GLBY: A GLOBAL APPROACH TO ENHANCED FIXED INCOME

Bradley Krom – U.S. Head of Research,Josh Shapiro – Quantitative Strategist
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In our view, market capitalization-weighted fixed income portfolios seldom make sense. In 2015, WisdomTree helped create a strategy that sought to enhance the income profile of the Bloomberg Barclays U.S. Aggregate Index. Today, we bring that same underlying methodology to global fixed income markets. Below, we introduce our approach and show how going global can mean much more than simple diversification.

A History of Enhanced Yield

With the launch of our first yield-enhanced strategy more than three years ago, we pioneered a Modern Alpha™ approach for allocating to the U.S. investment-grade bond market. In our view, investors should own the market broadly, but enhance yield by tilting toward different sectors/maturities (while applying strict risk constraints).

In global markets, the opportunities for yield enhancement can be even greater since you have another lever to pull via additional countries and currencies. However, given that many developed markets have lower interest rates than the U.S., won't investing globally dampen income? In short, we believe the answer is no. By hedging global bonds to U.S. dollars, there is typically an attractive yield pickup due to the significant difference between developed short rates. This also can significantly reduce the volatility of international investing for U.S.-based investors.

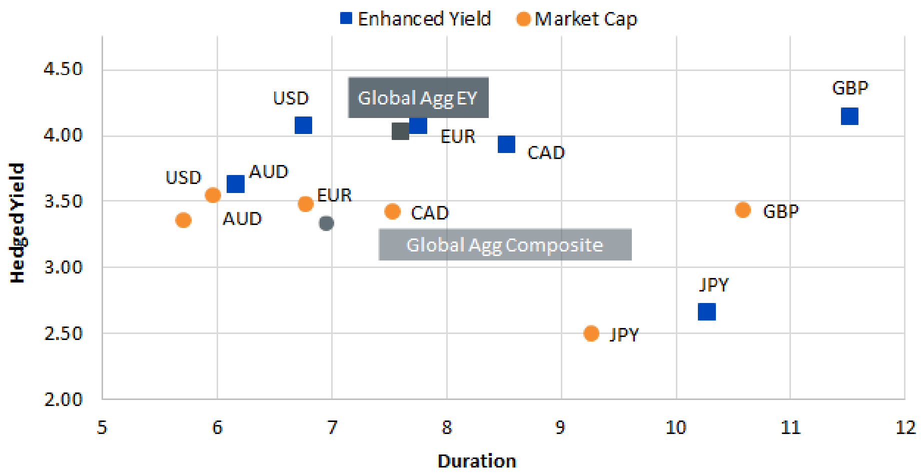
For many investors, the Bloomberg Barclays Global Aggregate Index (Global Agg) serves as the most recognized benchmark for global fixed income returns. To construct our approach, WisdomTree worked with Bloomberg to focus on the same investable universe but boost potential income via our enhanced yield weighting methodology.

The WisdomTree Yield Enhanced Global Aggregate Bond Fund (GLBY) employs a systematic, rules-based approach to enhance yield not only at the country level, but also at the global level, by taking advantage of opportunities between currencies. The construction process also maintains a disciplined risk management process through currency hedging, tracking error constraints and sector and interest rate caps to broadly maintain the risk characteristics associated with a globally diversified portfolio.

Enhancing Income Potential of Global Fixed Income

To review, yield typically can be increased by shifting exposure along any of a number of risk dimensions, including sector exposure (Treasury, government-related, corporates, securitized), interest rate risk (duration), credit risk and currency risk.

Yield and Duration Comparison, November 30, 2018



Sources: Bloomberg, WisdomTree, as of 11/30/18. 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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein. Hedged Yield is the resulting index yield after hedging from local currency to base currency ($), calculated using differences in government short rates. Global Agg EY is a proxy for the Bloomberg Barclays Global Aggregate Enhanced Yield Index. The Global Agg Composite is the subset of the Bloomberg Barclays Global Aggregate Index with only the six major currencies (AUD, CAD, EUR, GBP, JPY, USD).

For definitions of terms in the chart, please visit our glossary.

The Global Agg provides a variety of opportunities for income globally:

- Enhancing yield across currency blocks
  - Over-weight currency blocks with higher net yields and under-weight currency blocks with lower net yields
- Enhancing yield within currency blocks
  - Across the yield curve, debt guaranteed to governments 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 Global 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 could be significantly over-weight credit and interest rate risk. In our view, this naïve approach to fixed income may do little to enhance an investor’s prospects for return.

Looking at the Results

Through our approach to the Global Agg, when a variety of constraints focused on risk management were applied, the output of the index methodology resulted in a portfolio with an additional 69 basis points (bps) of income potential that retained a similar interest rate risk profile to that of the Global Agg. This incremental yield advantage is typically achieved through increased exposure to higher-yielding currencies and corporate bonds. The implementation of relative currency, 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 (ETF) for That

With the launch of GLBY on December 13, WisdomTree packaged this unique approach in an ETF with an expense ratio of just 20 bps. By searching for income in the global investment-grade universe, GLBY 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.

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.

Diversification does not eliminate the risk of experiencing investment losses.

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.

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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.

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You cannot invest directly in an index.

DEFINITIONS

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed 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.

Modern Alpha : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.

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

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

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

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

Barclays Global Aggregate Index : A broad-based measure of the global investment grade fixed-rate debt markets. The index includes the U.S. aggregate, Pan-European Aggregate, and the Asian-Pacific Aggregate Index.

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

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.

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.

Default : A failure to meet the legal obligations (or conditions) of a loan.

Basis point : 1/100th of 1 percent.