

# WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund

# AGZD

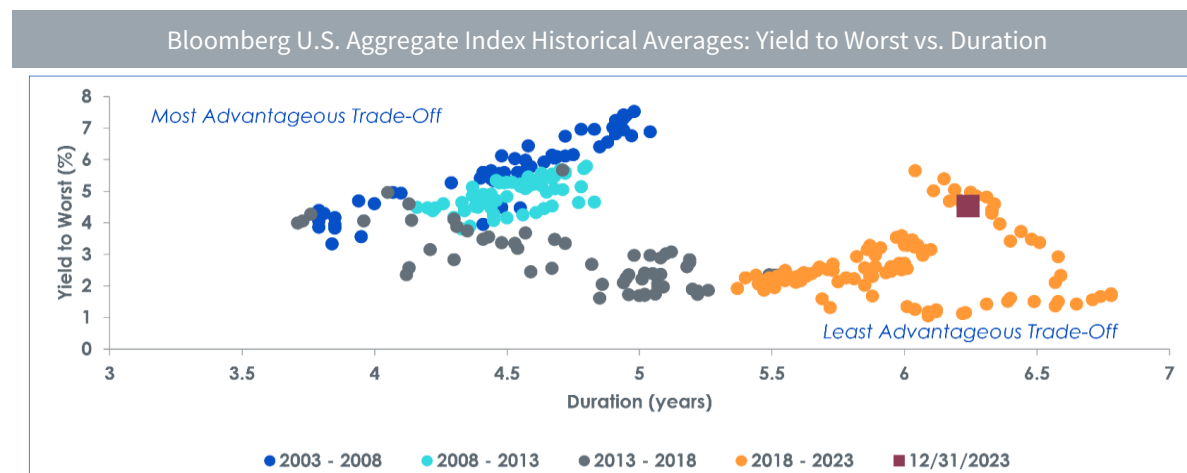
With nearly \$4 trillion<sup>1</sup> benchmarked against the Bloomberg U.S. Aggregate Bond Index (Agg), the bond market's equivalent to the S&P 500, many investors view the Agg as a broad approximation of a generic U.S. investment-grade<sup>2</sup> bond portfolio. Historically, the securities that made up the Agg would make up a substantial portion of an investor's core bond portfolio. In more normal interest rate environments, the core could be counted on to generate potential income and help mitigate the volatility<sup>3</sup> of other riskier asset classes. However, in the current market environment, investors are being faced with the prospect of increased volatility and low levels of income from this class of fixed income investments.

Following interest rate cuts by the Federal Reserve (Fed) during the global coronavirus pandemic in 2020, rates remain at some of their lowest levels in history. With the global economy recovering following increases in vaccination rates and unprecedented amounts of fiscal and monetary stimulus, investors expect the second half of 2021 to remain on track for stronger economic growth and recovery. The expectations for better growth will also bring the prospect of rising rates to the forefront of investors' minds. With income potential so low and interest rate risk<sup>4</sup> so high, what can investors do to help reduce their exposure to changes in the yield curve<sup>5</sup>?

The WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund (AGZD) can help investors preserve the coverage and breadth of their current investments while reducing their overall exposure to interest rate risk. By employing an institutional-style approach of immunizing a bond portfolio against interest rate risk, we believe that bundling this exposure into an exchange-traded fund (ETF) may provide investors with yet another tool to help navigate a rising interest rate environment.

## A HISTORY OF INTEREST RATES: LOWER AND LONGER

As shown in the following chart, the Agg has had a variety of risk (duration<sup>6</sup>) and return (yield) profiles over the last 20 years. However, in recent years, investors have seen a consistent move to the bottom right, resulting in lower yields and more duration. In fact, at current levels, the Agg combines some of the lowest yields in its history with its greatest levels of interest rate risk. In this environment, even a small rate increase could result in principal losses that completely offset the returns generated by interest income. In our view, investors still require income, but they do not necessarily need interest rate risk.



