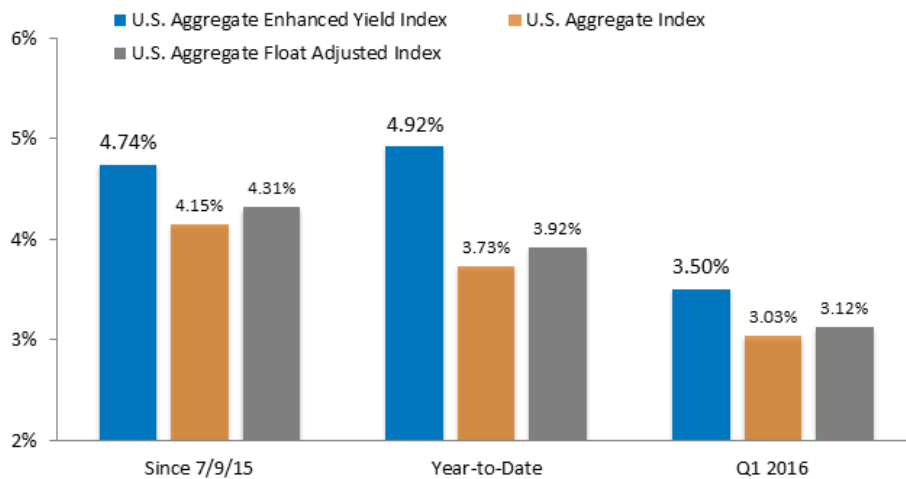


TILTING TOWARD YIELD OUTPERFORMED MARKET CAP WEIGHTED BENCHMARKS

Ambar Bajaj — Senior Solutions Specialist – ETF Model Portfolios
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2016 has been a [volatile](#) year for many asset classes. During times like these, it is not unusual for [safe-haven](#) assets, such as U.S. [investment-grade](#) fixed income, to experience outsized total returns. However, this rally is not just about a [risk-off](#) scenario leading to a run-up in bond prices. In fact, since the February 11 lows of stocks and crude oil, there has been a powerful rally in almost every asset group. [Corporate bonds](#) have benefited more than [government bonds](#) from this rally as their return comes not only from broad [interest rate](#) movements, but also from an element of [credit risk](#). By investing in portfolios over-weight to government securities, investors could be missing out on rallies from credit-sensitive bonds, which tend to outperform in times of strong equity movement, while also providing a potential for higher level of income. While the vast majority of fixed income assets are managed by [active managers](#), several [market cap-weighted](#) strategies have amassed a lot of assets over the past few decades. These strategies track indexes such as the [Barclays U.S. Aggregate \(Agg\)](#), which represents the broad universe of U.S.-dollar-denominated investment-grade bonds, inclusive of government, securitized and corporate bonds. While corporations have issued a lot of debt over the past few years, they have been far outpaced by the U.S. government in the amount of issuance. For this reason, investing in strategies tracking market cap-weighted indexes such as the Agg, to which more than \$65 billion is managed in exchange-traded funds (ETFs) alone, leaves investors with a large portion of their bond positions in government debt, without a conscious or fundamental reason to do so. In fact, the Agg has 22% concentrated in [Treasury](#) securities [maturing](#) in less than five years. **Agg Enhanced Is Outperforming the Two Most Popular Market Cap-Weighted Core Strategies** On the other hand, there are strategies out there that deviate from this approach to weight by factors that matter to investors. The [Barclays U.S. Aggregate Enhanced Yield Index \(Agg Enhanced\)](#) draws from the same securities as the Agg, but gives a higher weight to those buckets that have a higher [yield](#). Its methodology also has certain constraints that provide guardrails against deviating from the Agg's exposures too much. For example, the total duration of the Agg Enhanced cannot be more than one year from the [duration](#) of the Agg. In addition, major sector weights cannot deviate more than 20% from those of the Agg. Given that corporates typically out-yield [Treasuries](#), it is no shock that they are given a higher weight in Agg Enhanced as well. The monthly [rebalance](#) process toward higher-yielding securities has not only enhanced its yield versus the Agg, but has also led to outperformance. As shown below, the Agg Enhanced has outperformed the Agg by 1.19% year-to-date, and by about 0.43% since the middle of last year. Even the [Barclays US Aggregate Float Adjusted Index](#) which excludes bonds held by governments, company insiders and affiliates, trails by 100 [basis points \(bps\)](#) year-to-date and by 43 bps from the second half of 2015 onward. Both of these Indexes are tracked by several billion in assets by ETFs and mutual funds. **Total**



Source: Bloomberg, 5/5/16. Past performance is not indicative of future results. You cannot invest directly in an index.

