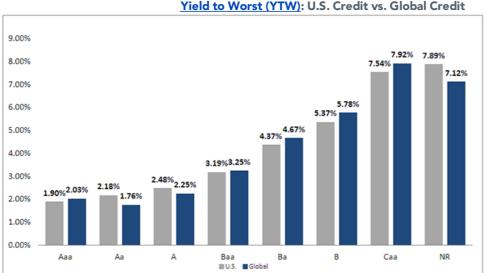
EXPANDING THE CORE WITH GLOBAL CORPORATE BONDS

Rick Harper — Chief Investment Officer, Fixed Income and Model Portfolios 04/25/2013

"I'm absolutely convinced, and I've been talking about this a lot, that we need a total corporate bond index fund. So a total bond market index fund investor says, 'Look, 70 percent in low-yielding government debt is just too hard for me to deal with. I'd rather take a little bit longer duration, and a little bit lower credit quality, and take maybe half of my total bond market index portfolio and move it into a corporate bond portfolio."-John Bogle At WisdomTree, we believe that John Bogle, the founder of Vanguard, is correct in recommending increased positions in corporate bonds as an alternative to U.S. government debt. With interest rates already near all-time lows in many markets around the world, prospects for lower interest rates are limited. In our view, a more likely scenario would see gradually higher U.S. interest rates over time. The incremental income investors receive for taking credit risk in excess of U.S. government debt may help mitigate losses from rising interest rates. However, this is where the WisdomTree approach begins to take Bogle's thinking a step further. If investors are inclined to take a global approach to stocks, why would they not take a similar approach in their bond portfolios? By expanding the investable universe to corporations outside the United States, the size of the opportunity set more than doubles (2.54x). In fact, there have been a growing number of institutional investors pursuing wider corporate credit mandates, a strategy referred to as "expanding the core." As we noted in a recent blog, we believe many investors are beginning to reassess what positions should constitute the "core" holdings of their portfolio. When taking a comprehensive view of their opportunities, investors develop greater interest in a more global approach to corporate bond investing. As the chart below shows, in addition to expanding the number of opportunities, investors have also been compensated with higher yields across virtually all credit ratings² by investing in global credit risk as opposed to a purely U.S. approach. Past performance is not indicative of future results.



Yield to Worst (YTW): U.S. Credit vs. Global Credit

Source: Barclays, 3/31/13. U.S. credit proxied by the U.S. credit portion of the Barclays Multiverse Index. Global credit proxied by the

With nearly 13,000 securities

in the Barclays Multiverse Index, which ones are worth investing in? In many instances, bond indexes take an agnostic view of a borrower's creditworthiness. Just because one bond has a similar credit rating to another does not mean they have similar economic prospects. In an effort to mitigate credit and interest rate risk, we believe it is important to have an active manager monitoring the positions in the portfolio on a daily basis. Additionally, static or inflexible approaches



to an evolving asset class seem inconsistent with today's rapidly changing markets. We believe an experienced manager can help investors more fully take advantage of these opportunities.

1 Source: Barclays, March 31, 2013. Comparison based on the Barclays Global Credit Index vs. the U.S. credit portion of the Barclays Multiverse Index.
2 Credit ratings based on Moody's rating provided by Barclays, as of March 31, 2013.

Important Risks Related to this Article

ALPS Distributors, Inc., is not affiliated with The Vanguard Group, Inc. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition when interest rates fall income may decline. 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 issuers ability to make such payments will cause the price of that bond to decline.

For standardized performance and the most recent month-end performance click <u>here</u> NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our **Economic & Market Outlook**

View the online version of this article here.



IMPORTANT INFORMATION

U.S. investors only: Click <u>here</u> to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

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

You cannot invest directly in an index.



DEFINITIONS

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

Credit ratings: An assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit assessment and evaluation for companies and governments is generally done by a credit rating agency such as Standard & Poor's, Moody's or Fitch.

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

Barclays Multiverse Index: a broad-based measure of the international fixed-income bond market. The index represents the union of the Global Aggregate Index and the Global High Yield Index.

Barclays Global Credit Index: Index which contains investment grade and high yield credit securities from the Barclays Multiverse Index.

