest rate cuts for a few countries in the coming months.[1] WisdomTree offers a few different ways to manage your emerging market exposure. • Incorporating EM currencies with EM local debt positions enables investors to refine their exposure to EM interest rates while maintaining diversification away from the U.S. dollar • Central to this investment mix is the amount of income investors receive relative to the amount of interest rate risk they have in their portfolio For investors in EM fixed income, incorporating positions in EM currencies with EM local debt provides a means to tailor their interest rate exposure to their preferences while retaining exposure to non-U.S. currencies. It is important to remember that EM local rates are largely driven by local factors, resulting in an only modest correlation to overall changes in U.S. and global interest rates. Additionally, the local debt universe is still dominated by issues in the five-year sector, as opposed to more developed markets, which often feature longer durations and greater sensitivity to interest rate moves. Total returns in EM local debt can be thought of as driven by the three C's: • **Currency**—changes in the value of the currency against the U.S. dollar • **Carry**—short-term interest rate differentials • **Curve**—potential additional income compensation for assuming interest rate risk EM forward currency contracts provide exposure to currency and short-term interest rate differentials without the incremental income and interest rate risk from bonds farther out on the yield curve. WisdomTree offers broad exposure to EM currencies and short-term interest rates through its WisdomTree Emerging Currency Fund (CEW) and exposure to EM local debt through its WisdomTree Emerging Markets Local Debt Fund (ELD). While the Funds feature different currency exposures, their regional exposures are fairly similar. Currently, the underlying securities in ELD have an embedded income yield of 4.66%, while CEW's is approximately 3.66%.[2] In the graph below, we depict yield and duration statistics resulting from various combinations of CEW and ELD.



As of March 31, 2013. Past performance is not indicative of future results.
(For standardized performance, including the SEC 30-day yield for ELD, click here.) (For standardized performance,

including the SEC 30-day yield for CEW, click here.)

As this chart illustrates, by using the Funds in tandem, investors can target their interest rate risk in emerging markets. Currently, we prefer being overweight ELD vs. CEW, but should more central banks begin to bias toward interest rate increases, it may make sense to reduce interest rate risk. In both instances, we believe having exposure to locally denominated fixed income can provide an effective means of diversifying interest rate risk, potentially enhancing portfolio yield and diversifying into the currencies of countries that are currently driving global growth. From a total return perspective, ELD strongly outperformed CEW in 2012, as EM central banks cut rates and curves in many emerging markets flattened. As a result, the incremental income offered by ELD compared to CEW has narrowed.

	ELD	CEW
Investment Approach	Structured active approach with a focus on risk management; annual selection and tiering of portfolio	Structured process combining investments in US money market securities with similar size positions in forward currency contracts; annual
Primary Investments	Locally denominated debt	Short-term U.S. fixed income & forward currency contracts
Currency Exposures	15 countries: Brazil, Chile, China, Colombia, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey	15 countries: Brazil, Chile, China, Colombia, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, Thailand, Turkey
Embedded Income Yield	4.66%	3.66%
Duration (years)	4.88	0.09
Distribution Frequency	Monthly	Annually

[1]Bloomberg, 4/8/2013. [2]As of March 31, 2013

Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment loss. 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. Investments in emerging, offshore or frontier 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. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effects of varied economic conditions. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. 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. Unlike typical exchange-traded funds, there is no index that ELD attempts to track or replicate. Thus, the ability of the Fund to achieve its objective will depend on the effectiveness of the portfolio manager. Due to the investment strategy of ELD, 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.
CEW focuses its investments in specific regions or countries, thereby increasing the impact of events and developments associated with the region or country, which can adversely affect performance. Investments in emerging or frontier 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. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effects of varied economic conditions. As CEW can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting such issuers. Unlike typical exchange-traded funds, there are no indexes that CEW attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of CEW, 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.

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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