

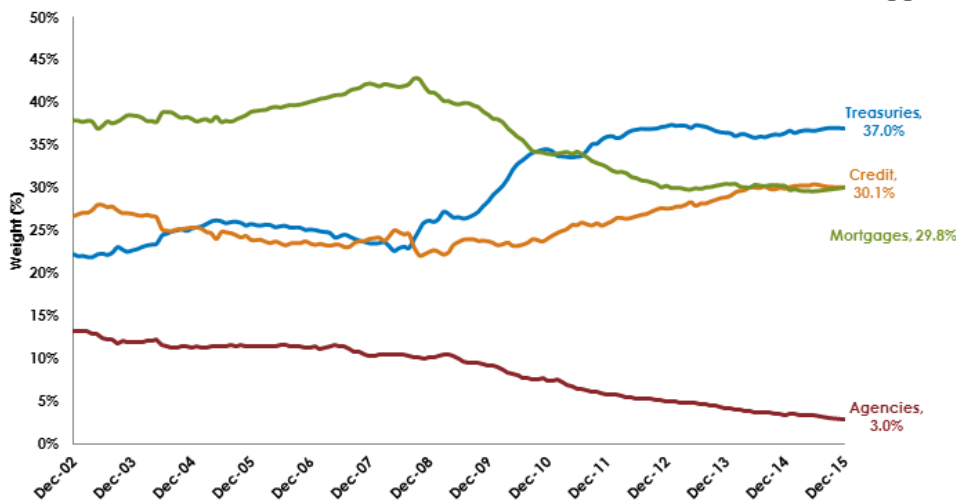
TOP FIVE REASONS TO ENHANCE YOUR AGG POSITION

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On March 29, 2016, I attended a speech given at the Economic Club of New York by [Federal Reserve \(Fed\)](#) chair Janet Yellen, entitled “The Outlook, Uncertainty, and Monetary Policy.” For most Fed watchers, the key takeaway was that the pace of any [interest rate hikes](#) would likely be very gradual, given the current uncertainty in the global economy. In this “lower for longer environment,” we highlight our top five reasons why investors should consider an enhanced [yield](#) approach to the [Barclays U.S. Aggregate Index \(Agg\)](#).

#1: Treasuries Are Expensive and Overrepresented [U.S. Treasuries](#) represent the benchmark interest rate for borrowing in U.S. dollars. In our view, having them also represent the largest percentage of an investor’s bond portfolio seems counterintuitive to the stated goal of generating income. Due to shifts in bond issuance patterns, the Treasuries portion of the Agg has risen from less than 20% to nearly 40% today.¹ In our view, more attractive opportunities may exist than pure [interest rate risk](#).

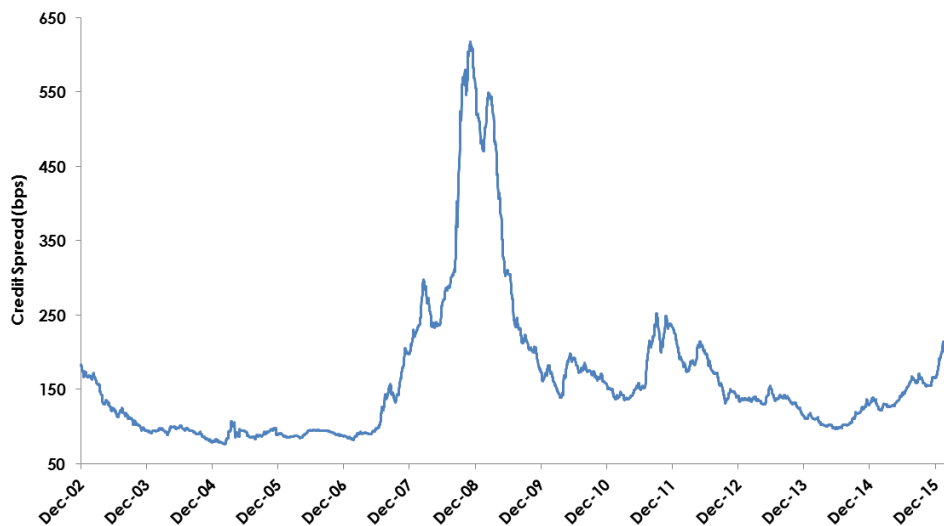
Historical Sector Breakdown of the Agg, 12/31/02-12/31/15



Source: Bloomberg, as of 12/31/15. Subject to change. You cannot invest directly in an index.

2 : [Credit](#) Is

Inexpensive Over the last several months, as concerns about the health of the global economy have increased, [credit spreads](#) have widened to levels not seen since 2011. In our view, we do not believe that a recession in the U.S. is likely to occur in the next 12-18 months. As a result, investors should consider increasing allocations to U.S. [investment-grade](#) corporates in order to enhance yield and potentially benefit from tightening credit spreads. Compared to the Agg, the [Barclays U.S. Aggregate Enhanced Yield Index](#) is 20% over-weight credit and nearly 20% under-weight Treasuries.²
Barclays U.S. Corporate Index: Credit Spread ([basis points](#)), 12/31/2008-



Source: Bloomberg, as of 3/22/16.

3/22/2016

#3:

Rules-Based Rebalancing Lowers Risk of Style Drift Oftentimes, many active managers will purchase securities not included in their performance benchmark in order to enhance returns. While this is a commonly accepted approach in the bond market, should this necessarily count as generating alpha? To some, this approach is akin to a large-capitalization (cap) equity manager buying small-cap stocks to boost returns. It's great when it leads to outperformance, but it can complicate the risk management process for asset allocators managing a number of exposures. Our approach starts with the same investable universe as the Agg but then seeks to reweight securities based on a set of constraints in order to enhance income.

#4: High Correlation with Greater Income Potential Since July 2015, the Enhanced Yield Index has had a correlation of 0.96 with the Agg.³ while the enhanced yield strategy has a modestly higher correlation to investment-grade corporate bond indexes, it maintains a modestly negative correlation with equity indexes such as the S&P 500 Index. In our view, with interest rates still low by historical standards, the value of an intermediate bond strategy that exhibits a strongly negative correlation to the S&P 500 is diminished. The positive performance generated by the bond portfolio during equity sell-offs is unlikely to be sufficient to meaningfully dampen the volatility of a traditional 60% equity/40% fixed income portfolio.

#5: Risk-Adjusted Returns: Greater Income Potential Despite Modest Increase in Duration The enhanced yield strategy currently increases yield by 68 basis points (3.06% vs. 2.38%), while increasing duration by 0.7 years (6.24 vs. 5.54).⁴ In the current "lower for longer" environment, we believe credit will be a primary determinant of total returns as spreads ultimately tighten from current elevated levels. In our view, this income-for-interest rate risk trade-off appears favorable, given the likely drivers of return in the market.

¹Source: Barclays, as of 3/22/16. ²Source: Barclays, as of 3/22/16. Subject to change. ³Sources: WisdomTree, Bloomberg, as of 2/29/16. ⁴Source: Barclays, as of 3/22/16.

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DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

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.

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

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.

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

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.

Credit spread: The portion of a bond's yield that compensates investors for taking credit risk.

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

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.

Basis point: 1/100th of 1 percent.

Rebalance: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Active manager: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

Alpha: Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

S&P 500 Index: 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.

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.

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.