Sources: Bloomberg, WisdomTree, as of 12/31/23. Past performance is not indicative of future results. You cannot invest directly in an index. Yield to worst: The rate of return generated assuming a bond is redeemed by the issuer of the least desirable date for the investor. BLOOMBERG RATE HEDGED U.S. AGGREGATE BOND INDEX, ZERO DURATION

<sup>1</sup> Source: Bloomberg, as of 12/31/23.

<sup>2</sup> Bonds with ratings of BBB-/Baa3 or higher are considered investment grade.

<sup>3</sup> Volatility: A measure of the dispersion of actual returns around a particular average level. Generally, the higher the volatility, the riskier the security.

<sup>4</sup> Interest rate risk: The risk that an investment's value will decline due to an increase in interest rates.

<sup>5</sup> Yield curve: Graphic depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

<sup>6</sup> 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.

Institutional investment managers frequently employ Treasury futures<sup>7</sup> in managing the risk of their portfolios. The Bloomberg Rate Hedged U.S. Aggregate Bond Index, Zero Duration seeks to combine exposure to the Bloomberg U.S. Aggregate Bond Index with a structured interest rate overlay<sup>8</sup> to target a duration of zero years.

#### INDEX COMPONENTS

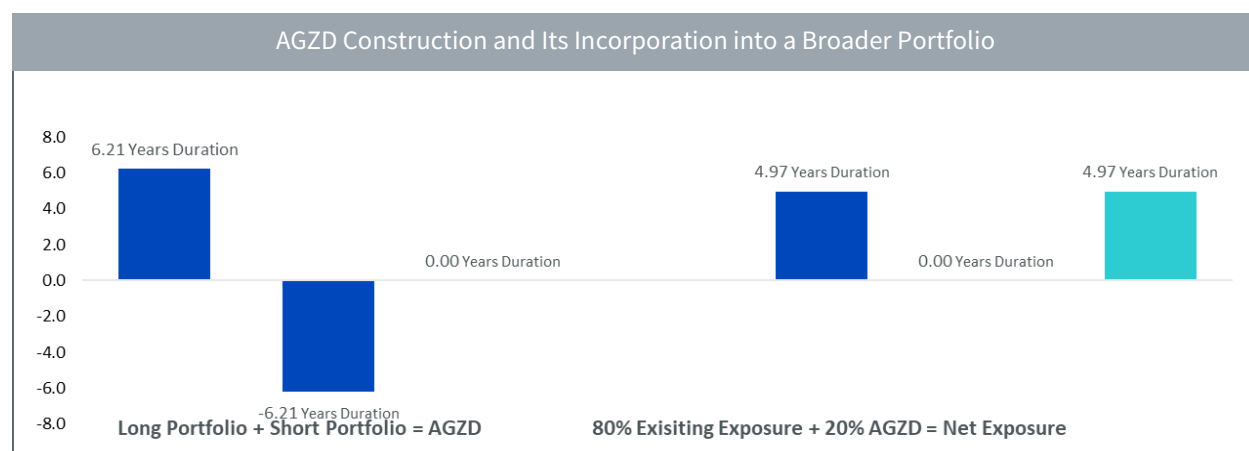
Long Portfolio	Bonds included in the Bloomberg U.S. Aggregate Index.
Short Portfolio	Comprises short positions in U.S. Treasury bonds <sup>9</sup> (with an aggregate duration target of zero years). The portfolio will be rebalanced monthly.

#### IMPACT OF ZERO DURATION ALLOCATIONS IN INVESTOR PORTFOLIOS

In response to the prospect of rising rates, WisdomTree has sought to create tools that provide a hedged exposure to the U.S. bond market. Through AGZD, investors can maintain traditional bond exposures but decrease their overall sensitivity to rising interest rates.

But how do investors incorporate a zero-duration fund into their wider portfolio? AGZD combines a long position in cash bonds representative of the Bloomberg U.S. Aggregate Bond Index with a short position in Treasury bonds and/or Treasury futures to target the zero-interest rate exposure.

Investors can use the portfolio as a stand-alone tool for combatting rising interest rates or combine it with other interest rate-sensitive assets in their portfolio to target their desired level of risk.



