AUSTRALIAN BONDS HAVE OUTPERFORMED IN 2012; CHINA BELIEVES THIS TREND COULD CONTINUE

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Australian bonds, like other top-rated government debt, have pushed through all-time lows in yields as investors search for high-quality debt in the face of economic uncertainty in Europe. The Australian dollar, while hardly moving in a straight line, has appreciated nearly 3% against the U.S. dollar in the first seven months of the year (New Zealand, the top developed market performer, has appreciated over 4%).[1] As we previously discussed, investors could consider gaining exposure to Australia through the WisdomTree Australia & New Zealand Debt Fund (AUNZ). More recently, it was noted in the *Wall Street Journal* that China's central bank is looking to invest not only in Australian government bonds but also in the debt of regional governments, the so-called semi-government market. Similar to the municipal market in the United States, capital raised by state governments in Australia helps fund public infrastructure investments and effectively manage state balance sheets. In October 2011, the WisdomTree Dreyfus New Zealand Dollar Fund was converted to the WisdomTree Australia & New Zealand Debt Fund. Using a structured investment process, the Fund buys bonds denominated in Australian and New Zealand dollars. Given the significant size difference between the two economies, the Fund uses gross domestic product (GDP) to target its investment mix (currently 88% Australia, 12% New Zealand). To gain exposure to Australian debt, the Fund seeks to invest in equal proportions across Australian government, semi-government and supranational issuers. While government yields have moved through all time lows, semi-government and supranational bonds have historically provided attractive risk-adjusted yield enhancement, with limited sacrifice in credit quality (semi-government bonds in AUNZ are currently rated AAA or AA+ by Standard and Poor's[2]). Given the long-term focus of China's investment horizon, this move by the Chinese government, should it occur, could provide a steady investment flow into the semi-government market, helping to support prices. As of July 31, the AUNZ portfolio yields 3.28% with a duration of 3.58 years. Compared to other high-credit-quality bonds, Australia and New Zealand could provide investors with a solid opportunity for higher yields as a portion of their developed market bond portfolio. *Learn more about WisdomTree's Fixed Income ETFs.*

[1]Source: Bloomberg, 2012. [2]AAA: extremely strong capacity to meet financial commitments. Highest rating. AA: very strong capacity to meet financial commitments.

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