

# WisdomTree Yield Enhanced U.S. Aggregate Bond Fund

# AGGY

With trillions of dollars<sup>1</sup> benchmarked against the Bloomberg U.S. Aggregate Index (Agg), many investors view the Agg as a broad approximation of a generic U.S. investment-grade<sup>2</sup> bond portfolio. Debt securities with the Agg offer exposure to income opportunities from different issuers – the US Treasury, Corporations, Government Sponsored Enterprises, Local Government, Real Estate Trust – with different cash flow profiles – noncallable bonds, bonds with embedded call options, and pass-through securities. In recent years, noncallable securities issued by the US Treasury have grown to represent over 40% of the index's market value. For investors seeking income, concentrating positions to this lower yielding segment of the market appears contrary to their investment objectives. In response, many investors have begun looking outside the Agg to boost income potential. While we subscribe to this view, doing so ultimately incurs additional risk. In response to these challenges, we would also suggest looking within the Agg universe to enhance income.

In order to address investors' desire for income, WisdomTree worked with Bloomberg to take a different approach to core fixed income. The Bloomberg U.S. Aggregate Enhanced Yield Index (Agg Enhanced Yield) uses a rules-based approach to reallocate across subcomponents in the Agg, seeking to enhance yield while maintaining a similar risk profile. Yield can typically be increased by shifting exposure along any of a number of risk dimensions, including sector exposure (Treasury, agency, credit, securitized), interest rate risk (duration) and credit risk.

## AGG ENHANCED YIELD'S THREE-STEP METHODOLOGY

1. Divide the Agg into 20 Subcomponents
2. Develop and Apply Constraints
3. Determine Index Weights

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<sup>1</sup> Source: Bloomberg, as of 12/31/2023.

<sup>2</sup> Investment grade: A rating given to a municipal or corporate bond. It is a relatively favorable rating by ratings agencies, indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance.

**1. Divide the Agg into 20 Subcomponents**

In step one, the Agg is decomposed into 20 buckets across sector, maturity,<sup>3</sup> and credit quality.<sup>4</sup> While each component retains suitable size for investability and liquidity<sup>5</sup> purposes, each bucket may present a unique combination of risk and reward.

		Years to Maturity		
		1-5 Years	5-10 Years	10+ Years
Sector	Govt	Treasury 1-5, Agency 1-5	Treasury 5-10, Agency 5-10	Treasury 10+, Agency 10+
	Credit	Credit 1-5 Aaa-Aa, Credit 1-5 A, Credit 1-5 Baa	Credit 5-10 Aaa-Aa, Credit 5-10 A, Credit 5-10 Baa	Credit 10+ Aaa-Aa, Credit 10+ A, Credit 10+ Baa
	Securitized	Commercial Mortgage-Backed Securities (CMBS)  Conventional Mortgage-Backed 30s	Asset-Backed Securities (ABS)  Conventional Mortgage-Backed 15s	Government National Mortgage Association (GNMA) 30s

Credit rating is determined using Bloomberg's index rating methodology. Commercial mortgage-backed security (CMBS): A security whose value is composed of a pool of commercial mortgages. Asset-backed security (ABS): A fixed income security whose value or cash flows depend on the value of another asset, such as a loan, lease or receivable. Government National Mortgage Association (GNMA) security: A security whose value is composed of a pool of mortgages that are guaranteed by the Government National Mortgage Association. Mortgage backed security (MBS): A fixed income security that is composed of multiple underlying mortgages.

**2. Develop and Apply Constraints**

The following constraints are added to control risk and concentration while limiting turnover:

- + Tracking Error Constraints: Tracking error volatility (TEV)<sup>6</sup> of the Agg Enhanced Yield Index relative to the Agg would be less than 0.35% (35 basis points<sup>7</sup> [bps]) each month.
- + Duration Constraints: The duration of the Index cannot be more than one year greater than that of the Agg.
- + Sector and Subcomponent Constraints: The weight of major and minor sectors (Treasuries, credit and securitized bonds) cannot deviate by more than 20% from their weights in the Agg. The total notional weight of each of the Baa subcomponents (U.S. Credit 1-5 Years Baa, U.S. Credit 5-10 Years Baa, U.S. Credit 10+ Years Baa) cannot deviate from their weights in the Agg by more than 20%.
- + Turnover Constraints: During the monthly rebalancing, the rebalancing algorithm will attempt to meet the tracking error, duration and sector constraints, with portfolio two-way turnover of less than or equal to 5%. When this condition cannot be met, the turnover limit is increased incrementally by 1% until a solution is found or the cap of 10% is reached.

