THERE'S MORE TO FIXED INCOME THAN THE BARCLAYS AGGREGATE

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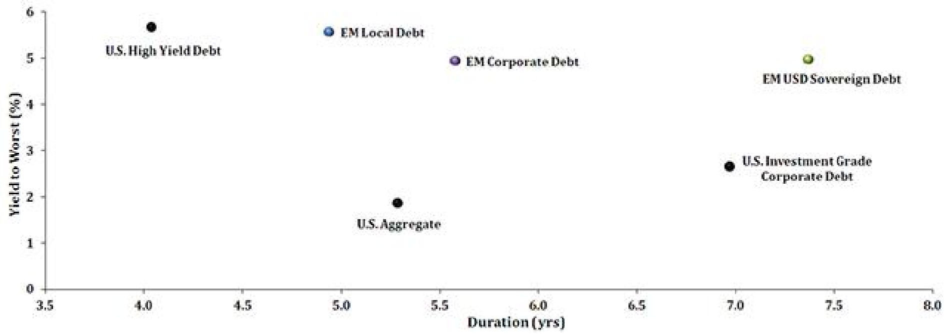
If stock investors are beholden to outperforming the S&P 500, bond investors have long compared themselves against the Barclays U.S. Aggregate Bond Index, the most widely followed benchmark for U.S. investment-grade fixed income. The Wall Street Journal recently[1] provided evidence of a trend we have noticed over the last two and a half years. Investors are starting to look at their exposure to the Barclays Agg and debating whether it is consistent with their investment objectives, given the changes in the global economy and the fixed income landscape. Yields are low, investors appear less than optimistic about further declines in interest rates, yet they continue to look to their fixed income portfolio to help generate income. Even with nearly $4 trillion currently benchmarked against the index,[2] the overall investable universe only accounts for roughly 38.6% of the world's investable fixed income opportunities.[3] As suggested by the article, a 1.00% increase in the Barclays Aggregate yield would likely trigger a 5.29% decline in price, far in excess of the cushion suggested by its 1.86% yield to maturity.[4] In essence, investors are risking significantly more than they stand to gain even if interest rates do not increase in the next five years. In pursuing alternative exposures, investors are largely taking one of two approaches:

- Complementing existing core fixed income positions with larger allocations to opportunistic fixed income sectors—high yield, bank loans and emerging market debt
- Expanding their core allocations to include a broader universe of fixed income opportunities, with non-U.S. allocations and some exposure in non-investment grade

We have been advocating similar approaches and believe there is considerable momentum left in this trend. In particular, dramatic improvements in the balance sheets of emerging market (EM) governments and corporations have resulted in investment-grade credit ratings for 95% of issuers of EM local currency sovereign debt[5] and 73% of issuers in the EM corporate credit market. After an upgrade of the Philippines' credit rating, the WisdomTree Emerging Markets Local Debt Fund (ELD) was comprised entirely of 100% investment-grade issuers at the end of Q1 2013.[7] Expanding what investors consider core fixed income to include more non-U.S. dollar exposures and debt of global corporations is a trend we believe will continue to grow as investors increase their familiarity with this expanding opportunity set. We are also seeing rotation within opportunistic fixed income as local currency debt has received inflows at the expense of EM USD sovereign debt.[8] Similarly, bank loan products have benefited from a moderation in the pace of flows into longer-maturity, high-yield bonds. As suggested by the chart below, sharp divergences in yield continue between opportunistic sectors and traditional core fixed income exposures. Opportunistic fixed income sectors entail an assumption of higher risk; but as we emphasized in our recent return driver blog, we believe the reward is worth these risks.

Yield to Worst vs. Duration (as of March 31, 2013)



U.S. high yield debt proxied by the Barclays HY 2% Constrained Index, EM local debt proxied by the JPMorgan GBI-EM Index, EM corporate debt proxied by the JPMorgan CEMBI Broad Index, U.S. aggregate proxied by the Barclays U.S. Aggregate Index, U.S. investment-grade debt proxied by the Barclays U.S. IG Corporate Index, and EM USD sovereigns proxied by the JPMorgan EMBI Global Index.

Ultimately, how can investors target opportunistic sectors as well as expand their core exposures? WisdomTree offers several different approaches, with varying return drivers and performance profiles:

- The WisdomTree Emerging Markets Local Debt Fund (ELD) is the largest ETF to invest in emerging market local currency debt
- The WisdomTree Emerging Markets Corporate Bond Fund (EMCB) is the largest Fund to invest solely in EM corporate bonds
- The WisdomTree Emerging Currency Fund (CEW) serves as a tradable proxy for short-dated EM fixed income
- The WisdomTree Global Corporate Bond Fund (GLCB) expands the scope of corporate bond investing by packaging Western Asset Management's best corporate credit ideas from around the world into an ETF

[1]The Wall Street Journal, "Key Bond Index Gets Bitten," 4/2/13. [2]The Wall Street Journal, 4/2/2013. [3]Comparing the Barclays U.S. Aggregate Index to the Barclays Global Aggregate Index, as of 3/31/13. [4]+1.00% x 5.29 year duration = -5.29% move in bond prices. Note: Bond prices move in opposite direction of changes in interest rates. Based on the Barclays U.S. Aggregate Index data as of March 31, 2013. [5]As represented by the JPMorgan GBI-EM Global Diversified Index, as of 3/31/13. [6]As represented by the JPMorgan CEMBI Broad Index, as of 3/31/13. [7]Source: WisdomTree, as of 3/31/13. [8]Source: J.P. Morgan, 4/7/13.

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DEFINITIONS

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.

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

Yield To Maturity : Portfolio Yield to Maturity represents the weighted average yield to maturity of a Fund's investments in money market securities and fixed income securities as a specified date. Yield to maturity is the rate of return generated on these securities, assuming interest payments and capital gains or losses as if the instrument is held to maturity. The weighted average yield is calculated based on the market value of each security. The calculation does not incorporate yield from any derivative instruments that are part of the Fund's investments.

Sovereign Debt : Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

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

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.

Barclays HY 2% Constrained Index : An issuer-constrained version of the U.S. Corporate High-Yield Index that measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.

JP Morgan Corporate Emerging Markets Bond Index Broad (CEMBI Broad) : The JPMorgan Corporate Emerging Markets Bond Index Broad (CEMBI Broad) is a market capitalization weighted index consisting of US dollar-denominated Emerging Market corporate bonds. The index serves as a global corporate benchmark representing Asia, Latin America, Europe and Middle East / Africa. US dollar-denominated corporate issues from index-eligible countries are narrowed further by only including issues with more than $300m current face outstanding and at least five years to maturity (at the time of inclusion into the index).

Barclays U.S. IG Corporate Index : A broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

JP Morgan Emerging Markets Bond Index Global (EMBI Global) : The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities including Brady bonds, loans, Eurobonds.