EXPANDING THE CORE WITH GLOBAL CORPORATE BONDS

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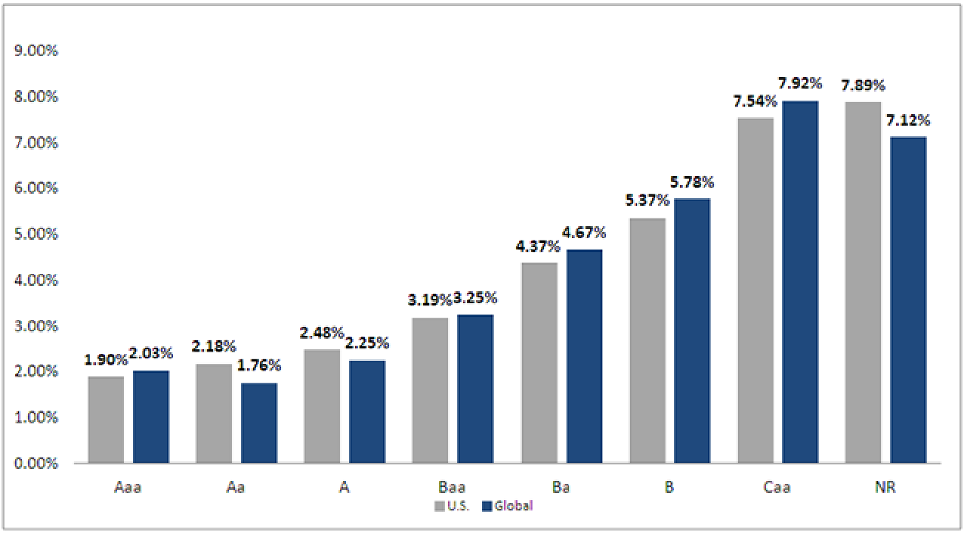
"I'm absolutely convinced, and I've been talking about this a lot, that we need a total corporate bond index fund. So a total bond market index fund investor says, 'Look, 70 percent in low-yielding government debt is just too hard for me to deal with. I'd rather take a little bit longer duration, and a little bit lower credit quality, and take maybe half of my total bond market index portfolio and move it into a corporate bond portfolio." **–John Bogle** At WisdomTree, we believe that John Bogle, the founder of Vanguard, is correct in recommending increased positions in corporate bonds as an alternative to U.S. government debt. With interest rates already near all-time lows in many markets around the world, prospects for lower interest rates are limited. In our view, a more likely scenario would see gradually higher U.S. interest rates over time. The incremental income investors receive for taking credit risk in excess of U.S. government debt may help mitigate losses from rising interest rates. However, this is where the WisdomTree approach begins to take Bogle's thinking a step further. If investors are inclined to take a global approach to stocks, why would they not take a similar approach in their bond portfolios? By expanding the investable universe to corporations outside the United States, the size of the opportunity set more than doubles (2.54x).[1] In fact, there have been a growing number of institutional investors pursuing wider corporate credit mandates, a strategy referred to as "expanding the core." As we noted in a recent blog, we believe many investors are beginning to reassess what positions should constitute the "core" holdings of their portfolio. When taking a comprehensive view of their opportunities, investors develop greater interest in a more global approach to corporate bond investing. As the chart below shows, in addition to expanding the number of opportunities, investors have also been compensated with higher yields across virtually all credit ratings[2] by investing in global credit risk as opposed to a purely U.S. approach. *Past performance is not indicative of future results.*

Yield to Worst (YTW): U.S. Credit vs. Global Credit



Source: Barclays, 3/31/13. U.S. credit proxied by the U.S. credit portion of the Barclays Multiverse Index. Global credit proxied by the Barclays Global Credit Index.

With nearly 13,000 securities in the Barclays Multiverse Index, which ones are worth investing in? In many instances, bond indexes take an agnostic view of a borrower's creditworthiness. Just because one bond has a similar credit rating to another does not mean they have similar economic prospects. In an effort to mitigate credit and interest rate risk, we believe it is important to have an active manager monitoring the positions in the portfolio on a daily basis. Additionally, static or inflexible approaches to an evolving asset class seem inconsistent with today's rapidly changing markets. We believe an experienced manager can help investors more fully take advantage of these opportunities. [1]Source: Barclays, March 31, 2013. Comparison based on the Barclays Global Credit Index vs. the U.S. credit portion of the Barclays Multiverse Index. [2]Credit ratings based on Moody's rating provided by Barclays, as of March 31, 2013.

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DEFINITIONS

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Credit ratings : An assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit assessment and evaluation for companies and governments is generally done by a credit rating agency such as Standard & Poor's, Moody's or Fitch.

Yield to worst : The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

Barclays Multiverse Index : a broad-based measure of the international fixed-income bond market. The index represents the union of the Global Aggregate Index and the Global High Yield Index.

Barclays Global Credit Index : Index which contains investment grade and high yield credit securities from the Barclays Multiverse Index.