<sup>3</sup> Maturity: The amount of time until a loan is repaid.

<sup>4</sup> Credit quality: A measure of a borrower's potential risk of default.

<sup>5</sup> Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.

<sup>6</sup> Tracking error volatility: The volatility of the difference between the performance of a portfolio and its benchmark. In this case, the portfolio is the Agg Enhanced Yield Index.

<sup>7</sup> 1/100th of 1 percent.

### 3. Determine Index Weights

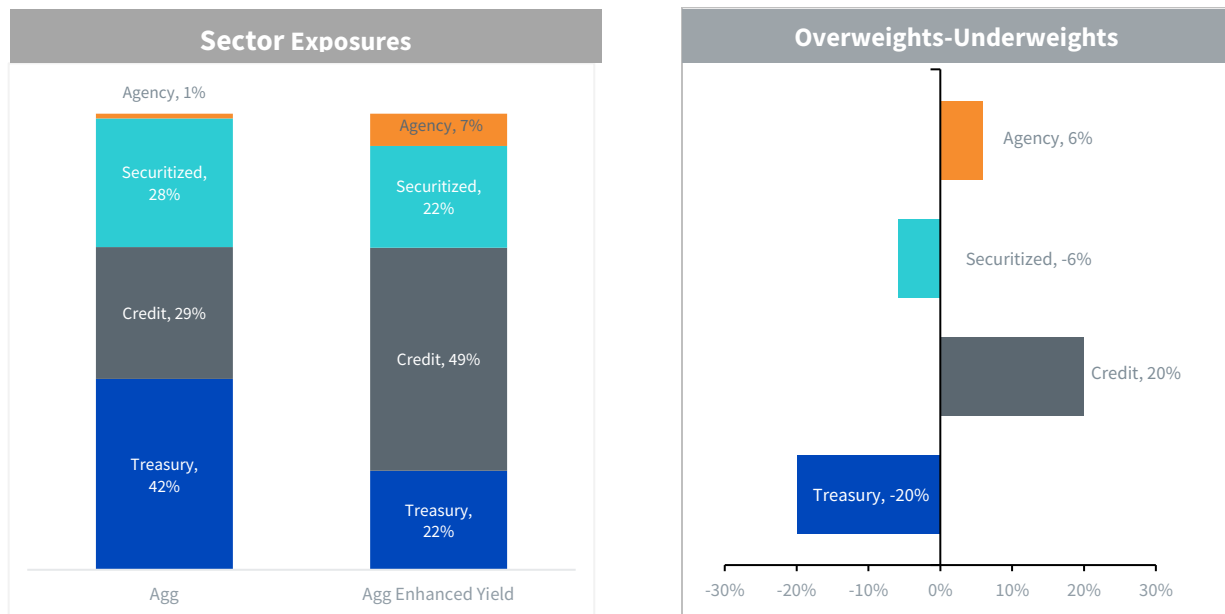
On a monthly basis, weights of the Index are reallocated across the 20 subcomponents to maximize yield while adhering to the four constraints. These weights are then applied at the individual issue level, such that the weight is the product of the subcomponent's determined weight and the security's weight within the subcomponent.

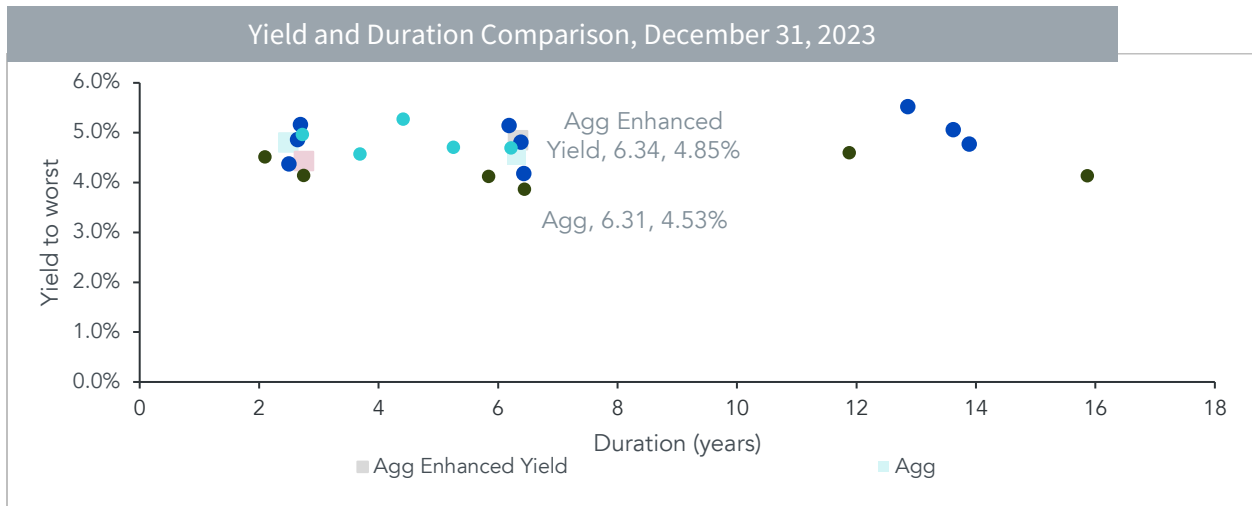
For example, if a Treasury note maturing in three years has a 10% weight within the 1-5 Years Treasury subcomponent, the calculated weight of 12% allocated to the Treasury 1-5 subcomponent would result in a weight of 1.2% at month-end. Returns and statistics are calculated based on the constituents for the coming month. The Agg Enhanced Yield is rebalanced monthly.