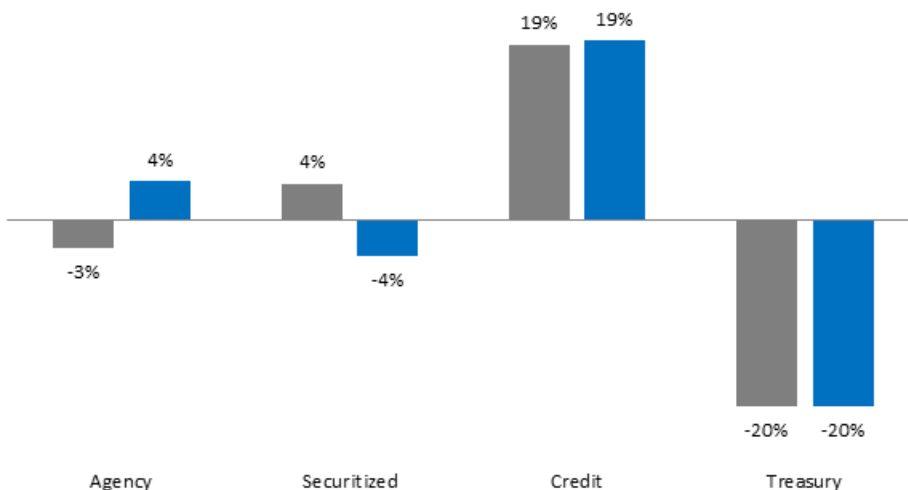
Returns as of 5/5/16

7/9/15

chosen as a start date as it corresponds to the inception date of the [WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund \(AGGY\)](#) which tracks the Barclays U.S. Aggregate Enhanced Yield Index. A look at the underlying exposures gives insight into both the process and the cause of this outperformance. Below, we see that Agg Enhanced has been over-weight credit and under-weight Treasuries. It is important to note that credit has not outperformed Treasuries on a total return basis during the entire period. In fact, during the second half of 2015, Treasuries marginally outperformed credit. However, the consistent over-weight to credit during this period, as well as the monthly rebalance process, has constantly shifted weights toward higher-yielding credit sectors and away from lower-yielding government sectors. This process effectively “buys low and sells high,” as higher yield implies lower prices. The magnitude of the over-weight stayed relatively consistent over the past few quarters.

Agg Enhanced vs. Agg Major Sector Over-weights/Under-weights

■ 7/9/2015 ■ 5/5/2016



Sources: WisdomTree, Barclays, 5/5/16. 7/9/15 was chosen as it corresponds to the inception date of the WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund (AGGY), which tracks the Barclays U.S. Aggregate Enhanced Yield Index.

We believe that credit could continue to outperform Treasuries in the coming months as the U.S. economy keeps progressing amid a low-yield environment. In environments where you can expect balanced fixed income returns, portfolios over-weight to investment-

grade credit could perform well. And in the coming year, one marked by the actions of a “[low and slow Fed](#)”, range-bound rates and a growing but not soaring economy, strategies tied to the Barclays U.S. Aggregate Enhanced Yield Index could be well positioned to take advantage of these trends.

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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. 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.

For more investing insights, check out our [Economic & Market Outlook](#)

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You cannot invest directly in an index.

DEFINITIONS

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

Safe-haven : Characterized by being a potentially desirable focal point of investment flows during periods of increased volatility and market risk. Safe-haven is not synonymous with risk-free.

Investment Grade : A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

Corporate Bonds : a debt security issued by a corporation.

Japanese Government Bond (JGB) : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

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

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

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

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Maturity : The amount of time until a loan is repaid.

Bloomberg Barclays U.S. Aggregate Enhanced Yield Index : a constrained, rules-based approach that reweights the sector, maturity, and credit quality of the Barclays U.S. Aggregate Index across various sub-components in order to enhance yield.

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

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.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Barclays US Aggregate Float Adjusted Index : represents the broad fixed-rate USD-denominated investment-grade bond market that excludes securities held in the Federal Reserve System Open Market Account (SOMA).

Basis point : 1/100th of 1 percent.