Long Portfolio: Bloomberg U.S. Aggregate Index.  
 Short Portfolio: Short position in U.S. Treasury bonds.  
 Existing Exposure: Bloomberg U.S. Aggregate Index.  
 Sources: Bloomberg, WisdomTree, as of 12/31/23.

#### POTENTIAL TRADE-OFFS

Although the Fund seeks to target a duration of zero years, a rate increase of 100 basis points<sup>10</sup> does not necessarily guarantee a 0% change in the price of the portfolio. Given that interest rates may rise at different speeds along various points of the yield curve, it may be possible that the targeted interest rate exposure is not effective at offsetting losses from long bond positions. Additionally, should rates remain constant (or fall), the strategy may underperform a long-only portfolio. However, in today's low-opportunity cost environment, we believe that the potential risks of rising rates outweigh the potential losses in carry<sup>11</sup> from putting on this exposure.

#### THE RISK OF RISING RATES HAS INCREASED

<sup>7</sup> Futures/futures contract: Reflects the expected future value of a commodity, currency or Treasury security.

<sup>8</sup> Interest rate overlay: Overlaying debt instruments on top of an existing portfolio.

<sup>9</sup> U.S. Treasury bond: A debt security issued by the United States government.

<sup>10</sup> Basis point: 1/100th of 1 percent.

<sup>11</sup> Carry: The amount of return that accrues from investing in fixed income or currency forward contracts.

The expectations for stronger economic growth and recovery raise the risk of an increase in interest rates for fixed income investors.

- + One of the consequences of low interest rates is that many recently issued bonds are more sensitive to rises in interest rates, given their low coupons<sup>12</sup>
- + Even by reducing duration, investors could simply lose less when interest rates rise and the yield curve steepens<sup>13</sup>
- + Primary catalysts for rising interest rates may include reduction in monetary stimulus<sup>14</sup>, inflation, rises in Fed interest rate target or political dysfunction.

#### INTRODUCING AGZD—MITIGATING RISING RATE RISK WITH INCOME

The WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund (AGZD) seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Rate Hedged U.S. Aggregate Bond Index, Zero Duration.

WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund Quick Facts	
Ticker	AGZD
Exchange	NASDAQ
Expense Ratio	0.23%
Structure	Open-end ETF. Registered under the Investment Company Act of 1940.
Exposure	Combination of cash bonds with short positions in Treasury bonds and/or U.S. Treasury futures contracts.
Objective	The Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg Rate Hedged U.S. Aggregate Bond Index, Zero Duration.
Duration Target	0.0 years
Rebalancing	The Fund adjusts the interest rate hedge monthly.

At WisdomTree, we do things differently. We build our ETFs with proprietary methodologies, smart structures, and uncommon access to provide investors with the potential for income, performance, diversification and more.

For more information about AGZD, contact your WisdomTree representative or visit [WisdomTree.com/investments](http://WisdomTree.com/investments).

<sup>12</sup> Coupon: The periodic interest payment made to bondholders.

<sup>13</sup> Longer-term interest rates rising at a faster pace than short-term interest rates.

<sup>14</sup> Monetary stimulus: Actions undertaken by a central bank with the ultimate desired effect of lowering interest rates and stimulating the economy.

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 866.909.9473, or visit [WisdomTree.com/investments](http://WisdomTree.com/investments) to view or download a prospectus. Investors should read the prospectus carefully before investing.**

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. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. 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. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund’s portfolio investments. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

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. The Fund may engage in “short sale” transactions of U.S. Treasuries where losses may be exaggerated, potentially losing more money than the actual cost of the investment, and the third party to the short sale may fail to honor its contract terms, causing a loss to the Fund. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund’s portfolio investments. 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 certain Funds, they may make higher capital gain distributions than other ETFs. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

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Bloomberg U.S. Aggregate Bond Index: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset-backed securities. S&P 500 Index: A 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. Bloomberg Rate Hedged U.S. Aggregate Bond Index, Zero Duration: Combines long positions in the Barclays U.S. Aggregate Bond Index with short positions in U.S. Treasury Bonds to provide a duration exposure of zero years. Market values of long and short positions are rebalanced at month-end.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S.

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