#### THE RESULT

As of 12/31/2023, the Agg Enhanced Yield delivered an additional -35 bps of yield compared to the Agg with a similar volatility profile. In our view, this mechanical approach enhances the desirable characteristics of the Agg, while also enhancing the income potential of the strategy. For investors needing to hit minimum income targets, this modification of the Agg could help them achieve their objectives. For managers concerned about the high yield bond market, this approach also provides higher income potential in an investment-grade portfolio.

#### SNAPSHOT OF THE AGG ENHANCED YIELD RELATIVE TO THE AGG (as of 12/31/2023)





Source: WisdomTree, as of 12/31/2023. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. Yield to worst is the rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

**HOW TO IMPLEMENT WITHIN A PORTFOLIO**

Incorporating Agg Enhanced Yield into a broad-based fixed income portfolio can be beneficial not only as a replacement, but also as a complement. Using the Agg to represent core bond holdings, blending in the Agg Enhanced Yield in varying proportions could have a meaningful impact on a portfolio's yield without drastically altering existing risk and exposure characteristics.

**YIELD AND DURATION FOR BLENDS OF AGG AND AGG ENHANCED YIELD (12/31/2023)**

Yield and Duration for Blends of Agg and Agg Enhanced Yield, 12/31/2023					
	100% Agg	75% Agg / 25% Agg Enhanced Yield	50% Agg / 50% Agg Enhanced Yield	25% Agg / 75% Agg Enhanced Yield	100% Agg Enhanced Yield
Yield	4.53%	4.61%	4.69%	4.77%	4.85%
Duration	6.31	6.32	6.33	6.33	6.34

**SECTOR BREAKDOWN FOR BLENDS OF AGG AND AGG ENHANCED YIELD (12/31/2023)**

Sector Breakdown for Blends of Agg and Agg Enhanced Yield, 12/31/2023					
	100% Agg	75% Agg / 25% Agg Enhanced Yield	50% Agg / 50% Agg Enhanced Yield	25% Agg / 75% Agg Enhanced Yield	100% Agg Enhanced Yield
Credit and Agency	30%	36%	43%	49%	56%
Securitized	28%	27%	25%	24%	22%
U.S. Government	42%	37%	32%	27%	22%

Sources: Bloomberg, WisdomTree, as of 12/31/2023. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. Percentages for some of the charts above may not total 100 due to rounding.

## THE WISDOMTREE YIELD ENHANCED U.S. AGGREGATE BOND FUND (AGGY)

To provide tradable access to the Agg Enhanced Yield, WisdomTree launched the WisdomTree Yield Enhanced U.S. Aggregate Bond Fund (AGGY). By sourcing opportunities within the Agg, AGGY offers the opportunity to enhance the income potential of a core bond portfolio, while continuing to benefit from the diversification of a multi-sector portfolio.

## WisdomTree Yield Enhanced U.S. Aggregate Bond Fund Quick Facts

Ticker	AGGY
Exchange	NYSE
Expense Ratio	12 bps
Structure	Open-end ETF
Exposure	U.S. Dollar-denominated, investment grade fixed income
Objective	The Fund seeks to track the price and yield performance, before fees and expenses, of the Bloomberg U.S. Aggregate Enhanced Yield Index

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 AGGY, contact your WisdomTree representative or visit [WisdomTree.com/investments](http://WisdomTree.com/investments).

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 June 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

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