

Municipal Bonds 101

What Are Municipal Bonds (Munis)?

- + Debt issued by state and local government entities to fund general operations and municipal projects, such as infrastructure, schools, hospitals & utilities
- + Municipal bonds can be called (redeemed before the stated maturity date) or redeemed at scheduled maturity date
 - + Once the bond is called or matures, an investor typically receives the full amount of their investment

Two Main Types of Munis:

General Obligation Bonds (GOs)

Finance various projects and are usually backed by the “full faith and credit” of state & local governments’ taxing authority.

Revenue Bonds

Finance revenue-generating projects, such as essential services of water/sewer, public utilities, roadways and transportation. Principal and interest for these type of securities are paid by the revenues generated by the source of the project.

Tax Advantages

Municipal bonds typically offer investors a tax-advantaged avenue for their portfolio, where the interest payment could be exempt from federal, state or local taxes, depending upon the area of issuance.

- + **Federal Taxes:** Interest is exempt from the federal income tax
- + **State Taxes:** Interest is exempt from the state income tax from where the bond was issued; e.g., interest from a bond issued in California is not taxed by the state of California
- + **Local Taxes:** Interest issued in a city where an individual resides is exempt from that local income tax; e.g., interest from a bond issued in New York City (NYC) is not subject to NYC income tax
- + **Triple Tax-Free:** Interest issued in a city/municipality could theoretically be exempt from federal, state and local taxes

Why Consider Munis?

Key Sources of Value:

- + Strong diversifier with other assets
- + Better credit quality than corporate bonds with much lower default risk
- + More defensive behavior in rising rate environments

Tax-Equivalent Yield:

- + Created as a way for comparing bonds with different tax exposures
- + Necessary return needed to be generated by a “taxable” bond to be equivalent to the yield of a particular municipal bond after taxes are taken into consideration
- + A tax-exempt muni with a lower yield could actually offer a similar or higher yield, after taxes, than a taxable bond that has a stated higher yield

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WisdomTree Laddered Muni ETFs

- + **Laddered Bond Strategy:** A time-tested approach where one invests in bonds spread out across different maturities
 - + Diversifies potential interest rate risk by offering the opportunity to reset one's portfolio as interest rates rise while also retaining some exposure to lock in yield if rates fall
 - + For municipals, laddering bonds takes advantage of a positively sloped yield curve, where maturing lower yielding, shorter-term investments are often replaced with higher-yielding longer-maturity bonds

Core Laddered Municipal Fund (WTMU)

A disciplined approach to managing interest rate risk and securing high-quality after-tax income by providing access to a portfolio of high-quality municipal bonds while diversifying rate exposure across maturities up to 15 years

High Income Laddered Municipal Fund (WTMY)

Generates a high level of after-tax income, by gaining targeted exposure to more higher-yielding municipal securities through a disciplined credit selection

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There are risks associated with investing, including possible loss of principal. Municipal securities carry various risks, including credit, interest rate, prepayment, and valuation risks. Issuers may face financial difficulties that impact their ability to meet payment obligations. The value of these securities can fluctuate due to changes in revenue sources, local economic and political conditions, and industry-specific downturns (e.g., education, health care, transportation, utilities). Additionally, tax-exempt income from municipal securities could become taxable due to regulatory changes or issuer noncompliance, potentially reducing their value. 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. 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.

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