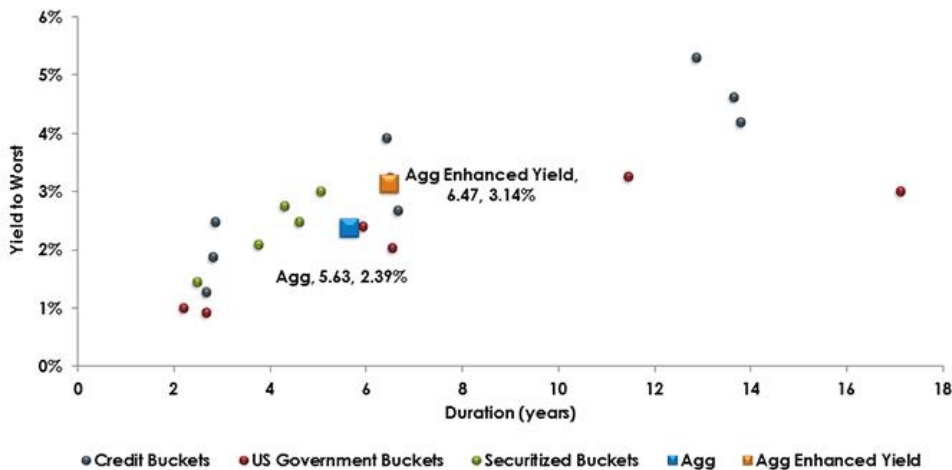


# AGGY: LOOKING WITHIN THE BARCLAYS U.S. AGGREGATE INDEX TO ENHANCE INCOME

Rick Harper – Chief Investment Officer, Fixed Income and Model Portfolios  
07/20/2015

For many investors, the [Barclays U.S. Aggregate Bond Index](#) serves as the most recognized benchmark for fixed income returns. However, in the low-[interest rate](#) environment of recent years, investors have increasingly looked outside the Agg to supplement income in meeting their investment goals. In doing so, they introduce additional risks and different sources of [volatility](#) that need to be carefully understood. In response, WisdomTree collaborated with Barclays to create a rules-based index—the [Barclays U.S. Aggregate Enhanced Yield Index](#) (Agg Enhanced Yield)—that broadly retains the risk characteristics of the Agg while enhancing the income potential of the portfolio. **Enhancing Income Potential of the Agg 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](#). The Agg Enhanced Yield uses a rules-based approach to reallocate across 20 distinct subcomponents in the Agg, seeking to enhance yield while maintaining a similar risk profile. This strategy allows an investor to focus on the [investment-grade](#) credit universe, without having to dip into the [high-yield](#) segment of the market to enhance [yield](#) potential. **Yield and Duration Comparison, June 30, 2015**



Source: Barclays, as of 6/30/15. 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 on the least desirable date for the investor.

As we show above, the Agg provides a variety of opportunities for income across various sectors and interest rate risk profiles.

- Across the [yield curve](#), debt guaranteed by the U.S. government tends to have the lowest levels of yield per unit of interest rate risk.
- Next, [securitized debt](#) or bonds backed by a pool of receivables such as mortgages can provide a modest lift in yield in exchange for the slightly higher probability that the borrower may default.
- Finally, investment-grade credit can provide an additional increase in

yield compared to credit risk-free Treasury debt. In our view, many investors may fail to realize that the Agg could provide greater opportunities for return once they take a closer look at the individual components. However, if investors simply allocated based on yield, the portfolio would be significantly over-weight credit and interest rate risk. In our view, this naïve approach to fixed income does little to enhance an investor's prospects for return. Through our approach to the Agg, when a variety of constraints focused on risk management are applied, the output of the Index methodology resulted in a portfolio with an additional 75 [basis points \(bps\)](#) of income potential, while retaining a similar interest rate risk profile to that of the Barclays Agg.<sup>1</sup> This incremental yield advantage is typically achieved through increased exposure to corporate and securitized debt and reduced exposure to U.S. Treasury securities. The implementation of relative sector and quality constraints, however, also helps the Index preserve the diversification potential of a broad-based, core fixed income strategy. [There's an Exchange-Traded Fund for That](#) With the launch of the [WisdomTree Barclays U.S. Aggregate Bond Enhanced Yield Fund \(AGGY\)](#) on July 9, 2015 WisdomTree packaged this unique approach in an exchange-traded fund (ETF). AGGY is listed on the New York Stock Exchange with a net expense ratio of just 12 bps.<sup>2</sup> By searching for income within the investment-grade universe, AGGY could represent a step forward for investors looking to generate greater income potential while broadly retaining the risk characteristics of familiar core fixed income portfolios. <sup>1</sup>Source: Barclays, as of 6/30/15. Income potential comparison based on the [yield to maturity](#) of the Barclays U.S. Aggregate Index and the Barclays U.S. Aggregate Enhanced Yield Index. <sup>2</sup>Gross expense ratio 0.20%. The net expense ratio reflects a contractual waiver of 0.08% through 12/31/16. Ordinary brokerage commissions apply.

#### Important Risks Related to this Article

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. Barclays Capital Inc. and its affiliates ("Barclays") are not the issuer or producer of the Funds, and Barclays has no responsibilities, obligations or duties to investors in the Funds. Barclays and the Barclays Indexes are trademarks owned by Barclays Bank PLC and licensed for use by WisdomTree with respect to the WisdomTree Trust as the issuer of the Funds. Barclays' only relationship to WisdomTree is the licensing of these Barclays Indexes, which are determined, composed and calculated by Barclays without regard to WisdomTree or the Funds. While WisdomTree may for itself execute transaction(s) with Barclays in or relating to these Barclays Indexes in connection with the Funds that investors acquire from WisdomTree, investors in the Funds neither acquire any interest in these Barclays Indexes nor enter into any relationship of any kind whatsoever with Barclays upon making an investment in the Funds. The Funds are not sponsored, endorsed, sold or promoted by Barclays, and Barclays makes no representation or warranty (express or implied) to the owners of the Funds, the Issuer or members of the public regarding the advisability, legality or suitability of the Funds or use of these Barclays Indexes or any data included therein. Barclays shall not be liable in any way to the Issuer, investors or other third parties in respect to the use or accuracy of these Barclays Indexes or any data included therein or in connection with the administration, marketing, purchasing or performance of the Funds.

For standardized performance and the most recent month-end performance click [here](#) 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 [here](#) 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](http://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

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

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

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

**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.

**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.

**Agency**: a debt security issued by a U.S. government-sponsored entity such as FNMA, FHLB, and SLMA.

**Credit**: A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

**Securitized**: a debt security whose value is backed by an asset or pool of assets such as a mortgage.

**Interest rate risk**: The risk that an investment's value will decline due to an increase in interest rates.

**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.

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

**Investment grade**: An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

**High Yield**: Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities.

**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.

**Yield curve**: Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

**Basis point**: 1/100th of 1 percent.

**Yield To Maturity**: Portfolio Yield to Maturity represents the weighted average yield to maturity of a Fund's investments in money market securities and fixed income securities as a specified date. Yield to maturity is the rate of return generated on these securities, assuming interest payments and capital gains or losses as if the instrument is held to maturity. The weighted average yield is calculated based on the market value of each security. The calculation does not incorporate yield from any

derivative instruments that are part of the Fund's investments.